

Title: A new approach to charges for official controls on meat: delivering efficiency and reform Lead department or agency: Food Standards Agency (FSA) Other departments or agencies:	Impact Assessment (IA)
	IA No: FOOD0040
	Date: 06/03/12
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Other
Contact for enquiries: Karen McCallum- Smith@foodstandards.gsi.gov.uk	

Summary: Intervention and Options

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

Consumers and food manufacturers need to be confident that meat is of the nature, substance and quality that they wish to buy. Official controls (e.g. inspections and audits - see paragraph 19 of Evidence Base for further information), prescribed in EU Hygiene Regulations are carried out to ensure that meat is of the standard necessary and to provide a good level of confidence that the food business operators of slaughterhouses, cutting plants and game handling establishments are managing the risk of food-borne disease appropriately. Government intervention is needed to ensure that the cost of meat official controls is met by the establishments where the controls are carried out, rather than by the regulator and ultimately the taxpayer.

What are the policy objectives and the intended effects?

The objective of the policy is for approved meat establishments rather than taxpayers to pay the cost of meat official controls in recognition of the benefit that they derive from them and in line with Government policy and the FSA Board's decision that it is not the role of the Regulator to subsidise industry. This would have the effect of relieving taxpayers of costs properly borne by those establishments. It would also increase efficiency in the conduct of official controls at those establishments.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

- 1 - do nothing
 - 2 - a move to full cost recovery for meat official controls in one step.
 - 3 - a staged move to full cost recovery for meat official controls.
 - 4 - a move to a maximum 70% reduction of the full cost charge for low throughput (LTP) establishments in one step.
 - 5 - a staged move to a maximum 70% reduction of the full cost charge for LTP establishments.
 - 6 - a staged move to a tiered reduction for an expanded definition of LTP establishments.
- Options 3 and 6 in combination are preferred: they would align with the timescale for FSA planned efficiencies, allow establishments more time to adjust, and provide increased support for more LTP establishments.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 7/2016

What is the basis for this review? PIR. If applicable, set sunset clause date: Month/Year

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?

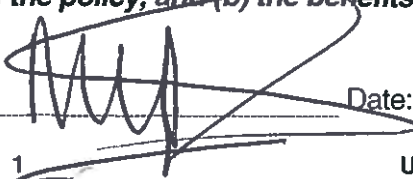
Yes

Chief Executive's Sign-off For final proposal stage Impact Assessments:

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

Signed by the responsible Chief Executive:

~~_____~~



Date:

7/3/2012

Summary: Analysis and Evidence

Policy Option 1

Description:

Do nothing - charges would only increase in line with increases in EU minima, time costs and exchange rates and taxpayers would continue to bear part of the burden of official control costs.

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	0	0

Description and scale of key monetised costs by 'main affected groups'

No incremental monetised costs are associated with policy Option 1: 'do nothing', as this option will look to maintain the status quo.

Other key non-monetised costs by 'main affected groups'

As above there would not be any non-monetised costs associated with this policy option.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	0	0

Description and scale of key monetised benefits by 'main affected groups'

No incremental monetised benefits are associated with this policy, as this option will look to maintain the status quo.

Other key non-monetised benefits by 'main affected groups'

No incremental benefits (non-monetised) are associated with this policy, as this option will look to maintain the status quo.

Key assumptions/sensitivities/risks

Discount rate (%)

There would be neither additional cost to industry nor benefit to taxpayers; as the UK taxpayer continues to subsidise the cost of official controls.

Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as
Costs: 0	Benefits: 0	Net: 0	No	NA

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			United Kingdom		
From what date will the policy be implemented?			26/03/2012		
Which organisation(s) will enforce the policy?			FSA		
What is the annual change in enforcement cost (£m)?			£0		
Does enforcement comply with Hampton principles?			No		
Does implementation go beyond minimum EU requirements?			Yes		
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	
Does the proposal have an impact on competition?			No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: N/A	Benefits: N/A	
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	Micro N/A	< 20 N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties¹ Statutory Equality Duties Impact Test guidance	No	N/A
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	N/A
Small firms Small Firms Impact Test guidance	No	N/A
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	N/A
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	N/A
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	N/A
Human rights Human Rights Impact Test guidance	No	N/A
Justice system Justice Impact Test guidance	No	N/A
Rural proofing Rural Proofing Impact Test guidance	No	N/A
Sustainable development Sustainable Development Impact Test guidance	No	N/A

¹ Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Summary: Analysis and Evidence

Policy Option 3

Description:

A staged move to full cost recovery for meat official controls for establishments other than low throughput in 3 steps.

Price Base Year 2011	PV Base Year 2012	Time Period Years 3	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: -0.01

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	N/A	N/A	N/A
High	N/A	N/A	N/A
Best Estimate	0.01	5.68	16.48

Description and scale of key monetised costs by 'main affected groups'

Total cost of policy option: £17.05m (constant prices). Total industry: £17.04m for ongoing full recovery costs (meat hygiene controls) at an annual average cost of £5.68m which is inclusive of FSA (in GB) and DARD (in NI) efficiency savings; £6,682 in one-off familiarisation costs, representing an equivalent annual net cost to business of approximately £2,304 over 3 years. FSA: £1,541 in one-off familiarisation costs.

Other key non-monetised costs by 'main affected groups'

Non-monetised costs were not identified (see monetised costs above).

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A	N/A	N/A
High	N/A	N/A	N/A
Best Estimate	N/A	5.68	16.47

Description and scale of key monetised benefits by 'main affected groups'

Total benefit of policy option: £17.04m (constant price) in revenue for exchequer and reduced cost to taxpayer.

Other key non-monetised benefits by 'main affected groups'

Increase in cost recovery could act as an incentive to industry to invest to maximise efficient use of official controls and encourage businesses to review their business agreement with FSA in GB and DARD in NI to reduce the resources required.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Cost and charge figures are based on 2011/12 estimates and assume the level of official controls remains constant. Time taken for familiarisation: 2 hours for industry; 2 –15 hours for FSA. Efficiency savings of £5.0m for GB over 3 years and £0.54m for NI over 2 years have been allocated on a pro rata basis, based on the distribution of additional charges falling on approved establishments under respective policy options 3 and 6. Quantified costs and benefits relate strictly to first round effects. Lack of data and evidence means we rely on bold assumptions to quantify second round effects. (See Evidence Base for full details.). The 3 year discounting time period reflects the expected life of the policy proposal under consideration; taking account of current official control practices. A 10 year time period was not considered appropriate for this analysis given uncertainty in the way official controls would be delivered and carried out in future.

Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as
Costs: 5.66	Benefits: 0	Net: 5.66	No	NA

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	United Kingdom				
From what date will the policy be implemented?	26/03/2012				
Which organisation(s) will enforce the policy?	FSA				
What is the annual change in enforcement cost (£m)?	Minimal				
Does enforcement comply with Hampton principles?	No				
Does implementation go beyond minimum EU requirements?	Yes				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: N/A		Non-traded: N/A		
Does the proposal have an impact on competition?	Yes				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs: N/A		Benefits: N/A		
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	Micro N/A	< 20 N/A	Small N/A	Medium 53%	Large 47%
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹ Statutory Equality Duties Impact Test guidance	No	N/A
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	73
Small firms Small Firms Impact Test guidance	Yes	75
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	N/A
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	N/A
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	N/A
Human rights Human Rights Impact Test guidance	No	N/A
Justice system Justice Impact Test guidance	No	N/A
Rural proofing Rural Proofing Impact Test guidance	Yes	76
Sustainable development Sustainable Development Impact Test guidance	Yes	75

¹ Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs	0.01	0.00	0.00							
Annual recurring cost	5.72	5.57	5.74							
Total annual costs	5.73	5.57	5.74							
Transition benefits	0.00	0.00	0.00							
Annual recurring benefits	5.72	5.57	5.74							
Total annual benefits	5.72	5.57	5.74							

* For non-monetised benefits please see summary pages and main evidence base section

Summary: Analysis and Evidence

Policy Option 6

Description:

A staged move to a tiered reduction for an expanded definition of LTP establishments, (a complementary element of the preferred approach, which is a combination of Options 3 and 6).

Price Base Year 2011	PV Base Year 2012	Time Period Years 3	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: -0.02

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	N/A	N/A	N/A
High	N/A	N/A	N/A
Best Estimate	0.02	0.30	0.87

Description and scale of key monetised costs by 'main affected groups'

Total cost of policy option: £0.91m (constant price). Total industry: £0.89m for ongoing full recovery costs (meat hygiene controls) at an annual average cost of £0.30m which is inclusive of FSA (in GB) and DARD (in NI) efficiency savings; £17,830 in one-off familiarisation costs representing an equivalent annual net cost to business of approximately £6,149 over 3 years. FSA: £4,131 in one-off familiarisation costs.

Other key non-monetised costs by 'main affected groups'

Non-monetised costs were not identified (see monetised costs above).

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	N/A	0.30	0.84

Description and scale of key monetised benefits by 'main affected groups'

Total benefit of policy option: £0.89m (constant price) in revenue for exchequer and reduced cost to taxpayer.

Other key non-monetised benefits by 'main affected groups'

A reduction in cost recovery could act as an incentive to industry to invest to maximise efficient use of official controls and encourage businesses to review their business agreement with FSA in GB and DARD in NI to reduce the resources required.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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Cost and charge figures are based on 2011/12 estimates and assume the level of official controls remains constant. Time taken for familiarisation: 2 hours for industry; 2 –15 hours for FSA. Efficiency savings of £5.0m for GB over 3 years and £0.54m for NI over 2 years have been allocated on a pro rata basis, based on the distribution of additional charges falling on approved establishments under respective policy options 3 and 6. Quantified costs and benefits relate strictly to first round effects. Lack of data and evidence means we rely on bold assumptions to quantify second round effects. (See Evidence Base for full details.) The 3 year discounting time period reflects the expected life of the policy proposal under consideration; taking account of current official control practices. A 10 year time period was not considered appropriate for this analysis given uncertainty in the way official controls would be delivered and carried out in future.

Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as
Costs: 0.30	Benefits: 0	Net: 0.30	No	NA

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?		United Kingdom			
From what date will the policy be implemented?		26/03/2012			
Which organisation(s) will enforce the policy?		FSA			
What is the annual change in enforcement cost (£m)?		Minimal			
Does enforcement comply with Hampton principles?		No			
Does implementation go beyond minimum EU requirements?		Yes			
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)		Traded: N/A		Non-traded: N/A	
Does the proposal have an impact on competition?		Yes			
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?		Costs: N/A		Benefits: N/A	
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	Micro 100%	< 20 N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties¹ Statutory Equality Duties Impact Test guidance	No	N/A
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	73
Small firms Small Firms Impact Test guidance	Yes	75
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	N/A
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	N/A
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	N/A
Human rights Human Rights Impact Test guidance	No	N/A
Justice system Justice Impact Test guidance	No	N/A
Rural proofing Rural Proofing Impact Test guidance	Yes	76
Sustainable development Sustainable Development Impact Test guidance	Yes	75

¹ Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base

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The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs	0.02	0.00	0.00							
Annual recurring cost	0.07	0.33	0.49							
Total annual costs	0.09	0.33	0.49							
Transition benefits	0.00	0.00	0.00							
Annual recurring benefits	0.07	0.33	0.49							
Total annual benefits	0.07	0.33	0.49							

* For non-monetised benefits please see summary pages and main evidence base section

Summary: Analysis and Evidence

Policy Options 3&6

Description:

This is NOT an additional option, but is a combined analysis of Options 3 and 6 (analysed separately above) which, in combination, constitute the preferred approach.

Price Base Year 2011	PV Base Year 2012	Time Period Years 3	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: -0.03

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	N/A	N/A	N/A
High	N/A	N/A	N/A
Best Estimate	0.03	5.98	17.35

Description and scale of key monetised costs by 'main affected groups'

Total cost of policy option: £17.96m (constant price). Total industry: £17.93m for ongoing full recovery costs (meat hygiene controls) at an annual average cost of £5.98m which is inclusive of FSA (in GB) and DARD (in NI) efficiency savings; £24,512 in one-off familiarisation costs representing an equivalent annual net cost to business of approximately £8,453 over 3 years. FSA: £6,010 in one-off familiarisation costs.

Other key non-monetised costs by 'main affected groups'

Non-monetised costs were not identified (see monetised costs above).

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	N/A	5.98	17.32

Description and scale of key monetised benefits by 'main affected groups'

Total benefit of policy option: £17.93m (constant price) in revenue for exchequer and reduced cost to taxpayer.

Other key non-monetised benefits by 'main affected groups'

A reduction in cost recovery could act as an incentive to industry to invest to maximise efficient use of official controls and encourage businesses to review their business agreement with FSA in GB and DARD in NI to reduce the resources required.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Cost and charge figures are based on 2011/12 estimates and assume the level of official controls remains constant. Time taken for familiarisation: 2 hours for industry; 2 –15 hours for FSA. Efficiency savings of £5.0m for GB over 3 years and £0.54m for NI over 2 years have been allocated on a pro rata basis, based on the distribution of additional charges falling on approved establishments under respective policy options 3 and 6. Quantified costs and benefits relate strictly to first round effects. Lack of data and evidence means we rely on bold assumptions to quantify second round effects. (See Evidence Base for full details.) The 3 year discounting time period reflects the expected life of the policy proposal under consideration; taking account of current official control practices. A 10 year time period was not considered appropriate for this analysis given uncertainty in the way official controls would be delivered and carried out in future.

Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as
Costs: 5.99	Benefits: 0	Net: 5.99	No	NA

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	United Kingdom				
From what date will the policy be implemented?	26/03/2012				
Which organisation(s) will enforce the policy?	FSA				
What is the annual change in enforcement cost (£m)?	Minimal				
Does enforcement comply with Hampton principles?	No				
Does implementation go beyond minimum EU requirements?	Yes				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: N/A		Non-traded: N/A		
Does the proposal have an impact on competition?	Yes				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs: N/A		Benefits: N/A		
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	Micro 5%	< 20 N/A	Small N/A	Medium 50%	Large 45%
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

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Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹ Statutory Equality Duties Impact Test guidance	No	N/A
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	73
Small firms Small Firms Impact Test guidance	Yes	75
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	N/A
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	N/A
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	N/A
Human rights Human Rights Impact Test guidance	No	N/A
Justice system Justice Impact Test guidance	No	N/A
Rural proofing Rural Proofing Impact Test guidance	Yes	76
Sustainable development Sustainable Development Impact Test guidance	Yes	75

¹ Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessments of earlier stages (e.g. Consultation, Final, Enactment) and those of the matching IN or OUTs measures.

No.	Legislation or publication
1	Regulation (EC) 882/2004 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:191:0001:0052:EN:PDF
2	Meat (Official Controls Charges) (England) Regulations 2009 http://www.legislation.gov.uk/ukxi/2009/1574/contents/made
3	Meat (Official Controls Charges) (Wales) Regulations 2009 http://www.legislation.gov.uk/wsi/2009/1557/contents/made
4	Meat (Official Controls Charges) (Northern Ireland) Regulations 2009 http://www.legislation.gov.uk/nisr/2009/247/contents/made
5	Meat (Official Controls Charges) (Scotland) Regulations 2009 http://www.legislation.gov.uk/ssi/2009/262/contents/made
6	Meat Inspection Charges Task Force – Report and Recommendations , 2001 http://www.food.gov.uk/multimedia/pdfs/meatinspectionchanges.pdf
7	Consultation on future charging for meat official controls http://www.food.gov.uk/consultations/consulteng/2010/officialmeatcont1110e
8	Managing Public Money http://www.hm-treasury.gov.uk/psr_managingpublicmoney_publication.htm
9	Minutes of FSA Board meeting, 10 November 2009 http://www.food.gov.uk/multimedia/pdfs/board/boardmins091110.pdf
10	Minutes of FSA Board meeting, 25 May 2011 http://www.food.gov.uk/multimedia/pdfs/board/boardmins110525.pdf

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs	0.03	0.00	0.00							
Annual recurring cost	5.80	5.90	6.23							
Total annual costs	5.83	5.90	6.23							
Transition benefits	0.00	0.00	0.00							
Annual recurring benefits	5.80	5.90	6.23							
Total annual benefits	5.80	5.90	6.23							

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base (for summary sheets)

Page No.	Evidence Base - Contents
17	Problem under consideration
17	Rationale for intervention
18	Policy objective
19	Background
19	Legal position
20	EU review of charging provisions
20	Delivery of meat official controls
20	Modernising controls
21	Plant Inspection Assistants (PIAs)
21	Official controls excluded from this impact assessment
21	Current charging and discount system
21	PIA allowances
22	Current distribution of discounts
22	Background to the current charging and discount system
23	Current costs
23	Minimising costs:
23	<ul style="list-style-type: none"> • Efficiencies to date
24	<ul style="list-style-type: none"> • Business agreements
25	<ul style="list-style-type: none"> • Earned recognition
25	Future efficiencies
27	Responsibility for costs
27	Context – value of the industry
28	Relevant policy initiatives of other Government Departments
29	Policy development: consideration of options
30	Consultation
31	FSA Board discussion and decision on options
32	The proposals
32	Full cost recovery for meat official controls
32	Definition of 'low throughput'
33	Support for low throughput establishments
34	Plant Inspection Assistants (PIAs)
35	Public Health
35	Legislative context
35	Rationale behind costing of the proposals
36	Risks and assumptions
37	Distribution of costs across the supply chain:
37	<ul style="list-style-type: none"> • Empirical Evidence
37	<ul style="list-style-type: none"> • Industry Survey
38	<ul style="list-style-type: none"> • Consultation responses
39	<ul style="list-style-type: none"> • Assumption on distribution of costs
41	Distribution of Impact between Approved Establishments – Analysis by Meat Sector and Size
52	Options and Preferred Approach
52	Option 3 – A move to full cost recovery for establishments other than low throughput in 3 steps
53	Option 6 – A move in 3 steps to a maximum tiered reduction of 70%, 50% and 25% of the full cost charge, subject to the EU minima, for low throughput establishments

53	Costs and benefits
53	Sectors and groups affected:
53	<ul style="list-style-type: none"> • Livestock sector
54	<ul style="list-style-type: none"> • Approved establishments
57	<ul style="list-style-type: none"> • Consumers
57	<ul style="list-style-type: none"> • Competent Authority
57	<ul style="list-style-type: none"> • Taxpayer
57	Cost and benefits of options:
57	<ul style="list-style-type: none"> • Option 3 – A staged move to full cost recovery for establishments other than low throughput in 3 steps
66	<ul style="list-style-type: none"> • Option 6 – A move in 3 steps to a maximum tiered reduction of 70%, 50% and 25% of the full cost charge, subject to the EU minima, for low throughput establishments
72	Wider impacts
72	Competition Assessment
74	Small Firms Impact Test
74	Sustainable development
75	Race/disability/gender equality
75	Rural proofing
76	Summary & implementation plan
76	Preferred approach
79	Implementation:
80	<ul style="list-style-type: none"> • Monitoring
80	<ul style="list-style-type: none"> • Enforcement
80	<ul style="list-style-type: none"> • Sanctions
	Annexes:
81	Annex 1 Post Implementation Review Plan
82	Annex A Distribution of impact of full cost recovery
88	Annex B Range of impact of full cost recovery
91	Annex C Range of impact on meat establishments (excluding low throughput) by sector and country – Option 3
96	Annex D Range of impact on low throughput meat establishments by sector and country – Option 6
100	Annex E Technical Annex – Calculating Estimated Throughput Values for Individual Approved Establishments Analysis
103	Annex F Economic and Empirical Analysis of the Distribution of Costs across the Supply Chain
108	Annex G Results and Analysis of Industry Stakeholder Survey

Evidence Base – Tables

Table No.	Title	Page No.
1	2010/11 meat official controls cost and funding (excluding TSE costs)	23
2	Ratio official control hours chargeable to industry : livestock units processed (GB)	24
2a	Ratio official control hours chargeable to industry: livestock units processed (NI)	24
3	GB meat official control costs	26
3a	NI meat official control costs	26
4	UK retail sales of red meat, by type, value and volume, 2009	27
5	UK retail sales of poultry, by type, value and volume, 2009	27
6	Grouping of establishments by size	29
7	Distribution of consultation responses from meat establishments	30
8	Low Throughput definition	33
9	Livestock units	33

Table No.	Title	Page No.
10	Low Throughput reductions	34
11	Low Throughput establishments – number and support by country	34
12	Structure of Industry Survey Response Rate	38
13	Structure of Consultation Response Rate	39
14	Summary of survey and consultation responses on potential cost sharing across the supply chain	40
15	Red Meat Slaughter Establishments - Nominal, Absolute and Relative Impact of an Increase in Charges (Ranked by Relative Impact)	43
16	Poultry (Non-PIA) Establishments– - Nominal, Absolute and Relative Impact of an Increase in Charges	45
17	Poultry (PIA) Establishments - Nominal, Absolute and Relative Impact of an Increase in Charges	47
18	Game Handling Establishments - Nominal, Absolute and Relative Impact of an Increase in Charges	50
19	Number of approved establishments outside the definition of low throughput and therefore moving to full cost recovery under the preferred approach (Option 3)	55
20	Number of approved establishments within the definition of low throughput and therefore moving to a maximum tiered reduction in charges under the preferred approach (Option 6)	56
Option 3		
21	Efficiency Savings under Option 3	58
22	Estimated increase in charges/revenue by sector – UK (excluding low throughput)	58
23	Estimated increase in charges/revenue by country – UK (excluding low throughput)	58
24	Familiarisation cost to industry (Excluding low throughput establishments)	59
25	Equivalent Annual Net Cost (EANC) for industry by country	60
26	Familiarisation cost to Competent Authority in GB	61
27	Familiarisation cost to Competent Authority in NI	62
28	Option 3 Familiarisation cost to Competent Authority	62
29	Equivalent Annual Net Cost (EANC) for Competent Authority by country	63
30	Total Costs of Option 3	63
31	Indicative estimate of the distribution of costs across the supply chain – GB (excluding low throughput)	64
32	Indicative estimate of the distribution of costs across the supply chain – NI (excluding low throughput)	64
33	Benefits of Option 3	65
34	Net benefits of Option 3	65
Option 6		
35	Efficiency Savings under Option 6	66
36	Estimated increase in charges/revenue by sector – UK low throughput	67
37	Estimated increase in charges/revenue by country – UK low throughput	67
38	Familiarisation cost to industry (low throughput)	68
39	Equivalent Annual Net Cost (EANC) for Industry by Country	68
40	Competent Authority familiarisation cost	69
41	Equivalent Annual Net Cost (EANC) for Competent Authority by country	69
42	Total Costs of Option 6	70
43	Indicative estimate of the distribution of costs across the supply chain – Great Britain	70
44	Indicative estimate of the distribution of costs across the supply chain – Northern Ireland	71
45	Benefits of Option 6	71
46	Net Benefits of Option 6	71
47	Number and size of approved establishments receiving discount and at full cost recovery	77

Evidence Base – Charts

Chart No.	Title	Page No.
1	Average Current Discount Levels by Meat Sector and Establishment Size	41
2	Red Meat Establishments – Percentage increase in Full Cost Charging (Absolute Impact)	44
3	Red Meat Establishments – Percentage increase in Full Cost Charging as a Proportion of the Estimated Annual Value of Throughput (Relative Impact)	44
4	Poultry (Non-PIA) Establishments – Percentage increase in Full Cost Charging (Absolute Impact)	46
5	Poultry (Non-PIA) Establishments – Percentage increase in Full Cost Charging as a Proportion of the Estimated Annual Value of Throughput (Relative Impact)	46
6	Poultry (PIA) Establishments – Percentage increase in Full Cost Charging (Absolute Impact)	48
7	Poultry (PIA) Establishments – Percentage increase in Full Cost Charging as a Proportion of the Estimated Annual Value of Throughput (Relative Impact)	49
8	Game Handling Establishments – Percentage increase in Full Cost Charging (Absolute Impact)	50
9	Game Handling Establishments – Percentage increase in Full Cost Charging as a Proportion of the Estimated Annual Value of Throughput (Relative Impact)	51
10	Percentage split of approved establishments receiving discount and at full cost (UK)	77
11	Percentage split by country of approved establishments currently at full cost	78
12	Percentage split by country of approved establishments currently receiving discount	78
13	Percentage split by approved establishment size currently receiving discount or at full cost	79

Evidence Base (for summary sheets)

Problem under consideration

1. EU food hygiene legislation, introduced in 2006, places the primary responsibility for producing safe food with food business operators (FBOs), and EU legislation lays down specific and prescriptive rules for the hygienic production of meat, animal welfare at slaughter and the removal and handling of animal by products (those parts of the animal that are not to be used for human consumption). The Competent Authority (this is the Food Standards Agency (FSA) in the UK) is required to carry out 'official controls' to verify that FBOs meet their responsibilities, and slaughterhouses, cutting plants and game handling establishments must be approved by the Competent Authority (CA) and be under veterinary control. (Please see paragraphs 19-28 for further information on meat official controls and arrangements for their delivery.) Meat official controls are carried out in Great Britain (GB) by the FSA and in Northern Ireland (NI) by the Department of Agriculture and Rural Development (DARD) on behalf of the FSA.
2. Approved meat establishments are not permitted to operate without being subject to meat official controls. They also derive benefit (in terms of maintenance of standards, management of risk of meat-borne disease, reputation and consumer confidence) from meat official controls, and they are currently required to pay a proportion of the cost of delivery of these controls. However, most establishments are currently charged much less than the full cost of delivery, and the present charging system produces inconsistent outcomes across the industry in terms of support, with support targeted inappropriately (for example, to some large businesses). The difference between the current FBO charges and the full official control cost is funded by the taxpayer. (Please see paragraphs 29-36 for further information on the current charging system.)
3. In 2010/11, the cost of delivering meat official controls for the UK meat industry was £62.5 million (£56.4 million in GB, and £6.1 million in NI). Industry paid £31.3 million towards these costs (£27.5 million in GB, and £3.8 million in NI), with the remainder of the costs (£31.2 million) being met by the taxpayer. (Please see paragraphs 37-56 for further information on costs and minimising costs.)

Rationale for intervention

4. The FSA Board reviewed the question of charging for meat official controls in November 2009. The Board agreed on the key principle that it is not appropriate for a regulator to be subsidising the industry that it is regulating, and concluded that:
 - it is not a function of the FSA to subsidise industry and if a continuing subsidy is to be provided it should come from elsewhere;
 - providing the best possible protection for consumers from food risk should not be based on economic circumstances or the ability of an industry to pay; and
 - the FSA should consult with industry and government stakeholders on proposals for implementing the Board's decision to recover full costs for official meat controls.¹

¹ <http://www.food.gov.uk/multimedia/pdfs/board/boardmins091110.pdf>

5. The proposed transfer of the burden of costs of meat controls is consistent with HM Treasury² guidance on fees and charges. This is based on the principle that it is right that those regulated should pay for their regulation.
6. Treasury guidance states that the purpose of charging for services is to ensure that resources are allocated efficiently. Other benefits include:
 - greater visibility of the costs and benefits of services;
 - encouraging users and the service providers to work cooperatively to examine critically the level of controls required in each business, which in turn enables the service providers to better assess whether more or less resources should be allocated to the business; and
 - that it relieves taxpayers of costs properly borne by users who benefit directly from a service, enabling public resources to be allocated elsewhere, or lower public expenditure and borrowing.
7. Reform will reduce the burden on the taxpayer, and also address the inconsistent outcomes and inappropriate targeting of support that have evolved as a consequence of the current charging system.
8. On the basis of the principle that the FSA, as regulator, should not subsidise the meat industry, the FSA focused on the development of a range of options for implementation of full cost recovery for official controls, with support provided to businesses with a low throughput, in compliance with EU charging requirements. Full cost recovery clearly provides a consistent and equitable approach to charging for official controls, since each FBO pays for the official control resource used by their individual establishment. It also complies with EU requirements, with HM Treasury guidance, and the principle that the regulator should not subsidise the industry it regulates. (Please see paragraphs 67-83 for further information on the development of options and consultation process.)

Policy objective

9. The objective of the policy is to move to the principle of full cost recovery, while recognising the requirement of the EU charging legislation (see paragraphs 14 to 15) that the interests of businesses with a low throughput should be considered when setting charges. We will implement this by introducing a consistent and equitable charging system across the UK in which approved meat establishments pay the full cost of meat official controls with reductions in the full cost charge provided only for establishments with a low throughput. The FSA proposes a staged move to full cost recovery by gradual removal of current discounts and allowances over three years to allow industry time to adjust. Ministers and officials of relevant government departments have been sighted on the preparation of this proposal.
10. Full cost recovery would comply with the FSA Board's decision that it is not the role of the regulator to subsidise industry, and with wider UK Government policy with regard to the funding of publicly provided services. As a consequence, it would relieve taxpayers of costs properly borne by establishments that benefit directly from official controls. The provision of a reduction of the full cost charge for low throughput establishments complies with EU charging provisions, provides significant support to smaller businesses, and supports relevant policy initiatives in the four countries of the UK (see paragraphs 61 to 66). Full cost recovery with reductions only for those businesses with a low throughput would address the inconsistent outcomes and inappropriate targeting of support that have evolved as a consequence of the current charging system. It would also provide an incentive for each establishment to reduce the number of official control hours that it requires and to work co-operatively with the FSA or DARD to achieve that end (please see paragraphs 46-49 'Business Agreements' for

² http://www.hm-treasury.gov.uk/psr_managingpublicmoney_publication.htm

further information).

11. In parallel with the staged move to full cost recovery, the FSA is committed to reducing the cost of delivering meat official controls for the meat industry in GB over the next three years with no inflationary increases. The 2014/15 target charge to the meat industry in GB is £44.3 million, subject to no additional unforeseen cost increases. (Please see paragraphs 52-56 for further information on future efficiencies.)
12. DARD 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 £850,000 over 4 years. Savings of £0.75 million are planned for the three years 2011/12 to 2013/14.
13. Full recovery of the costs of 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 is on the basis of 2010 throughput levels and taking into account planned FSA and DARD efficiencies, the removal of GB pension deficit costs from the chargeable costs, and the provision of support for low throughput businesses. The FSA will not retain this additional income, which will be returned to the Treasury (or in the case of Scotland, to the Scottish Government). There will be a consequent saving to the taxpayer of £17.93 million, with no negative impact on public health or food safety.

Background

Legal position

14. The EU requirements for charges for official controls are set out in Regulation (EC) No. 882/2004³, known as the Official Food and Feed Control (OFFC) Regulation.
15. The Regulation:
 - requires that charges be made to FBOs for the cost of meat official controls carried out at approved meat establishments. These charges must be no more than actual costs and in general no less than the amount calculated from specified minimum rates (the minima);
 - permits charges to be made for other controls, including TSE controls such as those on Specified Risk Material (SRM) in cattle, sheep and goats and the additional BSE controls that apply to cattle slaughtered for human consumption that are required to be tested for BSE at approved meat premises. These charges must be no more than actual costs (the minima do not apply); and
 - requires that in setting charges the Competent Authority (in the UK this is the FSA) considers the interests of businesses with a low throughput.
16. The proposals in this document 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 2009⁴ and equivalent legislation in Northern Ireland, Scotland and Wales.

³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2004R0882:20090807:EN:PDF>

⁴ http://www.legislation.gov.uk/ukxi/2009/1574/pdfs/ukxi_20091574_en.pdf

17. 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.

EU review of charging provisions

18. Charging systems in other EC Member States vary. The European Commission has begun a review of the EU provisions for charging for official controls. The Commission is not expected to produce a proposal on EU charging provisions until Autumn 2012 at the earliest, and we estimate that any changes to the current regime would not be implemented in the UK until 2015 at the earliest. If financial implications arise from the review, they will be factored in to any future charging arrangements. The FSA is working actively with the Commission on the review, and will follow the normal UK consultation procedure once a proposal has been produced.

Delivery of meat official controls

19. Meat hygiene and welfare at slaughter official controls (referred to in this document as 'meat official controls') are specified in a significant degree of detail in directly applicable EU legislation. The system as currently specified relies on the presence of officials throughout the slaughtering process in approved slaughterhouses. Meat official controls include (but are not restricted to):
 - ante-mortem inspection of animals;
 - post-mortem inspection of carcasses and offal;
 - verification that FBOs are complying with the specific hygiene rules set out in EU legislation: and
 - risk-based audits of FBO procedures to verify compliance with the legal requirements and to ensure adequate FBOs standards in relation to public health and animal welfare.
20. In most cases meat official controls are carried out in GB by the Food Standards Agency (FSA) and in Northern Ireland by DARD on behalf of the FSA. In the majority of slaughter establishments meat official controls are delivered by Meat Hygiene Inspectors (MHIs) working under the supervision of an Official Veterinarian (OV). The principal official control in cutting plants is the risk-based audit, carried out by an OV.

Modernising controls

21. Since official controls on meat are prescribed by directly applicable European legislation, any changes to controls will have to be negotiated with other EU Member States and the European Parliament. The European Commission started the discussions in 2010 on potential changes to the system of meat controls, and the Commission's legislative proposals are expected in the first half of 2012.
22. In preparation for these proposals, the FSA in collaboration with other Government departments has been developing a set of principles on which a new system of meat official controls should be based. The key objective is a risk based, proportionate, effective, targeted and cost effective system of official controls in slaughterhouses which recognises changes in the nature of risks to public health over the years since meat inspection was first introduced.
23. The FSA is working closely with domestic and international partners, including other Member States, the European Commission and EFSA to help shape a future system of meat controls. The FSA is funding research to gather the evidence necessary to support a case for change, and has shared the outcomes of the research with other interested parties including EFSA, the European Commission,

other Member States and industry.

24. In addition to working towards change in Europe, the FSA is working with industry representative bodies to review the flexibilities allowed in the extant European regulations to ensure these flexibilities are implemented where appropriate. A list of practical examples of flexibilities in use by small and low throughput establishments across the UK was published on the FSA website on 12 September, to provide a point of reference for FBOs and those who deliver official controls.
<http://www.food.gov.uk/foodindustry/guidancenotes/hygguid/euhygieneregulationsflexibilities>

Plant Inspection Assistants (PIAs)

25. In some poultry slaughter establishments meat official controls are in part conducted by the FBO's own staff rather than by officials (MHIs). Plant Inspection Assistants (PIAs) are employed directly by the FBO and work under the supervision of an OV employed by FSA in GB and DARD in NI. This arrangement is provided for in European law for poultry slaughterhouses only, and is encouraged by the FSA as it reduces the financial burden on FBOs who employ the PIAs under their own terms and conditions and can utilise them for other duties when they are not required for meat official control purposes.

Official controls excluded from this impact assessment

26. Separate EU legislation lays down rules for the control of Transmissible Spongiform Encephalopathy (TSE), again requiring official controls to ensure compliance. FBOs are not currently charged for TSE controls (the food business operator (FBO) pays the cost of both sample despatch and the BSE test itself, but not the cost of the related official controls).
27. There are no current proposals to recover TSE official control costs. Any such proposal would have to be agreed with Rural Affairs Departments which contribute to the funding of these controls and would be subject to a separate consultation exercise. This means that TSE costs (including SRM controls) are excluded from this impact assessment.
28. There is also the potential that increased testing for trichinella in pigs will be required in future. This would have implications for meat hygiene charges payable by operators of slaughterhouses that slaughter pigs. Any future proposals in this regard will be subject to further public consultation.

Current charging and discount system

29. In 2009, following consultation, a system of time-based charging for meat official controls was introduced via national legislation in the four countries of the UK. The charges currently made to industry include the time cost of the OVs and MHIs together with associated overhead costs as provided for under domestic legislation. Time-based charging was introduced in such a way as to minimise impact (see paragraphs 33 to 36 below).

PIA allowances

30. All FBOs currently incur OV costs irrespective of whether controls are delivered by PIAs or MHIs, because in either case OV supervision is required. The majority of FBOs utilising PIAs under OV supervision are not charged the full OV cost because of the discount system. However, poultry slaughterhouses using their own staff as PIAs also have the time-costs of the PIAs, plus an allowance

for administrative overheads, offset against the discounted charge for official controls. Offsetting the PIA allowance against the discounted charge and the EU minima provides a disproportionate level of support and can, in some cases, reduce charges payable to nil.

Current distribution of discounts

31. Of the 1214 establishments considered in this Impact Assessment, discounts of varying sizes are received by 499 of a total of 988 small establishments; 131 of a total of 146 medium sized establishments; 41 of a total of 56 large establishments; and 15 of a total of 24 very large establishments. The range and variation of support currently provided is illustrated in the tables, charts and analysis in paragraphs 119-137. 'Distribution of Impact between Approved Establishments – Analysis by Meat Sector and Size', and in Tables 1.1B to 1.3B and 2.1B to 2.3B in Annex B 'Range of impact of full cost recovery'.
32. The current system of calculation of discounts allocates support in an inconsistent manner across the industry, and directs support inappropriately (e.g. to some large businesses). The PIA allowance adds to the inconsistency, since it provides establishments with PIAs a disproportionate level of support by offsetting a full allowance for PIA costs against the discounted charge for the OV.

Background to the current charging and discount system

33. Prior to the introduction of time-based charging in 2009, the method of calculation for meat official controls was by 'the Maclean formula', a system of comparing time-based costs and charges based on the number of animals or volume of meat processed and charging the lesser of the two. This method of calculation was introduced in 2001 when the slaughterhouse industry was rapidly rationalising in response to changing market needs and was facing a sudden significant rise in official controls charges due to the need in 1999 for the Government to implement an EU law which required full time veterinary supervision in slaughterhouses. There was concern that the increased charges were sufficiently large to present a real risk to the economic viability of small and medium sized businesses, particularly red meat slaughterhouses.
34. The Maclean formula provided slaughterhouses, game handling establishments and cutting plants with a significant level of discount from the full cost of official controls, and helped the industry to remain robust even during the challenges presented by the legacy of BSE and disease outbreaks, such as foot and mouth and avian influenza. It also ensured that smaller establishments received substantial levels of support.
35. The subsidised throughput rate was intended as a limited support for the smaller red meat slaughterhouses that could not use official controls efficiently due to their limited throughput. However, in practice over the years the benefit has been provided to a large proportion of establishments of every size, with discounts currently ranging from nil to 99.8%.
36. Since 2009, charges for meat official controls have been determined for all establishments by calculating time costs and applying an individual discount rate which is intended to match the discount applied under the Maclean formula, and is arrived at by a complex calculation using historical throughput and discount data. As explained above (paragraph 30) a further deduction from the discounted charge is made in cases where a poultry slaughterhouse incurs costs due to their employment of PIAs who assist the FSA or DARD VPHU with the carrying out of official controls. In these cases, the deduction represents the time costs for the PIA, plus an additional amount for administrative overheads.

Current costs

37. As outlined in paragraph 15 above, Competent Authorities are required by EU regulations to charge FBOs for meat official controls. However, the charges currently levied do not cover the full cost of delivering meat official controls. The difference between the current FBO charges and the full official control cost is funded by the taxpayer. For the year 2010/11, the cost of delivering meat official controls in GB and NI was as follows:

Table 1 – 2010/11 Meat official controls cost and funding

Current Cost	£m	Funded by	£m
GB	56.4*	FSA	28.9
NI	6.1		
		FSA in NI	2.3
		GB Industry	27.5
		NI Industry	3.8
Total	62.5	Total	62.5

*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.

Minimising costs

38. The FSA's key objective is to deliver the best possible protection for consumers and does not consider that providing this should be based on economic circumstances or the ability of an industry to pay. Recovery of the full costs of meat official controls complies with Government policy and carries a clear benefit to taxpayers. However, in line with central Government policy, the FSA does not wish to place an undue burden on business and has achieved significant efficiencies in the delivery of official meat controls and will continue to drive down its own costs.

Efficiencies to date

39. Significant cost reductions have already been achieved by the FSA and DARD.
40. In GB, management actions and reconfiguration of the ex-Meat Hygiene Service (now fully merged into the FSA) have resulted in significant cost reductions in the cost of delivering official controls. Overall, the cost of delivering meat official controls in GB reduced from £69.9 million in 2006/7 to £56.4 million in 2010/11, a reduction of £13.5 million (19.3%).
41. In 2006/7 the Meat Hygiene Service (MHS) had 2,023 Full Time Equivalent (FTEs) in frontline and essential support meat related posts. Of these FTEs, 1,751 were in frontline roles and 272 provided essential support, a ratio of 6.5 to 1. The 2011/12 budget has 1,251 FTEs in frontline and essential support meat related posts, a reduction of 772 FTEs (38%). Of these FTEs, 1,116.5 are in frontline

roles and 134.5 provide essential support, a ratio of 8.5 to 1.

42. Overall efficiencies were well in excess of industry contraction, even taking into account the contribution to reduction in costs arising from reductions in activities conducted on behalf of other Government Departments. While the average number of operational slaughterhouses in GB in 2010/11 reduced by 9% compared with 2006/7, the number of livestock units processed was approximately the same in 2010/11 (6.55 million) as in 2006/7 (6.5 million). However, the meat official control hours chargeable to industry ('industry hours') fell by 14% in the same period.
43. The meat official control delivery cost per livestock unit in GB was reduced from £14.11 in 2006/7 to £10.32 in 2010/11, with the ratio of industry hours to livestock units falling from 0.28 to 0.24 in the same period (see Table 2 below).

Table 2 – Ratio official control hours chargeable to industry : livestock units processed (GB)

	2006/07 (baseline)	2007/08	2008/09	2009/10	2010/11	Variance 2010/11 vs. 2006/07
Industry Hours: Livestock units	0.28	0.27	0.26	0.25	0.24	-14.33%
Number of Livestock Units Processed	6.5m	6.6m	6.4m	6.2m	6.55m	+0.1%

44. In NI, actions by DARD similarly reduced the cost of delivering meat official controls from £6.5 million in 2007/08 to an estimated £5.6 million in 2011/12, a reduction of £0.9 million (13.8%). An efficiency drive and review of working practices has resulted in a significant reduction in the number of staff employed by DARD from a total of 191.6 FTEs in November 2007 to a complement of 156.11 in August 2011. This represents a reduction of 18.5%.
45. The ratio of industry hours to livestock units in NI fell from 0.23 in 2007/8 to 0.19 in 2010/11, thus reducing the meat official control delivery cost of processing an individual animal in NI (see Table 2a below).

Table 2a – Ratio official control hours chargeable to industry : livestock units processed (NI)

	2007/08	2008/09	2009/10	2010/11	Variance 2010/11 vs. 2007/08
Industry Hours: Livestock units	0.23	0.23	0.20	0.19	-17.39%
Number of Livestock Units Processed	0.93m	0.90m	0.95m	0.99m	+6.45%

Business agreements

46. Business Agreements are made between the Food Business Operator (FBO) and the FSA to identify in advance the number of staff and inspection hours required to deliver meat official controls and provide the basis for calculating charges to the FBO. The intention behind the Business Agreement process is twofold: to deliver more effective deployment of FSA resources by ensuring that charging is related to the controls the FBO determines that they need and to improve the efficiency of FBOs. Their

introduction in 2009 contributed an estimated reduction in charges of £1.3m in GB in the first year of operation, for those businesses that had such agreements in comparison with those businesses that did not.

47. Business Agreements are now in place for all establishments in GB, and provide ongoing opportunities for collaboration to increase efficiency at an individual establishment level. As part of the efficiency improvement, where a FBO does not use the hours they have stated they need and official control staff cannot be redeployed, then the FBO is charged for the “unworked time” within the Business Agreement. However, because of the discounting arrangements within the current charging system, for many FBOs with a discount the costs of unworked time are minimal. For example where a FBO receives a discount of 80% the cost of unworked time to the FBO may only be a few pounds and therefore the majority of the cost of unworked time falls to the FSA and in effect to the taxpayer not the FBO. This arrangement provides little incentive for businesses to work efficiently.
48. The cost to GB FBOs of unworked time, where they requested hours but did not use this time, was £0.88 million for the 2010/11 year. The total cost of this time was £2.15 million. The difference is accounted for by the discounts that the FBOs receive. While the current charging system based on discounting applies there will be very little incentive for FBOs to improve their efficiency. However, charging based on the principle of full cost recovery is likely to improve FBO efficiency because FBOs will be charged the full cost of unworked time and where FBOs reduce the amount of unworked time within their Business Agreements this will result in savings to them. Potential savings will be less for FBOs of low throughput establishments, where they receive a percentage reduction in the full cost charge. However, the principle of charging each FBO on the basis of the full cost of delivery of official controls at their individual establishment, with the application of a percentage reduction where appropriate, is still likely to provide an incentive for efficiency in use of official control time.
49. Business Agreements have also been introduced for FBOs of slaughterhouses in NI and the transition to full cost recovery should provide a further incentive for liaison between FBOs and DARD. As in GB, it is likely that FBOs will approach discussions with DARD on service requirements with efficiency in mind given that unproductive time will also be charged at full cost.

Earned recognition

50. In its response to the Defra-commissioned Farming Regulation Task Force report, the FSA agreed to consider further whether earned recognition, including accredited third-party schemes, can be used in the meat industry within the confines of current legislation. The FSA will, therefore, as part of its work to review the potential for flexibilities under the current legislation, consider the application of earned recognition principles where there is scope to do so.
51. As well as official inspection of animals and meat, meat official controls require the audit of FBOs' food safety management systems. Audit frequency is determined on a risk basis, taking into account FBO compliance history. Third party assurance schemes could be useful in helping to identify compliant businesses and assessing risk. Slaughterhouses and cutting plants therefore have an opportunity to influence the cost of official controls, since there is a link between their management and compliance levels and the frequency of official control audits. The FSA recognises, however, that the scope to influence control costs is more limited in slaughterhouses than in cutting plants, because of the prescriptive EU requirements for inspection in the former. As explained above, the FSA is actively involved with the European Commission and other Member States in reviewing current meat controls, with a view to developing new controls for the future that will be more risk based and proportionate. It may be possible to take fuller account of earned recognition in a future system of controls once it is clear what controls will be required.

Future efficiencies

52. In GB the FSA is committed to further reducing the cost of delivering meat official controls for the meat industry from the £55 million budgeted for 2011/12 by £5 million over the next three years with no

inflationary increases. Subject to certain assumptions outlined below, this reduced cost of £50 million, less pension deficit costs (see paragraph 81 below) and the support to be provided to low throughput businesses, is the maximum the industry in GB would be expected to pay.

53. The 2014/15 target charge to the meat industry in GB, based on estimated pension deficit costs of £4.7 million and an estimated £2.7 million in low throughput support, is £44.3 million, as shown in Table 3 below. The following assumptions form part of this commitment:

- Throughput does not substantially exceed the forecast levels⁵. Any material increases in throughput would bring an increase in demand for controls which would increase overall costs;
- European legislation does not change in a way that increases the regulatory requirement;
- Increased testing is not required for trichinella in pigs (see paragraph 28);
- Some changes may require consultation and the pace at which they can be implemented may be difficult to predict at times. Otherwise it has to be assumed that all change initiatives are deliverable and can be delivered within the required timescale;
- Existing overhead costs remain reasonably static; and
- There are no major outbreaks of animal disease in GB.

Table 3 - GB meat official control costs

	£m
Meat official controls budget 2011/12	55.0
Pension deficit cost	(4.7)
Industry cost (excluding pension deficit costs)	50.3
FSA efficiency savings	(5.0)
Low throughput support	(2.7)
Throughput increase adjustment*	1.7
Target charge to industry 2014/15	44.3

*Budgeted costs of £55 million were based on throughput of 6.1 million livestock units. However, throughput increased by 7% from 2009/10 to 2010/11 and is forecast at the same level for 2011/12.

54. In NI, DARD is committed to reducing the cost of delivering official controls for the meat industry 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 £0.75 million are planned for the three years 2011/12 to 2013/14.

55. The 2014/15 target charge to the meat industry in NI, based on an estimated £0.08 million in low throughput support, is £4.91 million, as shown in Table 3a below.

Table 3a - NI meat official control costs

	£m
Estimated chargeable cost of meat official controls 2011/12 ¹	5.61
Efficiency savings ²	(0.75)
Low throughput support	(0.08)
Throughput increase adjustment ³	0.13
Target charge to industry 2014/15	4.91

¹ Estimated costs are based on 2011/12 year-to-date data

² 2011/12 to 2014/15 inclusive

³ NI overall throughput increased by 4% from 2009/10 to 2010/11 and a similar increase is expected for 2011/12. It is assumed that production costs associated with increased throughput will increase by 60%.

⁵ Recent trends have been upwards in terms of throughput, and this affects the baseline numbers.

56. The FSA and DARD will continue to work closely with industry to identify the scope for efficiency savings in individual establishments. In addition, the FSA will also continue to commit resources to working actively with the European Commission, the European Food Safety Authority and other member states to develop a basis for a more risk-based, modernised, set of controls.

Responsibility for costs

57. As meat controls are a legitimate cost to industry, as explained above, these costs should be paid by businesses, in line with Government policy.

Context – value of the industry

58. The UK meat market (excluding game) is worth around £6.34 billion, with £3.5 billion⁶ accounted for by red meat and £2.85 billion⁷ by white meat. Tables 4 and 5 below show the UK retail sales of red meat and white meat (poultry) respectively, broken down by meat type showing value and volume sales.

Table 4 – UK retail sales of red meat, by type, value and volume, 2009⁸

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

Table 5 – UK retail sales of poultry, by type, value and volume, 2009⁹.

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

59. Charging systems in other EC Member States vary. The proposals are fully compliant with EU Regulations, which all Member States have to follow. Our assumptions, which were not countered by stakeholders in responses to the consultation, are that the proposed levels of increases in charges will not be sufficient to create incentives to export animals for slaughter or carcasses for cutting.
60. The proposals 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. The proposals will therefore continue to provide significant support to smaller establishments.

⁶ Mintel 2010: Red Meat - UK. Market value is from 2009.

⁷ Mintel 2010: Poultry and Game Meat - UK

⁸ Mintel 2010: Red Meat - UK. Market value is from 2009

⁹ Mintel 2010: Poultry and Game Meat - UK

Relevant policy initiatives of other Government Departments and the Devolved Administrations

61. The FSA's proposals for full cost recovery for meat official controls were developed in full awareness of the wider policy context, and are not incompatible with other relevant policy initiatives, such as the work of the Farming Regulation Task Force in England, the Welsh Government's food and farming policy, and the recently announced Scottish Government review of the functions performed by the FSA in Scotland.

Farming Regulation Task Force

62. At its open meeting on 12 July 2011, the FSA Board discussed the 19 recommendations made by the Farming Regulation Task Force which were addressed directly to the FSA. None of the recommendations directly addressed charging arrangements or levels, although of course any changes made to official controls could affect the cost of delivery. The FSA Board agreed on 7 September that industry should be invited to develop a proposal for an alternative delivery model for official controls in approved meat premises, and the FSA has set out essential criteria to be met by any such proposal. Should a proposal be put forward, it would be discussed by the FSA Board, and implications for charging policy would be likely to form part of the Board's considerations.

Scottish Government

63. The FSA is engaged with the Scottish Government's ongoing national food and drink policy and is aware of the recent publication of the Farming Manifesto 2011, which signals a plan to launch a new "Produced in Scotland from Farm to Plate" initiative to benefit primary producers and processors. The Scottish Government has set up a panel to carry out a review of functions performed at present by the FSA, as they relate to Scotland, and to include a full assessment of the feasibility of a devolved meat inspection service, and the FSA will as an organisation co-operate and provide any information that is required to that review.
64. The FSA is confident that none of the arrangements currently in place or proposed for meat hygiene charging would prevent the implementation of any changes arising from the Scottish Government review of FSA functions.

Welsh Government

65. The Welsh Government recently produced two relevant policy documents; *Farming, Food and Countryside*(2009), which commits the Welsh Government to work with the FSA and stakeholders to "devise a charging regime for meat hygiene inspection that is fair for small abattoirs" with the ultimate objective that "small abattoir numbers [are] sustained or increased in Wales"; and *Food for Wales, Food from Wales 2010-2020* (2010), which "supports efforts to strengthen and develop existing infrastructure in the food system such as small abattoirs and processing plants". Elin Jones AM, then Minister for Rural Affairs, responded directly to the consultation on full cost recovery for meat charging, expressing concern about the limitations and potential cliff edge effect of the FSA's original proposal to provide support only for those establishments processing up to 1,000 livestock units or equivalent. These concerns have been addressed in the revised proposals. In Wales, the number of slaughterhouses that are expected to qualify to receive support has increased from 7 to 16.

Northern Ireland

66. The NI Red Meat Industry Task Force, which included cross-sectoral representatives, began a strategy review in 2006 with the remit to develop a strategic plan to guide the industry's development over the forthcoming decade. The report of the review, published in 2007, identified that the red meat industry in Northern Ireland was generating annual losses of over £200m when full costs of production were included. Respondents to the consultation have noted that the underlying economics of the industry have changed little from the position outlined in 2007 – the value of the industry's production may have

increased but so too have the costs of that production. Representatives of the red meat industry in NI expected the full additional costs of full cost recovery to be passed to the livestock producer, and there was, therefore, concern about the effect on that sector.

Policy development: consideration of options

67. Given the principles outlined in the *Rationale for Intervention* (paragraphs 4-8 above), the inconsistencies of the current charging and discount system, and the legal framework, there was limited scope for consideration of options other than full cost recovery with the interests of business with a low throughput taken into consideration. The FSA therefore focused on the development of a range of options for the method of implementation of full cost recovery for official controls, rather than on alternatives to full cost recovery. Full cost recovery provides a consistent and equitable approach to charging for official controls, since each FBO pays a charge based on the official control resource used by their individual establishment. It also complies with EU requirements, with HM Treasury guidance, and the principle that the regulator should not subsidise the industry it regulates.
68. In order to analyse the potential impact of options considered, approved meat establishments were initially grouped into 5 sizes (low throughput, small, medium, large and very large) by reference to the number of livestock or volume of meat processed annually, as shown in Table 6 below.

Table 6 – Grouping of establishments by size

	Low throughput	Small	Medium	Large	Very Large
Red Meat Slaughterhouses	Up to 1,000 cattle or equivalent	Up to 5,000 cattle or equivalent	Up to 50,000 cattle or equivalent	Up to 125,000 cattle or equivalent	Over 125,000 cattle or equivalent
Poultry Slaughterhouses	Up to 150,000 birds	Up to 750,000 birds	Up to 5,000,000 birds	Up to 30,000,000 birds	Over 30,000,000 birds
Game handling establishments	Up to 3,000 deer, 150,000 small game	Up to 7,000 deer, 250,000 small game	Up to 12,000 deer, 500,000 small game	Over 12,000 deer, 500,000 small game	NA
Cutting plants	Up to 250 tonnes	Up to 1,250 tonnes	Up to 12,500 tonnes	Up to 30,000 tonnes	Up to 30,000 tonnes

69. The EU charging legislation (see paragraphs 14-15) requires that the CA considers the interests of businesses with a low throughput when setting charges, but does not define the term 'low throughput'. As a starting point for discussion and consultation, definitions were drawn from earlier hygiene legislation, categorising establishments as 'low throughput' if they processed up to 1,000 cattle or the equivalent in other species or volume of meat per year. The average discount provided to low throughput establishments stood at approximately 77%, in 2009/10. On the basis that it would be reasonable to expect an increased contribution to costs from low throughput establishments, since all other establishments would be expected to meet the full costs of meat official controls, options were developed to move to a maximum reduction in the full cost charge of 70%, which provided a modest increase in cost recovery.
70. For the purposes of discussion and consultation, the FSA developed options for the introduction of full cost recovery in one step, or in a staged move over three years. In parallel, there were options for businesses with a low throughput (defined as in Table 6 above) to move immediately to the maximum reduction, or to move in stages over three years.

Consultation

Meat Hygiene Charging Stakeholder Group

71. The FSA established a meat hygiene charging stakeholder group at the early stages of policy development, bringing together representatives of all those potentially affected by charging proposals from all four countries of the UK, to provide a forum for discussion. The group met regularly throughout the process of policy development.

Industry survey

72. Prior to conducting a formal public consultation the FSA carried out an industry survey, developed in consultation with industry representatives, which was designed to allow detailed analysis of the impact of full cost recovery across the meat supply chain in the UK. Unfortunately, despite efforts to encourage industry to participate in the survey, there was a very low response rate. This was for a range of reasons including concerns about confidentiality of commercially sensitive data. The implications of the low response rate for the impact assessment, and how the FSA managed these, are discussed at paragraphs 102-111.

Public consultation

73. The FSA held a formal 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, and this was supported by a number of stakeholder events of different sizes held across the UK. The consultation documents, including a draft impact assessment, were published on the FSA website at: <http://www.food.gov.uk/consultations/consulteng/2010/officialmeatcont1110e>

74. The key proposals in the consultation were:

- a move to full cost recovery in one step or by a phased introduction, to begin in January 2012; and
- a reduction of the full cost charge for low throughput establishments, subject to the EU minima, which would provide support of approximately £1.4 million for around 420 establishments processing up to 1,000 livestock units or equivalent.

75. The formal public consultation received 141 responses from a wide range of meat establishments and other stakeholders, including 32 representative bodies from across the industry, 7 farmers and 8 auction marts. The distribution of meat businesses' responses is shown in the following table. A summary of responses will be published on the FSA website at <http://www.food.gov.uk/consultations/#comp>

Table 7 – Distribution of consultation responses from meat establishments

	Low Throughput	Small	Medium	Large	Very Large	Total
Red Meat Slaughterhouses	9	17	23	2		51
Poultry Slaughterhouses	1	1	3	2		7
Poultry Slaughterhouses with PIAs	2	2	3		1	8
Game Handling Establishments			1	1		2
Cutting Plants (of any size)			11			11
Total	23	20	30	5	1	79

76. While the majority of the written responses to the consultation opposed recovery of the full cost of official controls, many industry representatives attending stakeholder meetings accepted the principle of full cost recovery, although not at the cost of delivery at that time (costs have since reduced – please see paragraphs 37-45). Views were very strongly expressed by a number of respondents across the UK that the cost of delivery of official controls at that time was too high, and that scrutiny of the

efficiency of the current delivery system including consideration of alternative delivery options and full realisation of all possible efficiencies should take place before full cost recovery is sought. In particular, there was considerable and widespread concern regarding the level of overhead costs. Respondents felt very strongly that industry should not have to bear the cost of staff employed under public sector terms and conditions.

77. In commenting on the proposals set out in the consultation, respondents generally agreed that if full cost recovery was to be implemented, it should be in stages, and delayed as long as possible. There was strong support for recognition of the interests of low throughput establishments. However, the proposed low throughput thresholds and maximum reduction in the full cost charge were considered to be too low, and there was concern that a single cut-off point for the reduction would distort the market and act as a barrier to business expansion.
78. Whilst the formal public consultation received 141 responses from a wide range of meat businesses and other stakeholders, responses to our question about where increases in costs would fall were not generally accompanied by evidence. Of the 79 meat businesses that responded to the consultation, only 30 chose to specify the exact proportion of costs they expected to be shared across the supply chain. There were mixed expectations about the distribution of impact along the supply chain, but strong concern was expressed about the impact of additional costs upon the livestock industry. There was also strong concern regarding the impact upon the viability of small and medium establishments, and the consequential impacts of potential closures on rural economies.
79. All stakeholder comments were taken into consideration in developing the revised proposals outlined and assessed in this impact assessment. However, for technical reasons, explained fully in paragraphs 103, 107 to 109, and 114 to 116, when undertaking an analysis of the evidence of distribution of costs we took into account only those responses which provided evidence and could, in statistical terms, be considered representative of their sector.

FSA Board discussion and decision on options

80. Following the public consultation, the FSA Board reviewed options for full cost recovery in an extensive discussion at its open meeting in May 2011. The Board confirmed the principles outlined in paragraph 4 above, considered stakeholder views and other relevant matters, and decided that full cost recovery should be introduced in a staged move over three years to give businesses time to adjust.
81. The Board noted in particular concerns about the potential impact of full cost recovery upon the viability of small local businesses, and the possibility that provision of a single maximum reduction to a restricted category of low throughput establishments could result in a 'cliff edge effect', potentially distorting the market and presenting a barrier to expansion. In response to these concerns, and after a wide ranging discussion, the Board revised the consultation proposal for low throughput support, deciding that:
- the definition of 'low throughput' should be expanded to include establishments processing up to 5,000 cattle or equivalent per year (i.e. to include both the 'low throughput' and the 'small' segments in Table 6 above); and that
 - 'low throughput' establishments as redefined should pay reduced charges in a tiered system, depending on the volume of livestock units or meat they process. For the first 1,000 livestock units processed, the reduction would be a maximum of 70% of the full cost charge. The next 1,000 would be subject to a 50% reduction. The next 3,000 would be subject to a 25% reduction. For meat establishments processing more than 5,000 livestock units per year full cost charges would apply with no discount for any of the throughput.
82. Under the revised proposals support for low throughput establishments will amount to an estimated £2.8 million for around 500 establishments across UK, as against the original proposal, which would

have provided support of around £1.4 million for around 420 establishments.

83. In calculating the costs that will be passed on to the industry, the Board was provided with clarification on those attributed to pensions. Previous indications to industry stakeholders were that full cost recovery in Great Britain would include the current employers' contributions for the Civil Service Schemes, the Local Government Pension Scheme (LGPS) and also the costs associated with funding the LGPS deficit relating to current staff, staff with deferred benefits and pensioners. This figure was originally estimated as £7.6 million for 2011/12. Following a review by HM Treasury of the cost and the allocation of that cost, it has been agreed that industry will not bear the cost relating to the deficit in the Local Government Pension Scheme, which would have totalled £4.7 million. Therefore the pensions element within costs has been reduced to £2.9 million.

The proposals

Full cost recovery for meat official controls

84. The proposals as revised by the FSA Board, taken with the decision to remove pension deficit costs and the efficiency commitments of the FSA and DARD, result in an estimated additional charge to industry, and equivalent saving to the taxpayer, of £17.93 million in 2014/15.
85. It is proposed to move to full cost recovery for meat official controls, by removal of current discounts and PIA allowances (see paragraphs 21, 26, and 89-92 below), in a staged move in 3 annual steps for all establishments. The only exception will be for those establishments falling within the definition of 'low-throughput' (see paragraph 79, and 86 below), where the charge will be modified, in accordance with EU charging provisions, by a tiered 70%, 50% and 25% reduction, depending upon the level of throughput and subject to the EU minima (see paragraph 15 above).
86. The proposals will be implemented from the April 2012 charging period, which begins on 26/3/12 in GB, and on 1/4/12 in NI, with full cost recovery in place from the April 2014 charging period. While it would be consistent with our policy objective to require establishments which receive approval after the date of implementation to pay the full cost charge from the outset (modified for 'low throughput' where appropriate), we propose to allow new businesses opening during the transitional years to be treated in a similar manner to those existing businesses that are making the transition to full cost recovery, in order to ensure that new businesses are not at a competitive disadvantage.
87. The FSA believes that the introduction of full cost recovery with reductions applied only to low throughput establishments would provide a consistent and equitable approach to charging for official controls, be clearer and more straightforward to administer than the current system, would continue to comply with the EU Regulation, would relieve the taxpayer of an inappropriate burden, and would encourage industry to make more efficient use of resources for the delivery of official controls.

Definition of 'low throughput'

88. We propose that establishments be categorised as "low throughput" if their throughput of any species or, as the case may be, type of meat, does not exceed the limits listed in Table 8 below, and that determinations of low throughput status should be made by reference to a 3 year rolling average. This should provide fairness and stability for those establishments that find themselves operating around the low throughput threshold and also prevent the threshold from creating a barrier to expansion or a perverse incentive to restrict business. The FSA will use the most recent three years data available at

the outset of implementation, to accurately reflect each establishment's average throughput, and will review the average in each subsequent year. Since the removal of discounts and allowances is to be achieved in three steps, low throughput status at the point of full cost recovery will be decided on the basis of three years during which the FBO has been in full awareness of the policy. The expanded low throughput definition now includes approximately 82% of the fully-approved establishments that were in operation, and for which discounts could be calculated, in 2010/11 (990 out of a total of 1214).

Table 8 - 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 9

Table 9 – 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

Support for low throughput establishments

89. We propose that low throughput establishments, defined and identified as outlined above, should, subject to the EU minima, receive a tiered reduction of the full cost charge, ranging from a maximum 70% in respect of the first 1,000 livestock units or equivalent processed per year, to 50% in respect of the next 1,000 livestock units processed, and 25% in respect of the next 3,000 livestock units. The application of the tiered reduction is illustrated in Table 10 below.

Table 10 - 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 9

90. Table 11 below illustrates the impact of the proposal, which would provide support amounting to £2.8m for 499 low throughput establishments. The other 491 low throughput establishments are already paying the full cost charge, in accordance with the EU charging regulation, because this is less than the EU minimum charge (see paragraph 15 above), and they will not, therefore, move to the tiered reduction of the full cost charge, which is subject to the EU minima.

Table 11 – 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	£0.21m	£0.29m	£0.08m	£2.8m

Plant Inspection Assistants (PIAs)

91. As explained above (paragraph 19), in the majority of slaughter establishments meat official controls are delivered by MHIs working under the supervision of an OV. The MHIs and OVs are employed by the FSA in GB, through a combination of direct employment and contracted staff, and by DARD in NI. The charges currently made to industry include the time cost of these officials together with associated overhead costs as provided for under domestic legislation. It is these costs that the FSA is proposing to recover in full.
92. However, in some poultry slaughter establishments (44 of the 90 poultry slaughter establishments considered in this impact assessment) meat official controls are in part conducted by PIAs as opposed to MHIs. PIAs are employed by the FBO and work under the supervision of an OV employed by FSA in GB and DARD in NI. This arrangement is provided for in European law for poultry slaughterhouses only, and is encouraged by the FSA as it reduces the financial burden on FBOs who employ the PIAs under their terms and conditions and can utilise them for other duties when they are not required for meat official control purposes. All FBOS incur OV costs irrespective of whether they use PIAs or the controls are delivered by MHIs.

93. Similar to plants where meat official controls are delivered by MHIs and OVs, the majority of FBOs utilising PIAs under OV supervision are not charged the full cost and the FSA also proposes to move to full cost recovery for these plants. Under the present system the FSA provides an FBO employing PIAs with an allowance to offset the cost of employing these staff to compensate them for doing so. This in effect means that such FBOs receive a discount on the full cost of meat official controls similar to FBOs who are charged for MHIs. The FSA proposes to achieve full cost recovery for FBOs employing PIAs by removal of the allowance that they currently receive by means of 3 approximately equal reductions in the allowance.
94. The final effect of these proposals is that all FBOs will be paying the full cost of the delivery of meat official controls irrespective of how these are delivered. The use of PIAs is still expected to yield savings for the establishment under full cost recovery, because the establishment has direct control of the costs and deployment of directly employed staff and can utilise them for other duties when they are not required for meat official control purposes.

Public Health

95. The scope of official controls will not be affected in any way by these proposals to amend the charging system, and so there will be no reduction in the level of consumer protection and the health benefits afforded by meat controls. The FSA believes that the move to full cost recovery would strengthen incentives for FBOs to comply with food hygiene and animal welfare at slaughter requirements, since levels of compliance affect the time and resources required to deliver official controls (see paragraph 51 above).

Legislative context

96. The 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. Ministers of all four UK countries have been informed of the outcome of the public consultation and of the FSA Board's subsequent deliberations and 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.

Rationale behind costing of the proposals

97. The extent to which industry is able to respond to the additional cost of full cost recovery will vary according to the type, scale and size of establishment. Theoretical analysis suggests that large scale establishments may look to spread this cost to reduce their average operating costs through economies of increasing scale thus in part offsetting the impact of full cost recovery charging. For the purposes of this impact assessment, establishments have been grouped as follows:
- 'low throughput', with a throughput of up to 5,000 livestock units (this group comprises the 'low throughput' and 'small' categories originally used in the policy development process – see paragraph 68 and Table 6);
 - 'medium', with a throughput of between 5,000 and 50,000 livestock units;
 - 'large', with a throughput of between 50,000 and 125,000 livestock units; and
 - 'very large', with a throughput of over 125,000 livestock units.
- (See Table 9 above for a detailed explanation of 'livestock units'.)

98. Costings in this document are based on throughput and time cost data for the calendar year 2010, and estimated costs for 2011/12. The number of establishments in operation at any time is variable. Since an assessment of the impact of full cost recovery can only be made on the basis of comparison with charges made to industry under the current system we have based this impact assessment on the number of fully-approved establishments in each country that were in operation in 2010/11 and for which an assessment of eligibility for discount under the present system could be made.
99. The efficiencies to which the FSA and DARD are committed, and which are outlined in paragraphs 52 to 54 above, can only be attributed at UK and country level, and not at sector or establishment level. This is because savings from those efficiencies may not be distributed evenly over the years or across establishments, and their effect on individual establishments will vary depending upon a combination of factors, including current discount, throughput, resources required, and the effect of the EU minima. Efficiency savings are not, therefore, factored in to the financial impact analysis at sector and establishment level. This means that the costs estimated at sector and establishment level are the highest costs that can be expected. Subject to the assumptions listed in paragraph 52 above, industry will not be expected to pay more than the reduced cost to which the FSA is committed.
100. In addition, the estimates do not take into account efficiency savings which may be achieved by industry working in collaboration with the FSA to reduce the amount of official control resource required in individual establishments, and so the potential impact of full cost recovery could be less than the estimates provided.

Risks and assumptions

101. Cost and charge figures are based on 2011/12 estimates and assume the level of official controls remains constant and are delivered through the existing field structure. Time taken for industry to familiarise themselves with proposal is estimated at 2 hours, while FSA staff are expected to require up to 15 hours to prepare training material and familiarise themselves with new charging arrangements. Equivalent Annual Net Costs (EANC) is applied to 'one-off' transition costs (familiarisation) in order to compare, on an equivalent basis, across policies spanning different time periods i.e. policies in excess of a one year time period. Total costs and benefits have been adjusted to take account of FSA efficiency savings of £5.0m for GB over 3 years and £0.54m for NI over 2 years. These efficiencies have been allocated on a pro rata basis based on the distribution of additional charges falling on approved establishments under respective policy Options 3 and 6. The 3 year discounting time period reflects the expected life of the policy proposal under consideration; taking account of current official control practices. A 10 year time period was not considered appropriate for this analysis given uncertainty (due to EU and domestic policy initiatives – see paragraphs 21, 62 and 63) in the way official controls would be delivered and carried out in future.
102. Quantified costs and benefits relate strictly to first round effects, i.e. the direct cost incurred by slaughterhouses, cutting plants and game handling establishments attributable to full cost recovery charging. There were significant assertions (predominantly from large scale operators), though not evidenced, from the consultation process 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 second round effects, i.e. the distribution of costs across the industry supply chain (livestock producers, slaughterhouses, consumers), using indicative estimates where we assume that approximately 95% (£15.66m (present value)) of the full cost recovery charge is borne by the slaughterhouse leaving 5% (£0.82m (present value)) to be passed down the chain to livestock farmers.
103. The 95% - 5% cost split assumption was largely driven by informal evidence based on anecdotal accounts from industry¹⁰; rather than relying primarily on responses to the industry survey and

¹⁰ Anecdotal evidence was obtained through regular engagement with industry through forums such as the 'Meat Charging Stakeholder Group' and a 'stakeholder briefing' session used to update industry on changes and updates to the 'Final Impact Assessment' post consultation.

consultation; given the low response rate and bias composition of responses (see paragraphs 107 and 114 for details). Approved establishments ranging from low throughput to medium scale operators often indicated that they were likely to absorb the entirety of the full cost recovery charge. As a result indicative estimates are predicated on the following assumptions: 1) unless otherwise indicated from survey and consultation responses, we assume that slaughterhouses absorb the entire cost of full cost charging; and 2) we assume a response rate of less than 20%, based on responses from individual businesses according to their respective sector and size of approved establishment, would not be representative of industry due to the diverse nature and complexity of the sectors and establishments affected. Given the heterogeneity in the characteristic of individual establishments; there is considerable variation within sectors and category of establishment size in the cost of delivering official meat controls driven largely by differences in the structural layout and efficiency of a plant, management style, composition of labour inputs and to an extent the geography/ location of a plant. We therefore deem any response rate within sector and category of establishment size falling below the 20% threshold as potentially biased and apply the first assumption where we assume the entirety of the cost is borne solely by the slaughterhouse (see following paragraphs for detail).

Distribution of costs across the supply chain

Empirical Evidence

104. Economic literature and empirical evidence suggests that the demand for most meat products tends to be relatively unaffected by price changes, potentially enabling slaughterhouses to pass on this cost up the supply chain to consumers. However, the scope for passing on this cost to the consumer is constrained by factors such as: the rate of import substitution; a high concentration of large scale retailers accounting for a significant share of the retail sale of meat; and limited scope for livestock farmers to adjust supply in response to output prices. A more detailed economic and empirical assessment on the distribution of costs across the supply chain is presented in Annex F of this Impact Assessment.

Industry Survey

Survey Questionnaire

105. To contribute to an assessment of the impact of full cost recovery, and to gain a better understanding of the structure of the meat product supply chain, businesses from the meat industry were asked to complete a survey questionnaire. The questionnaire was developed in collaboration with key stakeholders from the meat industry with a view to gathering relevant and high quality data from individual businesses; representative of the sectors affected.

106. The purpose of the survey was to enable the collection of data across different businesses to analyse the differing impact and distribution of full cost charging in the sector, taking account of different business models, markets, scale and size of operations.

Sample Size and Statistical Validity of Results

107. The survey received a low response rate for a range of reasons including concerns about confidentiality. Only 10 businesses in total responded to the questionnaire; eight from GB and two from NI¹¹. Overall there was an inherent response bias with low throughput plants accounting for 80% of

¹¹ Responses from Northern Ireland include a composite response from the Northern Ireland Meat Exporters Association (NIMEA).

responses. This has implications for the statistical validity of the results, as the sample size is too small and biased to be representative of industry.

108. Table 12 shows the breakdown and structure of response rates by sector and category of establishment size from the industry survey. Overall, across red meat slaughter, game handling and cutting plant sectors, the response rate was less than 5%. In cases where the response rate was greater than 50% ('very large' red meat slaughter and 'medium' cutting plant); the sector and scale of establishment consisted of a small group of plants and only one business for each sector and size of establishment chose to respond. For the poultry sector there were no responses from business with the exception of one low throughput establishment (an unrepresentative response rate of less than 5%).

Table 12- Structure of Industry Survey Response Rate

Type/ Scale of Establishment	Red Slaughter	Poultry Slaughter	Poultry Slaughter with PIA	Game Handling	Cutting Plants
Low Throughput	2.3%	4.5%	0.0%	2.8%	0.7%
Medium	1.0%	0.0%	0.0%	0.0%	100.0%
Large	4.3%	0.0%	0.0%	0.0%	
V Large	50.0%	0.0%	0.0%		0.0%

Key (Response rate):

- No response ●
- < (Less than) 10% ●
- < (Less than) 20% ●
- ≥ (More than) 20% ●

109. In summary these survey results highlight significant gaps in the evidence available on how costs pass down or up the chain despite efforts to approach industry directly to obtain relevant financial and economic data. The survey was designed to obtain data from businesses on their profit margins, turnover, operating costs and supply chain (see Annex G pages 109 –117). However, due to confidentiality concerns, businesses were reluctant to provide us with commercially sensitive data despite assurances that responses would be anonymised and that the data provided would remain confidential.

Results

110. In an attempt to determine the distribution of full cost charges across the supply chain; individual businesses were asked to give an approximation of the proportion of charges they felt would be absorbed by the business or either passed on through the chain to farmers and consumers. Responses to the survey indicated that larger operators would pass all additional costs to livestock producers, while low throughput establishments would pass on at least half the additional costs to consumers, and others would expect to absorb the full cost. However, as explained in paragraphs 107 – 109 above, given the biased (low throughput plants accounting for 80% of all responses) and unrepresentative nature (response rate of less than 5% across sectors (see table 12)) of responses; inferences or conclusions drawn from these results could be statistically biased and should be interpreted with caution.

111. Full results and analysis of the industry survey including a sample of the survey questionnaire may be found in Annex G of this Impact Assessment.

Consultation Responses

112. Our initial assessment of the impact of full cost recovery was based on a working assumption derived from Defra, which assumes that one-third of the additional cost associated with regulation would be absorbed by slaughterhouses, leaving two-thirds to be passed down the chain to farmers. However, this assumption has been firmly countered by responses to the consultation, which suggest a

more complex and diverse range of impacts.

113. With the exception of NI, where the red meat industry expected to pass the whole of the additional cost to livestock producers, there were mixed expectations regarding the distribution of impact, not generally supported by relevant financial data and evidence. Some respondents expected the costs to be absorbed by the meat plant, or passed back in their entirety to the livestock producer; others expected the impact to be shared (in non-specific proportions) between the livestock producer and the meat plant. A number of small and medium establishments expected to add the costs to their slaughter charge, thus passing the cost to customers such as farmers, small holders and butchers who buy from farmers or auction marts, and this in turn is expected to affect the purchase price for animals. Industry bodies representing butchers have also raised concerns that those medium sized slaughterhouses just above the low throughput level that undertake slaughter by individual contract would pass on all costs to those for whom they slaughter, because they do not have the scope to pass on costs to livestock producers, and would be unable to absorb the costs. In particular, it has been suggested that the unit cost of inspection (i.e. costs per livestock unit processed) would not only be dependent upon the efficiency of the individual establishment but also upon its capacity. Other respondents emphasised the relative power of the retail sector in the supply chain, and few respondents envisaged passing on costs to the consumer. Few expected the consumer to feel the impact directly, unless via the small independent butcher or farm shop.

114. Overall the majority of respondents did not give any approximation of the proportion of the cost that was likely to be passed on or absorbed through the chain (only 30 of the 79 meat businesses that responded to the consultation were specific on this point). Similar to the industry survey (see paragraph 107); the lack and bias nature of responses led to significant evidence gaps on the distribution of cost passed through across the industry supply chain. A breakdown of the structure of consultation responses is presented in Table 13 below. For red meat slaughter and cutting plant sectors, the response rate was significantly less than the 20% threshold. In cases where the response rate was greater than 20% ('medium' poultry (with or without PIAs) and 'very large' poultry with PIAs); the sector and scale of establishment consisted of a small group of plants and only a few businesses for each sector and size of establishment chose to respond. For the game handling sector there were nil responses from business with the exception of one 'large' establishment (a response rate of 100% for sector and scale of establishment).

Table 13 - Structure of Consultation Response Rate

Type/ Scale of Establishment	Red Slaughter	Poultry Slaughter	Poultry Slaughter with PIA	Game Handling	Cutting Plants
Low Throughput	5.3%	9.1%	4.5%	0.0%	1.4%
Medium	10.5%	25.0%	33.3%	0.0%	0.0%
Large	8.7%	16.7%	0.0%	100.0%	
V Large	0.0%	0.0%	20.0%		0.0%

Key (Response rate):

- No response ●
- < (Less than) 10% ●
- < (Less than) 20% ●
- ≥ (More than) 20% ●

Assumption on Distribution of Costs

115. Monetised costs to industry presented in this Impact Assessment relate strictly to first round effects, i.e. the direct cost incurred by slaughterhouses attributable to full cost recovery charging. There were significant assertions (predominantly from large scale operators), though not evidenced, from the consultation process that the impact of full cost recovery would be passed on to livestock producers. However, due to lack of data and evidence and with the industry questionnaire receiving low and statistically biased responses, we have had to make assumptions to quantify second round effects (indirect impact on livestock producers and consumers), i.e. the distribution of costs across the industry supply chain using indicative estimates (see paragraphs 101-103) . A consolidation of survey and consultation responses is presented in Table 14. While all stakeholder views have been considered in the development of this policy and in assessment of its impact, only respondents to the consultation

and survey that clearly specified the proportion of the cost that was likely to be shared between the livestock producer and the abattoir were included in this analysis of evidence.

116. Indicative estimates are predicated on the following assumptions: 1) unless otherwise indicated from survey and consultation responses; we assume that slaughterhouses absorb the entire cost of full cost charging; drawing largely on anecdotal accounts from industry as discussed in paragraph 103. This replaces the previous one-third two-third cost split assumption which was viewed during consultation as not being representative of the distribution of costs across the industry supply chain; and 2) we assume a response rate¹² of less than 20% would not be representative of industry due to the diverse nature and complexity of the industry (see paragraph 103); we therefore deem these results as being potentially biased and apply the first assumption where we assume the entirety of the cost is borne solely by the slaughterhouse.

Table 14 – Summary of survey and consultation responses on potential cost sharing across the supply chain

						Cost Share Across Supply Chain Percentage (%)		
Establishment Type	Size	Count of Approval of Establishments Receiving Discount	Respondents	Response Rate	Slaughter - house	Livestock Farmer	Consumer	
Great Britain	Cutting Plants	LTP	286	2	1%	50%	0%	50%
		Medium	1	1	100%	100%	0%	0%
		V Large	1	N/A	N/A	N/A	N/A	N/A
	Game Handling	LTP	36	1	3%	100%	0%	0%
		Large	1	1	100%	100%	0%	0%
		Medium	7	2	29%	N/A	N/A	N/A
	Poultry Slaughter	LTP	21	1	5%	100%	0%	0%
		Large	6	1	17%	100%	0%	0%
		Medium	5	3	60%	100%	0%	0%
		V Large	6	1	17%	0%	100%	0%
	Poultry Slaughter with PIA	LTP	20	1	5%	100%	0%	0%
		Medium	5	N/A	N/A	N/A	N/A	N/A
		Large	11	N/A	N/A	N/A	N/A	N/A
		V Large	5	1	20%	100%	0%	0%
	Red Slaughter	LTP	132	5	4%	100%	0%	0%
				2	2%	0%	100%	0%
		Medium	101	1	1%	80%	10%	10%
				8	8%	100%	0%	0%
Large		16	1	6%	100%	0%	0%	
V Large	2	2	100%	0%	100%	0%		
Northern Ireland	Cutting Plants	LTP	33	N/A	N/A	N/A	N/A	N/A
	Poultry Slaughter	Medium	2	N/A	N/A	N/A	N/A	N/A
		LTP	1	N/A	N/A	N/A	N/A	N/A
	Poultry Slaughter with PIA	V Large	1	N/A	N/A	N/A	N/A	N/A
		LTP	2	N/A	N/A	N/A	N/A	N/A
	Red Slaughter	V Large	1	N/A	N/A	N/A	N/A	N/A
		Medium	4	N/A	N/A	N/A	N/A	N/A
Large		7	2	29%	0%	100%	0%	
LTP	1	N/A	N/A	N/A	N/A	N/A		

Notes: N/A denotes nil responses or instances where respondents to the consultation did not specify the proportion of the cost to be shared between the livestock producer, slaughterhouse and consumer.

¹² The response rate is the proportion of respondents (individual businesses) from a given sector (red meat, poultry etc.) relative to the total number of approved establishments in that sector defined according to scale or size of plant.

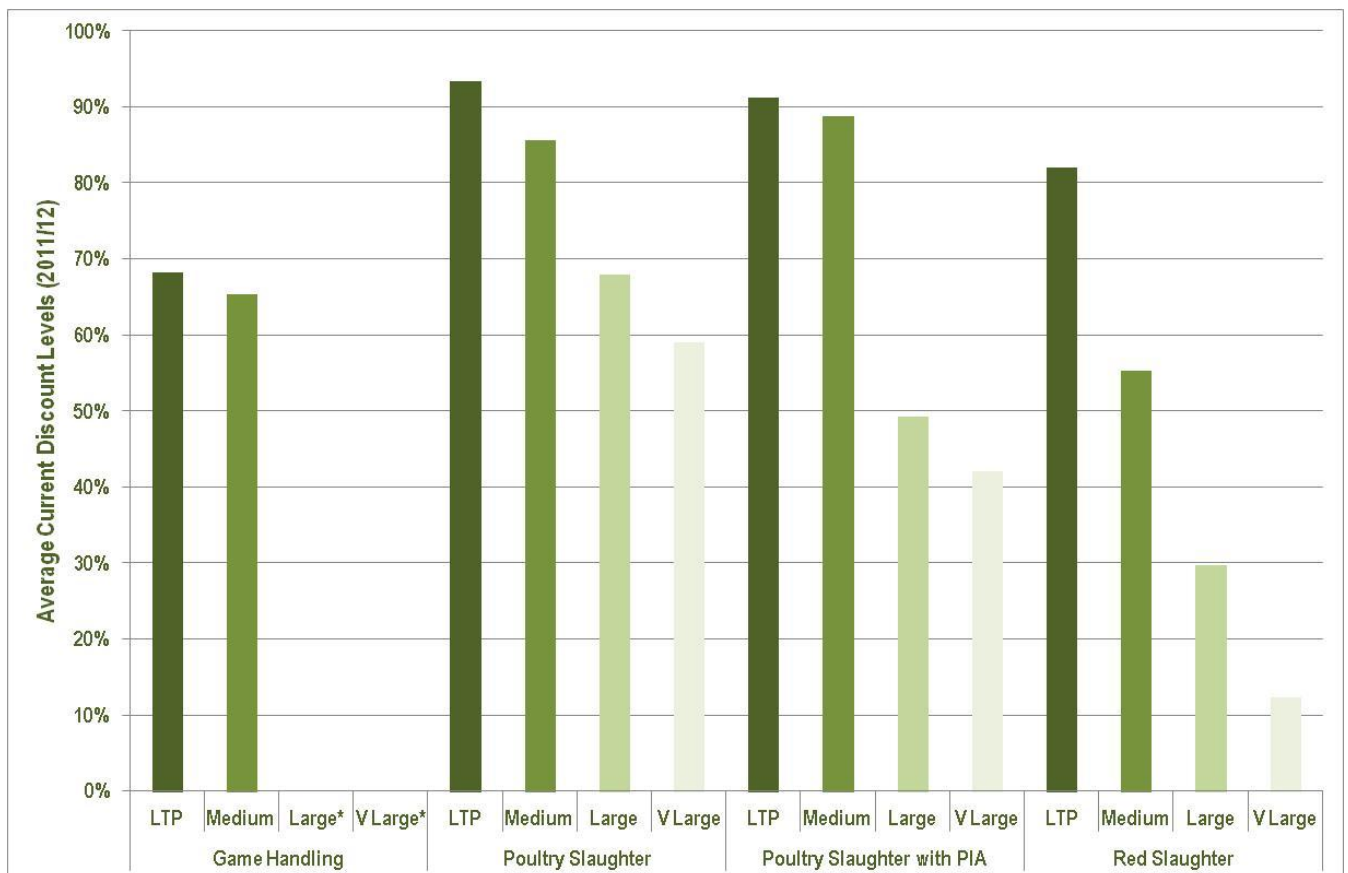
117. We estimate that removing the current discount would cost the UK meat industry approximately £16.83m (present value). Using indicative estimates based on the cost split across all sectors in the meat industry for GB and NI; we assume overall that at least 95% (£16.01m) would be absorbed by the slaughterhouse leaving 5% (£0.81m) to be passed down the chain to livestock farmers¹³. This estimate is based on the assumptions outlined above in paragraphs 101-103 and 115-116 above, which had to be made due to a lack of data and evidence submitted to support assertions made during the consultation process that the impact of full cost recovery would be passed on in a significant measure to livestock producers.

118. Tables illustrating the impact of full cost recovery may be found in Annex A. In addition, and for illustrative purposes in light of the lack of data and evidence regarding distribution across the supply chain, Annex A contains examples from either end of the ‘farm to fork’ chain which estimate the impact if all of the additional costs were passed on to either farmers or consumers (although we consider the latter to be extremely unlikely).

Distribution of Impact between Approved Establishments – Analysis by Meat Sector and Size

119. Stakeholders have expressed concerns that the additional cost of full cost recovery would have a disproportionate impact on medium sized approved establishments, as low throughput establishments can expect to receive a reduction in their full cost charge while the impact on larger scale operators is envisaged to be relatively smaller given that they currently receive, on average, lower discounts compared to smaller operators and could potentially benefit from economies of scale. This inverse relationship is illustrated in Chart 1 below where we show the average current level of discounts by sector and category of establishment size.

Chart 1 Average Current Discount Levels by Meat Sector and Size



*Contains only one establishment, which has been excluded from analysis due to commercial sensitivity and to protect the anonymity of the establishment.

¹³ Cost and charge figures are based on 2011/12 estimates where we assume the level of official controls remains constant. Figures are presented in present value terms, which tells us the value today of an amount of money in the future through discounting to reflect the time value of money and other factors such as investment risk.

120. The distributional impact at an individual establishment level can be assessed both in terms of the absolute percentage increase in charges faced by an establishment and by assessing the relative impact, which measures the increase in charges as a proportion of an establishment's average annual turnover. Not being able to obtain data on profit margins has meant we have had to use turnover data as the next best alternative. We are fully aware of the limitations of using turnover data but in the absence of profit margin data, turnover was the only data available that allowed us carry out analysis at an individual establishment level. Attempts were made through the survey and consultation process to obtain information on margins. However, given the majority of FBOs in the UK are not required to publish detailed financial accounts; there was no incentive for individual businesses to provide us with such commercially sensitive data.
121. Assessing the 'relative impact' provides a more appropriate assessment of the impact of full cost recovery, as this measures the ability of an establishment to either offset or absorb the increase in charges. In contrast, an assessment of the impact in absolute terms only measures the percentage increase in charges, which gives us a distorted assessment of the distribution of impact as it ignores both the price effects attributable to inflation and the relative financial position of an establishment such as annual turnover and profit margins.

Data and Analysis

122. Relevant financial data on average annual turnover and profit margin by establishment is not available despite efforts to collect this information and evidence from individual establishments using the industry survey questionnaire (see Annex G) and 12 week public consultation exercise. To calculate the relative impact of an increase in charges the estimated value of annual throughput (output) was used as a proxy for annual turnover. The estimated value of annual throughput was obtained by multiplying the level of throughput per establishment by the farmgate price of a respective meat product. Given that we do not have knowledge and information on the mark-up applied by establishments to farmgate prices, this was considered an appropriate measure. Also in cases where a range of prices for a product were available the lower bound figure was chosen to present the most conservative estimate of the value of throughput. Technical details on the calculation of the estimated value of annual throughput may be found in Annex E of this Impact Assessment. Cutting establishments were excluded from the analysis as in many cases cutting establishments are owned by the abattoir operator and are often part of the same premises making it difficult to separate out the value added element of the cutting process with regards to the price cutting establishments pay for uncut carcasses and the wholesale price paid by retailers.
123. Tables 15 to 18 present the impact of full cost charging for a number of establishments across each category of establishment size and type in the UK, which has not been adjusted to take account of the £5.54m in efficiency savings to be delivered by 2014/15¹⁴. The analysis presents a range of impacts grouping establishments according to the scale of the increase in charges categorised as *largest*, *median* and *lowest* ranked by relative impact. The tables present: 1) nominal impact¹⁵ measuring the cash increase of full charges for official controls as at 2014/15; 2) estimated percentage increase in full charges as at 2014/15, which looks at the absolute¹⁶ position of establishments; and 3) estimated increase in charges as a proportion of the estimated value of throughput (output); assessing the relative impact of an individual establishment. Both absolute and relative impacts are also illustrated graphically in Charts 1 to 8 for all categories of establishment size and type.

¹⁴ £5.54 in efficiency savings is comprised of £5.0m in efficiencies for GB and £0.54m for NI.

¹⁵ Nominal impact – measures the impact of an increase in charges strictly in money/ cash terms, which has not been adjusted for inflation. For example, prior to the implementation of full cost charging, an establishment is faced with an annual charge of £100,000. With the introduction of full cost recovery the establishment is now faced with an annual charge of £110,000. The nominal impact is calculated by taking the difference between pre and post full charge arrangements; equating to a cash increase of £10,000.

¹⁶ Absolute impact – simply takes the nominal (cash) increase in full cost charges as a share of the charge for official controls prior to the implantation of full cost recovery i.e. the percentage increase in charge. The absolute impact does not take account of the relative position of an establishment such as its annual turnover and profit margin. For example, prior to full cost recovery, an establishment is faced with an annual charge of £100,000. The introduction of full cost recovery means an establishment now incurs a £10,000 increase in its nominal (cash) charge. As a share of the pre-full cost charge this equates to a percentage increase of 10%.

Impact of Full Cost Recovery Charges on Individual Approved Red Meat Slaughter Establishments

124. Table 15 shows nominal, absolute and relative impacts based on increases in full charges for a selected number of red meat slaughter establishments, which have not been adjusted to take account of efficiency savings. This is because data and evidence on the allocation of efficiencies at establishment level is not available, which could potentially mean the impact of full cost recovery is less than indicated. A total of 45 establishments were selected; 15 establishments for each category of establishment size followed by 5 from each of the *largest*, *median* and *lowest* scale of increase categories. A limited number of establishments were selected due to the commercial sensitivity of the data being analysed and to protect the anonymity of individual establishments.
125. Across the scale of increases, the nominal increase in charges appears to fall more heavily on larger scale establishments while showing relatively lower percentage increases (see Chart 1) and relative impacts as a share of the estimated value of throughput compared to low throughput (LTP) and medium sized establishments (see Chart 2). Given that larger operators currently receive, on average, lower discounts it is expected that the impact of full cost recovery charging would be relatively smaller compared to smaller scale operators.
126. In percentage terms (absolute impact) the largest increases appear to be evenly distributed between LTP and medium sized establishments (see Chart 1) while nominal increases appear to fall disproportionately on medium sized operations. However, with LTP establishments currently receiving significantly larger discounts compared to medium and larger operators, even marginal changes in the nominal charge can have a marked effect on the percentage increase for charges. This case in point is illustrated in Table 15 below where *individual LTP establishment no. 5* experiences a small nominal increase in its maximum charge of £40 but yet this accounts for a significant 538% increase in its overall charge as at 2014/15.
127. Looking at the relative impacts, where we take the nominal increase as a share of the estimated value of throughput, we find the distributional impact of increases tends to fall least on larger scale establishments given the relative size of their operations and corresponding throughput levels and on LTP establishments given the level of protection they receive through the tiered discount regime (see Chart 2).

Table 15 Red Meat Slaughter Establishments - Nominal, Absolute and Relative Impact of an Increase in Charges (Ranked by Relative Impact)

		Red Meat Slaughter								
		LTP			Medium			Large*		
		Nominal Impact	Absolute Impact	Relative Impact	Nominal Impact	Absolute Impact	Relative Impact	Nominal Impact	Absolute Impact	Relative Impact
		(£)	(%)	(%)	(£)	(%)	(%)	(£)	(%)	(%)
Individual Establishments	Nominal Increase in Reduced Maximum Charge**	Percentage Increase in Reduced Maximum Charge	Increase in Reduced Maximum Charge as a Percentage of T/P Value	Nominal Increase in Full Charge**	Percentage Increase in Full Charge	Increase in Full Charge as a Percentage of T/P Value	Nominal Increase in Full Charge**	Percentage Increase in Full Charge	Increase in Full Charge as a Percentage of T/P Value	
	Largest	1	£900	417%	13.64%	£192,900	740%	8.28%	£370,100	117%
2		£3,300	868%	7.60%	£154,400	341%	3.59%	£219,300	91%	1.04%
3		£700	711%	1.02%	£215,900	421%	3.50%	£210,800	107%	0.76%
4		£4,800	538%	0.76%	£134,400	594%	3.42%	£219,400	95%	0.63%
5		£40	538%	0.68%	£84,400	429%	2.96%	£165,700	86%	0.48%
Median	6	£1,100	97%	1.37%	£175,700	143%	1.95%	£128,200	39%	0.55%
	7	£6,400	97%	1.20%	£74,500	132%	1.91%	£103,600	39%	0.48%
	8	£1,900	96%	1.67%	£107,200	133%	1.71%	£110,100	31%	0.45%
	9	£16,300	96%	1.28%	£60,800	141%	1.67%	£116,600	33%	0.42%
	10	£3,200	92%	1.06%	£93,400	136%	1.23%	£136,500	40%	0.31%
Lowest	11	£200	4%	0.07%	£31,000	15%	0.22%	£76,300	18%	0.27%
	12	£100	1%	0.02%	£33,700	13%	0.18%	£45,100	14%	0.20%
	13	£0	0%	0.00%	£17,600	8%	0.09%	£59,200	21%	0.16%
	14	£0	0%	0.00%	£1,900	2%	0.02%	£48,300	17%	0.14%
	15	£0	0%	0.00%	£2,000	1%	0.01%	£10,400	4%	0.05%

* Nominal increases have been rounded to the nearest hundreds preserve the anonymity of approved establishments

Chart 2 Red Meat Establishments – Percentage increase in Full Cost Charging (Absolute Impact)

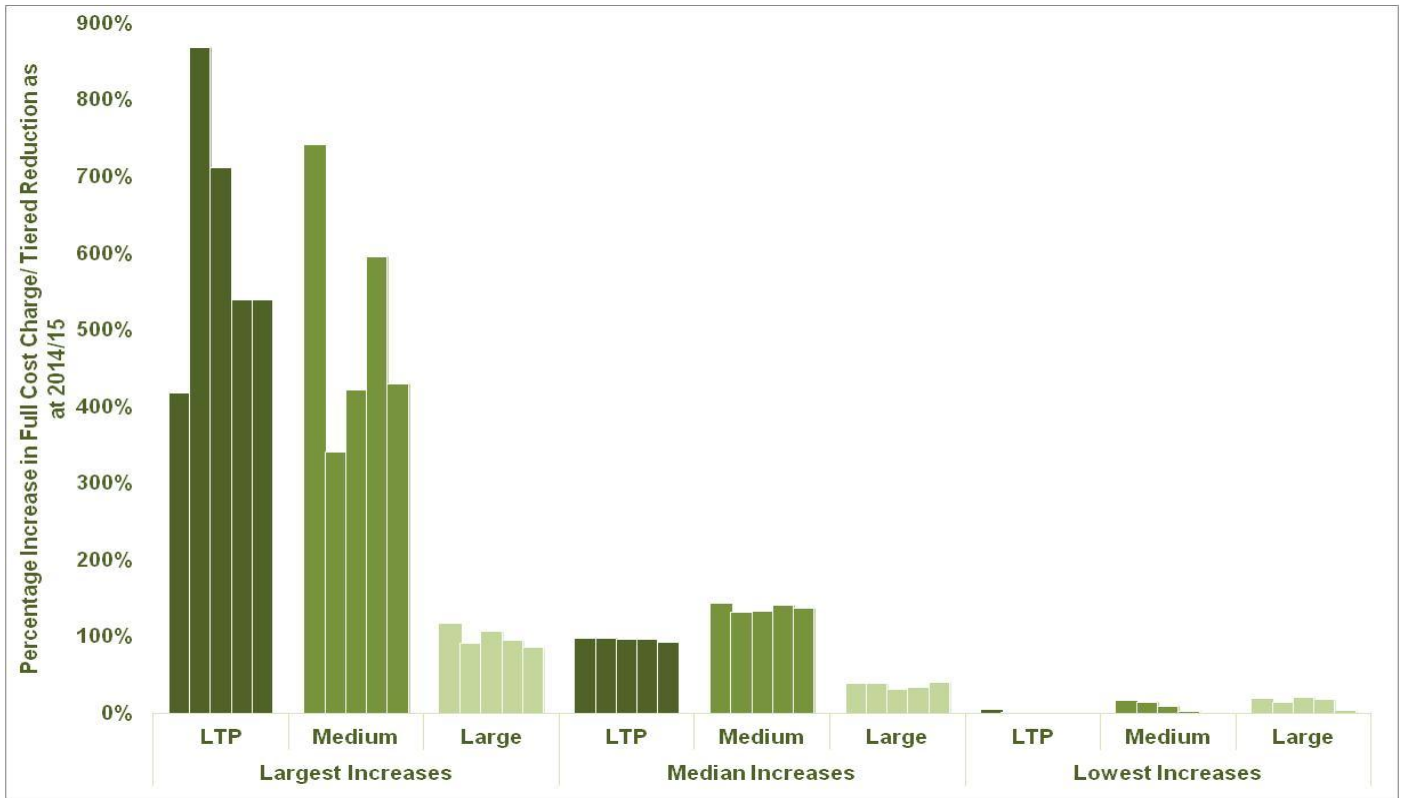
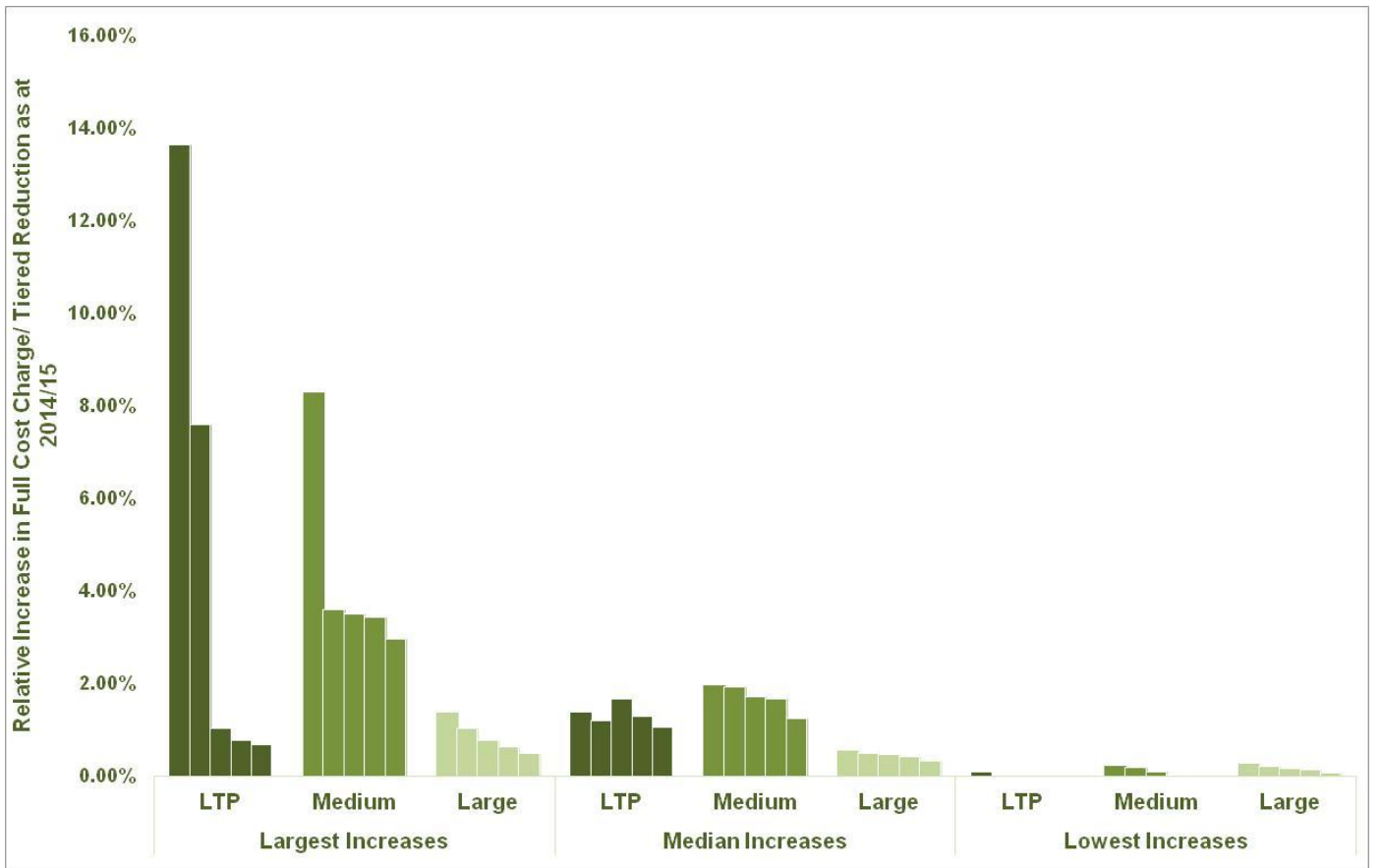


Chart 3 Red Meat Establishments – Percentage increase in Full Cost Charging as a Proportion of the Estimated Annual Value of Throughput (Relative Impact)



Impact of Full Cost Recovery Charges on Individual Approved Poultry(Non-PIA) Establishments

128. Table 16 shows nominal, absolute and relative impacts based on increases in full charges for poultry (Non-PIA) establishments, which have not been adjusted to take account of efficiency savings. This is because data and evidence on the allocation of efficiencies at establishment level is not available, which could potentially mean the impact of full cost recovery is less than indicated. A total of 15 establishments were selected; 6 establishments for each category of establishment size followed by 2 from each of the *largest*, *median* and *lowest* scale of increase categories. Due to the commercial sensitivity of the data being analysed and to protect the anonymity of individual establishments only 3 large scale establishments were selected with one establishment allocated from each of the scale of increase categories.
129. As in the case for red meat establishments, the nominal increase in charges appears to fall more heavily on larger scale establishments while continuing to show relatively lower percentage increases (see Chart 3) and relative impacts compared to low throughput (LTP) and medium sized establishments (see Chart 4).
130. In percentage terms (absolute impact) the largest increases appear to be skewed towards LTP establishments (see Chart 3); while nominal increases continue to fall disproportionately on medium size establishments. Looking at the relative impacts, we find the distributional impact of the increase continues to fall least on larger scale establishments while LTP establishments face a greater share of the burden even though they continue to receive support (see Chart 4). This suggests that in the poultry (non-PIA) sector, full cost charging has more of a disproportionate impact on LTP establishments as opposed to medium size operations. Also compared to the other sectors the analysis shows that on average, poultry establishments face considerably larger increases in charges in percentage terms. This is because poultry establishments tend to receive higher discounts (an average of approximately 74%, ranging from 47% to over 93%) compared to the other sectors due to the low throughput charges used in the Maclean calculations.

Table 16 – Poultry (Non-PIA) Establishments– - Nominal, Absolute and Relative Impact of an Increase in Charges

		Poultry (Non-PIA)									
		LTP			Medium			Large*			
		Nominal Impact	Absolute Impact	Relative Impact	Nominal Impact	Absolute Impact	Relative Impact	Nominal Impact	Absolute Impact	Relative Impact	
		(£)	(%)	(%)	(£)	(%)	(%)	(£)	(%)	(%)	
Individual Establishments	Nominal Increase in Reduced Maximum Charge**	Percentage Increase in Reduced Maximum Charge	Increase in Reduced Maximum Charge as a Percentage of T/P Value	Nominal Increase in Full Charge**	Percentage Increase in Full Charge	Increase in Full Charge as a Percentage of T/P Value	Nominal Increase in Full Charge**	Percentage Increase in Full Charge	Increase in Full Charge as a Percentage of T/P Value		
	Scale of Increase	Largest	1	£7,100	7400%	41.04%	£183,900	1539%	5.81%	£159,000	363%
2			£1,800	4186%	12.41%	£171,000	1011%	3.70%	N/A	N/A	N/A
Median		3	£1,400	488%	8.92%	£68,700	630%	2.33%	£201,600	164%	1.28%
		4	£9,000	405%	1.76%	£56,800	580%	2.18%	N/A	N/A	N/A
Lowest		5	£600	48%	4.61%	£132,800	335%	1.78%	£211,800	156%	0.78%
		6	£500	40%	1.08%	£165,500	310%	2.89%	N/A	N/A	N/A

* Nominal increases have been rounded to the nearest hundreds preserve the anonymity of approved establishments

Chart 4 Poultry (Non-PIA) Establishments – Percentage increase in Full Cost Charging (Absolute Impact)

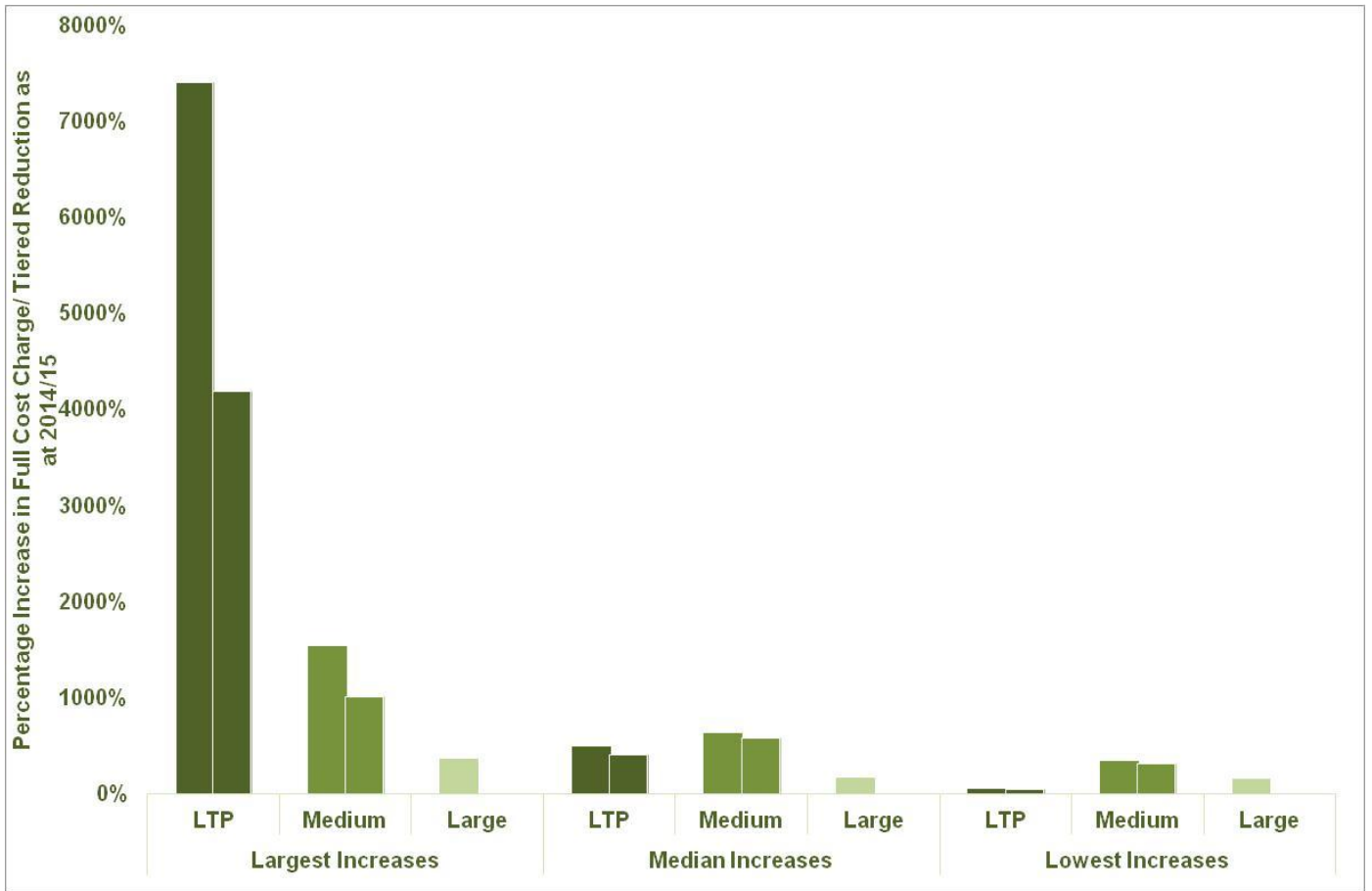
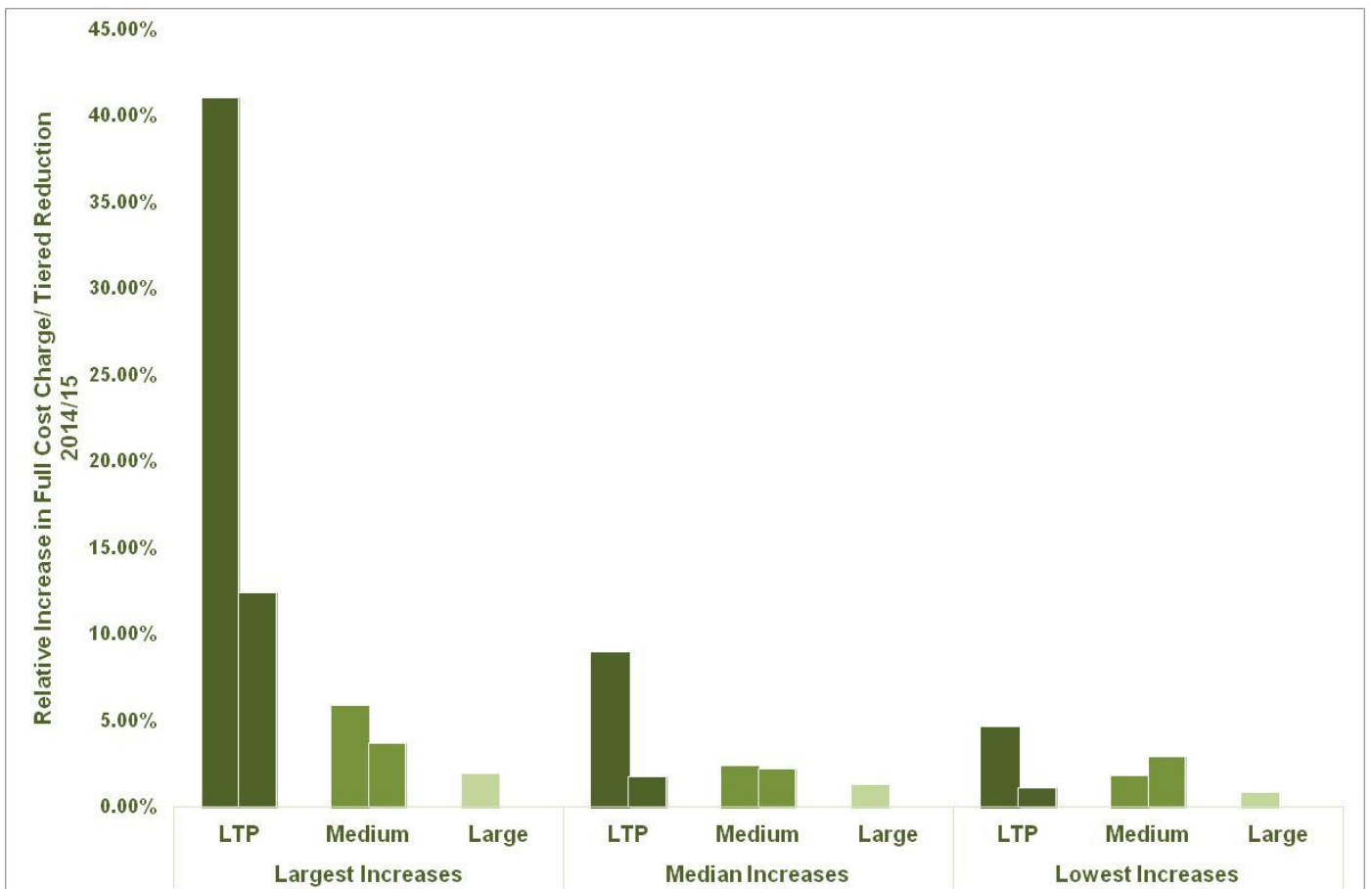


Chart 5 Poultry (Non-PIA) Establishments – Percentage increase in Full Cost Charging as a Proportion of the Estimated Annual Value of Throughput (Relative Impact)



Impact of Full Cost Recovery Charges on Individual Approved Poultry (PIA) Establishments

131. Table 17 shows nominal, absolute and relative impacts based on increases in full charges for poultry establishments with Plant Inspection Assistants (PIAs). The results have not been adjusted to take account of efficiency savings. This is because data and evidence on the allocation of efficiencies at establishment level is not available, which could potentially mean the impact of full cost recovery is less than indicated. A total of 12 establishments were selected; 3 establishments for each category of establishment size followed by 1 from each of the *largest*, *median* and *lowest* scale of increase categories. As per the poultry (non-PIA) and red meat sector a limited number of establishments were selected due to commercial sensitivity and to protect the anonymity of individual establishments.

132. The distributional impact across establishments was similar to what was found for poultry establishments without PIAs. However, the relative impact of the increases tends to fall disproportionately on medium size establishments given they rely more on PIAs (allowances) compared to LTP establishments (see Chart 6).

Table 17 Poultry (PIA) Establishments - Nominal, Absolute and Relative Impact of an Increase in Charges

		Poultry (PIA) Establishments												
		LTP			Medium			Large*			Very Large*			
Scale of Increase	Individual Establishments	Nominal Impact	Absolute Impact	Relative Impact	Nominal Impact	Absolute Impact	Relative Impact	Nominal Impact	Absolute Impact	Relative Impact	Nominal Impact	Absolute Impact	Relative Impact	
		(£)	(%)	(%)	(£)	(%)	(%)	(£)	(%)	(%)	(£)	(%)	(%)	
		Nominal Increase in Reduced Maximum Charge**	Percentage Increase in Reduced Maximum Charge	Increase in Reduced Maximum Charge as a Percentage of T/P Value	Nominal Increase in Full Charge**	Percentage Increase in Full Charge	Increase in Full Charge as a Percentage of T/P Value	Nominal Increase in Full Charge**	Percentage Increase in Full Charge	Increase in Full Charge as a Percentage of T/P Value	Nominal Increase in Full Charge**	Percentage Increase in Full Charge	Increase in Full Charge as a Percentage of T/P Value	
Scale of Increase	Largest	1	£9,700	7342%	4.88%	£87,100	3852%	7.42%	£192,400	288%	0.86%	£560,200	142%	0.41%
	Median	2	£3,100	598%	1.62%	£48,300	2856%	4.12%	£41,000	100%	0.16%	£294,700	792%	0.28%
	Low	3	£1,200	15%	0.13%	£56,100	106%	0.99%	£2,300	2%	0.01%	£52,300	63%	0.10%

* Nominal increases have been rounded to the nearest hundreds preserve the anonymity of approved establishments

Chart 6 Poultry (PIA) Establishments – Percentage increase in Full Cost Charging (Absolute Impact)

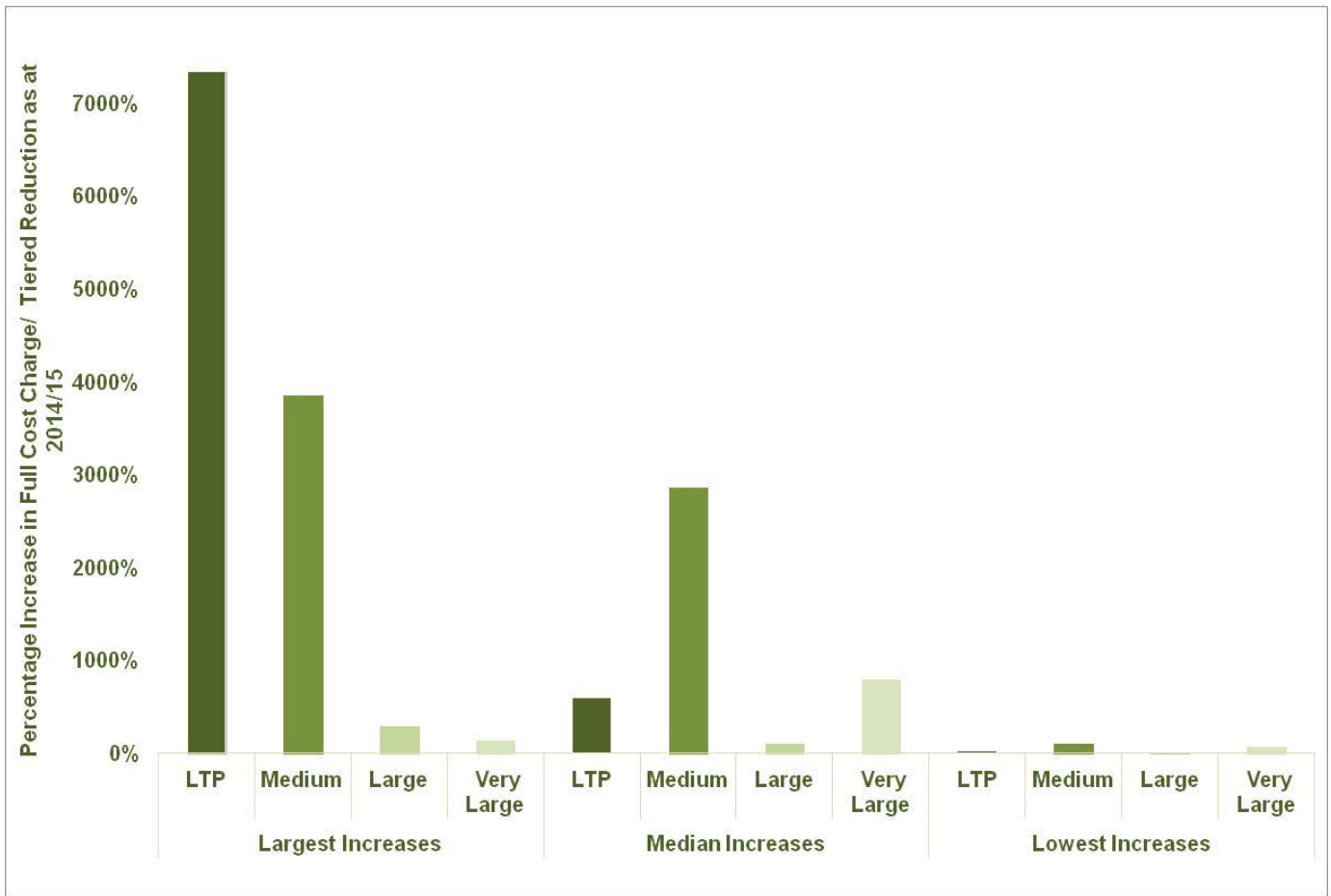
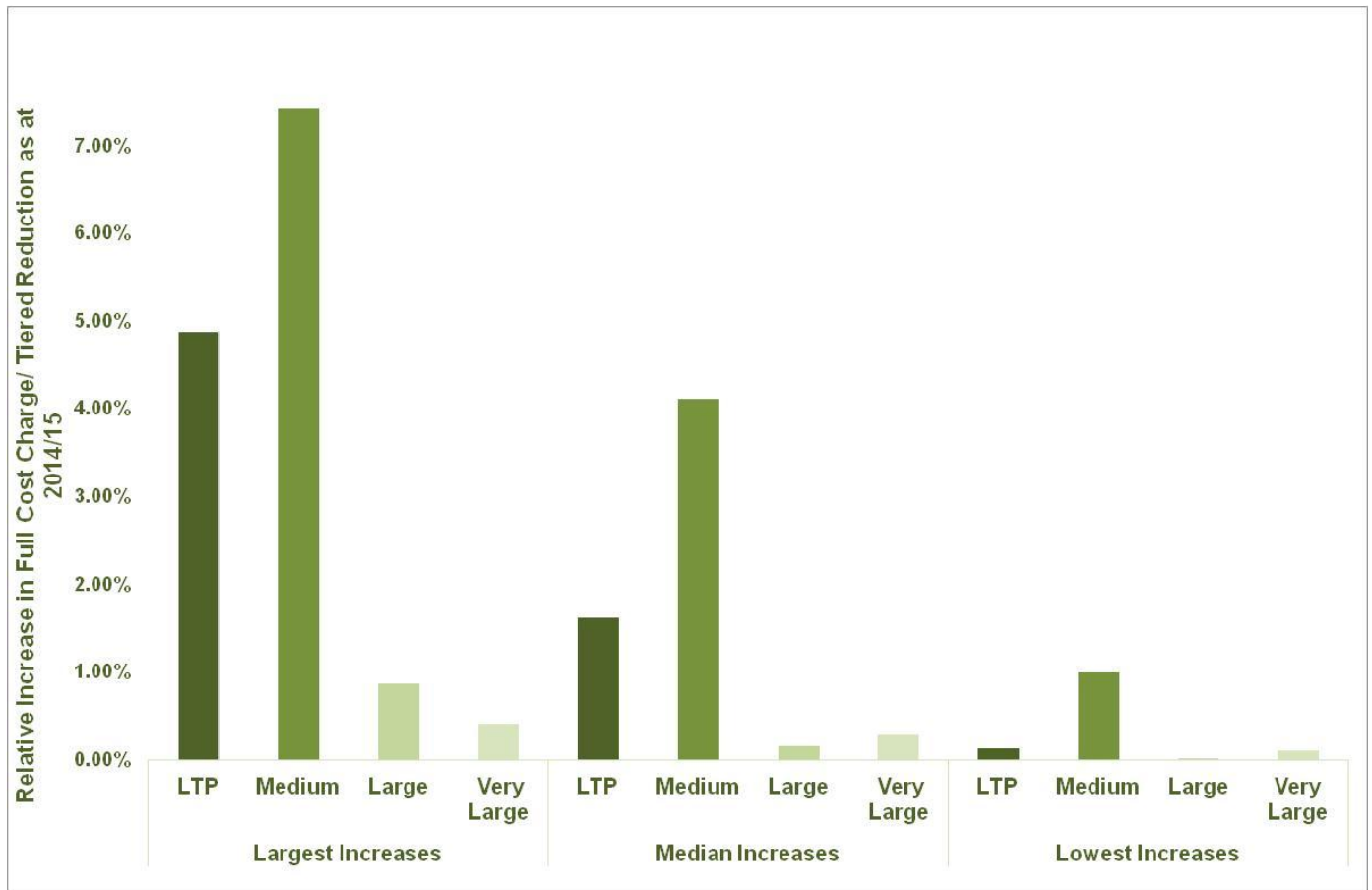


Chart 7 Poultry (PIA) Establishments – Percentage increase in Full Cost Charging as a Proportion of the Estimated Annual Value of Throughput (Relative Impact)



Impact of Full Cost Recovery Charges on Individual Approved Game Handling Establishments

133. As per the red meat and poultry sector, Table 18 shows nominal, absolute and relative impacts based on increases in full charges for game handling establishments, which have not been adjusted to take account of efficiency savings. This is because data and evidence on the allocation of efficiencies at establishment level is not available, which could potentially mean the impact of full cost recovery is less than indicated. A total of 12 establishments were selected; 6 establishments for each category of establishment size followed by 2 from each of the *largest*, *median* and *lowest* scale of increase categories. Due to the commercial sensitivity of the data being analysed and to protect the anonymity of individual establishments; the category for large-scale establishments was excluded from the analysis as this contained only one establishment.

134. In percentage terms (absolute impact) the largest increases appear to be skewed towards medium establishments (see Chart 7) as nominal increases also continue to fall disproportionately on this scale of establishment. Considering the relative impact, we find the distributional impact of the increase falls least on LTP establishments given the level of support they receive (see Chart 8).

Table 18 Game Handling Establishments - Nominal, Absolute and Relative Impact of an Increase in Charges

		Game Handling Establishments				
		Individual Establishment	LTP		Medium	
			Absolute Impact (%)	Relative Impact (%)	Absolute Impact (%)	Relative Impact (%)
			Percentage Increase in Reduced Maximum Charge	Increase in Reduced Maximum Charge as a Percentage of T/P Value	Percentage Increase in Full Charge	Increase in Full Charge as a Percentage of T/P Value
Scale of Increase	Largest	1	934%	1.2%	1329%	7.5%
		2	538%	0.7%	533%	1.4%
	Median	3	63%	0.3%	381%	0.5%
		4	55%	0.1%	226%	0.4%
	Lowest	5	0%	0.0%	143%	0.4%
		6	0%	0.0%	13%	0.0%

Chart 8 Game Handling Establishments – Percentage increase in Full Cost Charging (Absolute Impact)

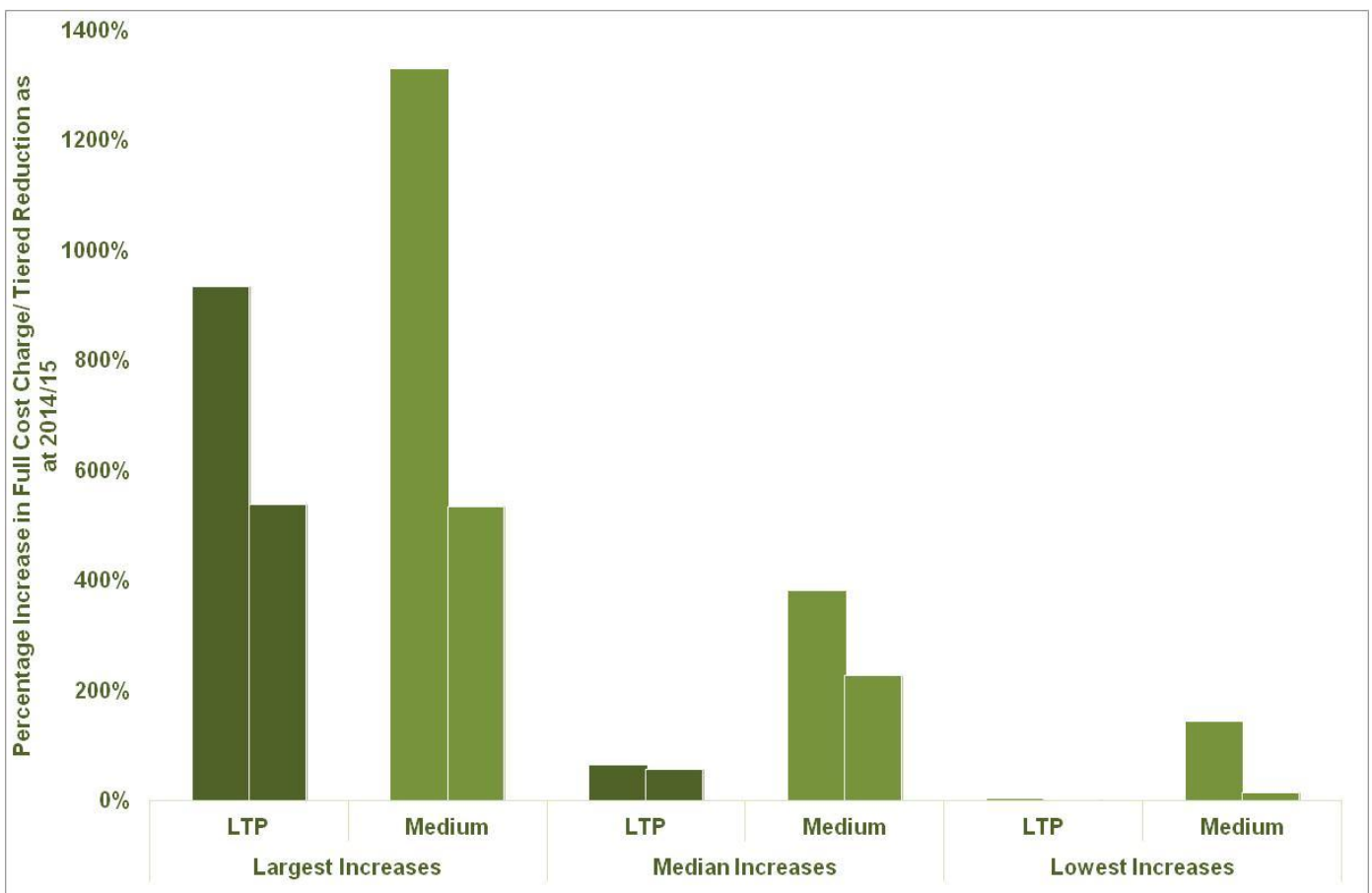
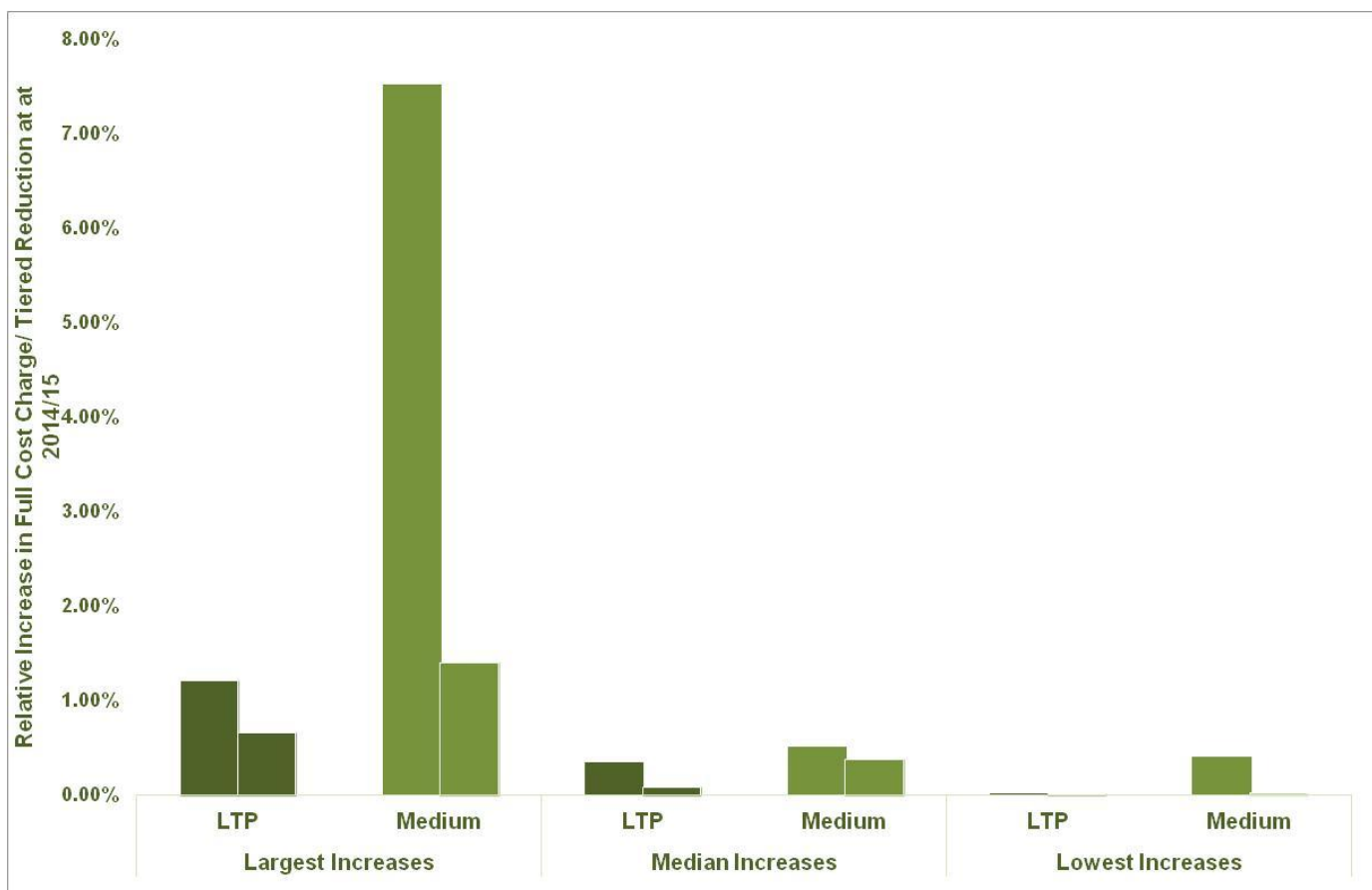


Chart 9 Game Handling Establishments – Percentage increase in Full Cost Charging as a Proportion of the Estimated Annual Value of Throughput (Relative Impact)



General observations on distributional impact

135. Overall, the analysis shows that though the distributional impact of an increase in charges has a disproportionate effect in some sectors for medium scale establishments, LTP establishments continue to be sensitive to even a small increase in charge even when in receipt of support. However, although this holds on average, there is still large variation between different establishments even when split out by size. This could be for a range of reasons, including differing capacity or levels of efficiency.

136. Also the analysis shows that on average poultry establishments with PIAs face large increases in charges. This is because in addition to receiving relatively larger discounts some poultry establishments receive an allowance for employing Plant Inspection Assistants (PIAs), which is offset against discounted FSA charges and the EU minima and can, in some cases, reduce FSA charges payable to nil.

137. Of the 1,214 approved establishments considered in this Impact Assessment, 990 (82%) fall within the definition of low throughput, and would either receive a tiered reduction in the full cost charge, as explained in paragraph 87 above, or would continue to pay, as they do at present, the full cost of delivery of meat official controls at their establishments because this is less than the EU minimum charge which would otherwise be payable. The remaining 224 (18%) of approved establishments (including medium, large and very large establishments) are the only ones which would be subject to full cost recovery with no potential eligibility for a reduction in the full cost charge, and of these, 3% are already paying the full cost charge under the current charging system.

Options

138. Options 1 to 5 below were considered in the consultation Impact Assessment. Option 6 was subsequently added in recognition of the consultation responses and following the decisions made by the FSA Board (see Policy Development – paragraphs 67 to 83). The consultation documents, including a draft impact assessment, were published on the FSA website at: <http://www.food.gov.uk/consultations/consulteng/2010/officialmeatcont1110e>
- i. Option 1 – do nothing; Charges would not be increased (except in line with any increases in EU minima, exchange rates, and increases in time costs) and the taxpayer would continue to bear part of the burden of the cost of official controls from which the industry derives benefit.
 - ii. Option 2 – A move to full cost recovery for establishments other than low throughput in one step;
 - iii. Option 3 – A staged move to full cost recovery for establishments other than low throughput in three steps;
 - iv. Option 4 – A move to a maximum reduction of 70% of the full cost charge, subject to the EU minima, for low throughput establishments in one step;
 - v. Option 5 – A move to a maximum reduction of 70% of the full cost charge, subject to the EU minima, for low throughput establishments in three steps;
 - vi. Option 6 - a staged move in three steps to a tiered 70%, 50% and 25% reduction of the full cost charge for an expanded definition of low throughput establishments.

Preferred Approach

139. Options 3 and 6 in combination constitute the preferred approach, because they would achieve the objective of a move to the principle of full cost recovery and reduce the burden on the taxpayer, while aligning with the timescale for the FSA planned efficiencies, allowing establishments more time to adjust to the new level of charges for official controls, and providing increased support for a larger number of low throughput establishments. Further analysis of the financial impact of the options for the move to full cost recovery with a tiered reduction for low throughput establishments is given in tables in Annexes A to G. The calculations of the options are predicated on the level of official controls remaining constant. However, we expect that many establishments, through efficiency gains and improved compliance, will see a reduced level of official controls, which will mitigate the effect of the increase.

Option 3 – A move to full cost recovery for establishments other than low throughput in 3 steps

140. This option would be implemented with effect from charges made for the April 2012 charging period, with full costs charged from the April 2014 charging period, and would have the effect of staggering the impact of increases in charges. A staged move to full cost recovery would give time for establishments to adapt to increases, and would reduce the risk that the charges would be unaffordable by establishments with the possible consequences that might bring. It would also give establishments time

to adjust their practices in order to reduce the time required for official controls. However, administration and familiarisation costs would increase, and savings to the taxpayer would not be realised as quickly. The staged move would be achieved by increasing charges in approximately equal steps in monetary terms.

Option 6 – A move in 3 steps to a maximum tiered reduction of 70%, 50% and 25% of the full cost charge, subject to the EU minima, for low throughput establishments

Low Throughput Establishments

141. This option proposes that low throughput establishments, defined and identified as outlined in paragraph 86 and Table 8 above, should, subject to the EU minimum charges, move in three steps to a tiered reduction of the full cost charge, ranging from a maximum 70% in respect of the first 1,000 livestock units or equivalent processed per year, to 50% in respect of the next 1,000 livestock units processed, and 25% in respect of the next 3,000 livestock units. The application of the tiered reduction is illustrated in Table 9 above.
142. This option would be implemented from charges made for the April 2012 charging period, with the maximum 70%, 50% and 25% reduction applied (subject to the EU minima) from the April 2014 charging period. The staged move would be achieved by reducing current discounts in approximately equal steps. A staged move to a tiered maximum reduction would give time for establishments to adapt to increases, and would reduce the risk that the charges would be unaffordable by establishments with the possible consequences that might bring. It could also give establishments time to adjust their practices in order to reduce the time required for official controls. However, administration and familiarisation costs would increase, and savings to the taxpayer would not be realised as quickly.
143. In all cases the reduction would be subject to the EU minima. Where a tiered maximum 70%, 50% and 25% reduction would reduce charges for a particular establishment to a rate below the EU minima, then charges would be set at the EU minimum rates. Where an establishment defined as low throughput is currently paying the full cost charge because the actual costs are less than the EU minima (see paragraphs 14-15 above on the legal position), that establishment will not move to the tiered reduction, but will continue to pay the full cost charge.

Costs and benefits

Sectors and groups affected

Industry

Livestock sector

144. The preferred policy options are likely to impose additional costs on livestock producers as slaughterhouses look to pass on a share of these costs down the chain to farmers. However, evidence on how these costs are likely to be distributed is unavailable; we therefore rely on indicative estimates, as set out in paragraphs 101 to 102, to illustrate its impact across the supply chain.

Approved Establishments (Slaughterhouses and Cutting plants)

145. Larger businesses have integrated their facilities and operations to benefit from economies of scale to minimise their cost base and this will potentially offset some of the cost associated with full cost recovery. Smaller businesses may not be in a position to offset this cost on a scale comparable with larger scale operators. However, approximately 499 small approved establishments defined as 'low throughput' under these proposals would receive a reduction in the full cost charge.
146. The number of establishments in operation at any time is variable. We have therefore based this impact assessment on the number of fully-approved establishments in each country that were in operation in 2010 and for which an assessment of eligibility for discount under the present system could be made, in order to assess the impact of full cost recovery on the basis of a comparison with charges made to industry under the current system. The number of approved establishments directly affected by the proposal are set out by country in Table 19 (for those establishments affected by Option 3) and Table 20 (for those establishments affected by Option 6) below. In summary, of a total of 1214 establishments, 528 are currently paying the full cost charge, 187 would move to full cost recovery under these proposals, and 499 of those establishments defined as low throughput would move to a tiered reduction of the full cost charge, subject to the EU minima.

Table 19 – Number of approved establishments outside the definition of low throughput and therefore moving to full cost recovery under the preferred approach (Option 3)

Country/Site	Total no. of approvals (excl. LTP)	No of approvals (excl. LTP) receiving discount	No. of approvals (excl. LTP) at full cost recovery (no discount)	% of approvals (excl. LTP) receiving discount	% of approvals (excl. LTP) at full cost recovery
England					
Red Slaughter	103	93	10	90%	10%
Poultry Slaughter with PIA	18	18	0	100%	0%
Poultry Slaughter	21	21	0	100%	0%
Game Handling	6	6	0	100%	0%
Cutting Plants	5	2	3	40%	60%
England Total	153	140	13	92%	8%
Scotland					
Red Slaughter	19	15	4	79%	21%
Poultry Slaughter with PIA	1	1	0	100%	0%
Poultry Slaughter	1	1	0	100%	0%
Game Handling	2	2	0	100%	0%
Cutting Plants	0	0	0	N/A	N/A
Scotland Total	23	19	4	83%	17%
Wales					
Red Slaughter	11	11	0	100%	0%
Poultry Slaughter with PIA	2	2	0	100%	0%
Poultry Slaughter	0	0	0	N/A	N/A
Game Handling	0	0	0	N/A	N/A
Cutting Plants	0	0	0	N/A	N/A
Wales Total	13	13	0	100%	0%
Northern Ireland					
Red Slaughter	12	11	1	92%	8%
Poultry Slaughter with PIA	1	1	0	100%	0%
Poultry Slaughter	3	3	0	100%	0%
Game Handling	0	0	0	N/A	N/A
Cutting Plants	21	0	21	0%	100%
Northern Ireland Total	37	15	22	41%	59%
UK					
Red Slaughter	145	130	15	90%	10%
Poultry Slaughter with PIA	22	22	0	100%	0%
Poultry Slaughter	25	25	0	100%	0%
Game Handling	8	8	0	N/A	N/A
Cutting Plants	26	2	24	8%	92%
UK Total	226	187	39	83%	17%

Note: the numbers for England, Scotland and Wales do not include any establishments not operating, or operating under conditional approval

Table 20 – Number of approved establishments within the definition of low throughput and therefore moving to a maximum tiered reduction in charges under the preferred approach (Option 6)

Country/Site	Total no. of approvals defined as LTP	No of LTP approvals receiving discount	No. of LTP approvals at full cost recovery (no discount)	% of LTP approvals receiving discount	% of LTP approvals at full cost recovery
England					
Red Slaughter	103	103	0	100%	0%
Poultry Slaughter with PIA	19	19	0	100%	0%
Poultry Slaughter	18	18	0	100%	0%
Game Handling	27	23	4	85%	15%
Cutting Plants	592	202	390	34%	66%
On farm slaughter	1	0	1	0%	100%
England Total	760	365	395	48%	52%
Scotland					
Red Slaughter	15	15	0	100%	0%
Poultry Slaughter with PIA	1	1	0	100%	0%
Poultry Slaughter	1	1	0	100%	0%
Game Handling	13	13	0	100%	0%
Cutting Plants	90	30	60	33%	67%
Scotland Total	120	60	60	50%	50%
Wales					
Red Slaughter	14	14	0	100%	0%
Poultry Slaughter with PIA	0	0	0	N/A	N/A
Poultry Slaughter	2	2	0	100%	0%
Game Handling	0	0	0	N/A	N/A
Cutting Plants	53	22	31	42%	58%
Wales Total	69	38	31	55%	45%
Northern Ireland					
Red Slaughter	1	1	0	100%	0%
Poultry Slaughter with PIA	2	2	0	100%	0%
Poultry Slaughter	1	1	0	100%	0%
Game Handling	0	0	0	N/A	N/A
Cutting Plants	35	32	3	91%	9%
Northern Ireland Total	39	36	3	92%	8%
UK					
Red Slaughter	49	49	0	100%	0%
Poultry Slaughter with PIA	21	21	0	100%	0%
Poultry Slaughter	31	27	4	87%	13%
Game Handling	605	215	390	N/A	N/A
Cutting Plants	179	84	95	47%	53%
On Farm Slaughter	1	0	1	0%	100%
UK Total	886	396	490	45%	55%

Note: Approximately 50% of low throughput establishments are currently at full cost recovery; as this charge is relatively lower than the current EU minimum rate.

* These establishments are already paying the full cost charge, in accordance with the EU charging regulation, because this is less than the EU minimum charge (see paragraph 15 above), and they will not, therefore, move to the tiered reduction of the full cost charge, which is subject to the EU minima.

Consumers

147. In the short to medium term, and with the exception of some farm shops and small independent butchers, it is considered unlikely that additional costs would be passed on to the consumer. Cost sharing is likely to remain strictly between slaughterhouse and farmer. However, certain medium sized slaughterhouses that provide a slaughter service to independent butchers and undertake some wholesaling activities are expected to pass the costs on their customers, and the cost may then be passed to consumers.

Competent Authority

148. There would be a reduced cost to the Competent Authority, since the proposed system would introduce a degree of simplification.

Taxpayer

149. There would be a reduced cost to taxpayer as the cost of delivery of meat official controls is transferred directly to the meat industry.

Cost and benefits of options

Option 3 – A staged move to full cost recovery for establishments other than low throughput in 3 steps

Costs

Costs to industry

150. Costs would fall only on businesses currently receiving a discount on meat official control charges. We estimate that removing the current discount on charges for meat official controls in a staged move in three steps would cost the UK meat industry an approximate annual average of £7.43m¹⁷ before any efficiency savings have been taken into account. The range of impact of full cost recovery by sector and scale staged over three steps is presented in Annex B (Tables 1.1B – 1.3B).

151. Costs to industry have been adjusted to take account of FSA efficiency savings of £5.0m for GB over 3 years and £0.54m for NI over 2 years (see paragraphs 52 to 54 above). Strictly for the purpose of this Impact Assessment, efficiencies have been allocated on a pro rata basis based on the distribution of additional charges falling on approved establishments under respective policy Options 3 and 6. For GB 95% (£4.75m) of £5.0m in efficiency savings is allocated to Option 3 and 5% (£0.25m) to Option 6¹⁸ split evenly across the 3 years. For NI, efficiency savings are allocated on a 98% (£0.53m) and 2% (£0.01m) basis for policy Options 3 and 6 respectively for years 1 and 2¹⁹. After adjusting for

¹⁷ Cost and charge figures are based on 2010/11 estimates.

¹⁸ Prior to efficiencies the total estimated additional cost to industry under options 3 and 6 for GB equates to £23.46m as at 2014/15. Under option 3 95% of the GB total cost would fall on approved establishments i.e. (£20.24m / £21.36m) = 0.95 ≈ 95%; pro rata allocation of £5.0m efficiency savings equates to £4.75m (95% * £5.0m). Under option 6, in GB, 5% of the total cost would fall on LTP approved establishments (option 6) i.e. (£1.12m / £21.36m) = 0.05 ≈ 5%; pro rata allocation of £5.0m efficiency savings equates to £0.25m (5% * £5.0m).

¹⁹ Prior to efficiencies the total estimated additional cost to industry under options 3 and 6 for NI equates to £2.11m as at 2014/15. Under option 3 98% of the NI total cost would fall on approved establishments i.e. (£2.07m / £2.11m) = 0.98 ≈ 98%; pro rata allocation of £0.54m efficiency savings

FSA efficiency savings the average annual cost to industry under Option 3 totals £5.52m per year. Table 21 displays efficiency savings under Option 3 for GB and NI.

Table 21 – Efficiency Savings under Option 3

Option 3	Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	Total Cost Saving [†]	Present Value ^{†♦}
GB	£1,579,225	£1,579,225	£1,579,225	£4,737,676	£4,579,271
NI	£244,765	£282,858	£0	£527,623	£518,058
Total	£1,823,991	£1,862,083	£1,579,225	£5,265,300	£5,097,329

[†]Totals may not sum due to rounding

[♦]Totals have been discounted to display the increase in charge in present values

152. Tables 22 and 23 present the impact of this proposal by sector and country respectively. A further breakdown by country may be found in Annex C.

Table 22 – Estimated increase in charges/revenue by sector – UK (excluding low throughput)

Sector	Number of affected establish- ments	Annual Cost			Total Cost [†]
		Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	
Red Meat Slaughter (incl. OFS)*	130	£4,405,631	£4,405,631	£4,405,631	£13,216,894
Poultry Slaughter (with PIA)**	22	£2,248,633	£2,248,633	£2,248,633	£6,745,899
Poultry Slaughter (without PIA)	25	£834,163	£722,245	£610,016	£2,166,424
Game Handling	8	£45,082	£45,082	£45,082	£135,246
Cutting Plants	2	£13,001	£13,001	£13,001	£39,003
Total Annual Cost	-	£7,546,511	£7,434,592	£7,322,364	£22,303,467
Efficiency savings	-	£1,823,991	£1,862,083	£1,579,225	£5,265,300
Final Annual cost (less efficiency savings)	-	£5,722,520	£5,572,509	£5,743,138	£17,038,167

* OFS – On Farm Slaughter

** PIA – Plant Inspection Assistant

[†]Totals may not sum due to rounding

Table 23- Estimated increase in charges/revenue by country – UK (excluding low throughput)

Country	Number of affected establish- ments	Annual Cost			Total Cost [†]	Efficiency savings	Final cost (less efficiency savings) [†]
		Year 1 2012/13	Year 2 2013/14	Year 3 2014/15			
England	140	£5,972,272	£5,870,205	£5,767,827	£17,610,304	£4,123,042	£13,487,263
Northern Ireland	15	£689,313	£689,313	£689,313	£2,067,939	£527,623	£1,540,316
Scotland	19	£432,116	£428,805	£425,493	£1,286,414	£301,184	£985,230
Wales	13	£452,810	£446,270	£439,730	£1,338,810	£313,451	£1,025,359
UK[†]	187	£7,546,511	£7,434,592	£7,322,364	£22,303,467	£5,265,300	£17,038,167

[†]Totals may not sum due to rounding

equates to £0.53m (98% * £0.54m). Under option 6 2% of the total cost would fall on LTP approved establishments i.e. (£0.04m / £2.11m) = 0.02 ≈ 2%; pro rata allocation of £0.54m efficiency savings equates to £0.01m (2% * £0.54m)

Familiarisation costs

153. There will be a small one-off cost to industry for reading and familiarising themselves with the introduction of full cost charging arrangement. Familiarisation costs are calculated using an established and consistent methodology based on the UK Standard Cost Model Manual as published by the Department for Business Innovation and Skills (BIS)²⁰; while wage rates are based on average hourly pay rates taken from the Annual Survey of Hours and Earnings (ASHE) where we always use the median rate of pay. This is published yearly by the Office for National Statistics (ONS) website²¹.
154. It is estimated that it will take one hour per business to read and familiarise themselves with the new arrangements and a further one hour disseminating to key staff. This means a total of two hours for familiarising. There are currently 187 approved establishments operating in the UK currently receiving a discount that would be directly affected by the proposal. Table 23 above displays the number of businesses (excluding low throughput) affected in the UK broken down by location.
155. To quantify the one-off familiarisation cost to industry we calculate the familiarisation cost per business by multiplying the hourly wage rate of a 'manager of a farm' of £17.87²² by the two hours taken to understand the new charging arrangements, resulting in a familiarisation cost per business of £35.73²³. To quantify the overall one off familiarisation cost to industry we multiply the familiarisation cost per firm by the number of businesses affected by the proposal. This results in an approximate one off familiarisation cost in the UK to businesses of £6,682. Table 24 displays the familiarisation cost to industry broken down by country.

Table 24 - Familiarisation cost to industry (Excluding low throughput establishments)

Country	Affected Approved Establishments	Total Familiarisation cost
England	140	£5,002
Northern Ireland	15	£536
Scotland	19	£679
Wales	13	£465
UK	187	£6,682

Note: Costs are estimated by multiplying wage rates uplifted by 30% to account for overheads. This means that the wage rates reported in the text are approximate to 2 d.p. and when grossed may result in a rounding error.

Equivalent Annual Net Costs (EANC)

156. In order for 'one-off' transition costs to be compared on an equivalent basis across policies spanning different time periods, it is necessary to 'equivalently annualise' costs using a standard formula²⁴. Under Standard HMT Green book guidance a discount rate of 3.5% is used.

²⁰ Standard Cost Model Manual can be accessed here: <http://www.bis.gov.uk/files/file44503.pdf>

²¹ ONS AHSE can be accessed via: <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1951>.

²² Wage rate obtained from The Annual Survey of Household Earnings (2010) (<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15313>). Median hourly wage of a 'Manager in Farming, Horticulture, Forestry and Fishing' (£13.03 which has been up-rated by 30% to cover overheads: £13.03 * (1 + 0.3)) = £16.94. The wage rate is based on 2010 data; inflated to 2012 prices using the latest GDP deflator forecasts (inflation forecast of 3% in 2011 and 2.4% 2012). Latest forecast can be accessed via: http://www.hm-treasury.gov.uk/data_gdp_fig.htm

²³ £35.73 = £17.87 (inflated hourly wage rate) * 2 hours (familiarisation time)

²⁴

EANCB = PVNCB/a_{tr}, Where a_{tr} is the annuity rate given by:

157. A total one-off cost to industry affected by this proposal is an estimated £6,682. This yields an EANC of approximately £2,304 in the UK over 3 years, which per country equates to £1,725 in England, £185 in Northern Ireland, £234 in Scotland and £160 in Wales. Table 25 displays the breakdown of the EANC per country.

Table 25 – Equivalent Annual Net Cost (EANC) for Industry by country

Country	EANC
England	£1,725
Northern Ireland	£185
Scotland	£234
Wales	£160
UK[†]	£2,304

[†]Totals may not sum due to rounding error

Costs to Competent Authority

Familiarisation costs

158. There will be a small one-off cost to FSA in GB and FSA in NI for reading and familiarising themselves with the full cost charging arrangement (FSA in NI is responsible for the development and implementation of meat charging policy in NI which is delivered by DARD). As for industry, familiarisation costs are calculated using the UK Standard Cost Model (SCM)²⁵ and ONS Annual Survey of Hours and Earnings (ASHE)²⁶, see paragraph 151.

Great Britain

159. It is expected that a *Senior Executive Officer* (SEO) within the finance team will spend 15 hours preparing training material for other members of staff. The familiarisation cost for a finance official to prepare training material is quantified by multiplying the hourly wage rate of a finance manager of £35.57²⁷, by the 15 hours taken to prepare the training material, resulting in a familiarisation cost of £534²⁸.

160. It is anticipated, based on the current field structure that 12 *Business Managers* within the FSA will need to become familiar with the change in charging arrangements. It is envisaged that each business manager will spend 2 hours reading and familiarising themselves with the regulation, resulting in a total

$$a_{t,r} = \sum_{j=0}^{t-1} \prod_{i=0}^j \left(\frac{1}{1+r_i} \right)$$

PVNCB is the present value of costs, r is the social discount rate and t is the time period over which the policy is being appraised.

²⁵ Standard Cost Model Manual can be accessed here: <http://www.bis.gov.uk/files/file44503.pdf>

²⁶ ONS AHSE can be accessed via: <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1951>.

²⁷ Wage rate obtained from The Annual Survey of Household Earnings (2010)

(<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15313>). Median hourly wage of a 'Financial managers and chartered secretaries' (£27.36 which has been up-rated by 30% to cover overheads: £27.36 * (1 + 0.3)) = £35.57.

²⁸ £533.52 = £35.57 (hourly wage rate) * 15 hours (preparation of training materials)

of 24 hours familiarisation time. To quantify the familiarisation cost for 12 business managers we multiplied the 2 hours of familiarisation time required for each manager by the hourly wage rate of a senior official in Government of £36.27²⁹, resulting in a familiarisation cost of £870³⁰.

161. It is assumed that 37 *Lead Veterinarians* will each spend 2 hours reading and familiarising themselves with new charging arrangements, meaning a total of 74 hours of familiarisation for all Lead Veterinarians. The familiarisation cost is quantified by multiplying the 74 hours required by all Veterinarians by the hourly wage rate of a Vet of £22.57³¹, resulting in a familiarisation cost for Lead Veterinarians of £1,670³².

162. It is also anticipated that 57 *Senior Meat Hygiene Inspectors* will each spend 2 hours becoming familiar with the regulation, a total of 114 hours. The familiarisation cost for senior meat hygiene inspectors totals £2,383 when multiplying the hourly wage rate of £20.90³³ by the 114 hours taken by senior meat hygiene inspectors to read and familiarise with the changes³⁴. The total one-off familiarisation cost for GB is approximately £5,795. Table 26 displays the familiarisation cost for FSA in GB.

Table 26 – Familiarisation cost to Competent Authority in GB

Grade	Number of staff required to familiarise	Time per staff to familiarise (Hours)	Total familiarisation time (Hours)	Hourly Wage Rate (£)	Total Familiarisation Cost (£)
SEO (Finance)	1	15	15	£35.57	£534
Business Manager	12	2	24	£36.27	£870
Lead Veterinarian	37	2	74	£22.57	£1,670
Senior Meat Hygiene Inspector	57	2	114	£20.90	£2,383
Total Familiarisation Cost	-	-	-	-	£5,457

Note: Costs are estimated by multiplying wage rates uplifted by 30% to account for overheads. This means that the wage rates reported in the text are approximate to 2 d.p. and when grossed may result in a rounding error.

Northern Ireland - FSA

163. It is expected that a *Senior Executive Officer* (SEO) within the Meat Hygiene team will spend 4 hours using the GB training material as a basis for preparing training material for DARD. The familiarisation cost for a Meat Hygiene official to prepare training material is quantified by multiplying the hourly wage rate of a SEO of £35.57³⁵, by the 4 hours taken to prepare the training material, resulting in a familiarisation cost of £142.27³⁶. It is anticipated that 2 meat charging officials within the FSA will need to become familiar with new charging arrangements. It is envisaged that each meat charging official will spend 1 hour reading and familiarising themselves with the changes, resulting in a total of 2 hours familiarisation time. To quantify the familiarisation cost for 2 meat charging officials we

²⁹ Wage rate obtained from The Annual Survey of Household Earnings (2010) (<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15313>). Median hourly wage of a 'Senior officials in national government' (£27.90 which has been up-rated by 30% to cover overheads: £27.90 * (1 + 0.3)) = £36.27.

³⁰ £870 = £36.27 (hourly wage rate) * 2 hours (familiarisation time)

³¹ Wage rate obtained from The Annual Survey of Household Earnings (2010)

(<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15313>). Median hourly wage of a 'Senior officials in national government' (£17.36 which has been up-rated by 30% to cover overheads: £17.36 * (1 + 0.3)) = £22.57.

³² £1,670 = £22.57 (hourly wage rate) * 2 hours (familiarisation time)

³³ Wage rate obtained from The Annual Survey of Household Earnings (2010)

(<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15313>). Median hourly wage of 'Occupational hygienists and safety officers (health and safety)' (£3616.08 which has been up-rated by 30% to cover overheads: £18.36 * (1 + 0.3)) = £8720.90.

³⁴ £2,721 = £23.87 (hourly wage rate) * 2 hours (familiarisation time)

³⁵ Wage rate obtained from The Annual Survey of Household Earnings (2010) (<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15313>).

Median hourly wage of a 'Financial managers and chartered secretaries' (£27.36 which has been up-rated by 30% to cover overheads: £27.36 * (1 + 0.3)) = £35.57.

³⁶ £142.27 = £35.57 (hourly wage rate) * 4 hours

multiplied the 2 hours of familiarisation time required for both officials by the hourly wage rate of a senior official in Government of £36.27³⁷, resulting in a familiarisation cost of £72.54³⁸. The total one off familiarisation cost for the FSA in Northern Ireland totals an approximate £215. Table 27 displays familiarisation cost for FSA in Northern Ireland - FSA.

Table 27 – Familiarisation cost to Competent Authority in NI

Grade	Number of staff required to familiarise	Time per staff to familiarise (Hours)	Total familiarisation time (Hours)	Hourly Wage Rate (£)	Total Familiarisation Cost (£)
SEO (Charging)	1	4	4	£35.57	£142
Management Official	2	1	2	£36.27	£73
Total Familiarisation Cost	-	-	-	-	£215

Note: Costs are estimated by multiplying wage rates uplifted by 30% to account for overheads. This means that the wage rates reported in the text are approximate to 2 d.p. and when grossed may result in a rounding error.

Allocation of Familiarisation costs to Competent Authorities in GB and NI

164. After quantifying the familiarisation cost for Competent Authorities we allocated this cost on a pro rata basis based on the distribution on plants that fall under respective policy Options 3 and 6. This allocation was obtained by calculating an equivalent familiarisation cost per plant by dividing total familiarisation costs by the number of plants per Option 3 for GB and NI. The results are displayed in Table 28 below.

Table 28 – Option 3 familiarisation cost to Competent Authority

Location	Familiarisation cost per plant	Number of plants (excl. LTP*)	Total Familiarisation Cost
Great Britain	£8.59	172	£1,478
Northern Ireland	£4.21	15	£63
Total		187	£1,541

* LTP – Low throughput Plant

Note: Costs are estimated by multiplying wage rates uplifted by 30% to account for overheads. This means that the wage rates reported in the text are approximate to 2 d.p. and when grossed may result in a rounding error.

Familiarisation cost per plant in GB is derived from dividing the total familiarisation cost in GB (as displayed in Table 24) by the total number of affected plants in GB (£5,457/635)

Familiarisation cost per plant in NI is derived from dividing the total familiarisation cost in NI (as shown in Table 25) by the total number of affected plants in NI (£214.81/51)

Equivalent Annual Net Costs (EANC)

165. As for industry (see above), the one-off cost to the Competent Authority (CA) must also be expressed as equivalent annual net costs (EANC). Total one-off costs to CAs in GB and NI is £1,541.

³⁷ Wage rate obtained from The Annual Survey of Household Earnings (2010) (<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15313>).

Median hourly wage of a 'Senior officials in national government' (£27.90 which has been up-rated by 30% to cover overheads: £27.90 * (1 + 0.3)) = £36.27.

³⁸ £73 = £36.27 (hourly wage rate) * 2 hours (familiarisation time)

This yields an EANC for CAs as a whole of approximately £532 over 3 years. Table 29 displays the EANC broken down by country.

Table 29 – Equivalent Annual Net Cost (EANC) for Competent Authority by country

Location	EANC
Great Britain	£510
Northern Ireland	£22
Total	£532

Total costs

166. The total cost of policy Option 3 equates to £17.05m after accounting for £5.24m in efficiency savings; which equates to an average annual cost of £5.68m. Once these costs are discounted at a rate of 3.5% over three years we obtain a present value cost of £16.48m. Total one-off and on-going costs associated with Option 3 are presented in Table 30.

Table 30 – Total Costs of Option 3

Costs	Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	Annual Average Cost	Total Cost [†]	Present Value
One-Off Costs						
Familiarisation costs to industry	£6,682	£0	£0	N/A*	£6,682	£6,682
Familiarisation costs to FSA	£1,541	£0	£0	N/A*	£1,541	£1,541
Total One-Off Costs	£8,223	£0	£0	N/A*	£8,223	£8,223
On-going Costs						
Full Cost Recovery (less efficiency savings)	£5,722,520	£5,572,509	£5,743,138	£5,679,389	£17,038,167	£16,467,867
Total Cost	£5,730,743	£5,572,509	£5,743,138	£5,682,130	£17,046,390	£16,476,090

*Annual average cost is not applicable to one-off familiarisation costs see EANC calculation

[†]Totals may not sum due to rounding

Indicative estimates of the distribution of full cost recovery across the supply chain (excluding low throughput)

167. Based on a consolidation of survey and consultation responses set out in Table 14, we provide indicative estimates of the distribution of costs associated with full cost charging across the supply chain. Given the survey was based on a low and statistically biased response rate, we rely on making the following bold assumptions: 1) unless otherwise indicated from survey and consultation responses we assume that slaughterhouses absorb the entire cost of full cost charging; and 2) we assume a response rate³⁹ of less than 20% would not be representative of industry due to the diverse nature and

³⁹ The response rate is the proportion of respondents (individual businesses) from a given sector (red meat, poultry etc.) relative to the total number of approved establishments in that sector defined according to scale or size of plant.

complexity of the industry; we therefore deem these results as invalid and apply the first assumption where we assume the entirety of the cost is borne solely by the slaughterhouse.

168. Applying these assumptions we assume UK slaughterhouses (excluding low throughput establishment) will absorb approximately 95% (£15.65m present value) of the total increase in charge and farmers the remaining 5% (£0.82m present value). Some respondents indicated that they may look to pass on a share of the cost to consumers; but the response rate was too low (less than 20%) to be considered representative of industry and was excluded from the analysis. The indicative estimated cost split by sector and location across the supply chain is presented in tables 31 and 32.

Table 31 – Indicative estimate of the distribution of costs across the supply chain – GB (excluding low throughput)

Great Britain	Total Increase in Charge (2012/13 – 2014/15)		
Sector	Slaughterhouse	Livestock Producers	Total
Red Meat Slaughter (incl. OFS)*	£11,431,860	£186,427	£11,618,287
Poultry Slaughter (with PIA)**	£1,816,586	£0	£1,816,586
Poultry Slaughter (without PIA)	£5,963,103	£0	£5,963,103
Game Handling	£130,724	£0	£130,724
Cutting Plants	£37,699	£0	£37,699
Total Impact	£19,379,972	£186,427	£19,566,400
Percentage Split (%)	99.05%	0.95%	100.00%
Efficiency savings	£4,535,640	£43,631	£4,579,271
Total Impact (less efficiency savings)♦	£14,844,332	£142,796	£14,987,129

* OFS – On Farm Slaughter

** PIA – Plant Inspection Assistant

♦Totals have been discounted to display the increase in charge in present values

Table 32– Indicative estimate of the distribution of costs across the supply chain – NI (excluding low throughput)

Northern Ireland	Total Increase in Charge (2012/13 – 2014/15)		
Sector	Slaughterhouse	Livestock Producers	Total
Red Meat Slaughter (incl. OFS)*	£244,950	£911,746	£1,156,697
Poultry Slaughter (with PIA)**	£284,855	£0	£284,855
Poultry Slaughter (without PIA)	£557,245	£0	£557,245
Game Handling	£0	£0	£0
Cutting Plants	£0	£0	£0
Total Impact	£1,087,050	£911,746	£1,998,797
Percentage Split (%)	54.39%	45.61%	100.00%
Efficiency savings	£281,747	£236,311	£518,058
Total Impact (less efficiency savings)♦	£805,303	£675,435	£1,480,739

* OFS – On Farm Slaughter

** PIA – Plant Inspection Assistant

♦Totals have been discounted to display the increase in charge in present values

Benefits

Industry

169. Full cost recovery could act as an incentive to industry to invest to maximise efficient use of official controls and encourage businesses to review their business agreement with FSA or DARD to reduce the resources required. As it is not possible to quantify this reduction, the benefit remains non-monetised.

Consumer

170. Full cost recovery should act as an incentive to improve compliance, since there is a link between compliance and the cost of official controls (see paragraph 51 above), which would enhance consumer protection.

Taxpayer

171. Full cost recovery would transfer the cost from the taxpayer directly to the meat industry. Savings would be staged over a three year period. By 2014/15 total related savings to taxpayers is estimated at £17.04m (constant prices). This is shown in Table 33 below.

Table 33 – Benefits of Option 3

Benefits	Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	Annual Average	Total	Present Value
Revenue/ Savings to taxpayer	£5,722,520	£5,572,509	£5,743,138	£5,679,389	£17,038,167	£16,467,867
Total benefits	£5,722,520	£5,572,509	£5,743,138	£5,679,389	£17,038,167	£16,467,867

Net Benefits

172. Total costs outweigh the total benefit of preferred policy Option 3 generating a negative net benefit of £8,315,223. This is shown in Table 34 below.

Table 34– Net benefits of Option 3

Costs/ Benefits	Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	Annual Average	Total	Present Value
Total Costs	£5,730,743	£5,572,509	£5,743,138	£5,682,130	£17,046,390	£16,476,090
Total Benefits	£5,722,520	£5,572,509	£5,743,138	£5,679,389	£17,038,167	£16,467,867
Net benefits	-£8,223	£0	£0	-£2,741	-£8,223	-£8,223

Option 6 – A move in 3 steps to a maximum tiered reduction of 70%, 50% and 25% of the full cost charge, subject to the EU minima, for low throughput establishments

Costs

Industry

173. The cost of Option 6 will impact only on those approved establishments defined as low throughput under the proposal and currently receiving a discount on charges for meat official controls.

Increase in cost recovery charge

174. We estimate that replacing the current discount on charges for meat official controls with a tiered maximum reduction staged over three steps would cost the UK meat industry an approximate annual average of £0.39m⁴⁰ before any efficiency savings have been taken into account. An overview of the range of impact of this proposal by sector over three years is shown in Annex B (Tables 2.1B – 2.3B). Tables 36 and 37 below present the impact by sector and country respectively.

175. Costs to industry have been adjusted to take account of FSA efficiency savings of £5m for GB over 3 years and DARD efficiency savings of £0.54m for NI over 2 years. Strictly for the purpose of this Impact Assessment; efficiencies have been allocated on a pro rata basis based on the distribution of additional charges falling on approved establishments under respective policy Options 3 and 6. For GB, 95% (£4.75m) of £5m in efficiency savings is allocated to Option 3 and 5% (£0.25m) to Option 6⁴¹ split evenly across the 3 years. For NI, efficiency savings are allocated on a 98% (£0.53m) and 2% (£0.01m) basis for policy Options 3 and 6 respectively for years 1 and 2⁴². After efficiency savings have been applied to Option 6 this results in an average annual cost of £0.30m. Table 35 displays efficiency savings under Option 6 for GB and NI.

Table 35 – Efficiency Savings under Option 6

Option 6	Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	Total Cost Saving [†]	Present Value ^{†♦}
GB	£87,441	£87,441	£87,441	£262,324	£253,553
NI	£4,680	£5,408	£0	£10,088	£9,905
Total	£92,121	£92,849	£87,441	£272,411	£263,458

[†]Totals may not sum due to rounding

[♦]Totals have been discounted to display the increase in charge in present values

⁴⁰ Cost and charge figures are based on 2011/12 estimates and assume the level of official control activities remains constant.

⁴¹ Prior to efficiencies the total estimated additional cost to industry under options 3 and 6 for GB equates to £23.46m as at 2014/15. Under option 3 95% of the GB total cost would fall on approved establishments i.e. (£20.24m / £21.36m) = 0.95 ≈ 95%; pro rata allocation of £5.0m efficiency savings equates to £4.75m (95% * £5.0m). Under option 6, in GB, 5% of the total cost would fall on LTP approved establishments (option 6) i.e. (£1.12m / £21.36m) = 0.05 ≈ 5%; pro rata allocation of £5.0m efficiency savings equates to £0.25m (5% * £5.0m).

⁴² Prior to efficiencies the total estimated additional cost to industry under options 3 and 6 for NI equates to £2.11m as at 2014/15. Under option 3 98% of the NI total cost would fall on approved establishments i.e. (£2.07m / £2.11m) = 0.98 ≈ 98%; pro rata allocation of £0.54m efficiency savings equates to £0.53m (98% * £0.54m). Under option 6 2% of the total cost would fall on LTP approved establishments i.e. (£0.04m / £2.11m) = 0.02 ≈ 2%; pro rata allocation of £0.54m efficiency savings equates to £0.01m (2% * £0.54m)

Table 36 - Estimated increase in charges/revenue by sector – UK low throughput

Sector	Number of affected establishments	Annual Cost			Total Cost [†]
		Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	
Red Meat Slaughter (incl. OFS)*	133	£24,055	£244,259	£377,382	£645,696
Poultry Slaughter (with PIA)**	22	£68,686	£100,674	£103,277	£272,637
Poultry Slaughter (without PIA)	22	£61,931	£68,054	£75,100	£205,085
Game Handling	36	£1,068	£4,255	£9,695	£15,019
Cutting Plants	286	£2,221	£6,578	£12,735	£21,535
Total Annual Cost	-	£157,962	£423,821	£578,189	£1,159,972
Efficiency savings	-	£92,121	£92,849	£87,441	£272,411
Final Annual cost (less efficiency savings)	-	£65,841	£330,971	£490,748	£887,561

* OFS – On Farm Slaughter

** PIA – Plant Inspection Assistant

[†]Totals may not sum due to rounding

Table 37 - Estimated increase in charges/revenue by country – UK low throughput

Country	Number of affected establishments	Annual Cost			Total Cost [†]	Efficiency savings	Final cost (less efficiency savings) [†]
		Year 1 2012/13	Year 2 2013/14	Year 3 2014/15			
England	365	£143,353	£336,161	£445,251	£924,764	£216,512	£708,252
Northern Ireland	36	£5,621	£12,944	£20,972	£39,537	£10,088	£29,449
Scotland	60	£4,993	£25,306	£42,579	£72,878	£17,063	£55,815
Wales	38	£3,995	£49,410	£69,388	£122,793	£28,749	£94,044
UK[†]	499	£157,962	£423,821	£578,189	£1,159,972	£272,411	£887,561

[†]Totals may not sum due to rounding

A further breakdown by country may also be found in Annex C.

Familiarisation costs

176. There will be a reading and familiarisation cost to approved low throughput establishments affected by the proposal. It is estimated that it will take one hour per business to read and familiarise themselves with the new arrangements and a further one hour disseminating to key staff. This means a total of two hours for familiarising. There are currently 499 approved establishments operating in the UK currently receiving a discount that would be directly affected by the proposal.

177. To quantify the one off familiarisation cost to industry we calculate the familiarisation cost per business by multiplying the hourly wage rate of a manager of a farm of £17.87⁴³ by the two hours taken to understand the new charging arrangements, resulting in a familiarisation cost per business of £35.73⁴⁴. To quantify the overall one off familiarisation cost to industry we multiply the familiarisation cost per firm by the number of low throughput establishments affected by the policy proposal. This

⁴³ Wage rate obtained from The Annual Survey of Household Earnings (2010) (<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15313>). Median hourly wage of a 'Managers in Farming, Horticulture, Forestry and Fishing' (£13.03 which has been up-rated by 30% to cover overheads: £13.03 * (1 + 0.3)) = £16.94. The wage rate is based on 2010 data; inflated to 2012 prices using latest GDP deflator forecasts (inflation forecast of 3% in 2011 and 2.4% 2012). Latest forecast can be accessed via: http://www.hm-treasury.gov.uk/data_gdp_fig.htm

⁴⁴ £35.73 = £17.87 (inflated hourly wage rate) * 2 hours (familiarisation time)

results in a one off familiarisation cost in the UK to businesses of £17,830. Table 38 displays the familiarisation cost to industry broken down by country.

Table 38- Familiarisation cost to industry (low throughput)

Country	Affected Approved Establishments	Total Familiarisation cost
England	365	£13,042
Northern Ireland	36	£1,286
Scotland	60	£2,144
Wales	38	£1,358
UK	499	£17,830

Note: Costs are estimated by multiplying wage rates uplifted by 30% to account for overheads. This means that the wage rates reported in the text are approximate to 2 d.p. and when grossed may result in a rounding error.

Equivalent Annual Net Costs (EANC)

178. In order for 'one-off' transition costs to be compared on an equivalent basis across policies spanning different time periods, it is necessary to 'equivalently annualise' costs using a standard formula⁴⁵. Under Standard HM Treasury Green book guidance a discount rate of 3.5% is used.

179. A total one-off cost to industry affected by this proposal is an estimated £17,830. This yields an EANC of approximately £6,149 in the UK over 3 years, which per country equates to £4,498 in England, £444 in Northern Ireland, £739 in Scotland and £468 in Wales. Table 39 displays the breakdown of the EANC per country.

Table 39 – Equivalent Annual Net Cost (EANC) for Industry by Country

Country	EANC
England	£4,498
Northern Ireland	£444
Scotland	£739
Wales	£468
UK[†]	£6,149

[†]Totals may not sum due to rounding

⁴⁵ The equivalent annual cost formula is as follows: $EANCB = PVNCB/a_{tr}$, Where a_{tr} is the annuity rate given by:

$$a_{t,r} = \sum_{j=0}^{t-1} \prod_{i=0}^j \left(\frac{1}{1+r_i} \right)$$

PVNCB is the present value of costs, r is the social discount rate and t is the time period over which the policy is being appraised...

Costs to Competent Authority

Familiarisation costs

180. As per Option 3 there will be a small one-off cost to FSA in GB and FSA in NI for reading and familiarising themselves with new charging arrangements based on the distribution of LTP establishments. (FSA in NI is responsible for the development and implementation of meat charging policy in NI which is delivered by DARD.) It is estimated that the total one-off familiarisation cost for the CA in the UK totals £4,131. Table 40 displays the Competent Authority (CA) familiarisation cost.

Table 40 – Competent Authority familiarisation cost

Location	Familiarisation cost per Establishment	Number of Establishments	Total Familiarisation Cost
Great Britain	£8.59	463	£3,979
Northern Ireland	£4.21	36	£152
Total	-	499	£4,131

Notes:

Costs are estimated by multiplying wage rates uplifted by 30% to account for overheads. This means that the wage rates reported in the text are approximate to 2 d.p. and when grossed may result in a rounding error.

Familiarisation cost per plant in GB is derived from dividing the total familiarisation cost in GB (as displayed in Tables 16 and 17) by the total number of affected plants in GB (£5,457/635)

Familiarisation cost per plant in NI is derived from dividing the total familiarisation cost in NI (as shown in Table 22) by the total number of affected plants in NI (£214.81/51)

181. As for industry (see above), the one-off cost to the CA must also be expressed as equivalent annual costs (EAC). Total one-off costs to the CA have been estimated as £4,131. This yields an EAC for the CA for the UK as a whole of approximately £1,424 over 3 years. Table 41 displays the EANC broken down by location.

Table 41 – Equivalent Annual Net Cost (EANC) for Competent Authority by country

Location	EANC
Great Britain	£1,372
Northern Ireland	£52
Total	£1,424

Total costs

182. The total cost of policy Option 6 equates to £0.91m at an average annual cost of £0.30m. Once these costs are discounted at a rate of 3.5% over three years we obtain a present value cost of £0.87m. Total one-off and on-going costs associated with Option 6 are presented in Table 42.

Table 42 – Total Costs of Option 6

Costs	Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	Annual Average Cost	Total Cost [†]	Present Value
One-Off Costs						
Familiarisation costs to industry	£17,830	£0	£0	N/A*	£17,830	£17,830
Familiarisation costs to FSA	£4,131	£0	£0	N/A*	£4,131	£4,131
Total One-Off Costs	£21,961	£0	£0	N/A*	£21,961	£21,961
On-going Costs						
Full Cost Recovery (less efficiency savings)	£65,841	£330,971	£490,748	£295,854	£887,561	£843,739
Total Cost	£87,802	£330,971	£490,748	£303,174	£909,521	£865,700

*Annual average cost is not applicable to one-off familiarisation costs see EANC calculation (Tables 34 and 36)

[†]Totals may not sum due to rounding

Indicative estimates of the distribution of full cost recovery across the supply chain for low throughput establishments

183. As per Option 3 we rely on a similar set of assumptions including survey and consultation responses as set out in paragraphs 165 to 166. For low throughput establishments we assume slaughterhouses will absorb the entirety of the £0.89m increase in charges. This is presented in Tables 43 and 44 for GB and NI respectively.

Table 43 – Indicative estimate of the distribution of costs across the supply chain – Great Britain

Great Britain	Total Increase in Charge (2012/13 – 2014/15)		
	Slaughterhouse	Livestock Producers	Total
Red Meat Slaughter (incl. OFS)*	£607,713	£0	£607,713
Poultry Slaughter (with PIA)**	£181,957	£0	£181,957
Poultry Slaughter (without PIA)	£260,670	£0	£260,670
Game Handling	£14,230	£0	£14,230
Cutting Plants	£4,922	£0	£4,922
Total Impact	£1,069,492	£0	£1,069,492
Percentage Split (%)	100.00%	0.00%	100.00%
Efficiency savings	£253,553	£0	£253,553
Total Impact (less efficiency savings)[◆]	£815,939	£0	£815,939

* OFS – On Farm Slaughter

** PIA – Plant Inspection Assistant

[◆]Totals have been discounted to display the increase in charge in present values

Table 44 – Indicative estimate of the distribution of costs across the supply chain – Northern Ireland

Northern Ireland	Total Increase in Charge (2012/13 – 2014/15)		
	Slaughterhouse	Livestock Producers	Total
Red Meat Slaughter (incl. OFS)*	£4,631	£0	£4,631
Poultry Slaughter (with PIA)**	£15,834	£0	£15,834
Poultry Slaughter (without PIA)	£1,697	£0	£1,697
Game Handling	£0	£0	£0
Cutting Plants	£15,543	£0	£15,543
Total Impact	£37,705	£0	£37,705
Percentage Split (%)	100.00%	0.00%	100.00%
Efficiency savings	£9,905	£0	£9,905
Total Impact (less efficiency savings)♦	£27,800	£0	£27,800

* OFS – On Farm Slaughter

** PIA – Plant Inspection Assistant

♦Totals have been discounted to display the increase in charge in present values

Benefits

184. Similar benefits realised as per Option 3. However, savings to taxpayers would be limited to a respective maximum reduction of 70%, 50% and 25% for low throughput establishments. The related savings to taxpayers are estimated at £0.89m (constant prices). This is shown in Table 45 below.

Table 45 – Benefits of Option 6

Benefits	Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	Annual Average	Total	Present Value
Revenue/ Savings to taxpayer	£65,841	£330,971	£490,748	£295,854	£887,561	£843,739
Total benefits	£65,841	£330,971	£490,748	£295,854	£887,561	£843,739

Net Benefits

185. Total costs outweigh the total benefit of preferred policy Option 6 generating a negative net benefit of -£21,961. This is shown in Table 46 below.

Table 46 – Net Benefits of Option 6

Costs/ Benefits	Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	Annual Average	Total	Present Value
Total Costs	£87,802	£330,971	£490,748	£303,174	£909,521	£865,700
Total Benefits	£65,841	£330,971	£490,748	£295,854	£887,561	£843,739
Net benefits	-£21,961	£0	£0	-£7,320	-£21,961	-£21,961

Wider impacts

Competition Assessment

Industry structure

186. In the last 25 years a significant structural change has taken place in the meat industry with the consolidation and rationalisation of large scale establishments as the number of smaller scale operations diminish. The industry appears to have become a two tier market where only large scale slaughterhouses can service the needs of large retailers and have integrated their facilities and operations to benefit from economies of scale and take advantage of the increasingly value added processes along the supply chain, while the majority of the smaller establishments do not have the scale and resources to do so. Instead some smaller establishments have opted for niche markets increasingly providing a local slaughter facility service to farmers who sell their meat directly to the consumer, through farm shops, market stalls and farmers markets, while medium sized establishments may combine a mixture of work where in some cases the slaughter charge is paid by the producer or purchaser of the livestock. In the latter cases, the slaughtering business may be their only business and not part of a larger processing facility, and it has been suggested by stakeholders (although not evidenced) that for such establishments, especially at the lower end of the 'medium size' range, the relative impact of full cost recovery may be at the higher end of the scale, with the possible outcome that costs are passed to the consumer.

Distribution of discounts

187. The current distribution of discounts is outlined at paragraphs 31 to 32 above. Of the 1214 establishments considered in this Impact Assessment, discounts of varying sizes are received by approximately 50% of low throughput establishments; 90% of medium sized establishments; 73% of large establishments; and 62% of very large establishments. The current charging arrangement tends to allocate relatively larger percentage discounts to businesses with smaller throughput compared to larger scale operators who may currently receive lower discounts. However, this is a tendency rather than a rule. Some large scale operators may receive relatively high discounts, and some low throughput establishments do not receive a discount, since the EU minimum charge exceeds the full cost of delivery of official controls at their establishment and they therefore pay the full cost charge.

188. The proposals address inconsistent outcomes and inappropriate targeting of support which has developed as a consequence of the current charging system by ensuring that support is directed to smaller establishments, and that all food business operators responsible for establishments not categorised as 'low throughput' pay the full costs of delivery of meat official controls at their individual establishments.

Distribution of impact

189. It follows from the inconsistent outcomes consequent upon the current charging system that the impact of the introduction of full cost recovery is not evenly distributed between establishments. The distribution of financial impact of the proposals for full cost recovery across the sector is analysed in paragraphs 117 to 135 above ('Distribution of Impact between Approved Establishments – Analysis by Meat Sector and Size'). Overall, the analysis shows that though the distributional impact of an increase in charges has a disproportionate effect in some sectors for medium scale establishments, LTP establishments continue to be sensitive to even a small increase in charge even when in receipt of support. The analysis also shows that on average poultry establishments with PIAs face large increases in charges. This is because (as outlined in paragraphs 91 to 94) these establishments receive a disproportionate amount of support due to the offset of the PIA allowance against discounted FSA charges, which can, in some cases, reduce FSA charges payable to nil. As part of the Business Agreement process for all establishments (see paragraphs 46-49 above), the FSA will discuss potential efficiency improvements the FBO can make which might either reduce the FBO's official control costs, for example through changing processes or through FBO investment which will enable a longer term reduction in meat inspection resources required.

Small and medium sized slaughterhouses

190. Full cost recovery would clearly have a greater impact on smaller slaughterhouses, which may not be able to offset the additional cost on a scale comparable with larger slaughterhouses. This may have implications for some businesses, which, due to a combination of factors including the increased cost of official controls, may no longer find it viable to remain in the industry, while others will attempt to absorb, share or pass on these costs. A number of small (e.g. those processing 1,001-5,000 cattle or equivalent per year) and medium establishments suggested in their responses to the consultation that they would add the increased costs to their slaughter charge. It was suggested that this placed the smaller establishments at a competitive disadvantage, and that there could also be an effect upon livestock prices. Industry bodies representing butchers and meat wholesalers have also raised concerns that those medium sized slaughterhouses just above the low throughput level that undertake slaughter by individual contract would pass on all costs to those for whom they slaughter, because they do not have the scope to pass on costs to livestock producers, and would be unable to absorb the costs. In the FSA's survey of meat businesses, some respondents from the low throughput sector (though unrepresentative of industry due to a low response rate) indicated that they would look to pass on some the cost to consumers to partially offset the financial impact of full recovery. A small number of respondents to the consultation supported this view.
191. In recognition of the potential impact upon smaller slaughterhouses, the FSA has refined its proposals for support for LTP establishments, bringing all those processing up to 5,000 cattle or the equivalent (82% of all UK establishments) within the definition of low throughput and thus increasing the amount of support and the number and size of establishments that would qualify for support. Establishments processing up to an average of 96 cattle, or 961 sheep, or 14,423 birds per week will be eligible for a LTP reduction, subject to the EU minimum charge rates. Of a total of 1,214 establishments considered in this 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 minima.
192. As explained above, analysis of the available evidence shows that the distributional impact of an increase in charges has a disproportionate effect in some sectors for medium scale establishments. It is possible that this could impact upon the economic viability of some medium sized establishments. However, we cannot quantify or confirm this risk, or identify establishments that might be affected, because, although we can quantify the estimated increase in costs for every establishment, evidence of turnover or profit margins has not been made available to us.
193. Medium sized establishments form a broad and diverse category, and there is still large variation between different establishments even when split out by size. It is therefore difficult to draw firm conclusions about the impact of full cost recovery on the ability of this sector to compete. 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 the 123 medium sized red meat or poultry slaughterhouses that will move to full cost recovery, 38 are at the smaller end of the scale, processing between 5,001 and 10,000 livestock units or equivalent per year, and these, in light of stakeholder comments, may be the most vulnerable in terms of economic viability. The remaining 85 process at least 10,000 livestock units or equivalent per year (i.e. an average of at least 192 cattle, 1923 sheep, or 23,413 birds weekly), and of these 85 establishments 38 process between 25,000 and 50,000 livestock units annually (or an average of at least 480 cattle, 4807 sheep, or 63,461 birds weekly). It is possible that in some cases the larger medium sized slaughterhouses could benefit from economies of scale. The three year staged move to full cost recovery is intended to provide time for businesses to adjust, and for them to make full use of the opportunities provided by the Business Agreement process (see paragraphs 46-49 and 189 above).

Imports and exports

194. Industry representatives raised concerns in relation to competitive pressures on domestic production from cheaper imports. The FSA does not have access to detailed information about the markets that

supply the affected meat establishments or those which they supply, due to the low response rate to the industry survey (see paragraphs 103 to 109, and Annex G). The FSA acknowledges that there may be some small impact on the competitiveness of meat exported to other countries and of imports to this country, due to the increased level of charges applied to domestic producers. However, the value of sterling has declined by over a fifth against the Euro in the last three years, which could help improve or maintain the competitiveness of exports for the industry (see Annex F), and since the level of meat official control charges compared to the retail price of meat is very small the overall impact is expected to be minimal (Annex A).

Summary

195. In summary, we recognise that the impact of full cost recovery will vary between individual establishments, and that some medium sized establishments, and those using PIAs, are likely to experience a disproportionate effect, which could impact upon the economic viability of some of these establishments. This is because they currently receive high levels of discount and allowances, and will not qualify for support which will be reserved for low throughput establishments. However, we consider that the proposals as refined are unlikely to significantly affect the ability of businesses to compete or affect their incentives to do so. There are compensating factors which help to offset the impact of full cost recovery: the FSA and DARD are committed to reducing costs (paragraphs 52 to 54 above); there has been a steady decline in the sterling rate of exchange (see Annex F for further analysis); and significant structural changes in the industry through rationalisation suggest that industry has become more efficient and may be better placed to absorb costs. Full cost recovery could act as an incentive to industry to invest to maximise efficient use of official controls and encourage businesses to review their business agreement with FSA or DARD to reduce the resources required. Full cost recovery arrangements will be introduced in stages over a three year period, allowing time for businesses to adapt and to make full use of the opportunities provided by the Business Agreement process, and will provide a consistent and equitable charging system for to all UK approved meat establishments, while the low throughput reduction will continue to provide significant support for a large proportion of the smaller establishments.

Small Firms Impact Test

196. Support will be more effectively targeted to small establishments under these proposals. Following consideration of stakeholder comments during the consultation stage of policy development, the FSA refined its proposals with regard to low throughput establishments, expanding the definition of 'low throughput' to include establishments processing up to 5,000 livestock units or 750,000 birds or equivalent, and developing a tiered reduction in the full cost charge. This has increased the total support to be provided from £1.4m for around 420 small establishments to £2.8m for 499 small establishments.

197. EU charging provisions require the Competent Authority, in setting fees, to take into consideration the interests of low throughput businesses, but do not define the term 'low throughput'. There are indications that the structure of the industry has changed since 2006 with the closure of some small plants, and the expansion of others. The FSA has taken this into account, together with comments made during the consultation period, and especially the strong concerns expressed regarding the impact of a single cut-off point on the market, the risk to the viability and business development of small local slaughterhouses and the potential consequential impacts of their closure, and has developed a broad definition of 'low throughput' which includes 990 (82%) of the 1,214 approved establishments considered in this impact assessment. Over 50% of these low throughput establishments will be eligible for a tiered reduction in the full cost charge. The other 491 already pay the full cost of meat official controls delivered at their establishments, because the full cost is less than the EU minima. These establishments will not, therefore, experience any increase in costs due to these proposals. A breakdown by country of the number of low throughput establishments, and the percentage which will receive support, is shown in Table 20 above. Detailed analysis of the distribution of impact by country and establishment type is shown in Annex A (Tables 4.1A to 4.4A and 5.1A to 5.4A). Detailed analysis of the range of impact by country and sector is shown in Annex D (Tables 1.1D to 4.4D).

Sustainable development

198. Impacts under the three pillars of sustainable development (environmental, economic and social) have been considered in the development of this Impact Assessment. Respondents to the consultation expressed considerable concern about the impact of full cost recovery upon the smaller independent meat establishments, and the consequent effects of any closures upon food security, the rural economy, the livestock sector, animal welfare, increased transport distances for animals and food products, consumer choice and capacity to deal with animal disease crises. The FSA has taken these concerns into account, and has refined its proposals with regard to low throughput establishments in order to provide support to a greater number of small establishments as outlined in paragraph 197 above. The additional support provided to low throughput establishments will assist small independent meat establishments, and consequently help to preserve the provision of local services to the livestock industry, thereby helping to reduce the impact upon small independent livestock producers, the rural economy, animal welfare and consumer choice.
199. The potential impact on medium sized establishments is discussed in paragraphs 192-3 above, and the FSA recognises the risk to the economic viability of some of these establishments. However, full cost recovery of meat official controls is based upon the principle that the FSA should not subsidise the industry that it regulates, and the residual support to be provided by the FSA is based upon the EU requirement to consider the interests of businesses with a low throughput, and cannot therefore be extended to medium-sized establishments.
200. The move to full cost recovery is more sustainable because it gives FBOs an incentive to use FSA and DARD resources more efficiently, which will enable resources to be reduced without compromising the level of health benefits and protection. The FSA, on its part, is committed to a programme of work to develop a proportionate, risk-based and effective system of meat controls, and is also working with industry representative bodies to review the flexibilities allowed in the extant European regulations to ensure these flexibilities are implemented where appropriate. The transfer to industry of that element of the cost of meat official controls currently borne by taxpayers is also more sustainable because it allows decisions to be taken with regard to a greater proportion of the total costs of meat production. If costs are not borne by those taking the decisions, this can lead to over- or under- supply and so transferring the costs to industry should contribute to more sustainable decision making.

Race/disability/gender equality

201. We do not envisage an impact.

Rural proofing

202. Many larger slaughterhouses are located on the outskirts of towns, and many cutting plants are urban. Smaller slaughterhouses may be more likely to be rural, as are game handling establishments. Strong concerns were expressed by respondents to the consultation in GB about the viability of small and medium slaughterhouses in rural areas, and the impact of their closure upon the rural economy in general and in particular upon independent livestock producers, including those producing rare breeds. In Wales, the Minister for Rural Affairs in post at the time expressed concern about the impact of the original proposals for full cost recovery, and in particular about the proposal to provide support only to establishments processing up to 1,000 livestock units, because of the potential 'cliff edge' effect and the fact that several small slaughterhouses in Wales fell just above this definition. In Scotland, almost all of the smaller establishments were said by respondents to be in rural areas, and to be facing the largest increases in charges, with consequent risk to the rural/urban balance. The profile of the industry

in Northern Ireland was said to be different, in that there were fewer small establishments. However, there were representations on behalf of a poultry slaughterhouse in NI that the original proposal to limit support to establishments processing up to 150,000 birds was too low and that the threshold should be increased to 500,000.

203. As outlined above, the low throughput definition has been significantly expanded in response to stakeholder comments, to include 990 approved meat establishments processing up to 5,000 livestock units or 750,000 birds or equivalent, and leaving only 224 medium, large and very large establishments outside the definition. Of the 990 low throughput establishments, 499 will receive support amounting to £2.8m by way of a tiered reduction in the full cost charge. The other 491 low throughput establishments will not experience any increase in costs due to these proposals, since they are already paying the full cost of official controls because the full cost is less than the EU minima. A breakdown by country and sector of the 499 establishments which will receive support may be found in Annex A, Tables 4.1 to 4.4. Of those establishments affected by the proposals for full cost recovery (i.e. those 686 establishments not already paying the full cost), 187 will move from their current discount to full cost recovery, and 499 will move from their current discount to a tiered reduction of the full cost charge. A number of rural slaughterhouses will come within the expanded low throughput definition, and will receive support. The support provided for small rural meat establishments will, as explained above, help to preserve the provision of local services to the livestock industry, thereby helping to reduce the impact upon the rural economy. In all cases, as explained above (paragraph 189) the three year staged move to full cost recovery will give businesses time to adjust, and to make full use of the opportunities provided by the Business Agreement system.

Summary and implementation plan

Preferred approach

204. It is proposed to move to full cost recovery of meat official controls within 3 years, with support for low throughput establishments, in accordance with EU charging provisions, by means of a tiered reduction of the full cost charge, subject to the EU minima.
205. 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.
206. While it would be consistent with our policy objective to require establishments which receive approval after the date of implementation to pay the full cost charge from the outset (modified for 'low throughput' where appropriate), we propose to allow new businesses opening during the transitional years to be treated in a similar manner to those existing businesses that are making the transition to full cost recovery, in order to ensure that new businesses are not at a competitive disadvantage.
207. The additional cost to the UK meat industry of full recovery of meat official control costs, taking into account planned efficiency savings and support for low throughput establishments, is estimated to be £17.93 million (constant prices) in additional charges, which represents 0.3% of the UK retail value of red and poultry meat (£6.34 billion). (See paragraph 56.)
208. For the purposes of this impact assessment, establishments have been categorised as 'low throughput', with a throughput of up to 5,000 livestock units or equivalent; 'medium', with a throughput of between 5,000 and 50,000 livestock units; 'large', with a throughput of between 50,000 and 125,000 livestock units; and 'very large', with a throughput of over 125,000 livestock units. (See Table 9 on page 33 for a detailed explanation of 'livestock units'.)
209. Of a total of 1,214 establishments considered in this 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 minima. 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 187 123 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. The number and percentage of approved establishments affected establishments that will move to full cost recovery, and not affected by full cost recovery is presented in table 47 and charts 9 - 12 respectively, broken down by size of establishment and country.

Table 47 – Number and size of approved establishments receiving discount and at full cost recovery

	Not Affected by Proposal (already paying <i>Full Cost</i>)					Affected by Proposal (moving to <i>Full Cost</i> or <i>Tiered Reduction</i>)					Total Number of Establish- ments
	<i>LTP*</i>	<i>Medium</i>	<i>Large</i>	<i>V Large</i>	<i>Total</i>	<i>LTP*</i>	<i>Medium</i>	<i>Large</i>	<i>V Large</i>	<i>Total</i>	
England	395	5	2	6	408	365	104	26	10	505	913
Scotland	60	1	2	1	64	60	14	4	1	79	143
Wales	31	0	0	0	31	38	7	4	2	51	82
Northern Ireland	3	9	11	2	25	36	6	7	2	51	76
UK	489	15	15	9	528	499	131	41	15	686	1214

Chart 10 – Percentage split of approved establishments receiving discount and at full cost (UK)

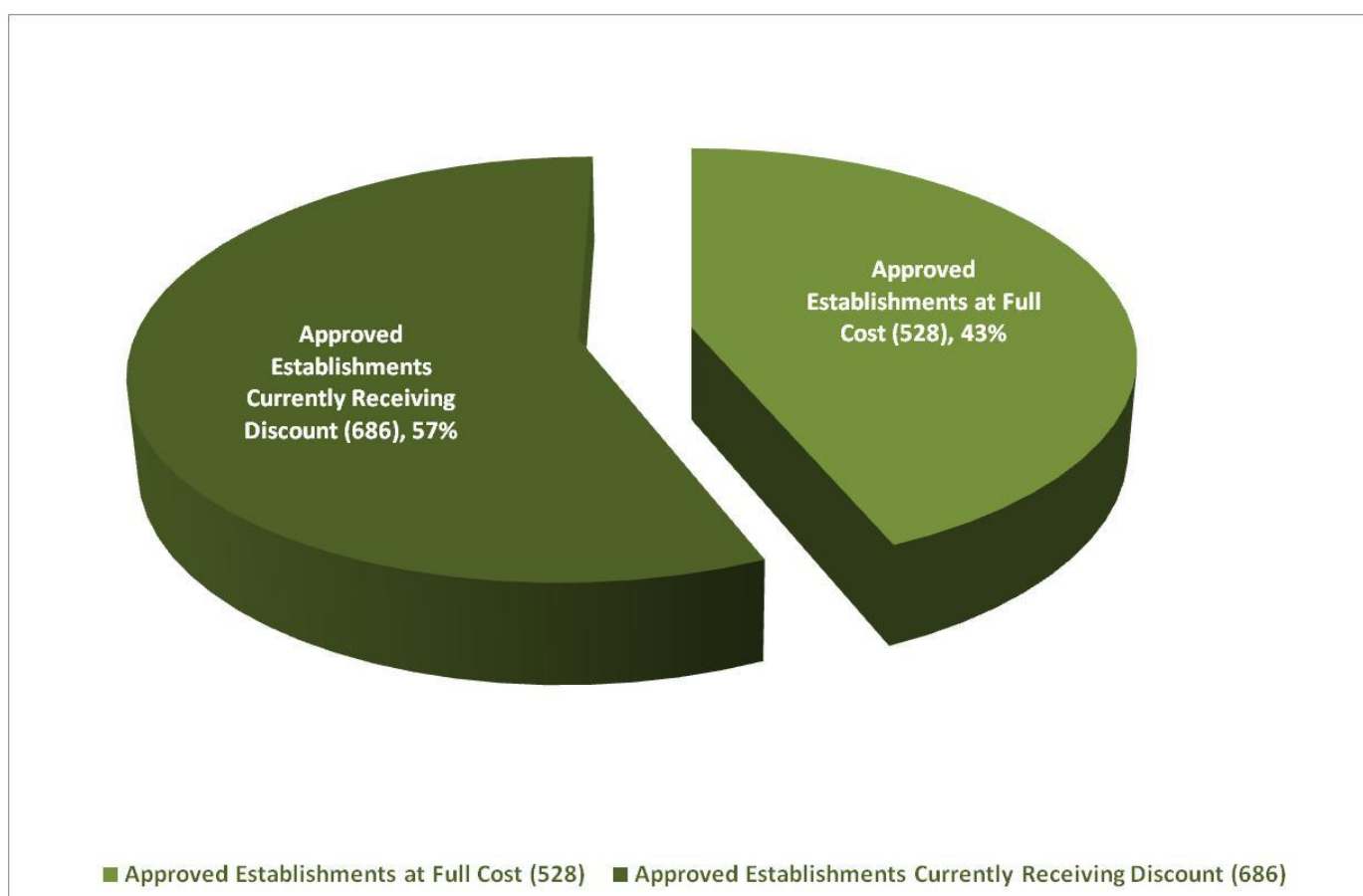
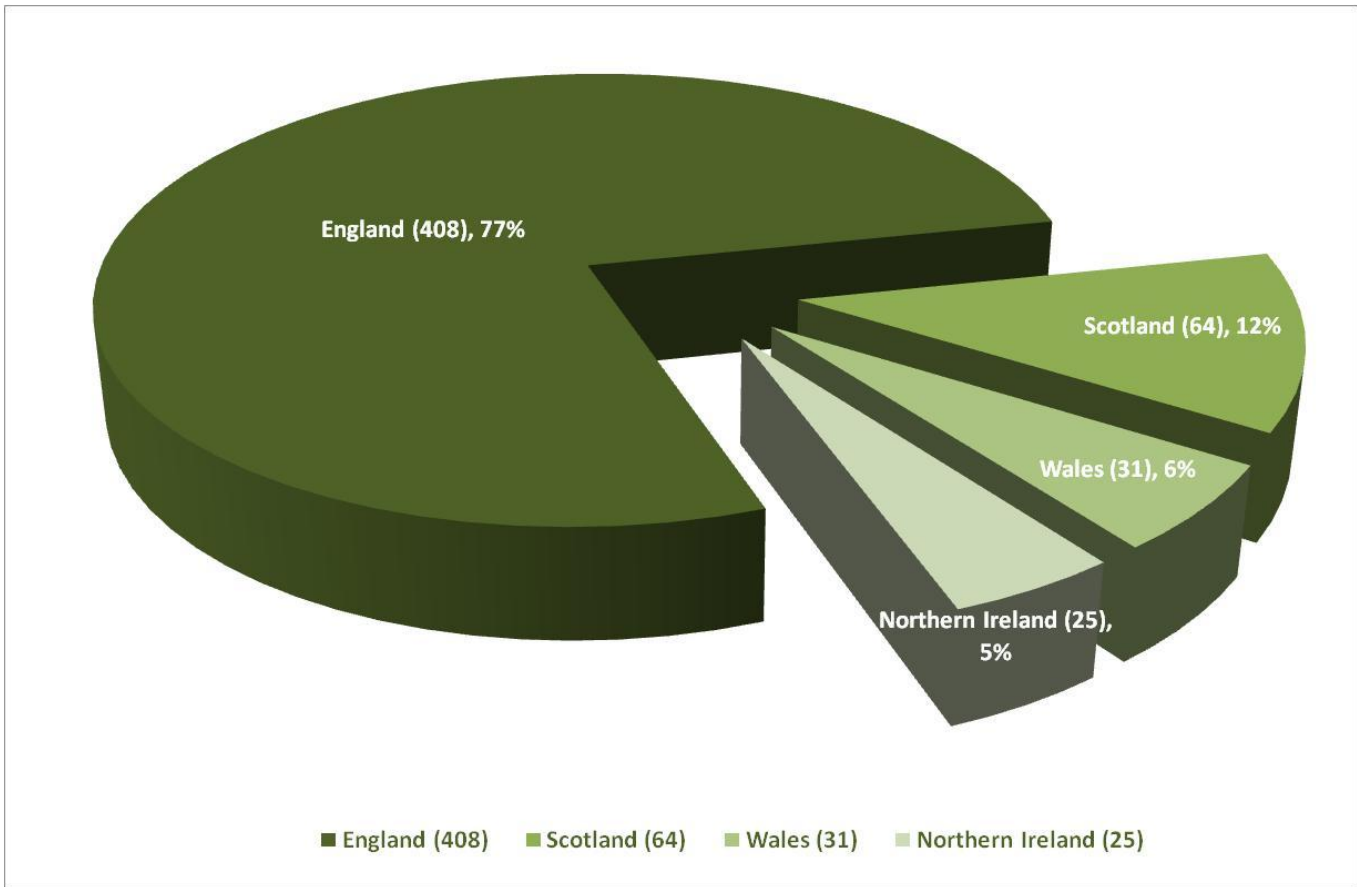
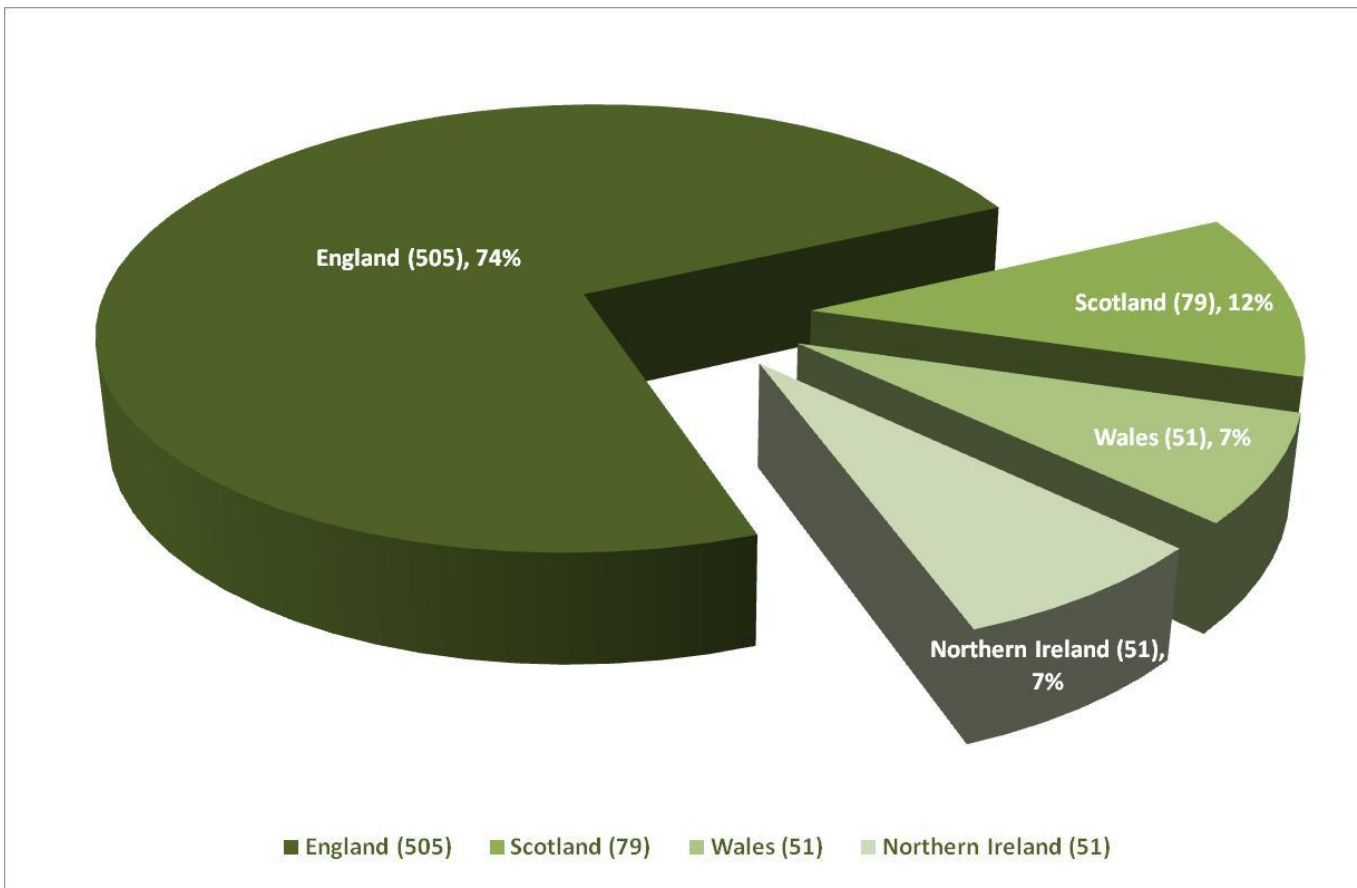


Chart 11 – Percentage split by country of approved establishments currently at full cost



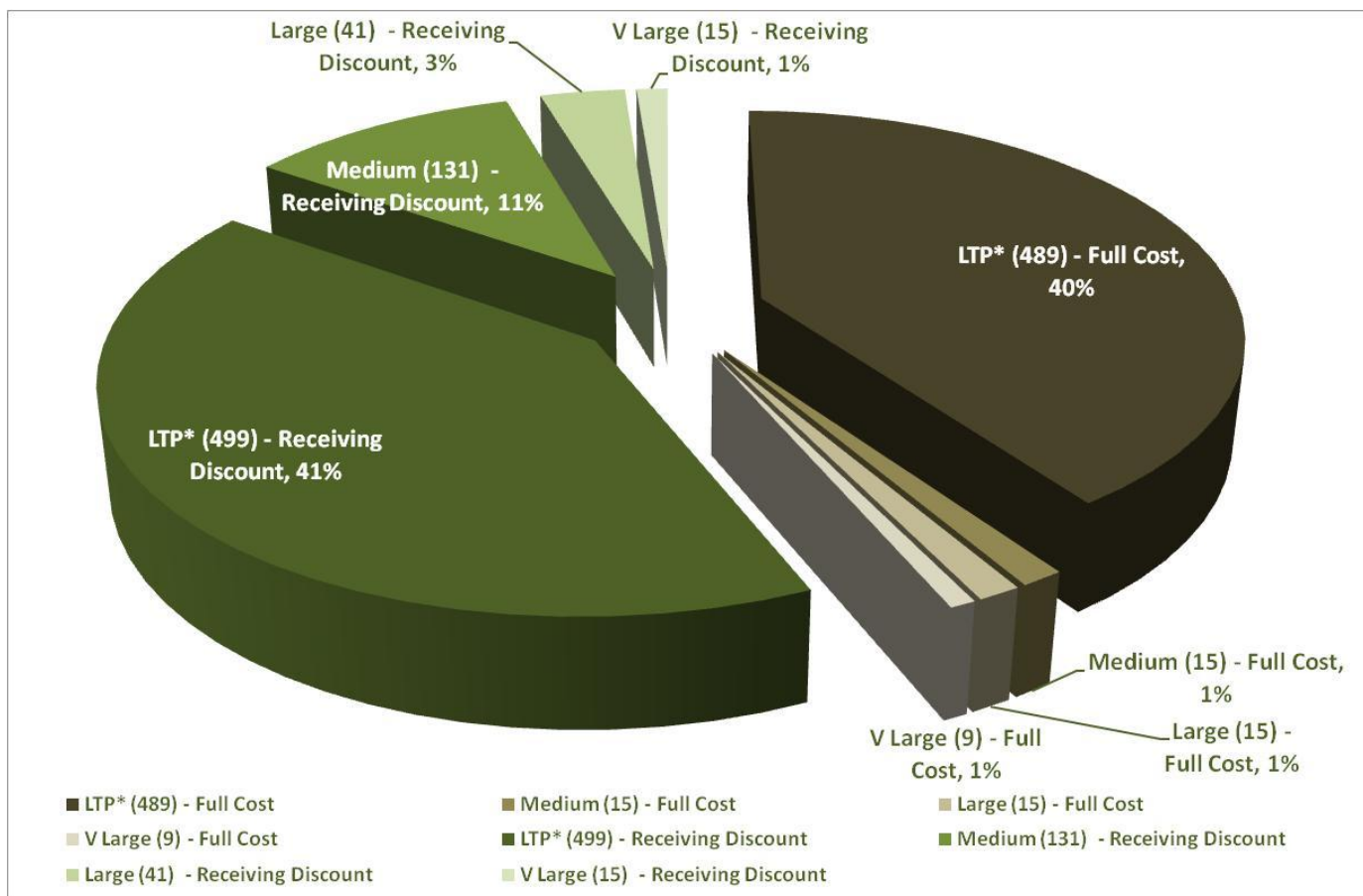
Note: Number of approved establishments presented in parenthesis.

Chart 12 – Percentage split by country of approved establishments currently receiving discount



Note: Number of approved establishments presented in parenthesis

Chart 13 – Percentage split by approved establishment size currently receiving discount or at full cost



Note:
 Number of approved establishments presented in parenthesis
 * LTP denotes Low Throughput

210. 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, subject to no additional unforeseen cost increases. DARD 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 £0.75 million are planned for the three years from 2011/12 to 2013/14. (See paragraphs 52 to 54.)

211. Charging on the basis of full cost recovery would comply with FSA Board and wider UK Government policy and relieve taxpayers of costs properly borne by establishments that benefit directly from official controls. The benefit to the taxpayer would be an estimated £17.93 million in 2014/15. It would also provide an incentive for each establishment to reduce the number of official control hours that it requires and to work co-operatively with the FSA or DARD to achieve that end. The provision of a reduction of the full cost charge 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.

Implementation

212. The FSA will implement the proposals in the UK by producing charging guidance for FBOs, and notifying establishments of the different charge rates that will affect them. FBOs responsible for new businesses opening during the transitional years will be treated in a similar manner to those existing

businesses that are making the transition to full cost recovery.

213. It is anticipated that there will be familiarisation costs amounting to approximately £24,512 for industry and £6,010 for the public sector.

214. It is possible that the proposals will result in some increase in the cost of pursuing debt recovery.

Monitoring

215. The FSA will monitor the delivery of the proposals in the UK through its accounting procedures. The policy will be reviewed once accounts are available for the year after completion of implementation to establish its actual costs and benefits and the achievement of its desired objectives.

Enforcement

216. These proposals will be implemented under the existing Meat (Official Controls Charges) (England) Regulations and equivalent legislation in Northern Ireland, Scotland and Wales. (Please see list of references on page 12.)

Sanctions

217. Sanctions are contained in the current Regulations, which are considered to be proportionate and the minimum needed to enable charging policy to be implemented effectively.

Annexes

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. If the policy is subject to a sunset clause, the review should be carried out sufficiently early that any renewal or amendment to legislation can be enacted before the expiry date. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), i.e. a sunset clause or a duty to review, or there could be a political commitment to review (PIR)];

The FSA intends to review this policy in July 2016, once accounts are available one year after full implementation of the staged move to full cost recovery.

Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern? or as a wider exploration of the policy approach taken? or as a link from policy objective to outcome?]

The review will check that the policy has achieved its primary objective, i.e. that approved slaughterhouses, cutting plants and game handling plants, rather than taxpayers, are meeting the cost of meat official controls. The review will also consider whether the policy has achieved its secondary objective of increasing efficiency in the conduct of meat official controls.

The review will also consider the impact upon the industry, the supply chain and the consumer, and the wider impact upon the rural economy.

Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]

The FSA will:

- Review data on throughput and charges in order to establish if the primary objective has been achieved.
- Review the FSA's planned annual review of the operations function to consider if the policy has contributed to increased efficiency in the delivery of official controls.
- Apply an economic analysis to available data on the meat and livestock industry in order to assess the impact upon the structure and viability of the industry, the impact upon the supply chain and the consumer, and the wider impact upon the rural economy.

Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]

The meat industry currently meets approximately half of the cost of meat official controls (paying £31.3 m of UK costs of £62.5 m in 2010/11).

Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]

Confirmation in FSA accounts that the meat industry is meeting the cost of meat official controls, with the exception of the reduction allowed for low throughput establishments.
Increased efficiency in the conduct of meat official controls.

Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]

The FSA accounts, together with the planned annual review of the operations function, will provide monitoring information.

Reasons for not planning a review: [If there is no plan to do a PIR please provide reasons here]

N/A

DISTRIBUTION OF IMPACT OF FULL COST RECOVERY

Distributional Impact at Product Level between Slaughterhouse and Livestock Producer

Tables 1.1A and 1.2A show estimates of the distributional impact of full cost recovery charging at product level, assuming slaughterhouses absorb 95 per cent of the cost and farmers the remaining 5 per cent based on indicative estimates.

Table 1.1A Distribution of Full Cost Charge per Type of Meat Cut*

Animal	Meat Cut	Average Retail Price per KG (pence/KG)	Estimated Full Cost Recovery Charge per Cut per (pence/KG)	Estimated Full Cost Recovery Charge as a % of Average Retail Price	Cost to Slaughterhouse per (pence/KG)	Cost to Farmer per (pence/KG)
Cattle	Topside	£8.99	£0.05	0.52%	£0.044	£0.002
	Rump steak	£12.18	£0.06	0.52%	£0.060	£0.003
	Sirloin steak	£18.32	£0.09	0.52%	£0.090	£0.005
	Fillet steak	£28.24	£0.15	0.52%	£0.139	£0.007
	Best braising steak	£7.38	£0.04	0.52%	£0.036	£0.002
	Diced (stewing steak)	£7.18	£0.04	0.52%	£0.035	£0.002
	Premium minced beef	£5.86	£0.03	0.52%	£0.029	£0.002
	Standard minced beef	£3.67	£0.02	0.52%	£0.018	£0.001
Sheep	Whole leg	£9.05	£0.06	0.65%	£0.056	£0.003
	Loin chops	£12.25	£0.08	0.65%	£0.076	£0.004
	Cutlet chops	£12.27	£0.08	0.65%	£0.076	£0.004
	Shoulder	£6.43	£0.04	0.65%	£0.040	£0.002
	Leg steaks	£9.24	£0.06	0.65%	£0.057	£0.003
	Diced lamb	£10.13	£0.07	0.65%	£0.063	£0.003
Pigs	Leg (boneless)	£6.18	£0.08	1.26%	£0.074	£0.004
	Shoulder (boneless)	£5.12	£0.06	1.26%	£0.061	£0.003
	Loin chop	£6.14	£0.08	1.26%	£0.074	£0.004
	Diced pork	£6.05	£0.08	1.26%	£0.073	£0.004
	Loin steaks	£7.96	£0.10	1.26%	£0.095	£0.005
	Minced pork	£4.78	£0.06	1.26%	£0.057	£0.003
Poultry	Whole Chicken	£1.35	£0.0001	0.01%	£0.000	£0.000

Source: Calculated based on FSA Operations throughput charge rates, Defra dressed carcass 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 1.2A Distribution of Full Cost Charge per Animal*

Animal	Estimated Full Cost Recovery Charge per Animal	Cost to Slaughterhouse per Animal	Cost to Livestock Producer per Animal	Cost to Consumer per Animal
Poultry	£0.07	£0.065	£0.003	£0.00
Bovine	£9.51	£9.032	£0.475	£0.00
Sheep	£0.86	£0.812	£0.043	£0.00
Pig	£2.22	£2.112	£0.111	£0.00

Source: Maximum FSA Operations throughput charge rates

Note: Differentials and totals may not equate and sum due to rounding.

Distributional Impact at Product Level between Slaughterhouse, Livestock Producer and Consumer

Tables 2.1A and 2.3A show estimates of the distributional impact of full cost recovery charging at product level, assuming all costs would be passed to the farmer or to the consumer.

If all additional costs were to be passed on to the farmer, the cost per animal would be estimated to rise as follows (please note products prices are approximate, and for illustrative purposes only):

Table 2.1A 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 2.2A 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 2.3A 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.

Distribution of Impact by Establishment Type and Size (Excluding Low Throughput Establishments)

Estimates of the distributional impact of full cost recovery charging by establishment type and size (excluding low throughput establishments) per country are shown in Tables 3.1.A to 3.5.A below. Note that full cost to industry has not been adjusted to take account of efficiency savings. This is because data and evidence on the allocation of efficiencies at establishment level is not available, which could potentially mean the impact of full cost recovery is less than indicated.

Table 3.1A Distribution of impact of full cost recovery by establishment type and size (England)

	Establishment Type and Scale	Number of Plants	Estimated Discount
ENGLAND	GAME HANDLING & CUTTING PLANTS		
	Medium	8	£157,952
	POULTRY SLAUGHTER		
	Medium	10	£1,249,267
	Large	6	£1,447,070
	V Large	5	£3,053,094
	Total	21	£5,749,432
	POULTRY SLAUGHTER (PIA)		
	Medium	6	£402,738
	Large & V Large	12	£1,367,617
	Total	18	£1,770,354
	RED SLAUGHTER		
	Medium	81	£8,323,985
	Large & V Large	12	£1,608,581
	Total	93	£9,932,566
ENGLAND TOTALS	140	£17,610,304	

*No. of establishments are consolidated if count of approval is less than 5 in order to comply with commercial confidentiality

Table 3.2A Distribution of impact of full cost recovery by establishment type and size (Scotland)

	Establishment Type and Scale	Number of Plants	Estimated Discount
SCOTLAND	RED, GAME HANDLING, POULTRY & POULTRY (PIA) SLAUGHTER		
	Medium, Large & V Large	19	£1,286,414
	SCOTLAND TOTAL	19	£1,286,414

*No. of establishments are consolidated if count of approval is less than 5 in order to comply with commercial confidentiality

**Consolidation of Game Handling, Poultry Slaughter and Poultry Slaughter including PIA establishments to comply with commercial confidentiality

Table 3.3A Distribution of impact of full cost recovery by establishment type and size (Wales)

	Establishment Type and Scale	Number of Plants	Estimated Discount
WALES	RED & POULTRY (PIA) SLAUGHTER		
	Medium	7	£565,485
	Large & V Large	6	£773,325
	WALES TOTAL	13	£1,338,810

*No. of establishments are consolidated if count of approval is less than 5 in order to comply with commercial confidentiality

**Consolidation Poultry Slaughter including PIA establishments to comply with commercial confidentiality

Table 3.4A Distribution of impact of full cost recovery by establishment type and size (Northern Ireland)

	Establishment Type and Scale	Number of Plants	Estimated Discount
N. IRELAND*	NI TOTAL**	15	£2,067,939

*The industry in Northern Ireland has indicated that red meat slaughter establishments are expected to pass all costs from full cost recovery back to the livestock producer. Therefore, in relation to red meat, the amount in column 3 would represent the cost to the livestock producer, and the cost to the slaughterhouse and to the consumer would be £0.

**No. of establishments are consolidated if count of approval is less than 5 in order to comply with commercial confidentiality

Distribution Impact by Low Throughput Establishment Type

Estimates of the distributional impact of an increase cost recovery charging by establishment type for low throughput establishments) per country are shown in Tables 4.1.A to 4.4.A below. Note that the maximum cost to industry has not been adjusted to take account of efficiency savings. This is because data and evidence on the allocation of efficiencies at establishment level is not available, which could potentially mean the impact of maximum cost recovery is less than indicated.

Table 4.1A Distribution of current discount by low throughput establishment type (England)

	Establishment Type	Number of Plants	Estimated Current Discount
ENGLAND	Cutting Plants	202	£65,478
	Game Handling	23	£86,257
	Poultry Slaughter	18	£679,204
	Poultry Slaughter with PIA	19	£445,070
	Red Slaughter	103	£1,871,294
	England Totals	365	£3,147,304

Table 4.2A Distribution of impact of current discount by low throughput establishment type (Scotland)

	Establishment Type	Number of Plants	Estimated Current Discount
SCOTLAND	Cutting Plants	30	£13,181
	Game Handling	13	£17,982
	Red Slaughter & OTHER	17	£252,572
	Scotland Totals	60	£283,735

*Consolidation of Poultry Slaughter and Poultry Slaughter with PIA establishments to comply with commercial confidentiality

Table 4.3A Distribution of impact of current discount by low throughput establishment type (Wales)

	Establishment Type	Number of Plants	Estimated Current Discount
WALES	Cutting Plants	22	£7,598
	Red Slaughter & OTHER	16	£409,850
	Wales Total	38	£417,449

*Consolidation of Poultry Slaughter with Red Slaughter establishments to comply with commercial confidentiality

Table 4.4A Distribution of impact of current discount by low throughput establishment type (Northern Ireland)

	Establishment Type	Number of Plants	Current Estimated Discount
N. IRELAND	N.I Totals*	36	£114,855

*Consolidation of Cutting Plant, Red Slaughter, Poultry Slaughter and Poultry Slaughter including PIA establishments to comply with commercial confidentiality

Distribution Impact by Low Throughput Establishment Type

Estimates future discounts are presented in Tables 5.1A to 5.4A. Note that the maximum cost to industry has not been adjusted to take account of efficiency savings. This is because data and evidence on the allocation of efficiencies at establishment level is not available, which could potentially mean the estimated discount is less than indicated.

Table 5.1A Distribution of reduction from full cost charge by low throughput establishment type (England)

	Establishment Type	Number of Plants	Estimated 2014/15 Discount
ENGLAND	Cutting Plants	202	£62,061
	Game Handling	23	£72,781
	Poultry Slaughter	18	£443,069
	Poultry Slaughter with PIA	19	£264,555
	Red Slaughter	103	£1,380,073
	England Totals	365	£2,222,539

Table 5.2A Distribution of reduction from full cost charge by low throughput establishment type (Scotland)

	Establishment Type	Number of Plants	Estimated 2014/15 Discount
SCOTLAND	Cutting Plants	30	£11,782
	Game Handling	13	£16,440
	Red Slaughter & OTHER	17	£182,635
	Scotland Totals	60	£210,857

*Consolidation of Poultry Slaughter and Poultry Slaughter with PIA establishments to comply with commercial confidentiality

Table 5.3A Distribution of reduction from full cost charge by low throughput establishment type (Wales)

	Establishment Type	Number of Plants	Estimated 2014/15 Discount
WALES	Cutting Plants	22	£7,203
	Red Slaughter & OTHER	16	£287,454
	Wales Total	38	£294,656

*Consolidation of Poultry Slaughter with Red Slaughter establishments to comply with commercial confidentiality

Table 5.4A Distribution of reduction from full cost charge by low throughput establishment type (Northern Ireland)

	Establishment Type	Number of Plants	Estimated 2014/15 Discount
N. IRELAND	N.I Totals*	36	£82,643

*Consolidation of Red Slaughter, Poultry Slaughter and Poultry Slaughter including PIA establishments to comply with commercial confidentiality

ANALYSIS OF RANGE OF IMPACT OF FULL COST RECOVERY (UK) OPTIONS 3 AND 6

The range of impact of a reduction in the discount on charges by sector in the UK is set out in Tables 1.1B to 4.3B below. It should be noted that the full cost to industry has not been adjusted to take account of efficiency savings. This is because data and evidence on the allocation of efficiencies at establishment level is not available, which could potentially mean the impact of full cost recovery is less than indicated.

**Table 1.1 B – Option 3: Range of full cost recovery impact by sector and scale UK (excluding LTP*)
Year 1**

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£105,779	£646	£28,023
Large	£123,356	£3,455	£41,935
V Large	N/A	N/A	N/A
Poultry Slaughter			
Medium	£88,274	£18,626	£33,494
Large	£123,087	£52,619	£68,891
V Large	£294,800	£134,280	£160,113
Poultry Slaughter with PIA			
Medium	£36,456	£18,637	£26,104
Large	£65,483	£970	£16,561
V Large	£209,904	£22,839	£62,295
Game Handling			
Medium	£11,727	£264	£6,776
Large	N/A	N/A	N/A
Cutting Plants			
Medium	N/A	N/A	N/A
V Large	N/A	N/A	N/A

**Table 1.2 B - Option 3: Range of full cost recovery impact by sector and scale UK (excluding LTP*)
Year 2**

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£105,779	£646	£28,023
Large	£123,356	£3,455	£41,935
V Large	N/A	N/A	N/A
Poultry Slaughter			
Medium	£88,274	£18,626	£33,494
Large	£123,087	£52,619	£68,891
V Large	£294,800	£134,280	£160,113
Poultry Slaughter with PIA			
Medium	£29,021	£15,821	£22,589
Large	£64,128	£779	£13,250
V Large	£186,741	£17,417	£57,894
Game Handling			
Medium	£11,727	£264	£6,776
Large	N/A	N/A	N/A
Cutting Plants			
Medium	N/A	N/A	N/A
V Large	N/A	N/A	N/A

**Table 1.3 B - Option 3: Range of full cost recovery impact by sector and scale UK (excluding LTP*)
Year 3**

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£105,779	£646	£28,023
Large	£123,356	£3,455	£41,935
V Large	N/A	N/A	N/A
Poultry Slaughter			
Medium	£88,274	£18,626	£33,494
Large	£123,087	£52,619	£68,891
V Large	£294,800	£134,280	£160,113
Poultry Slaughter with PIA			
Medium	£27,737	£13,005	£16,586
Large	£62,773	£588	£9,939
V Large	£163,578	£11,995	£53,493
Game Handling			
Medium	£11,727	£264	£6,776
Large	N/A	N/A	N/A
Cutting Plants			
Medium	N/A	N/A	N/A
V Large	N/A	N/A	N/A

Table 2.1 B - Option 6: Range of a reduction in the discount on charges by LTP* sector - UK Year 1

Sector/Size	Max	Min	Median
Red Slaughter	£3,832	£0	£0
Poultry Slaughter	£14,884	£0	£1,587
Poultry Slaughter with PIA	£13,363	£349	£1,489
Game Handling	£976	£0	£0
Cutting Plants	£498	£0	£0

Table 2.2 B - Option 6: Range of a reduction in the discount on charges by LTP* sector - UK Year 2

Sector/Size	Max	Min	Median
Red Slaughter	£12,916	£0	£616
Poultry Slaughter	£19,796	£0	£3,398
Poultry Slaughter with PIA	£13,363	£385	£2,193
Game Handling	£2,076	£0	£0
Cutting Plants	£859	£0	£0

Table 2.3 B - Option 6: Range of a reduction in the discount on charges by LTP* sector - UK Year 3

Sector/Size	Max	Min	Median
Red Slaughter	£14,026	£0	£1,524
Poultry Slaughter	£19,796	£22	£3,398
Poultry Slaughter with PIA	£13,363	£385	£2,326
Game Handling	£3,197	£0	£37
Cutting Plants	£1,292	£0	£0

* LTP denotes Low Throughput Establishment

ANALYSIS OF THE RANGE OF IMPACT ON MEAT ESTABLISHMENTS (EXCLUDING LOW THROUGHPUT) BY SECTOR AND COUNTRY – OPTION 3

Note: the information which can be provided here is limited, for reasons of commercial confidentiality. Individual businesses may contact the FSA for further information about how the proposals will affect their establishments (email: charge.estimate@foodstandards.gsi.gov.uk for establishments in GB and billy.armstrong@foodstandards.gsi.gov.uk for establishments in NI). Also the full cost to industry has not been adjusted to take account of efficiency savings. This is because data and evidence on the allocation of efficiencies at establishment level is not available, which could potentially mean the impact of full cost recovery is less than indicated.

The range of impact of a reduction in the discount on charges by sector per country is set out in Tables 1.1C to 4.3C below:

Table 1.1 C - Option 3: Range of full cost recovery impact by sector and scale England (excluding LTP*) Year 1

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£105,779	£4,303	£29,268
Large	£123,356	£16,930	£36,711
V Large	£925	£925	£925
Poultry Slaughter			
Medium	£88,274	£18,626	£37,033
Large	£123,087	£52,619	£68,891
V Large	£294,800	£155,014	£165,756
Poultry Slaughter with PIA			
Medium	£36,456	£18,637	£26,104
Large	£65,483	£970	£16,849
V Large	£209,904	£40,756	£62,295
Game Handling			
Medium	£11,727	£264	£8,064
Cutting Plants			
Medium	£97	£97	£97
V Large	£12,904	£12,904	£12,904

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

* LTP denotes Low Throughput Establishment

Table 1.2 C – Option 3: Range of full cost recovery impact by sector and scale – England (excluding LTP*) Year 2

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£105,779	£4,303	£29,268
Large	£123,356	£16,930	£36,711
V Large	N/A	N/A	N/A
Poultry Slaughter			
Medium	£88,274	£18,626	£37,033
Large	£123,087	£52,619	£68,891
V Large	£294,800	£155,014	£165,756
Poultry Slaughter with PIA			
Medium	£29,021	£15,821	£22,589
Large	£64,128	£779	£13,667
V Large	N/A	N/A	N/A
Game Handling			
Medium	£11,727	£264	£8,064
Cutting Plants			
Medium	N/A	N/A	N/A
V Large	N/A	N/A	N/A

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 1.3 C – Option 3: Range of full cost recovery impact by sector and scale – England (excluding LTP*) Year 3

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£105,779	£4,303	£29,268
Large	£123,356	£16,930	£36,711
V Large	N/A	N/A	N/A
Poultry Slaughter			
Medium	£88,274	£18,626	£37,033
Large	£123,087	£52,619	£68,891
V Large	£294,800	£155,014	£165,756
Poultry Slaughter with PIA			
Medium	£27,737	£13,005	£16,586
Large	£62,773	£588	£10,484
V Large	N/A	N/A	N/A
Game Handling			
Medium	£11,727	£264	£8,064
Cutting Plants			
Medium	N/A	N/A	N/A
V Large	N/A	N/A	N/A

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

*LTP denotes Low Throughput Establishment

Table 2.1 C – Option 3: Range of full cost recovery impact by sector and scale – Northern Ireland (excluding LTP*) Year 1

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	N/A	N/A	N/A
Large	£73,100	£15,027	£41,935
Poultry Slaughter			
Medium	N/A	N/A	N/A
V Large	N/A	N/A	N/A
Poultry Slaughter with PIA			
V Large	N/A	N/A	N/A

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 2.2 C – Option 3: Range of full cost recovery impact by sector and scale – Northern Ireland (excluding LTP*) Year 2

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	N/A	N/A	N/A
Large	£73,100	£15,027	£41,935
Poultry Slaughter			
Medium	N/A	N/A	N/A
V Large	N/A	N/A	N/A
Poultry Slaughter with PIA			
V Large	N/A	N/A	N/A

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 2.3 C – Option 3: Range of full cost recovery impact by sector and scale – Northern Ireland (excluding LTP*) Year 3

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	N/A	N/A	N/A
Large	£73,100	£15,027	£41,935
Poultry Slaughter			
Medium	N/A	N/A	N/A
V Large	N/A	N/A	N/A
Poultry Slaughter with PIA			
V Large	N/A	N/A	N/A

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

* LTP denotes Low Throughput Establishment

Table 3.1 C – Option 3: Range of full cost recovery impact by sector and scale – Scotland (excluding LTP*) Year 1

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£42,188	£661	£15,534
Large	N/A	N/A	N/A
Poultry Slaughter			
V Large	N/A	N/A	N/A
Poultry Slaughter with PIA			
Large	N/A	N/A	N/A
Game Handling			
Medium	N/A	N/A	N/A
Large	N/A	N/A	N/A

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 3.2 C – Option 3: Range of full cost recovery impact by sector and scale – Scotland (excluding LTP*) Year 2

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£42,188	£661	£15,534
Large	N/A	N/A	N/A
Poultry Slaughter			
V Large	N/A	N/A	N/A
Poultry Slaughter with PIA			
Large	N/A	N/A	N/A
Game Handling			
Medium	N/A	N/A	N/A
Large	N/A	N/A	N/A

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 3.3 C – Option 3: Range of full cost recovery impact by sector and scale – Scotland (excluding LTP*) Year 3

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£42,188	£661	£15,534
Large	N/A	N/A	N/A
Poultry Slaughter			
V Large	N/A	N/A	N/A
Poultry Slaughter with PIA			
Large	N/A	N/A	N/A
Game Handling			
Medium	N/A	N/A	N/A
Large	N/A	N/A	N/A

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 4.1 C – Option 3: Range of full cost recovery impact by sector and scale – Wales (excluding LTP*) Year 1

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£41,921	£13,103	£24,638
Large	N/A	N/A	N/A
V Large	N/A	N/A	N/A
Poultry Slaughter with PIA			
Large	N/A	N/A	N/A
V Large	N/A	N/A	N/A

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 4.2 C – Option 3: Range of full cost recovery impact by sector and scale – Wales (excluding LTP*) Year 2

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£41,921	£13,103	£24,638
Large	N/A	N/A	N/A
V Large	N/A	N/A	N/A
Poultry Slaughter with PIA			
Large	N/A	N/A	N/A
V Large	N/A	N/A	N/A

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 4.3 C – Option 3: Range of full cost recovery impact by sector and scale – Wales (excluding LTP*) Year 3

Sector/Size	Max	Min	Median
Red Slaughter			
Medium	£41,921	£13,103	£24,638
Large	N/A	N/A	N/A
V Large	N/A	N/A	N/A
Poultry Slaughter with PIA			
Large	N/A	N/A	N/A
V Large	N/A	N/A	N/A

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

* LTP denotes Low Throughput Establishment

ANALYSIS OF THE RANGE OF IMPACT ON LOW THROUGHPUT MEAT ESTABLISHMENTS BY SECTOR AND COUNTRY – OPTION 6

Note that the maximum cost to industry has not been adjusted to take account of efficiency savings. This is because data and evidence on the allocation of efficiencies at establishment level is not available, which could potentially mean the impact of maximum cost recovery is less than indicated.

Table 1.1 D – Option 6: Range of maximum cost recovery impact by sector and scale – LTP* England - Year 1

Sector/Size	Max	Min	Median
Red Slaughter	£3,832	£0	£0
Poultry Slaughter	£14,884	£0	£1,909
Poultry Slaughter with PIA	£13,363	£349	£1,619
Game Handling	£976	£0	£0
Cutting Plants	£30	£0	£0

Table 1.2 D – Option 6: Range of maximum cost recovery impact by sector and scale –LTP* England - Year 2

Sector/Size	Max	Min	Median
Red Slaughter	£12,916	£0	£557
Poultry Slaughter	£19,796	£0	£3,398
Poultry Slaughter with PIA	£13,363	£385	£1,865
Game Handling	£2,076	£0	£0
Cutting Plants	£115	£0	£0

Table 1.3 D – Option 6: Range of maximum cost recovery impact by sector and scale – LTP* England - Year 3

Sector/Size	Max	Min	Median
Red Slaughter	£14,026	£0	£1,331
Poultry Slaughter	£19,796	£22	£3,398
Poultry Slaughter with PIA	£13,363	£385	£2,272
Game Handling	£3,197	£0	£81
Cutting Plants	£130	£0	£0

Table 2.1 D – Option 6: Range of maximum cost recovery impact by sector and scale – LTP* Northern Ireland - Year 1

Sector/Size	Max	Min	Median
Red Slaughter	N/A	N/A	N/A
Poultry Slaughter	N/A	N/A	N/A
Poultry Slaughter with PIA	N/A	N/A	N/A
Cutting Plants	£498	£0	£0

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 2.2 D – Option 6: Range of maximum cost recovery impact by sector and scale – LTP* Northern Ireland - Year 2

Sector/Size	Max	Min	Median
Red Slaughter	N/A	N/A	N/A
Poultry Slaughter	N/A	N/A	N/A
Poultry Slaughter with PIA	N/A	N/A	N/A
Cutting Plants	£859	£0	£47

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 2.3 D – Option 6: Range of maximum cost recovery impact by sector and scale – LTP* Northern Ireland - Year 3

Sector/Size	Max	Min	Median
Red Slaughter	N/A	N/A	N/A
Poultry Slaughter	N/A	N/A	N/A
Poultry Slaughter with PIA	N/A	N/A	N/A
Cutting Plants	£1,292	£0	£195

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 3.1 D – Option 6: Range of maximum cost recovery impact by sector and scale – LTP* Scotland - Year 1

Sector/Size	Max	Min	Median
Red Slaughter	£264	£0	£0
Poultry Slaughter	N/A	N/A	N/A
Poultry Slaughter with PIA	N/A	N/A	N/A
Game Handling	£25	£0	£0
Cutting Plants	£17	£0	£0

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 3.2 D – Option 6: Range of maximum cost recovery impact by sector and scale – LTP* Scotland - Year 2

Sector/Size	Max	Min	Median
Red Slaughter	£5,741	£0	£451
Poultry Slaughter	N/A	N/A	N/A
Poultry Slaughter with PIA	N/A	N/A	N/A
Game Handling	£175	£0	£0
Cutting Plants	£112	£0	£0

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

Table 3.3 D - Option 6: Range of maximum cost recovery impact by sector and scale - LTP* Scotland - Year 3

Sector/Size	Max	Min	Median
Red Slaughter	£8,332	£215	£811
Poultry Slaughter	N/A	N/A	N/A
Poultry Slaughter with PIA	N/A	N/A	N/A
Game Handling	£747	£0	£17
Cutting Plants	£149	£0	£0

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

**Table 4.1 D - Option 6: Range of maximum cost recovery impact by sector and scale (LTP*)
Wales - Year 1**

Sector/Size	Max	Min	Median
Red Slaughter	£582	£0	£0
Poultry Slaughter	N/A	N/A	N/A
Cutting Plants	£0	£0	£0

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

**Table 4.2 D - Option 6: Range of maximum cost recovery impact by sector and scale - LTP*
Wales - Year 2**

Sector/Size	Max	Min	Median
Red Slaughter	£9,454	£0	£1,892
Poultry Slaughter	N/A	N/A	N/A
Cutting Plants	£18	£0	£0

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

**Table 4.3 D - Option 6: Range of maximum cost recovery impact by sector and scale - LTP*
Wales - Year 3**

Sector/Size	Max	Min	Median
Red Slaughter	£12,373	£285	£2,866
Poultry Slaughter	N/A	N/A	N/A
Cutting Plants	£75	£0	£0

N/A - too few establishments (less than 5 approved establishments) to analyse range of impact without breach of commercial confidentiality.

TECHNICAL ANNEX – CALCULATING ESTIMATED THROUGHPUT VALUES FOR INDIVIDUAL APPROVED ESTABLISHMENTS ANALYSIS

Details of the calculations discussed in paragraph 118 of this Impact Assessment are given in this annex. The areas covered are: 1) Calculating the Relative Impact of an Increase in Estimated Charges; and 2) Calculating the Estimated Throughput Value of an Individual Plant/ Establishment.

Calculating the Relative Impact of an Increase in Estimated Charges

The relative impact of an increase in full and maximum charges for official meat controls is calculated using the following formula:

Where:

denotes the relative increase in the estimated charge as a proportion of the estimated value of throughput as at 2014/15 for an individual plant.

where ΔC represents the nominal increase in estimated charge as at 2014/15 for an individual plant; $C_{2014/15}$ denotes the estimated full cost charge as at 2014/15 and $C_{2012/13}$ the estimated charge as at 2012/13.

T is the estimated value of throughput for an individual plant. Q indicates the throughput level for an individual plant, which is assumed constant; while P denotes the farmgate price for a respective meat product.

Box 1 - Illustrative Example: Plant A (Red Meat Establishment)

Plant A is a red meat slaughterhouse processing sheep meat. Its estimated charge for official meat controls as at 2012/13 is £35,000; while its full cost charge in 2014/15 increases to £109,000. This gives a nominal increase in the charge of £74,000. The plant's annual throughput level is estimated at 124,000 throughput units with an average weekly farmgate price per unit of throughput (sheep carcase) of £49; taking the product of their respective value this yields an estimated value of throughput of £6,076,000. Therefore the increase in charge as at 2014/15 as a proportion of Plant A's estimated value of throughput yields approximately 1%.

Calculating the Estimated Throughput Value of an Individual Plant/Establishment

The estimated value of throughput per plant is obtained in the following steps:

Step 1: Estimation of the saleable throughput unit (carcase weight) per relevant species

We obtain data on the *average dressed carcase weight* and *proportion of saleable meat per throughput unit (carcase)* to estimate the average saleable yield of a carcase which is calculated using the following formula:

$$1) \text{ Average dressed carcase weight (kgs)} \times \text{Percentage of carcase that is saleable meat (\%)} = \text{Saleable carcase weight (kgs)}$$

Average dressed carcase weights for cattle, sheep and pigs are available from the Defra publication *Agriculture in the UK (2010)*.¹ In addition, the proportion of a carcase that is saleable meat is available from AHDB meat services. This is set out below in Table 1.E:

Table 1E Proportion of saleable meat from a carcase for selected species

Species	Average dressed carcase weight (kgs)	Percentage of Saleable Meat per Carcase	Saleable carcase weight (kgs)
Cattle	312.9	70%	219.0
Sheep	19.0	76%	13.3
Pigs	78.5	62%	54.9
Deer	27.0	70%	18.8
Solipeds and Equidae	450.0	70%	315.0

Step 2: Estimation of the producer value of a throughput unit (carcase) per relevant species

Using the saleable throughput unit (carcase) weight obtained in step 1; we then multiply this by the average produce (farmgate) price to obtain the average producer price for a carcase, which is estimated using the following formula:

$$2) \text{ Saleable carcase weight (kgs)} \times \text{Average producer (farmgate) price per kg} = \text{Estimated producer value of a carcase (pence)}$$

Average weekly deadweight producer (farmgate) prices are available on a per kg basis from the Defra statistics website for beef, lamb and pork². Averages for 2010/11 (so far) are obtained by taking the mean average of weekly prices from the first week in April 2010 to March 2011. The estimated producer value of a throughput unit (carcase) by species is set out below in Table 2E:

Table 2E: Estimated Producer Value of a Throughput Unit (Carcase) by Species

Species	Saleable Carcase weight(kgs)	Prices (£/kg)	Total TP Unit Value
Cows and Adult Bulls	219.0	£1.47	£323
Clean Pigs	54.9	£1.41	£77
Clean Sheep and Lambs	13.3	£3.68	£49
Calves	27.7	£1.47	£41
Piglets	7.7	£1.41	£11
Wild Boars	106.6	£1.41	£150
Solipeds and Equidae	315.0	£3.36	£1,058
Deer	18.8	£22.50	£423
Adult Poultry	5.2	£0.73	£4
Small Game	N/A	£1.75	£2
Rabbits	2.3	£3.48	£8

¹ Available online at: <http://www.defra.gov.uk/statistics/foodfarm/cross-cutting/auk/>

² Available online at: <http://www.defra.gov.uk/statistics/foodfarm/cross-cutting/auk/>

Step 3: Aggregation of relevant values of throughput units to obtain the estimated value of throughput per plant

Combining the *estimated producer value of a carcass* obtained in step 3, with the total throughput level of a plant; we are then able to estimate its throughput value using the following formula:

$$3) \text{ Estimated Value of Throughput (£) = Throughput Level per Plant} \times \text{Estimated Producer Value of a Carcass}$$

Box 2 - Illustrative Example: Plant A (Red Meat Establishment)

Plant A is a red meat slaughterhouse processing sheep meat. The average dressed carcass weight for a sheep is approximately 19kg of which 79% is classed as a saleable meat. This gives a saleable carcass weight of 13.3kg. The average weekly producer (farmgate) price per kg of sheep meat is £3.68. Taking the saleable carcass weight and multiplying this by the average weekly producer (farmgate) price yields an estimated producer value of a throughput unit (carcass) of £49. Plant A's annual throughput level currently stands at 124,000. Multiplying this throughput level by the estimated producer value of a throughput unit yields an estimated value of throughput of £6,076,000.

1) 19kg (Average dressed carcass weight) x 79% (Percentage of saleable carcass) = **13.3kg** (Saleable carcass weight)

2) 13.3kg (Saleable carcass weight) x £3.68 per kg (Average weekly producer (farmgate) price of sheep meat) = **£49** (estimated producer value of a throughput unit (carcass))

3) 124,000 (Throughput Level of Plant A) x £49 (Estimated Producer Value of a Carcass) = **£6,076,000** (Estimated value of throughput)

ECONOMIC AND EMPIRICAL ANALYSIS OF THE DISTRIBUTION OF COSTS ACROSS THE SUPPLY CHAIN

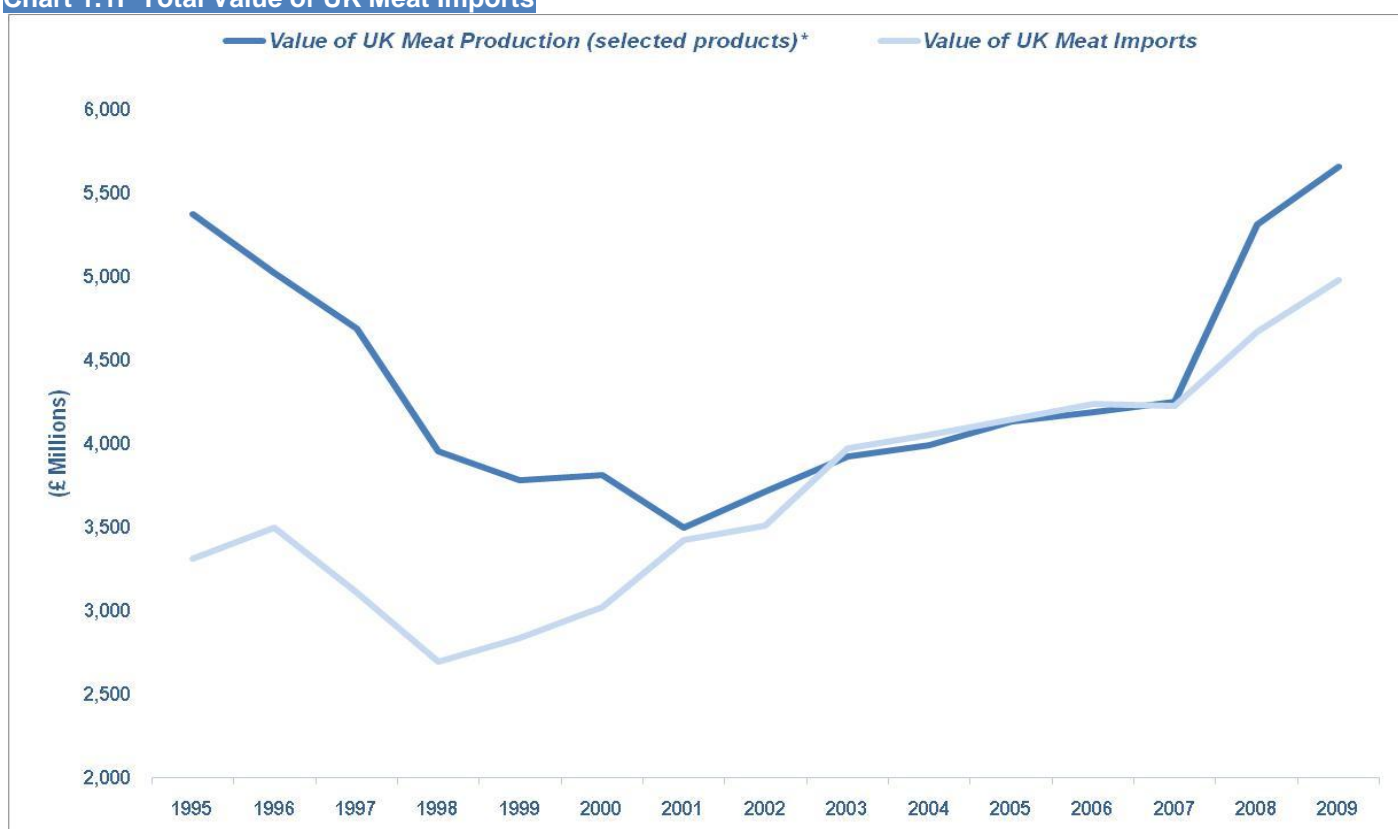
There is limited economic literature and evidence available to understand how abattoirs are likely to respond to an increase in charges following the removal of subsidy as the FSA moves towards full cost recovery for official controls; raising at least in the short run the cost of production for the industry. Empirical evidence suggests there is generally limited scope for abattoirs to pass on additional costs to consumers higher up the supply chain constrained by factors such as: the rate of import substitution; a high concentration of large scale retailers accounting for a significant share of the retail sale of meat; and livestock farmers exhibiting relatively low supply elasticities³ in response to output prices.

1.F Import substitution and Export Trends

Import Substitution

There is strong empirical evidence to suggest that a reduction in domestic supply and a price increase could be offset by an increase in imports from EU markets. Upton (2005)⁴ found a strong negative correlation between fluctuations in UK (domestic) meat production and fluctuations in imports from other EU member states for beef ($R^2 = 0.79$) and pork ($R^2 = 0.92$)⁵. The ability for retailers to source meat from abroad suggests there is limited scope for abattoirs to pass on additional costs to retailers and end consumers. Using the latest data available Chart 1.1F shows the overall value of imports of meat and meat products increased by approximately 50% since 1995, when the value of imports stood at £3.3 billion (2009 prices). Over the same period there was a steady and significant narrowing in the gap between domestic production and imports of meat up until 2007; when the value of Sterling began to decline and domestic production picked up sharply, widening the gap with imports.

Chart 1.1F Total Value of UK Meat Imports



Source: Defra Statistics

Notes: Value of UK meat production is based on the following selected meat products for which data was available: beef and veal, pigs and pigmeat, mutton and lamb, poultry and poultry meat.

³ Supply elasticity – measures the responsiveness of the quantity supplied of a product to a change in its price

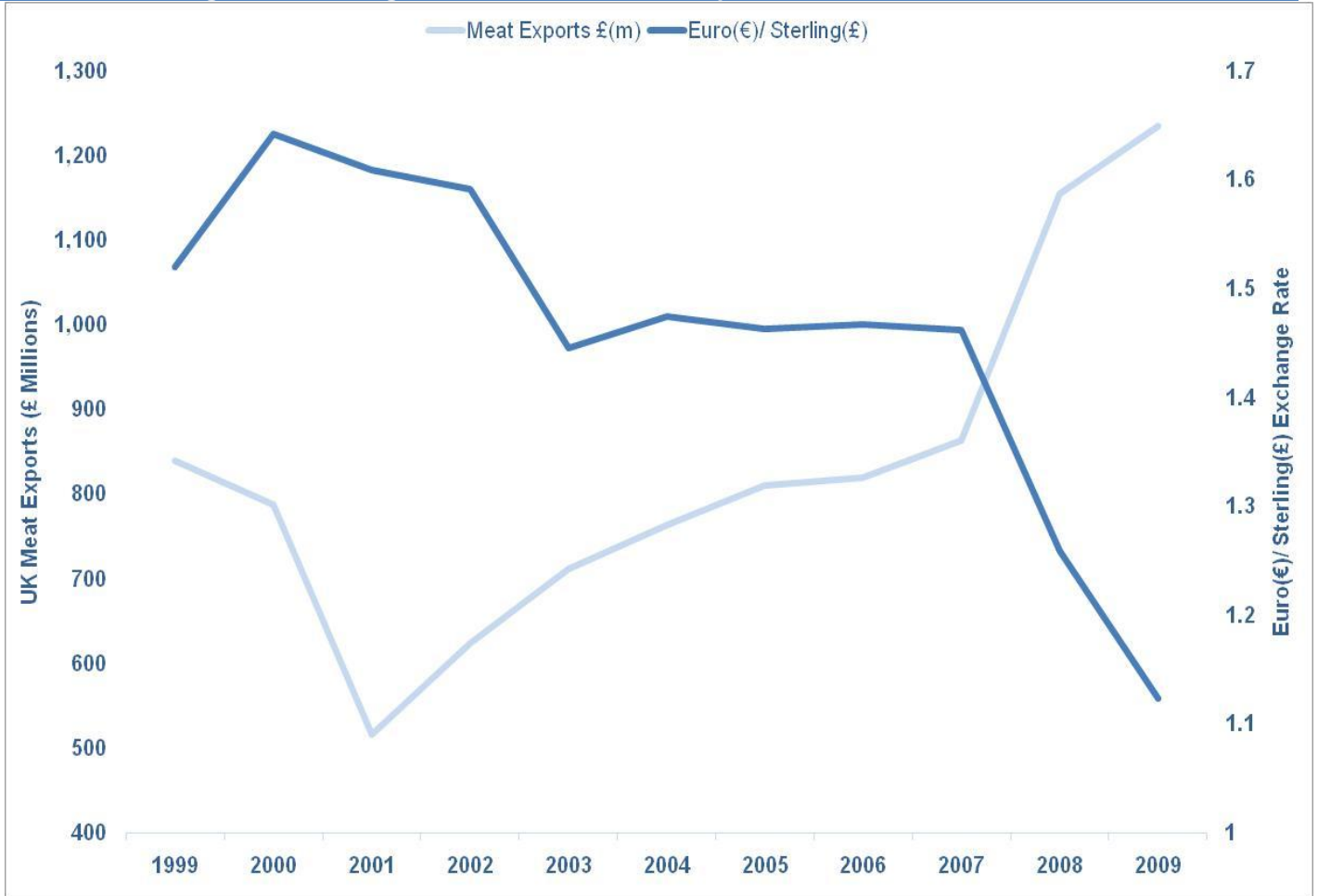
⁴ Upton, M., Defra (2005) Farmers' adjustments in response to increased regulatory costs

⁵ The correlation between the two sets of data is denoted by the R value (R^2) at 79% and 92%. This tells us that 79% and 92% of the variation in domestic production is largely associated with fluctuations in imports from the EU.

Meat Exports and Exchange Rate Movements

Since January 2007 the value of Sterling has depreciated against the Euro and effective exchange rate⁶ by approximately 23% and 22% respectively. It is anticipated that a weaker Sterling will make UK exports more competitive and imports less attractive thus helping boost domestic production. The depreciation in Sterling could have also contributed to the 43% increase in the export of UK meat products in 2009⁷. Chart 1.2F below shows movements in the Sterling/Euro exchange rate and its potential impact on the value of UK meat exports.

Chart 1.2F Sterling/ Euro Exchange Rates versus UK Meat Exports to the EU



Sources: Defra Statistics, Bank of England Exchange Rate Database

The depreciation of Sterling could have wider implications for the meat industry. On the one hand improving the competitiveness of UK exports could help mitigate the financial impact of full cost recovery thus reducing scope for passing on costs through the chain. On the other, businesses further down the chain may find the cost of importing inputs for their production process such as animal feed more expensive.

2.F Scale and Size

Returns to Scale

The extent to which an individual business is able to respond to full cost charging would vary according to the type, scale and size of abattoir. Most empirical cost studies including Lund *et al* (1979) have found that larger scale enterprises often show lower average costs of production exhibiting what is identified as economies of increasing scale.

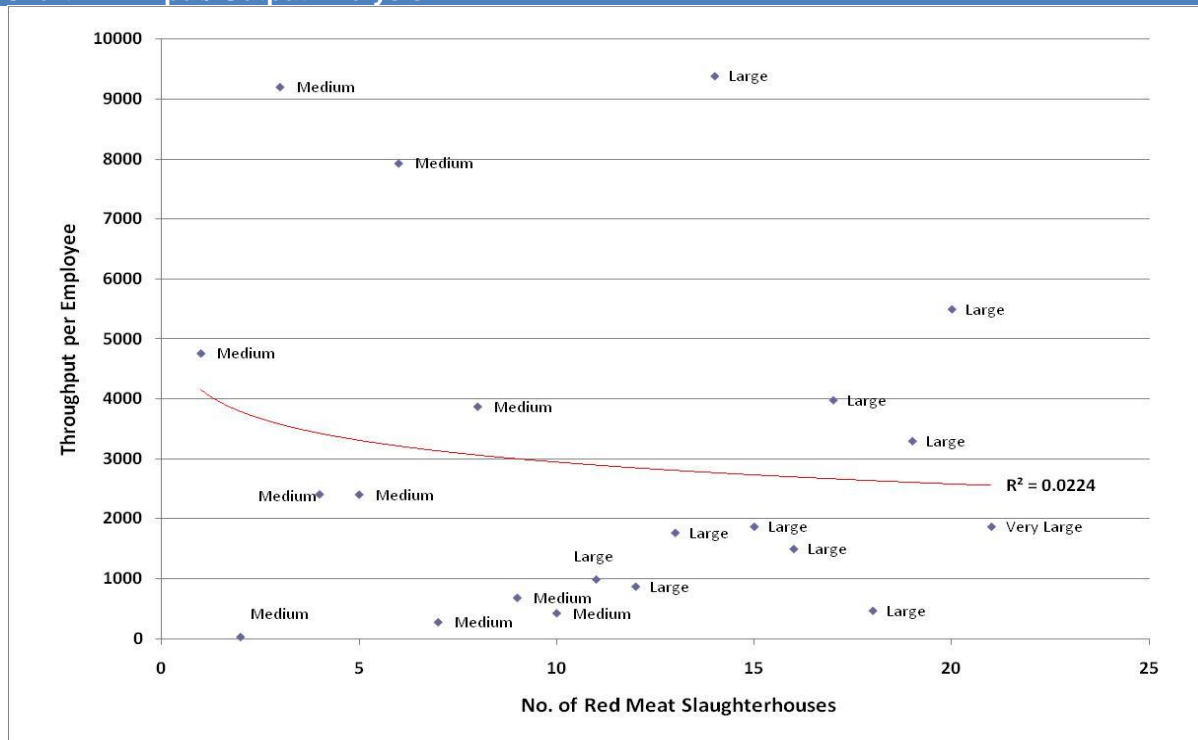
⁶ The effective exchange rate is based on the weighted average of the UK's bilateral nominal exchange rates against other currencies normally determined by the value of trade with other countries

⁷ Defra (2011) - Table 8.1 Trade in food, feed and drink by SITC division (at 2009 prices); United Kingdom

With full cost recovery imposing additional costs on production, large scale abattoirs may look to spread their operating costs; reducing the average cost of production. As output is increased the cost of producing each additional unit (marginal cost) declines thus in part offsetting the additional cost associated with the charge; and reducing the likelihood of passing on the cost through the supply chain. However, with large consolidation and rationalisation having taken place in the industry over the last 25 years; some establishments may already be operating at optimal efficiency (full capacity), where further expansion of output may yield constant or decreasing returns to scale⁸ where the scope for absorbing costs are reduced.

Chart 2.1F below presents the input/output ratio (productivity) of a sample of red meat slaughterhouses by taking the ratio of throughput relative to the number employees for each respective establishment. Data on inputs were only available for a limited number of establishments taken from the *Plimsoll Portfolio Analysis*⁹ dataset. Data on small scale establishments were not available so the analysis only compares the efficiency scale of *medium*, *large* and *very large* establishments.

Chart 2.1F Input/ Output Analysis



Sources: Plimsoll Portfolio Analysis

The results in Chart 2.1F shows a weak association between scale of establishment and input/output ratios ($R^2 = 0.02$); suggesting that the difference between scale of establishment and productivity is insignificant. However, the analysis is based on limited data points excluding LTP* establishments.

3.F Price Responsiveness

Elasticity of Demand Estimates

The extent to which abattoirs are able to gain or lose and pass on these costs to consumers would depend on the elasticity of demand¹⁰ for their meat products, which has implications for the ability of the industry to adjust to full cost recovery. The most recent data available on demand elasticity estimates for meat products comes from the National Food Survey (1999) with estimates ranging from -0.46 for beef and veal produce to -1.23 for mutton and lamb. This means a 1% increase in the price of beef would lead to 0.5% fall in demand for the product. Demand elasticity estimates for meat products are presented in Table 1.F.

⁸ Returns to scale – when changes in output result from a proportional change in all inputs

⁹ Plimsoll Portfolio Analysis – UK Abattoir Industry 3rd Edition 2010

¹⁰ Measures the responsiveness of the quantity demanded of a good or service to a change in its price

Table 1.F: Price elasticity of demand estimates for meat products

Product	Own Price Elasticity
Beef and Veal	-0.46
Mutton and Lamb	-1.23
Pork	-0.80
Poultry	-0.90
All other meat products	-0.26

Source: NFS (1999)

The empirical evidence in Table 1.F, suggests, with the exception of mutton and lamb, that the demand for meat products in general tends to be relatively unresponsive to changes in price as the elasticity of demand for most products is inelastic; thus implying there is scope for passing on a significant proportion of this cost to consumers in the form of higher prices. However, factors such as import substitution and supply elasticities for livestock producers, all impose constraints on abattoirs passing on these costs up the supply chain to consumers.

Supply Elasticities

Empirical studies appear to confirm that the supply of meat products is relatively unresponsive to price changes. Hallam and Zanolì (1993) and Revell and Oglethorpe (2003) found low supply elasticity¹¹ responses for pig breeding and beef. Hallam *et al* were able to estimate that a 1% fall in the price pigs would lead to 0.15% fall in the supply; suggesting there is greater scope for abattoirs to pass on these costs further down the supply chain to farmers.

4.F Market Power

Concentration of Abattoirs

Over the last 25 years the abattoir sector has become more concentrated with fewer businesses accounting for a larger share of total throughput in the UK. Table 2.F below presents concentration ratios¹² by country and establishment type based only on establishments defined as 'very large'.

Table 2.F – Concentration Ratios in Abattoir Meat Sector

Location	RED MEAT SLAUGHTER		POULTRY SLAUGHTER		CUTTING PLANTS	
	Concentration Ratios	No. Plants (Very Large)	Concentration Ratios	No. Plants (Very Large)	Concentration Ratios	No. Plants (Very Large)
UK	0.47	10	0.66	10	0.50	25
ENGLAND	0.25	6	0.64	8	0.50	20
SCOTLAND	0.79	3	0.78	1	0.31	2
WALES	0.32	1	0.73	1	0.71	3

In the red meat and poultry slaughter sectors the top 10 establishments produce 47% and 66% of total throughput respectively in the UK. Cutting plant establishments exhibit the lowest concentration with 25 of the largest establishments accounting for 50% of total output. Scotland and Wales appear to have the highest levels of concentration with one poultry establishment for each country accounting for 78% and 73% of total output respectively.

¹¹ Measures the responsiveness of the quantity supplied of a good or service to a change in its price

¹² Measures the concentration of market share held by a given number of leading firms.

With high concentration ratios in the abattoir meat sector and livestock producers exhibiting low supply elasticities; there could be greater scope for abattoirs to pass on these costs to farmers.

Concentration of Retailers

In the meat supply chain the 'big four' supermarkets in the UK, namely Tesco, Sainsburys, Asda and Morrisons are in a 'buyer monopoly' position; able to use their purchasing power to demand products that meet their pre-specified standards on a scale that only large scale slaughtering operations are able to meet.

The 'big four' account for approximately 68% of the total retail sale of fresh red meat and beef products in the UK. Table 3.F presents the concentration ratios for the 'big four' which shows they dominate the upper end of the meat supply chain (retail). The big retailers are in a position to influence the behaviour and decisions of meat businesses further back in the distribution chain; reducing the likelihood of abattoirs passing on any additional costs to the consumer.

Table 3.F Concentration Ratios – 'Big Four' Supermarkets

Meat by Species	Concentration Ratios
Fresh Red Meat	0.68
Beef	0.68
Lamb	0.66
Pork	0.72

Source: TNS 2009

References

Lund, P.J. & P.G. Hill (1979) *Farm size, efficiency and economics of size*. Journal of Agricultural Economics 30(2)

Hallam, D. and R. Zanoli (1993) "Error Correction Models and Agricultural Supply Response", European Review of Agricultural Economics, 2(2):111-120.

National Statistics, Ministry of Agriculture Fisheries and Food (1999) *National Food Survey 1999: Annual Report on Food Expenditure, Consumption and Nutrient Intakes*

Revell, B., & D. Oglethorpe (2003). *Decoupling and UK Agriculture: - a whole farm approach. An appraisal of the impact on the livestock sector*. Newport, Shropshire: Harper Adams University & Edinburgh: Scottish Agricultural College

Upton, M., Defra (2005) *Farmers' adjustments in response to increased regulatory costs*

RESULTS AND ANALYSIS OF INDUSTRY STAKEHOLDER SURVEY

Survey Questionnaire

Key stakeholders from the meat industry were invited to participate in a FSA survey with a view to gathering information and evidence to appraise the impact on industry of current charging and the likely impact of future arrangements based on full cost charging for meat hygiene official controls. Businesses were asked to complete a questionnaire comprised of three sections consisting of in total 22 questions. Slaughter plant defined as LTP* were exempt from the section asking questions on the impact of future (full cost) charging arrangements.

Sample Size and Statistical Validity of Results

Overall the survey received a low response rate with an inherent LTP* response bias (80%). Only 10 businesses in total responded to the questionnaire; eight from Great Britain and two from Northern Ireland, including a composite response (NIMEA)¹³. This has implications for the statistical validity of the results as the sample size is too small and biased to be representative of industry. Any inferences or conclusions drawn from these results should therefore come with a **health warning** and be treated with **caution**.

Results

Type and Scale of Meat Establishments

Eight out of the 10 respondents operate LTP* plant employing 10 or less full time equivalent employees (FTE), with the remaining respondents operating *small*, *medium* and *large* scale plant. Table 1.1G below summarises the profile of respondents according to type and scale of meat establishment.

Table 1.1G Respondents profile

No.	Establishment Type	Size/ Throughput	Species	No. of Employees	No. of Plants
1	Game Handling	Low	Game	≤10	1
2	Abattoir	Low	Bovine, Sheep & Goat	≤10	1
3	Both (Abattoir & Cutting Plant), Game Handling Plant	Low	Sheep & Goats, Pigs	≤10	1
4	Both (Abattoir & Cutting Plant)	Low	Bovine, Sheep & Goats, Pigs	≤10	1
5	Cutting Plant	Low	N/A	≤10	1
6	Both (Abattoir & Cutting Plant)	Low (cutting plant) Small (abattoir)	Poultry	≤20	1
7	Both (Abattoir & Cutting Plant)	Medium (Abattoir) Low (cutting plant)	Bovine, Sheep & Goats	≤30	2
8	Cutting Plant	Medium	N/A	≤50	N/A
9	Both (Abattoir & Cutting Plant)	Large	Bovine	70+	10+
10	Both (Abattoir & Cutting Plant)	Very Large	Bovine, Sheep & Goats	80+	N/A

¹³ Northern Ireland Meat Exporters Association

Current Financial Position

Only 60% of respondents were willing to report on their current financial positions. Based on a typical trading year, respondents of LTP* plant reported average annual gross profit as a proportion of turnover ranging from less than 1% to 25%. Medium plant operators reported more favourable results with gross profit accounting for approximately 17% to 20% of annual turnover. This appears to support the view that smaller businesses find it relatively less profitable in the sector compared to larger scale operators.

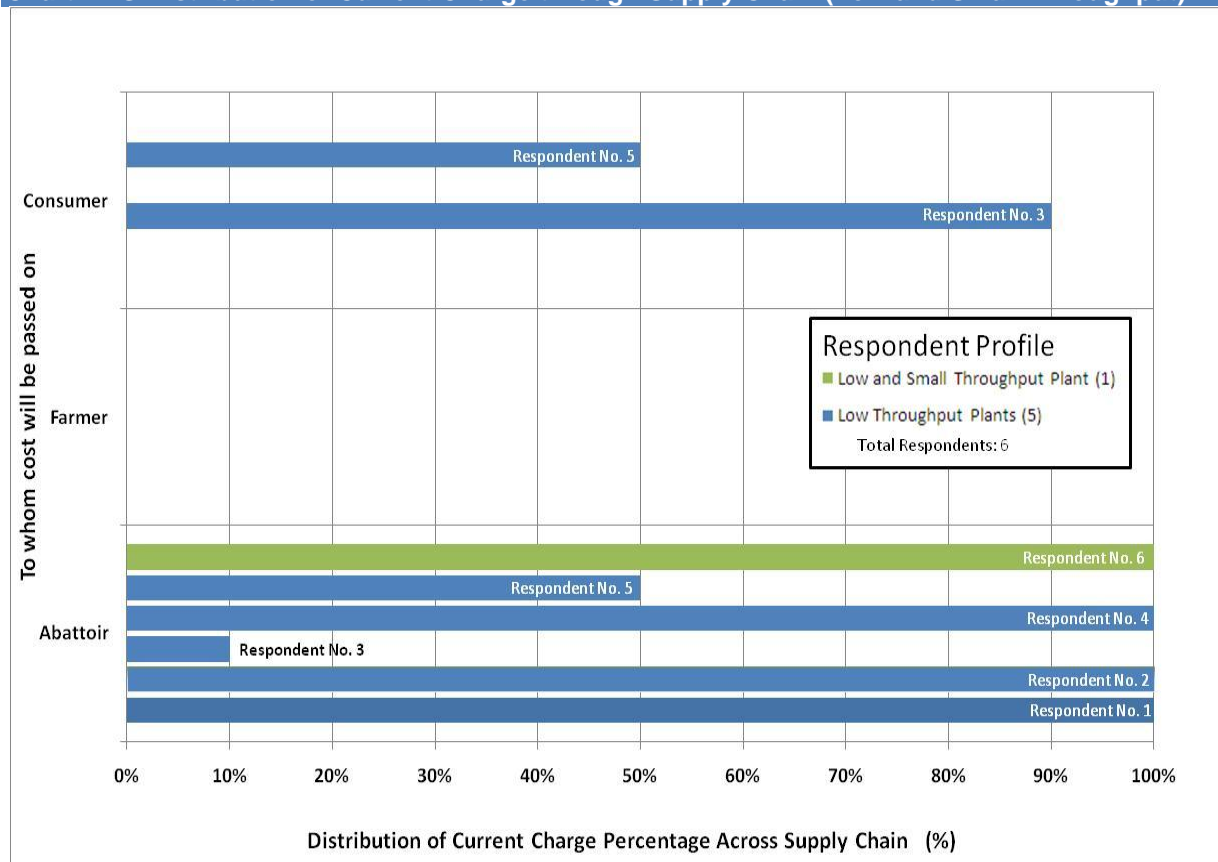
Impact of Current Charges

Most of the respondents confirmed that current charges for meat hygiene official controls had a small or moderate impact on their individual businesses given the size of their operations and the relative discounts received. Operators of medium and large abattoirs indicated that the charge had a large impact on their business. One respondent stated that this could account for as much 60 – 70% of their operating profit.

When asked what proportion of the current charges are absorbed or either passed on through the chain; half of respondents confirmed that they would have to absorb the full cost. Only businesses from the LTP* sector (20% of respondents) indicated that they would pass on at least half the additional cost to consumers. This could reflect instances where smaller abattoirs are increasingly selling their produce directly to the consumer.

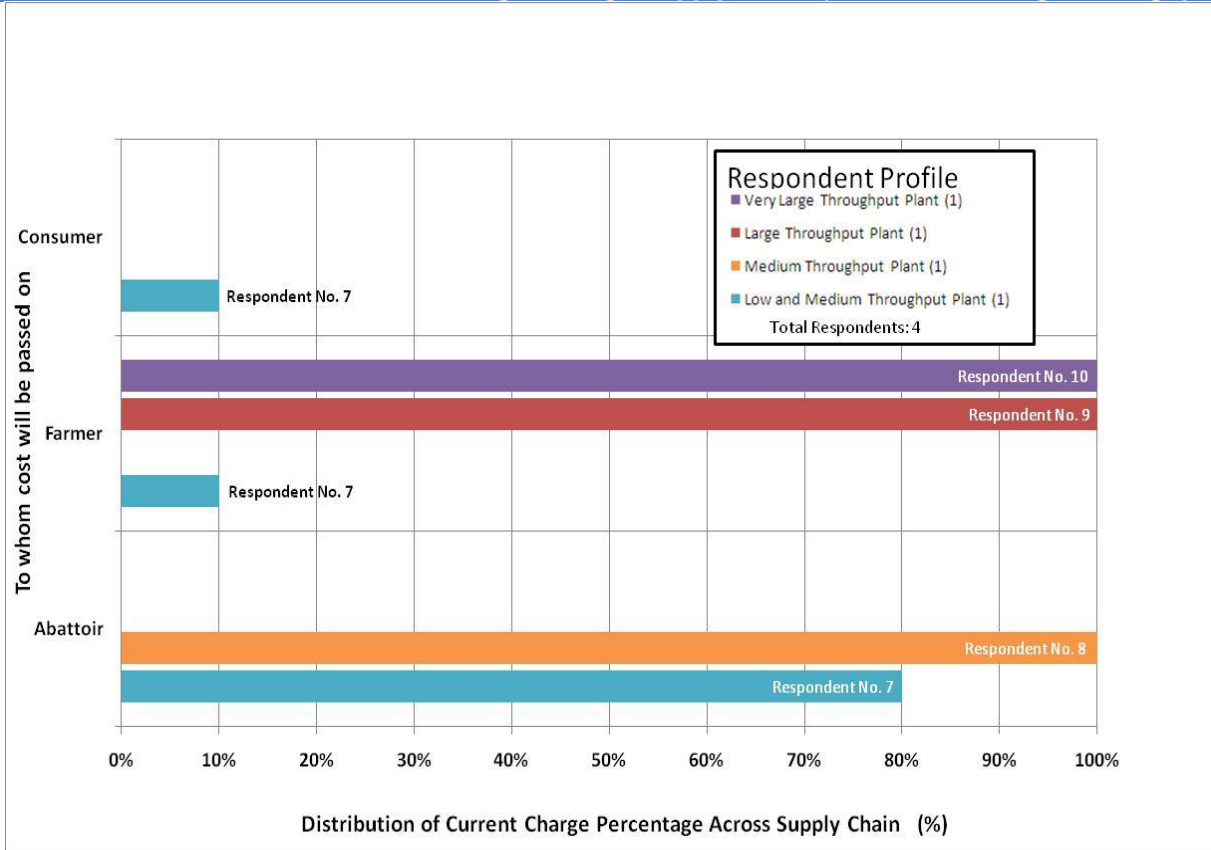
However, larger operators felt that they would be able pass on this cost in full to livestock farmers. The economic and empirical evidence suggested that the supply of livestock tends to be relatively unresponsive to price changes coupled with a high concentration of fewer abattoirs accounting for a larger share of throughput. This could explain why larger operators are in a position to pass on this cost to farmers. The results are grouped and presented by plant size in Charts 1.1G and 1.2G below.

Chart 1.1G Distribution of Current Charge through Supply Chain (Low and Small Throughput)



Note: Respondent numbers correspond with Table 1.1G

Chart 1.2G Distribution of Current Charge through Supply Chain (Medium – V. Large Throughput)



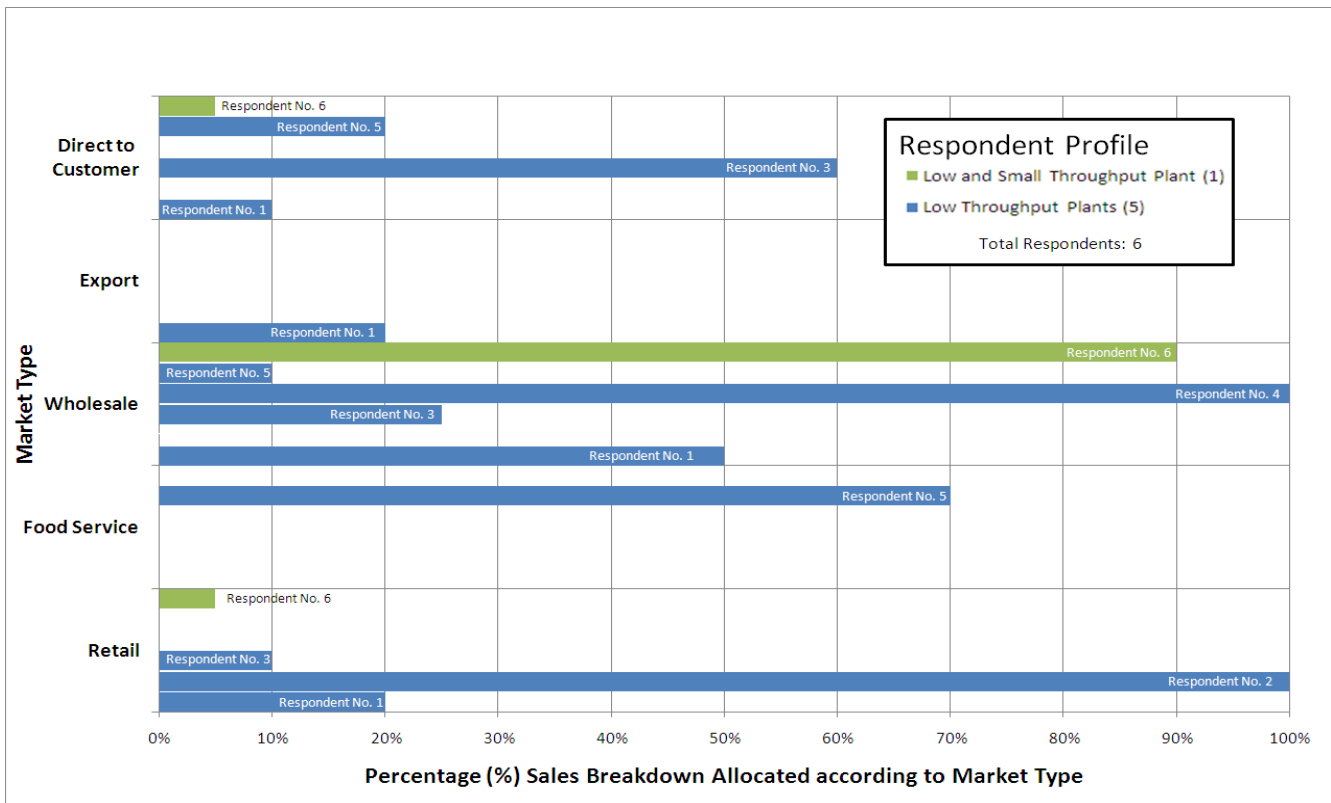
Note: Respondent numbers correspond with Table 1.1G

Potential Impact of Future Charges

Only 80% of respondents were required to complete this section of the questionnaire. When asked what would be the impact of full cost recovery if introduced immediately or over a period ranging from one to three years; all respondents confirmed that this would have a highly significant impact on the medium and long-term profitability of the business, threatening its viability. Some of the respondents stated that this could account for between 5% (large scale) and 40% (LTP*) of their total operating costs.

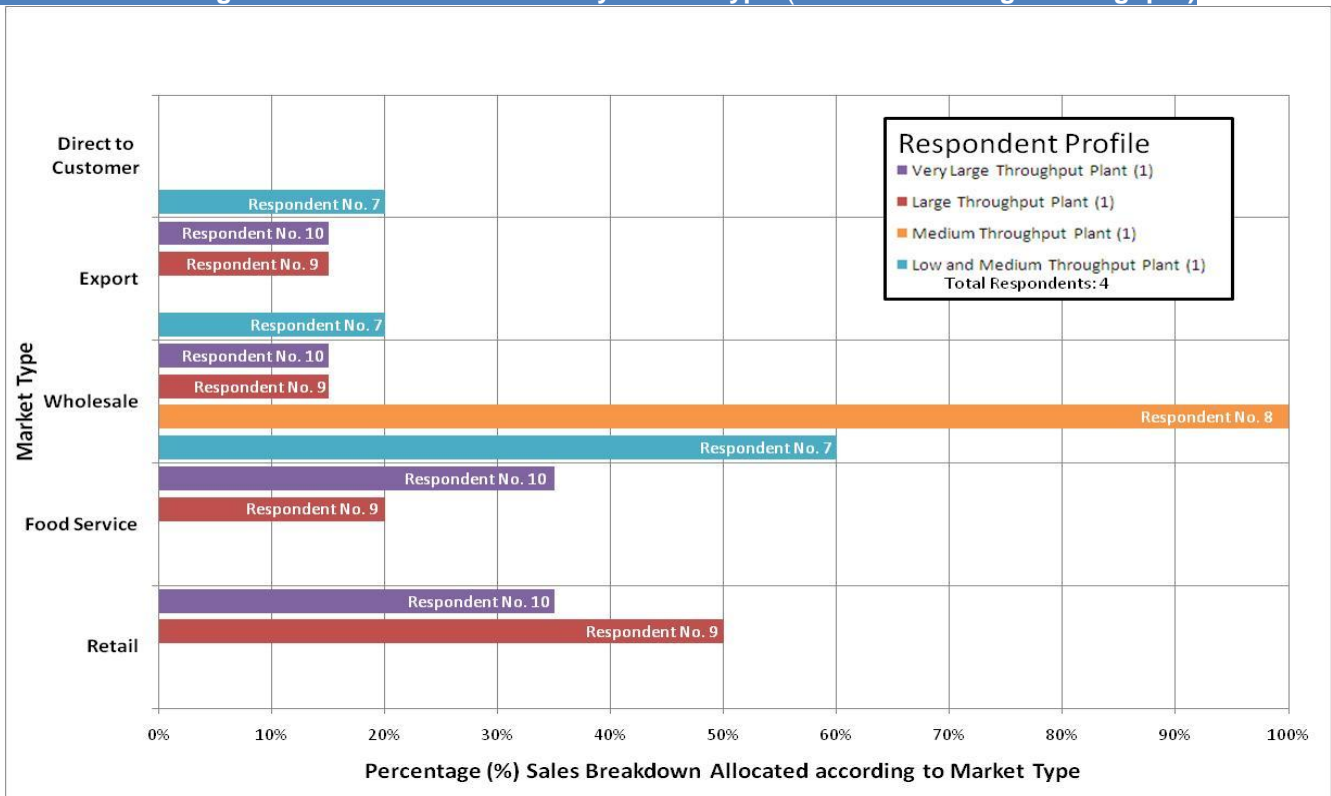
The results of annual sales breakdown by market revealed that at least 50% or more of sales was attributed to one market type for each of the respondents. Most businesses confirmed that future charges would have either a moderate or insignificant impact on their predominant markets. However, some respondents (low and medium throughput sectors) reported that this would have a highly significant impact on their wholesale and direct to customer markets. The results are set out and presented in Charts 1.3G and 1.4G, grouped by plant size.

Chart 1.3G Average Annual Sales Breakdown by Market Type (Low and Small Throughput)



Note: Respondent numbers correspond with Table 1.1G

Chart 1.4G Average Annual Sales Breakdown by Market Type (Medium – V. Large Throughput)

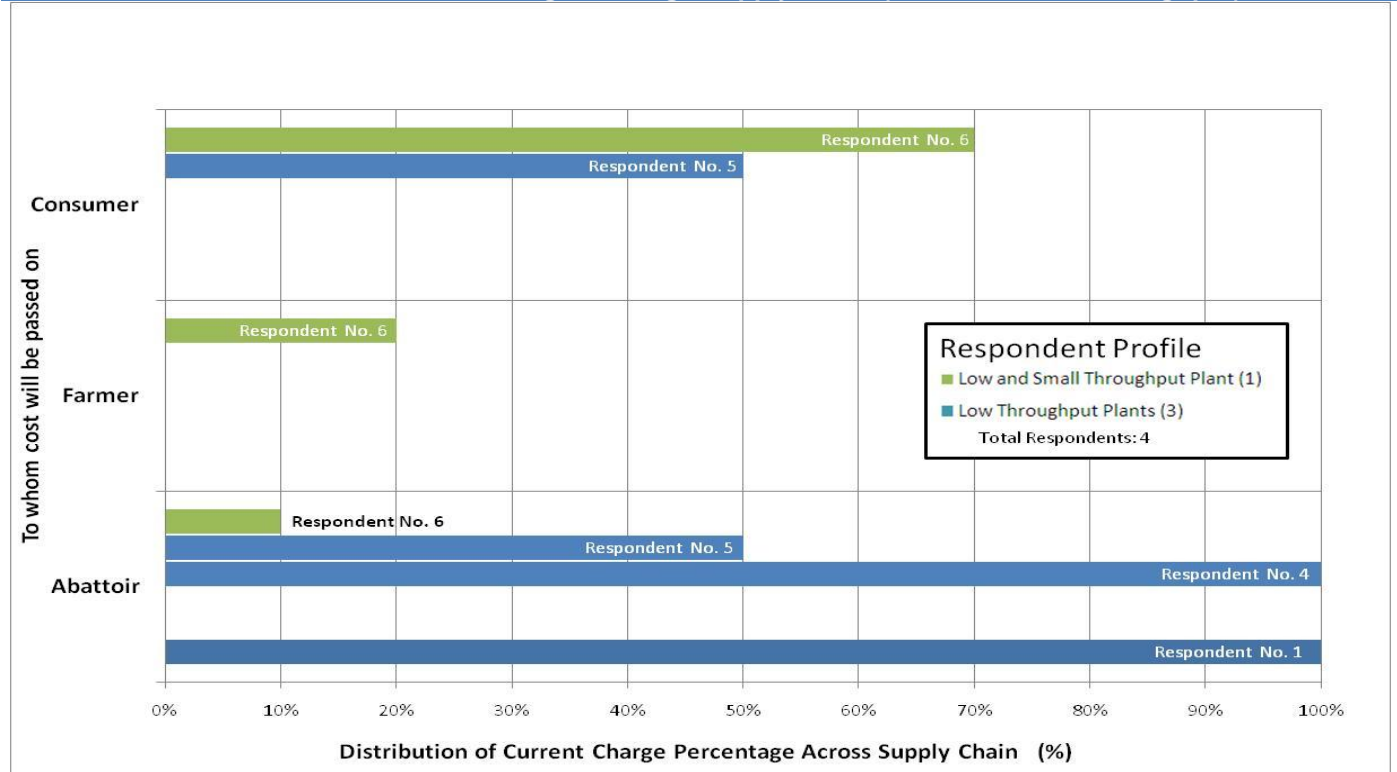


Note: Respondent numbers correspond with Table 1.1G

Cost Sharing Across the Supply Chain

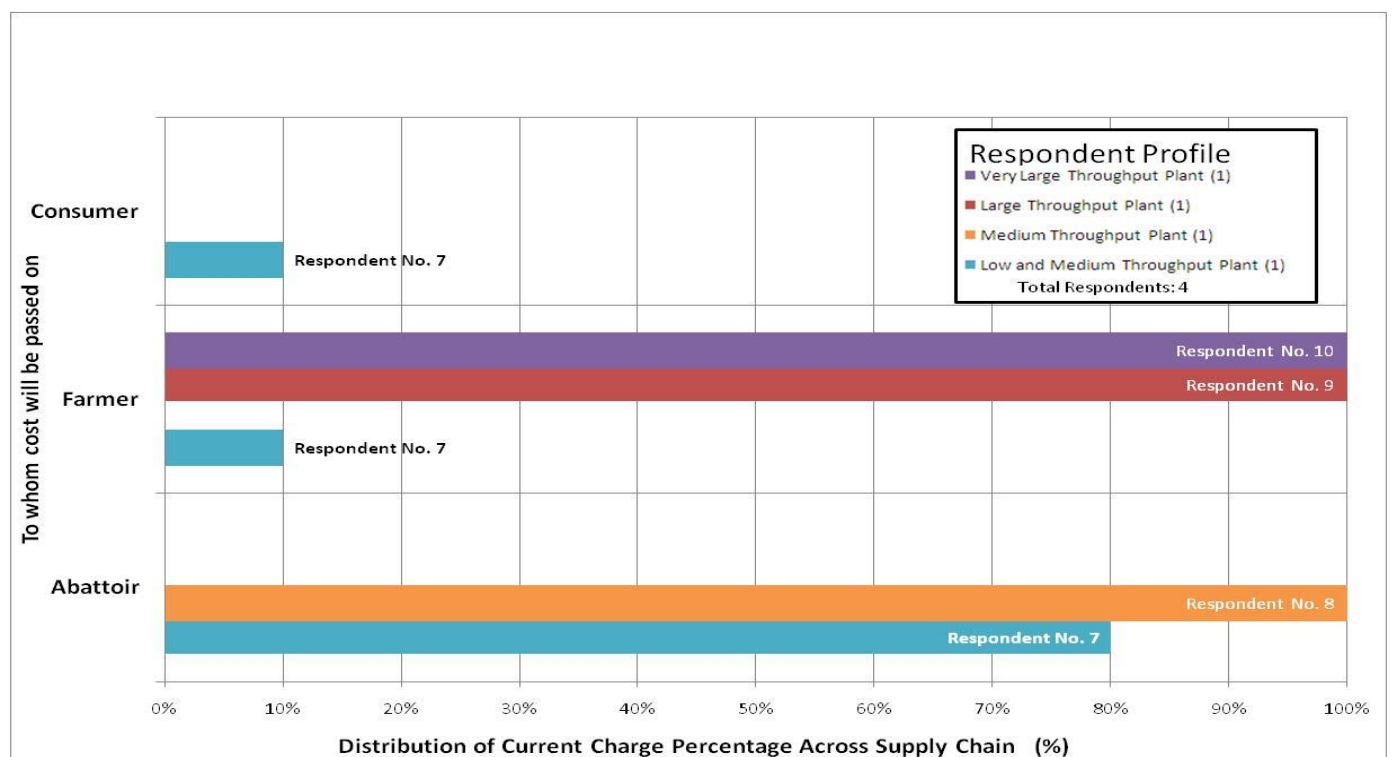
Individual businesses were asked to give an approximation of what proportion of these future charges would be absorbed by the business or either passed on through the chain; the results were mixed. Some respondents (low and medium throughput sectors) stated that they would absorb the full cost, while others (LTP*) confirmed that they would expect to absorb at least half of the cost while passing on the other half up the chain to consumers. As before, large scale abattoirs indicated that they would expect to pass on the full cost down the chain to farmers. These results are illustrated in Charts 1.5G and 1.6G below grouped by plant size.

Chart 1.5G Distribution of Future Full Charges through Supply Chain (Low and Small Throughput)



Note: Respondent numbers correspond with Table 1.1G

Chart 1.6G Distribution of Future Full Charges through Supply Chain (Medium – V. Large Throughput)



Note: Respondent numbers correspond with Table 1.1G

Incentives to Improve Efficiency and Minimise Costs

Based on a single response (LTP* poultry slaughterhouse) full cost recovery was not viewed as an incentive to encourage investment to maximise efficient use of official controls, but would encourage business to review their business agreement with FSA operations to reduce the resources required. The business also stated that if full cost recovery made it less cost effective to employ a Poultry Meat Inspector they would consider employing additional Plant Inspection Assistants (PIAs); suggesting there is an incentive for input substitution.

Meat Industry Questionnaire

Full cost recovery charging for meat hygiene official controls

Objective

To inform development of the future charging arrangements the Agency is gathering information and evidence to appraise the impact on industry of current charging and the likely impact of future arrangements based on full cost charging for meat hygiene official controls. The information requested in this questionnaire will therefore help the Agency assess the costs and benefits associated with full cost charging; and offer industry an opportunity to contribute to the development of the options for future charging.

Structure of Questionnaire

The questionnaire is comprised of three sections:

Section A: Business Profile - Looks to gather information on the type and scale of meat establishment(s) currently in operation (8 questions).

Section B: Current Charges – These questions seek to gather data that is as up to date as possible on the extent to which the current (time-based) charges have impacted on the cost to individual businesses, industry and consumers (5 questions).

Section C: Future Charges (Full Cost-Recovery) - These questions seek to gather data on the extent to which future (full-cost recovery) will impact on the cost to individual businesses, industry and consumers (8 questions).

Please note that slaughter plants defined as LTP* (LTP) are required to complete only sections A and B of the questionnaire as Full Cost Recovery charges would NOT apply to LTP plants.

SECTION A: BUSINESS PROFILE

1. What type of meat establishment do you operate?
2. If you operate an abattoir which species do you slaughter?
3. Where do you source your livestock?
4. How many approved fresh meat establishments currently operate within your business in the UK?
5. Which of the following categories would best describe the size of your plant(s)?
6. Based on your answer in question 4 how many Full Time Equivalent (FTE) production staff would you employ on average in your plant(s)?
7. In your plant approximately what is your average annual:
 - a. Operating Costs/ Expenses
 - b. Total Sales/ Turnover
 - c. Total Sales/ Turnover Growth (%)
 - d. Gross Profit
 - e. Gross Profit Margin Growth (%)
8. Based on your answer in question 7 would you say this is representative of a typical trading year?

SECTION B: CURRENT CHARGES

9. What is the overall economic/ financial impact of current charges for meat hygiene official controls on your business?
10. In your business approximately what proportion of the current charges are:
11. Based on your answer in question 10; are these proportions subject to variation during the year?
12. Please provide a percentage annual sales breakdown allocated according to the following market types:
 - a. Retail
 - b. Food Service
 - c. Wholesale
 - d. Export
 - e. Direct to Customer
13. Based on your answer in question 12; are these proportions subject to variation during the year?

SECTION C: FUTURE CHARGES (Full Cost-Recovery)

N.B. Slaughter Plants defined as Low-Throughput are not required to complete this section

14. If your business was charged the full cost of meat hygiene official controls as per your current invoices; how would this impact overall on your business if it were introduced over a period of:

- a. 0 Year (Immediately)
- b. 1 Year
- c. 2 Year
- d. 3 Year

15. How significant would this cost be as an approximate proportion of your:

- a. a) Total operating costs?
- b. b) Annual turnover?

16. What impact do you think that charging your business the full costs for meat hygiene official controls would have on the prices you currently charge to :

- a. Retail
- b. Food Service
- c. Wholesale
- d. Export
- e. Direct to Customer

17. i) Approximately what proportion of these full charges would be:

- a. Absorbed by your business?
- b. Passed up the chain to producers/farmers?
- c. Passed down the chain to consumers?

ii) If these proportions differ from those in question 10 please explain the reasons for this?

18. If your business would absorb some or all of the full costs how significant would that be and what impact would this have on the profitability of your business? Please explain your answer.

19. If your plant layout has not been optimised to maximise efficient use of Official Controls and/or resources have not been minimised within your Business Agreement, would full cost charging for meat official controls encourage you to:

- a. Invest in your plant layout and design to reduce the level of resources required to deliver official controls?
- b. Encourage you to review your Business Agreement with FSA Operations to reduce the resources required to deliver official controls?

20. If you operate a poultry slaughterhouse and do not currently employ Plant Inspection Assistants (PIAs), would you consider doing so if full cost charging for meat hygiene controls was being applied and employment of PIAs was more cost effective than utilising Poultry Meat Inspectors?

21. Any other comments and/or information you wish to provide that are relevant to full cost recovery controls for meat hygiene official controls?