

REVIEW OF MODELS FOR DELIVERING OFFICIAL CONTROLS IN APPROVED MEAT PREMISES

BACKGROUND PAPER for FSA BOARD – January 2007

Issues

1. To update the Board on progress with the review of the delivery of official controls in approved meat premises and emerging options.
2. To invite the Board's views on the key strategic issues that will inform future decisions on options.
3. To propose evaluation criteria for the Board to use in February to help select the two or three options to be worked up in detail in phase 2.

Background to the Review Programme

What is the review about?

The Programme is reviewing the delivery of official controls in approved meat premises and considering a range of options for the future, including the current model and alternatives to it.

What is the objective of the review?

To ensure that the delivery of official controls in approved meat premises is providing necessary consumer protection in a targeted, risk-based and proportionate way that represents value for money both for operators and taxpayers.

What is the scope of the review?

The review is considering the delivery of all official controls (including animal health and welfare controls) in approved meat premises in the UK. Official controls are those required by EU regulations¹ and BSE controls covering the safe removal of Specific Risk Material (SRM). Approved meat premises include abattoirs, cutting plans, game handling establishments and other co-located meat plants.

The review covers the whole UK. Currently, the Meat Hygiene Service (MHS) delivers the official controls in England, Scotland and Wales. In Northern Ireland, they are delivered by the Department of Agriculture and Rural Development (DARD). The review will gather information on the Northern Ireland model to identify lessons learned to feed into the options analysis. However, this review will not present any proposals to change the delivery of official controls in Northern Ireland. Any work to prepare such proposals would need to be separately agreed between DARD and the FSA and, if so agreed, would form Phase 3 of this programme.

¹ Regulation (EC) 882/2004 on official controls to ensure the verification of compliance with feed and food law, animal health and welfare rules. Regulation (EC) 853/2004 laying down specific hygiene rules for food of animal origin. Regulation (EC) 854/2004 laying down specific rules for the organisation of official controls on products of animal origin intended for human consumption.

Why are we reviewing the delivery of official controls?

Several things come together to make this a good time for a review:

- Recent EU legislation allows Member States to consider new methods of delivery, including delivering official controls through control bodies.
- The FSA, in line with wider government policy, wants to move progressively to recover more of the cost of delivering official controls and gradually reduce government subsidy to the meat industry (currently c£40m per year for meat hygiene and Specific Risk Material controls).
- Industry has asked the FSA and MHS to consider alternative delivery models that would improve efficiency and effectiveness.
- Difficulties with the delivery of official controls (e.g. as detailed in the Wall report²) have raised questions about how the FSA organises delivery
- MHS Board asked the FSA Board to commission a review and the FSA Board agreed in October 2006.

What will the Programme deliver?

There are two phases to the work.

- **Phase 1** will deliver a long list of options for the Board to consider at its **February 2007** meeting. The Board will be invited to review the options against agreed evaluation criteria and to select the two or three options for further analysis in Phase 2.
- **Phase 2** will deliver to the **July 2007** meeting a detailed analysis of the short-listed options, including impact assessments, cost benefit analyses and assessments of costs, feasibility, opportunities and risks. There will be a recommendation on a way forward, together with a draft Implementation Plan and change management strategy. The Board will be asked at the July meeting to decide on the appropriate way forward.

How is the Programme being managed?

The Programme is being managed by the FSA in partnership with the MHS. It comprises three separate but interrelated projects:

- **Project A**, led by the MHS with FSA input, is looking at options for delivery by a “transformed Meat Hygiene Service”.
- **Project B**, led by the FSA with MHS input, is looking at alternative delivery models.

² “Inquiry into the failure to comply with the requirements to test all relevant 24 – 30 month old casualty animals for BSE” by Professor Patrick Wall, 2004.

- **Project C**, led by FSA with MHS input, is looking at options for charging and cost-sharing.

Under all options, the Food Standards Agency remains the Competent Authority under EU legislation with responsibility to ensure the delivery of official controls and to levy the appropriate charges on the industry. Annex A contains further details of the programme governance and management arrangements.

How are stakeholders being involved?

Phase 1 of the programme is largely internal to the FSA and MHS. We have put a summary of the programme on the FSA and MHS websites with an invitation to submit ideas or comments. We have approached key stakeholders in the industry, unions, other government departments, the devolved administrations and the EU informally and invited them to submit views. The tight timetable for Phase 1 rules out more extensive consultation. Also, we do not want to consult in any depth on options that will not proceed beyond Phase 1 and will therefore not be implemented.

In **Phase 2**, we are planning more formal consultation with a wider range of stakeholders on the specific options identified for detailed analysis. A priority will be to consult with consumers, using the FSA's existing contacts with consumer groups and our work with consumer panels. We see this as key to retaining consumer confidence and building a partnership of understanding between the FSA and consumers around how best to manage and communicate risk in meat hygiene. This is especially critical given BSE history and the recent publicity over lapses in the zero-tolerance testing regime.

So far, the reaction of those contacted has been positive. They say that they welcome a genuinely open, transparent and evidence-based review where the preferred outcome is not pre-specified but will emerge from rigorous and objective analysis.

What are the risks to the Programme?

We have so far identified the following risks:

- **Retaining consumer confidence** – This is our primary objective. Although the preferred option needs to be more risk-based, targeted, efficient and cheaper than the current system, it must not increase the risks to meat hygiene and safety by lowering (or being perceived to lower) inspection standards.
- **Managing expectations** – most interest groups have their own firm views of what the review should conclude and it will not be possible to satisfy all stakeholders. We want them to understand and to be supportive of the process and feel they have been able to contribute positively, whatever the final outcome.

- **Managing the UK's reputation in the EU** – Moving to a more risk-based approach to inspection might lead the European Commission and the Food and Veterinary Office (FVO) to be more suspicious of how we implement EU law and result in damage to our reputation and increased EU and/or FVO monitoring and inspection visits.
- **Working with the devolved administrations** –We need to ask whether 'one size fits all' across England, Scotland and Wales (Northern Ireland already has its own delivery model). The devolved administrations may well have different views on delivery models and the best approach to charging and cost-sharing in their areas of responsibility.
- **Working with other government departments** – We need to ensure that ministers and other government departments support our preferred solution. Key partners include Defra, Health, Treasury and the Better Regulation Executive.
- **Managing the potential impact on smaller plants** – Any proposals to increase charges may be seen to impact disproportionately on smaller plants currently operating at the margin of profitability. This will raise issues around sustainability, rural economic development, local food sourcing and food miles, animal transport to slaughter and diversity and is therefore likely to attract political interest.
- **Managing the impact on the MHS** – We need to understand, appreciate and seek to minimise the risks to current MHS delivery during a time of change and uncertainty. There may be impacts on staff morale, union sensitivities, recruitment and retention and relationships with contractors and plant operators. A related risk is retaining MHS confidence in, ownership of and support for whichever solution is finally agreed, especially if that solution does not include the MHS. This would particularly affect the transitional arrangements.
- **Keeping to agreed time scales** – While Phase 1 is likely to conclude on schedule, Phase 2 will coincide with the May elections in the devolved administrations. The election purdah period could affect the timing of any formal consultation on short-listed options. Depending on the options shortlisted, this in turn might delay delivery of Phase 2.
- **Providing resources** – There may be a need for further resources in Phase 2 to model the options in detail, especially the impact of different delivery and charging schemes. The Programme Manager is currently assessing likely future needs with the relevant project leads.
- **Managing short term financial needs** – The Board will need to consider the transition costs and resource implications of whichever option they finally choose. Changing to a different model for delivery could take at least 12 – 18 months, potentially more if new legislation is required. The Programme will

prepare draft implementation plans, including estimated transition costs, for the short-listed options to inform our decision in July 2007.

These risks are being managed with advice from the Steering Group and colleagues in MHS and FSA. The Board's views on any of these issues would be most welcome.

What progress has been made to date?

Below I have summarised the main conclusions so far from each of the projects that make up the programme.

Project A: Project A is developing a model for a “transformed MHS” that would continue to deliver official controls but in a more risk-based, targeted and efficient way. Key elements of this model identified to date are:

- Building on the MHS foundation of “excellence in the provision of public services” (Cabinet Office Charter Mark) and unrivalled experience and expertise in meat inspection.
- Building better partnerships with government customers (principally FSA and Defra) to deliver a practical, effective and efficient service at reduced cost.
- Moving more resources to frontline delivery and integrating the operational and veterinary management structures to maximise performance.
- Moving to a model where most vets are directly employed by the MHS and work alongside MHS employed meat inspectors in integrated teams.
- Partnering industry to provide a more flexible and responsive service under operating contracts that set out required standards and opportunities for businesses to earn greater autonomy.
- Adopting a charging and cost-sharing regime that incentivises optimum use of MHS services and encourages the industry towards more earned autonomy.
- Investing in first class, fully integrated IT systems to enable effective management decisions, resource deployment and real time exchange of data.

The MHS is currently developing this model further, in consultation with its stakeholders and its customers, including the FSA and Defra.

Project B has identified four broad types of option for the delivery of official controls. In summary, these are:

Option 1 – An integrated farm to slaughter veterinary service. This would bring together the vets doing meat hygiene work for the MHS with those in the State

Veterinary Service doing animal health and welfare work for DEFRA. There would be opportunities for greater vertical integration and a more coherent, joined up inspection and enforcement regime.

Option 2 – Giving some of the delivery back to local authorities where this is the most appropriate and efficient solution locally. We would not recommend the complete transfer of responsibilities back to local authorities, but it may be a good solution for small, low risk plants in rural areas where issues of rural sustainability are important.

Option 3 – Setting up a competitive market of control bodies. Under new EU legislation³, the competent authority can delegate the delivery of official controls to one or more control bodies. Under the legislation, a control body is an independent, impartial third-party, accredited to EN45004⁴ or equivalent, approved and audited by the competent authority to deliver specified tasks under contract. This option is favoured by some in the industry who see it as a means to improve standards, build industry responsibility and reduce costs.

Option 4 – Devolving as much responsibility as possible to the industry itself for the daily inspection tasks, with the government setting the standards to be achieved and then auditing delivery against them. Government would retain the duty to approve premises and responsibility for enforcement. Under EU legislation, this model is currently possible only in the poultry industry, but there may be opportunities to develop it further with poultry producers based on the principle that the industry itself is responsible for producing healthy food and for demonstrating that it has done so.

Project B is currently working up the details of these options. We can also envisage combining elements from the above options to provide a flexible package able to respond to local priorities and needs.

Project C – Project C is working on options for charging, based on the following key drivers:

1. The FSA Board decision, in line with wider government cost sharing policy, to move progressively towards full recovery of the costs of necessary inspection and enforcement.
2. That the charging system should be transparent, and should provide incentives to food business operators to improve levels of compliance and standards and to make more efficient use of inspection resources.
3. The results of the 2007 Comprehensive Spending Review.

³ Regulation (EC) 882/2004 on official controls performed to ensure the verification of compliance with feed and food law, animal health and animal welfare rules.

⁴ EN45004 is a European Standard that sets out general criteria for the operation of various types of bodies performing inspection.

So far, Project C has been developing a set of principles to inform a future charging mechanism, keeping closely in touch with Defra's work on cost and responsibility sharing. Defra and the devolved administrations have recently issued a consultation to farmers and the meat industry on principles for charging and the sharing of responsibility and costs. Our work is consistent with this approach and we are reviewing the extent to which we can join up the different charging regimes. The principles that are emerging include:

- In principle, businesses should pay the full cost of the inspection and enforcement that they require. However, part of the deal is that inspection and enforcement should be no more than is needed and delivered in the most efficient and cost-effective way possible.
- Businesses are primarily responsible for ensuring meat safety. Those that are judged to have excellent systems in place, particularly those meeting recognised Quality Assurance Standards from the major retailers, should be subject to less (and less costly) inspection than others. The amount and therefore the cost of inspection should be proportional to the risks.
- We should move away from the current inflexible, flat rate-rate charging system for official controls to a system that provides an incentive for the business to plan and operate its plants more efficiently⁵.

There remains an issue around the economic vulnerability of small, often rural plants that may not be in a position to pay the full costs of their inspection, whichever charging system is finally chosen. We are in discussion with Defra and its counterparts in the devolved administrations about how we might deal with this situation.

Proposed evaluation criteria for comparing delivery models

In February, once the full range of options has been described, the Board will be asked to evaluate them against a common set of criteria and select a short-list of two or three to go forward to Phase 2. The criteria currently proposed are set out below. **It would be helpful for the Board to review this list at the January meeting and to agree the criteria it wishes to use to evaluate the models.** We can then set out the information on the different models in the most helpful way to assist decision making at the February Board meeting.

The proposed evaluation criteria are:

1. **Safeguards meat safety** - No option should proceed to phase 2 unless the Board is confident that meat safety will not be compromised.

⁵ For example, where some small plants continue to be subsidised, the charges they paid could be in proportion to the time that vets and inspectors need to attend rather than a flat rate per animal processed.

2. **Maintains consumer confidence** - No option should proceed to phase 2 unless the Board is confident that consumer confidence in meat will be maintained.
3. **Includes effective controls and levers for FSA** - As the FSA is responsible for the successful operation of the controls, we need to be sure that we retain sufficient control to ensure compliance.
4. **Builds EU and FVO confidence** - The Board will want to be sure that we propose options that can retain the confidence of the EU and FVO in our delivery of official controls.
5. **Achieves a positive benefit to cost ratio** - Viable options are those where benefits exceed costs and that also hold out the promise an overall reduction in the costs of delivering official controls. The transitional costs should also be proportionate and justifiable.
6. **Includes appropriate incentives for compliance and efficiency** – All options should include appropriate incentives for businesses and inspectors to put good management systems in place and deliver value for money.
7. **Is the basis for a reasonable partnership with Industry** - The Board may wish to favour options that will help build a sustainable partnership with businesses around improving meat hygiene and animal health and welfare.
8. **Helps deliver better regulation** - We might wish to see options that put responsibility for complying with official controls with the business operators and which build ownership and reduce dependency.
9. **Has a manageable impact on staff and ongoing delivery** - The Board will want to be satisfied that the options going forward include a realistic assessment of the impact on existing MHS staff and make adequate provision for consultation.
10. **Is feasible to implement** - The Board will want to avoid any option that is unlikely to work in practice or could only be made to work with disproportionate effort and expense.
11. **Reflects differences and sensitivities across the UK** – The Board will be mindful to ensure that the options have been properly tested against the particular needs and preferences of the devolved administrations.
12. **Includes flexibility for future change** – Options that proceed should include adequate provision for responding to future changes, including in EU law, without requiring fundamental redesign. .

Further questions to consider

I should like to use the January meeting to have a discussion of the work to date, around the following strategic questions on which the Board's guidance would be welcomed.

1. What does success look like for the Board?
2. Are there any "no go areas" for the Board, i.e. things that we should rule out of court at this early stage and not consider further?
3. What does the Board think are the key risks?
4. Some stakeholders have suggested to us that there is a need to keep the delivery of meat inspection in the public sector because "you cannot trust the private sector, as they will always cut corners in pursuit of profit." What is the Board's view of this line of argument?
5. What would be needed for us to trust control bodies to deliver some of the controls and how many such bodies would be needed?
6. Given the Board's policy on moving progressively towards full cost recovery, what approach might be taken to plants that will continue to require subsidy to remain economically viable?
7. How could we recognise and reflect the priorities of the devolved administrations and issues around devolution. Does "one size fit all" across GB?
8. How can we reconcile industry responsibility, accountability, trust and the Hampton Principles with ensuring consumer protection and confidence?
9. Our approach to openness and transparency in managing the Programme. Success is only possible if all stakeholders understand and have confidence in the process, are able to contribute and feel that their input has been welcomed and respected. We need to build support for a proposed solution. What more would the Board like to see?

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