

Regulator Assessment: Qualifying Regulatory Provisions

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|------------------------------|---------------------------------------------------------------------------------------------------------------|
| Title of proposal | Extension of Audit Frequencies at FSA Approved Meat Establishments within England, Wales and Northern Ireland |
| Lead Regulator | Food Standards Agency |
| Contact for enquiries | Colin Snape (Business & Intervention Team Co-ordinator) |

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|-----------------------------------------------------------------------|-------------------------------------|
| Date of assessment | 31/03/2017 |
| Commencement date | 02/01/2017 |
| Origin | Domestic |
| Does this include implementation of a Cutting Red Tape review? | No |
| Which areas of the UK will be affected? | England, Wales and Northern Ireland |

Brief outline of proposed new or amended regulatory activity

Following consultation in 2016, the FSA implemented extended audit frequencies to plants achieving Good-Good audit outcomes.

The change to the regulatory approach for these Food Business Operators (FBO) ensures that the system of setting audit frequencies in England, Wales & Northern Ireland recognises the additional controls and assurances within the meat supply chain displayed by consistently good performers. The achievement of Good-Good audit outcomes represent a measurement of consistently high compliance [compliance with directly applicable EU regulations – the FSA does not require such premises to go beyond the legislative requirements in order to achieve this].

The change now extends audit frequencies for FBOs whom achieve consecutive good audit outcomes. The new audit frequencies therefore recognise 318 businesses whom have achieved consistently high compliance, which allows focused oversight on those premises who remain on standard audit frequencies, in particular 32 and 2 premises respectively whom have been awarded Improvement Necessary and Urgent Improvement Necessary audit outcomes.

Table 1

| | Extended Audit Frequencies | Standard Audit Frequencies |
|------------------|----------------------------|----------------------------|
| England | 277 | 605 |
| Wales | 26 | 26 |
| Northern Ireland | 15 | 43 |

Which type of business will be affected? How many are estimated to be affected?

Of the 992 FSA-approved meat premises across England, Wales and Northern Ireland, 318 eat premises who have displayed consistently high compliance and have been awarded 2 consecutive Good audit outcomes will be affected by this regulatory change. Meat premises who remain on standard audit frequencies are not affected by this regulatory change but could do so if they achieve and maintain consistently high compliance. The breakdown of premises types by country is given in Table 2 below:

Table 2

| | England | Wales | Northern Ireland |
|----------------------------------------------------|------------|-----------|------------------|
| Slaughterhouse or Game Handling Establishment | 86 | 3 | 1 |
| Slaughterhouse & GHE with co-located Cutting Plant | 200 | 22 | 20 |
| Cutting Plants & market stalls (stand-alone) | 596 | 33 | 31 |
| Total | 882 | 58 | 52 |

The food businesses above are involved in the slaughter, cutting and processing of fresh meat and are subject to veterinary control by the Food Standards Agency (FSA) in Great Britain or the Department of Agriculture and Rural Department (DARD) in Northern Ireland. The meat processing operations undertaken in these premises include:

- Slaughter and dressing of red meat species (ranging from 200 to 1.5M cattle, sheep and pig throughput per premises per annum).
- Slaughter and dressing of poultry and rabbits (ranging from 30,000 to 100M poultry throughput per premises per annum).
- Slaughter and dressing of farmed game.
- Dressing of wild game in game handling establishments.
- Cutting of red, white or game meat (ranging from 20 to 150,000 tonnes throughput per annum per premises).
- Production of meat products, minced meat, meat preparations and mechanically separated meat (MSM).

At present, the FSA does not have access to relevant data to measure size of business pertaining to slaughterhouses, cutting plants and game handling establishments. An attempt was made to use the Inter-departmental Business Register (IDBR) to obtain data on the size of business based either on the number of employees or size turnover. However, it has not been possible to align these businesses using IDBR because the corporate structure of many businesses in the meat industry is complicated with the separation of different functions into separate business entities. This would make any FSA analysis speculative and unreliable.

Summary of costs and benefits

| Price base year | Implementation date | Duration of policy (years) | Net Present Value | Business Net Present Value | Net cost to business (EANDCB) | BIT score |
|-----------------|---------------------|----------------------------|-------------------|----------------------------|-------------------------------|-----------|
| 2017 | 2016 | 10 | 1.25m | 1.25m | -0.1m | -0.5m |

Please set out the impact to business clearly with a breakdown of costs and benefits

Costs to Industry

FBO Familiarisation costs (one-off, monetised)

There are 992 approved meat establishments receiving audits in England, Wales and Northern Ireland. The new audit arrangements place no new obligations on FBOs. However, we expect that most managers will wish to familiarise themselves with the new procedures that officials are undertaking in their establishments. Familiarisation costs can be quantified by multiplying the wage rate of the official carrying out the familiarisation by the number of hours required for familiarisation. It is our assumption that it will be the meat establishment manager (wage rate of £30.64¹ - where there is a 20% mark-up is included for overheads) that will familiarise himself/herself, and that familiarisation would take approximately 15 minutes per meat premises. This generates a total cost of familiarisation to meat establishments in England, Wales and Northern Ireland of £7.6k.

In order for 'one-off' familiarisation costs to be compared on an equivalent baseline across policies spanning different time periods, it is necessary to 'equivalently annualise' costs (EAC) using a standard formula.² In line with HMT Green book guidance a discount rate of 3.5% is used. Annualising the total one off familiarisation of £7.6k (see previous paragraph) yields an EAC of £883 in England, Wales and Northern Ireland over 10 years.

Benefits to Industry

Time Saving to FBOs from Reduced Time Required for Audits (on-going; monetised)

The proposal results in a reduction in the number of audits required per annum. Following the introduction of extended audit frequencies on 2nd January 2017, 277, 15 & 26 meat premises in England, Wales and Northern Ireland respectively whom had achieved at that point in time 2 consecutive 'Good' FBO audit outcomes will be subject to 205, 14 & 15 fewer audits per annum respectively. This is a benefit to businesses, which can be monetised in terms of a time saving. This benefit to industry arises from a reduction in the time that a FBO of a consistently compliant plant needs to allocate to prepare for inspection and deal with FSA officials during the site visit and follow up. To calculate this time saving we can multiply the reduction in the number of audit hours per annum in England, Wales & Northern Ireland (2,082) by the wage rate of the manager whom would need to attend the audit inspection (£30.64 – inclusive of a 20% mark-up for overheads). This generates a total per annum saving to businesses in the sector of £63.8k in England, Wales and Northern Ireland. This leads to a total net present value of £549k over 10 years.

Reduced Cost to FBOs from Lower Audit Payments (on-going; monetised)

Food Business Operators pay for having an audit carried out on their premises. This payment

¹ Wage rate obtained from Annual Survey of Hours and Earnings 2016 (Provisional). Mean hourly wage rate of 'Production managers and directors' was used, £25.54, plus 20% overheads, totalling £30.64.

² $EACB = PVCB/a_{tr}$, Where a_{tr} is the annuity rate given by:

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

PVCB 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.

consists of the wage cost of the FSA/DAREA auditor conducting the audit (£39 England & Wales; £48.85 Northern Ireland) less any discount applied by the FSA. Under the new proposal, the number of audit inspections per annum carried out at consistently compliant establishments will reduce. This regulatory change is expected to lead to a reduction in the number of audit inspection hours in England, Wales and Northern Ireland of 2,082 in total. This generates a total cost saving to FBOs in England, Wales and Northern Ireland of £82k, exclusive of any discount subsequently applied. This leads to a total net present value of £709k over 10 years.

Costs to Enforcement**FSA Familiarisation costs (one-off: monetised)**

Implementation of this option will generate a familiarisation cost to FSA enforcement officers who will need to familiarise themselves with the new changes. Familiarisation costs can be monetised by multiplying the wage rate with the hours required for familiarisation. We envisage that it will take an official about 15 minutes to read and familiarise themselves with the changes. Multiplying the number of officials in each occupational groups by their respective 'Charge out' rates and then again by the time required by official (0.25 hours) generates a total cost of familiarisation of £3k to the FSA.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score

N/A