

# Cost Data Presentation 2016/17

May 2016

# Cost Data Presentation 2016/17

## Agenda

- Purpose of the meeting
- Official control hourly rates
- How are the rates calculated?
- Conclusion
- Improvement during 2015/16
- Review

# What is the purpose of the meeting?

- The presentation of the cost data for meat industry hourly charge rates for 2016/17
- To clarify and provide transparency on:
  - Direct and indirect essential support costs of official controls
  - Process to calculate hourly rates
  - FSS compliance with EU and Scottish charging rules

## How are the meat rates calculated?

- Direct cost per chargeable hour is calculated using information from 2015/2016
- Indirect cost of meat official controls is calculated using information from 2015/2016
- Both have been approved by the Director of Operations and Head of Corporate Services
- Only the meat related indirect cost is included in the hourly rate calculation

# Background to Calculation

- The meat industry is charged under Annex VI (EC) 882/2004 which comprises:
  - Salaries of the staff involved in the delivery official controls
  - Other staff costs associated with official controls delivery, including facilities, tools, equipment training and travel
  - Laboratory analysis and sampling costs

# Official control hourly rates

- Direct costs have increased by 3.37% approx
- Indirect costs have increased by 25.17% approx
- Chargeable hours
  - OV down by 2.34%
  - MHI up by 7.99%
- Increase in OV rate is driven by the reduction in chargeable hours of 2.34%; direct costs increased by 1% = +35p; indirect costs have also increased by 18% = +71p
- Increase in MHI rate is due to the transfer of staff to SG terms & conditions; direct costs have reduced by 1% = -11p; indirect costs increase as above

# FSS/FSA charge 2015/16 to 2016/17

## FSS Charge

Grade	2015/16 Rate	2016/17 Rate	Change	% difference
OV Normal	£39.05	£40.11	£1.06	+2.7%
MHI Normal	£29.57	£30.17	£0.60	+2%

## FSA Charge

Grade	2015/16 Rate	2016/17 Rate	Change	% difference
OV Normal	£38.00	£39.00	£1.00	+2.6%
MHI Normal	£29.60	£30.20	£0.60	+2%

# Industry official controls hourly rates 2016/17

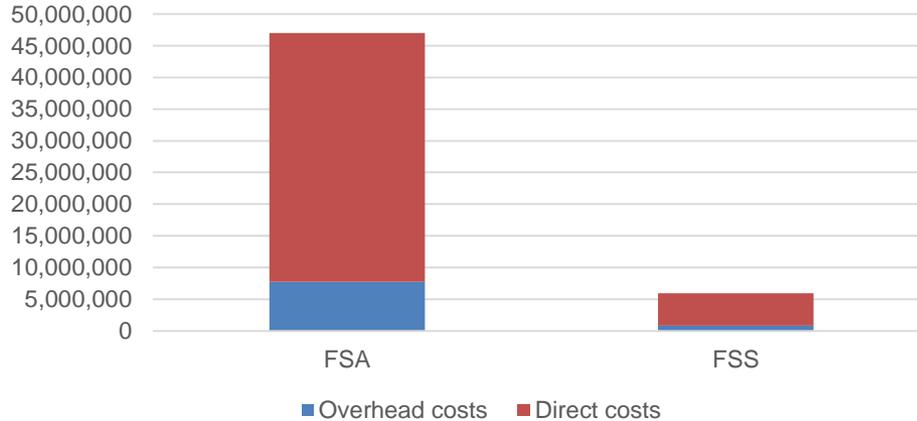
	MHI	OV	Total
Direct Costs	£3,241,895	£1,875,734	£5,117,629
Indirect Costs	£581,554	£242,324	£823,878
Total costs	£3,823,450	£2,118,058	£5,941,507
Chargeable hours	126,715	52,800	179,515
Charge rate before discount	£30.17	£40.11	

# Meat Industry Costs

	Scotland Direct costs 2015/16	Scotland Direct costs 2016/17	Variance
<b>Direct Costs</b>			
Employed staff costs	£2,524,722	£2,497,087	£-27,635
Contractor costs (plus Contract OV's for Scotland)	£2,228,790	£2,400,132	£171,342
Laundry/equipment costs	£32,109	£68,816	£36,707
Front-line travel costs	£130,000	£109,747	£-20,253
Sampling & Testing	£35,000	£41,847	£6,847
<b>Sub total direct costs</b>	<b>£4,950,620</b>	<b>£5,117,629</b>	<b>£167,009</b>
<b>Indirect costs</b>	Scotland Indirect costs 2015/16	Scotland Indirect costs 2016/17	Variance
Operations Support	£181,029	£116,473	£-64,556
Corporate Services (inc IT)	£308,799	£488,369	£179,570
Human Resources	£67,784	£74,396	£6,612
Depreciation/amortisation	£55,357	£82,640	£27,283
Legal, Regulatory & Science Policy, Enforcement, Science & Surveillance	£0	£3,898	£3,898
Communications	£14,283	£14,114	£-169
Private Office and Board Support	£30,959	£43,988	£13,029
<b>Sub total indirect costs</b>	<b>£658,211</b>	<b>£823,878</b>	<b>£165,667</b>
<b>Total costs</b>	<b>£5,608,831</b>	<b>£5,941,508</b>	<b>£332,677</b>
<b>Total meat industry cost (84%)</b>	<b>£4,711,418</b>	<b>£4,990,867</b>	<b>£279,448</b>

# Cost comparison FSS/FSA

Chart showing overhead costs as a proportion of the total costs



- FSA overhead is 16.53% of their total cost
- FSS overhead is 13.87% of their total costs

# Discount & Transitional Funding

## Discount

- Calculated using
  - throughput data
  - exchange rate

## Transitional Funding

- Capped
- Worked out using last years FSA model
- Re-calculation when STOW model becomes available
- Worked out on a group
- Establishments in receipt of 90% discount do not qualify for transitional funding

# Comparing FSS / FSA charges after discount 2015/16 with 2014/15

## Headlines

- Red meat slaughter
  - Overall FSS are charging industry 3.39% less than FSA
  - 4 establishments would have paid more but FSS are providing transitional funding totalling £68,145
  - 50% of establishments will be charged less this year than last
- Poultry slaughter
  - FSS are charging industry 30.8% more than FSA
  - 1 establishments would have paid more but FSS are providing transitional funding totalling £174,382
  - 1 establishment will see an increased charge due to individual circumstances
- Game establishments
  - FSS are charging industry 12.68% less than FSA
  - 6 establishments will pay more, 1 of which will receive transitional funding of £5627
  - 36% on establishments will be charged less this year than last

# Audit charges 2016/17

## Fixed cost

- Standalone slaughterhouse = £305.65
- Co-located establishment = £427.92
- Cutting Plants = £305.65

	2015/16	2016/17	Variance	%
Slaughterhouse	259.50	305.65	46.15	+17.79%
Co-located est.	363.30	427.92	64.62	+17.79%
Cutting Plant	259.50	305.65	46.15	+17.79%

- Partial Audits – hourly basis
- Unannounced Inspections – hourly basis

# Conclusion

- 50% of slaughter establishments will see a reduction in their costs from last year
- Cutting plants are charged on a fixed cost basis for audit and full cost recovery basis for unannounced inspection
- In most cases any increase in charge at an industry level will be absorbed by FSS through the transitional funding arrangement

# Improvements made during 2015/16

- Invoice details sheet
- Provision of detailed hours information
- Low throughput establishments have moved to a 90% discount on actual hours worked

# Reviews

FSS are committed to ensuring effective and efficient controls are in place to protect the consumer. During 16/17 we intend to:

- Complete an internal audit which will look at the processes in place in relation to meat hygiene charging (e.g. calculation of the charge rates, discounts and issuing of invoices)
- Implement any audit recommendations to further develop our internal processes, ensuring they are as efficient as possible
- Consider commissioning an external review of the charging system to provide third party assurance on its effectiveness
- Work with Scottish Government economists to ensure the system continues to deliver the principles of the charging model agreed by Ministers during the programme to transition from FSAS to FSS.