National Audit Office

NAO Efficiency Review

Food Standards Agency – The Delivery of Meat Hygiene Official Controls

The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government. This document was prepared by the NAO for the Food Standards Agency under Terms of Reference agreed in January 2013. Our findings are based on representations and data provided by the Food Standards Agency, and representations by interviewees from other organisations, and we are grateful to each for their assistance. The data included within the document, and analysis performed by the NAO on the basis of these, was provided by the Food Standards Agency solely for the purpose of this document. We did not validate the data provided, beyond checking that it was internally consistent.

The document was produced by the NAO's Regulation, Consumers and Competition team, which specialises in audits and reviews of regulators and of government departments that implement regulations. The NAO study team consisted of: Simon Banner, Elena Bechberger, Martin Malinowski, Ivan O'Brien, Anna Sydorak-Tomczyk and Peter Grummitt, under the direction of Alex Scharaschkin. Find out more about the work of the Regulation, Consumers and Competition team at: http://www.nao.org.uk/search/type/report/sector/regulation-consumers-and-competition

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Glossary of key acronyms used

Acronym	Meaning
FSA	Food Standards Agency
MHS	Meat Hygiene Service
GB	Great Britain
NI	Northern Ireland
DEFRA	Department for Environment Food and Rural Affairs
DARD	Department of Agriculture and Rural Development
LV	Lead Veterinarian
OV/VO	Official Veterinarian (in GB; Veterinary Officer in NI)
MHI	Meat Hygiene Inspector
PIA	Poultry Inspection Assistant
CPLU	Cost Per Livestock Unit
HPLU	Hours Per Livestock Unit
IUWT	Idle Unworked Time
FBO	Food Business Operator

Executive Summary

The Food Standards Agency has considerably reduced the costs of official controls over the last few years, mainly through reductions of both operational and back-office staff. The potential for achieving further savings through this approach is limited and there would be increasing risks to the quality of inspections provided, but there is some scope for further incremental savings through operational improvements. The wide variation in inspection efficiency across Food Business Operators (FBOs) shows a large potential for further savings, but the FSA has limited influence on this due to the strong interdependency of inspection time and costs with FBO operations and technology, and a charging system which does not incentivise efficiency. Therefore a step change in efficiency can only occur through more effective engagement between the FSA and other stakeholders, and a more integrated and strategic approach to pursuing, incentivising and measuring efficiency.

Key Messages	Summary of evidence & findings
1. How efficiency is defined is important	**The FSA has a strategic objective of efficiency through a risk-based and proportionate system of regulation, but links between this and its intermediate 2015 cost savings target are unclear** • Improving efficiency can either mean using fewer inputs for the same outputs/outcomes, or doing/achieving more with the same inputs • FSA's efficiency objective is a cost savings target (to save £5m by 2014/15 against a 2010/11 baseline of £55.5m costs to industry) as part of its wider ambition to deliver EU regulations at minimal cost • It uses Cost per Livestock Unit (CPLU) as its formal indicator of efficiency, which links costs and activity levels well, alongside a wider basket of measures • 'Efficiency' is not an explicit strategic objective, but FSA told us that it is a key internal objective which it pursues through its 'proportionate and risk-based' objectives and work to improve compliance
2. FSA has variable influence over efficiency factors	**FSA's influence over the factors impacting its efficiency varies widely, largely due to the strong interdependencies of its operations with those of FBOs and its lack of direct control over the legal framework and charging/discount system; it is developing its approach to influencing these factors more strategically** • Many factors affect FSA's efficiency and it has variable influence over these • The FSA has little if any influence over some factors affecting efficiency such as industry structure and seasonal factors • The FSA has considerably more influence over matters such as its own internal organisational structure, staffing numbers and roles, and in its choices about use of contractors, and has generated cost savings through actions in these areas. • There are other factors where the FSA has relatively less, but still some influence, and where there is potential to achieve further savings. Most of these factors depend on FSA engagement with others to unlock this potential: for example, engaging with FBOs and industry on how the total charges borne by industry could be restructured to improve efficiency incentives; and engaging with staff and unions on flexible working. In some of these areas the FSA has done less, and could be more proactive and engage more effectively with others.

Executive Summary

Key Messages	Summary of evidence & findings
3. FSA has reduced costs and staff numbers significantly, but there are considerable cost differences between inspections at different operators and the link with inspection quality and compliance levels is not analysed systematically	**The FSA has achieved considerable cost savings since 2005/06, but there are strong variations of inspection costs per livestock unit across operators; the impact of cost reductions on inspection quality is not well understood, and understanding this will become even more important in the future now that "quick wins" in cost reduction have been largely exhausted** • The total costs of meat hygiene delivery have fallen by 40 per cent in real terms between 2005/06 and 2011/12; in 2013/14, 56 per cent of total costs are to be recovered through industry charges • FSA has reduced Cost per Livestock Unit over time, but plateauing inspection time (HPLU) suggests that the potential for achieving further savings through staff reductions in the current operating model is minimal • There are considerable variations in inspection costs across operators, to the extent that the cost of inspecting a livestock unit in the most expensive operators is nearly 17 times higher than the least expensive • Utilisation rates of staff have improved and overtime rates have remained stable • FSA in GB has useful information on costs and monitors various aspects of inspection quality and FBO compliance, but the link between cost reductions and the potential effect on inspection quality is not analysed systematically • This link is becoming more important as further cost reductions become harder to achieve
4. Our analysis indicates scope for further savings but some will require changes beyond the FSA's direct control	**Our comparative analysis indicates that scope remains for further cost reductions and efficiency gains, some of which would require fundamental changes to the wider model of official controls and the incentive structures created through the charging and discount system** • The charging and discount system is complex, subsidises certain operators unfairly on the basis of historical data and can penalise operators for investments through higher charges • This not only makes it costly to administer but also does not create the right incentives for operators to become more efficient, which in turn negatively impacts the efficiency of meat hygiene inspections • If the large variation in inspection costs between operators reduced, there could be considerable FSA cost savings (potentially £9m at average efficiency), but the FSA has currently limited leverage to impact improvements • FSA back office costs appear high relative to other public organisations, although they are falling quickly due to a considerable reduction in staff numbers since 2006/07

Executive Summary

Key Messages	Summary of evidence & findings
5. Achieving efficiency in future carries risks and requires a more structured cost reduction approach	**The FSA will need to adopt a more structured approach to cost reduction in future to achieve further savings while at the same time managing risks such as a potential detrimental impact on inspection quality, consistency and responsiveness/flexibility** • Achieving greater efficiency in future carries risks; for example, the replacement of FSA-employed staff with cheaper contractors entails the risk of a negative impact on inspection quality and consistency • In the past the FSA has made progress in cost reduction through a number of individual initiatives, but the importance of well-developed programme management is now increasing and the FSA has started to take actions which should lead to a more structured approach
6. Recommendations	**Through our fieldwork we have identified positive actions by the FSA but also a number of limitations or risks to efficient delivery of official controls, and we propose recommendations aimed at addressing or managing these more effectively. Key elements drawn out from these are:** • Developing further and communicating longer-term objectives, and linking these more strongly to intermediate objectives, resourcing and contracting decisions • Prioritising more clearly, for example objectives and initiatives, where they may conflict or where resources are limited, and where there may be merit in phasing initiatives over time and allowing more time to evaluate their effectiveness • Gaining a stronger understanding of the links between costs and activity on one hand, and quality on the other, and using this to enhance management of contract performance • The need to reform the charging and discount system • Building on its steps to improve programme management capability, with particular focus on identifying and recognising interdependencies, and using this to enhance stakeholder engagement which can play a crucial role in improving the efficiency of official controls

Recommendations and supporting findings 1 (GB)

Findings	Recommendations
1. Objectives 1.1 The FSA's planning horizon currently extends to 2015, the end year of its internal target to reduce costs by £5m. FSA management have not yet communicated a vision for efficiency of delivery beyond 2015. 1.2 The FSA has a strategic objective of efficiency through a risk-based proportionate system, but links between this and its intermediate objective (the 2015 target) are unclear.	a. The FSA should develop its horizon planning, so that it can always articulate a medium-term vision for a minimum fixed period (say three years) ahead. As an example, some government departments and sector regulators produce business plans for three years ahead. A clearer articulation of its longer-term vision would help inform the steps it needs to take before then in order to achieve that vision. b. Since there is uncertainty about future developments such as European Union decisions, the FSA could make use of scenario planning techniques to inform its longer-term vision. c. The FSA should articulate more clearly what its strategic objective means in practical terms, including a stronger link to its intermediate objectives.
2. Delivery model 2.1 The FSA has begun work on proposals for its future delivery model, but this is still in its early stages.	d. The FSA should develop its proposals for its delivery model, linking these clearly to its longer-term vision and its strategic and intermediate objectives.
3. Initiatives 3.1 Much of the legislative requirements administered by the FSA that FBOs must comply with are established in EU law. Several interviewees considered that the FSA could be more flexible in its interpretation of legislative requirements and compliance, which would reduce both FBO costs and FBO demands for FSA resource.	e. The FSA should keep under review its existing interpretation of EU legislative requirements, and take soundings across all stakeholders and across other member states, to identify whether there are areas where an alternative interpretation could be made to improve efficiency without adversely affecting quality.
4. Programme management 4.1 The progress in cost reduction that the FSA has made to date historically has been through individual initiatives, rather than managing initiatives as a programme. As a result its programme management capability is immature. It has however undertaken steps to start addressing some of this immaturity, for example establishing a Change Portfolio Board, with programme management specialist staff and an approved Strategy for programme management. 4.2 The FSA has described to us a large range of initiatives it has started or proposes to undertake in the next 12-18 months, across the spectrum of its meat hygiene official control activities and beyond. This is a large number of initiatives to manage, and there are risks that without careful management the benefits of these initiatives will not be fully realised, or that business as usual activities may be adversely affected. 4.3 The importance of well-developed programme management is increasing now that "quick wins" in cost reduction have been largely exhausted, and because of the wide range of initiatives that the FSA is undertaking in the next 12-18 months.	f. The FSA needs to build on the initial steps taken in developing its programme management capability. This development should be subject to regular review to ensure that capability is improving towards the objectives set out in the terms of reference and strategy for the programme management function. g. The Change Portfolio Board should review the range of initiatives currently proposed for the next 12-18 months, and assess whether some initiatives should be prioritised, with others deferred to beyond the short-term horizon. This review will require careful consideration of the costs, benefits, achievability and risks of proposed initiatives, and the interdependencies between initiatives and their fit with the FSA's vision and strategic objectives.

Recommendations and supporting findings 2 (GB)

Findings	Recommendations
5. Structures and roles, skills and resourcing 5.1 The FSA introduced a new field management structure from April 2012 and told us this has reduced the number of roles and costs within the organisation. FSA interviewees pointed to a degree of duplication in some roles and that decision-making can be slow. The FSA is preparing to undertake reviews of structures and roles, partly to address these points. 5.2 The Capability Review identified that the FSA does not yet have a resourcing model. 5.3 The age profile of field staff is weighted towards older age groups. In part this is because the FSA did not recruit any staff between 2006 and late 2012, when 8 new inspectors were recruited. While this is not an immediate issue, there is a risk that the FSA will face a loss of skills and experience as this section of the field staff reach retirement age. 5.4 Most industry interviewees considered that current terms and conditions for inspection staff were overly generous and had a negative impact on the flexibility of inspection. We have not independently analysed or verified those views. 5.5 A number of interviewees among industry considered that there is too much inconsistency across decisions by different OVs.	h. The FSA needs to develop its formal resource model so that it can manage risks around the age profile of field staff. This needs to be done in conjunction with its thinking about the delivery model and choices about the expectations of quality and staff roles, so that there is a clear understanding of skills needs, any skills gaps, and the actions necessary to address any gaps. i. The FSA should engage with staff and unions to assess whether there is scope for more flexible working and other changes in terms and conditions. The FSA should consider an independent review, or its own review with external input, and be as transparent as possible to stakeholders in communicating the process and outcomes of the review. j. While responsibility for training OVs sits with contractors under the FSA's contracting model, ultimately the FSA is responsible to FBOs for decisions made by its contract staff. The FSA should engage with both contractors and FBOs to understand the nature, scale and impact of this inconsistency and, if necessary, to identify remedial action such as changes to training.
6. Charging and discounting 6.1 While FSA can be efficient or inefficient in its own use of resources, FSA inspections and the use of FSA resources by FBOs are heavily interdependent. How FBOs use FSA resources has a strong impact on FSA efficiency, while how FSA charges FBOs strongly influences the efficiency of FBO use of FSA resources. It therefore makes sense to talk about the efficiency of the system as a whole. 6.2 The current charging and discount system, combined with EU minima, does not provide FBOs with incentives to use FSA resources efficiently. The system is also complex, which adds to administration costs and the likelihood of error and disputes with industry and its representatives, and the allocation of discounts to individual FBOs lacks any obvious rationale. 6.3 The FSA is establishing a working group with industry to identify improvements to the charging and discount system.	k. The FSA should set clear criteria for reform of the element of charging that is to be reviewed by the Charging Reform Group, in the way that the Tierney Review established aims for the current system. The criteria should be evaluated so that potential conflicts are identified and prioritised. It will be essential to engage effectively with FBOs and industry representatives. The proposals are likely to affect different FBOs in different ways and it will be important for the FSA to consider distributional impacts of proposals. l. As proposals are developed by the Group, the FSA should use modelling, sensitivity analysis and scenario planning, and consider piloting, to review whether the proposals are likely to meet the reform criteria. There is a limited amount of time available for introduction by the 2014/15 financial year as FSA intends, and the FSA should formally consider alternatives to ensure that there is sufficient time to plan for a revised system, for example deferral or phased implementation.

Recommendations and supporting findings 3 (GB)

Findings	Recommendations
7. Direct and indirect costs 7.1 The costs to the FSA of inspections at some plants are substantially greater than could be expected given factors such as plant scale and species processed. The FSA has useful data on costs at plant level, and FSA management reviews variances at plant and area level, but has not historically made full use of analytical techniques to identify and review variances. 7.2 Our analysis (with caveats) indicates that historically FSA and MHS back office costs were relatively high compared to other public service organisations. The FSA has reduced staff numbers and associated costs at a fast rate since merger with the MHS from these historic high levels. 7.3 In our interviews, a number of FSA staff felt that support from the back office to field staff was not well joined-up, for example in timeliness of requests for supplies. The work of OVs and meat inspectors is challenging, and there is a risk that back office cost reductions could affect the quality of support to field staff if it is not measured.	m. The FSA should consider building on its existing reviews of costs by using regression analysis to identify more clearly what costs should look like and to investigate variances from expectations. n. The FSA should review the quality of support provided by the back office to field staff, to clarify the level of service expected and monitor whether this is being delivered, particularly where cost reductions are made.
8. Working with contractors 8.1 The new contracting model adopted from April 2012 provides benefits to the FSA, for example through allowing contractors to allocate resources more flexibly over a wider area, but there are also risks in this model that longer-term costs could increase if, for example, competitive pressures are not sustained through the new model. The mechanism for reimbursing contractors (fixed price for OVs) also reduces FSA costs, but introduces risks if the quality of OV inspections is not carefully managed. 8.2 The managed service model also provides benefits to the FSA if contractors use their greater degree of freedom, coupled with a wider coverage, to perform well under the contract. There are some areas where the FSA's management of the contract may not yet work to deliver this full potential, for example achieving the right balance between the intended managed service and FSA intervention in contractor activities; some duplication of FSA and contractor roles; the quality and timeliness of information sharing; and the link between contract KPIs and intended contract outcomes.	o. With regard to the existing contracts, the FSA should work with contractors to make sure that the contract performance indicators and intended outcomes are more clearly aligned, and that the information necessary to manage the contract is more effectively shared. p. For the longer-term, it is important that the FSA first decides on and formalises its vision and target operating model, which it can then use to establish its resourcing model, skills needs and gaps. Decisions on these should then inform the FSA's thinking on whether it has the right contracting model, or whether changes need to be made due to skills needs, or due to the risks associated with the current "two supplier" approach.

Recommendations and supporting findings 4 (GB)

Findings	Recommendations
9. Stakeholder engagement 9.1 Others (FBOs, the European Union) have more direct influence than the FSA over many of the factors that affect efficiency, and it is important that the FSA engages with these other stakeholders effectively to be able to address inefficiencies. The Capability Review pointed to some strengths in engagement with stakeholders, but also areas where engagement could be significantly improved. Industry and FBO interviewees we spoke to were mostly positive about improvements in the FSA's engagement recently, while commenting that it could still be improved further. 9.2 Stakeholder engagement is planned and occurs across a range of FSA activities and initiatives, at both programme and individual initiative levels.	q. The FSA is starting to take a more programme-level approach to stakeholder engagement. As its programme management work and capability develop, the FSA should use the opportunity to build in developing, co-ordinating and testing the quality of its engagement with stakeholders.
10. Measurement, evaluation and feedback 10.1 FSA in GB has useful information on costs, and the FSA's efficiency indicator links costs and activity well. The FSA also monitors various aspects of inspection quality and FBO compliance, but the link between cost reductions and the potential effect on inspection quality is not measured or analysed systematically. As a result the FSA cannot measure formally whether cost reductions have an adverse impact on quality. 10.2 The quality of inspections is checked through a variety of audits undertaken by (for example) OVs, LVs and FSA internal audit. Most audits of the work of OVs are undertaken by the same OV. Although other audit processes are undertaken through the system, this particular element introduces risks that quality issues among individual OVs are not detected. 10.3 To date evaluation of initiatives, and learning lessons from them, has tended to take place informally and has not always been well documented. Evaluation has taken place at project close, but not at a later date to capture post-project effects. 10.4 FSA field staff that we spoke to considered that mechanisms for learning and sharing across the organisation lessons that might improve efficiency, and ways of engaging with field staff more generally, could be improved.	r. The FSA should build on its existing measures of efficiency toward a more complete assessment. As no single quality measure provides a complete answer, the FSA should draw together indicators and other intelligence on quality, particularly trying to understand the relationship between cost and quality at local levels where the impact of cost reduction may be more visible. s. Alongside review of quality measures, the FSA should review whether current audit mechanisms could be adapted to provide greater assurance that any individual quality issues are identified through, for example, reallocating roles and responsibilities. t. The FSA should undertake a formal evaluation of each significant initiative that it undertakes. This should include: incorporating plans for evaluation into the initiative before it is launched; processes for ensuring that formal evaluation takes place as planned; documenting the lessons from evaluations and how they have been disseminated; and allowing sufficient time for lessons to be learned and applied before further initiatives in related areas are launched. u. The FSA should examine, with input from field staff, its mechanisms for learning and sharing lessons across the organisation, and identify and implement improvements to learning processes and communication channels.

Recommendations and supporting findings 5 (NI)

Findings	Recommendations
1. Transparency of costs and charges 1.1 FSA in NI currently lacks detailed information about the calculation of DARD overhead costs which are added to the cost of hygiene controls carried out by DARD and charged to the FSA. A review of overheads was carried out which identified overheads that are no longer relevant to the delivery of official controls. This prompted a request for further review which has not yet been completed and no firm deadline has been set for this. 1.2 Some interviewees among FBOs and industry representatives considered the charges to industry to be insufficiently transparent. Representatives of farmers that we interviewed said that the lack of transparency in charging goes further, allowing some parts of industry to levy charges on farmers which they said were disproportionate to the charges that industry itself bears.	a. The second stage of the review of back office overheads by DARD should be expedited to provide enhanced transparency on associated costs. b. The FSA in NI should review its charging structure arrangements to assess whether it could make charges more transparent to all stakeholders, while at the same time working through the potential implications of different options to minimise the risk that any such action has an adverse impact on competition in the market.
2. Systems and processes 2.1 There are compatibility issues between the time recording and IT charging systems used by DARD, so that a manual transfer of time records into the charging system is required. This increases administrative effort and costs.	c. The FSA in NI should encourage DARD to appraise the costs and benefits associated with streamlining its IT systems in order to facilitate more efficient data collection, in considering how to address these compatibility issues.
3. Structure & roles 3.1 Some interviewees questioned the need for Senior Meat Inspectors to be present in each plant and the need for 3 FSA Regional Managers given the limited structure and size of the industry.	d. The FSA in NI should encourage DARD to review its organisational structure and roles to ensure they provide efficient coverage of the size and structure of the industry it regulates. It should engage with FSA in GB to learn lessons from the experience of restructuring there.
4. Terms and Conditions of staff 4.1 While industry views of the service provided by FSA in NI and DARD have been strongly positive, there were also strong views that the current terms and conditions for inspection staff were overly generous and had a negative impact on the flexibility of inspections. We have not independently analysed or verified those views.	e. The FSA in NI should encourage DARD to engage with staff and unions to assess whether there is scope for more flexible working and other changes in terms and conditions. The FSA should consider an independent review, or its own review with external input, and be as transparent as possible to stakeholders in communicating the process and outcomes of the review.

Recommendations and supporting findings 6 (GB and NI)

Findings	Recommendations
1. Impact of devolution 1.1 Devolution affects the structuring and co-ordination of FSA activities in GB and NI, which in turn can affect the FSA's efficiency. There is currently little systematic and comparative analysis of management information between NI and GB which means that opportunities for benchmarking and sharing good practice may be missed. This risk is likely to increase, as there are currently plans for further devolution of responsibilities (i.e. in Scotland).	a. The FSA in GB and in NI should engage to identify opportunities for greater use of comparative analysis across countries, and for learning and sharing lessons about efficiency and efficiency initiatives.

Our review: aim and scope

Aim:
To identify whether the official controls required for the UK meat industry under European and UK legislation are delivered by the FSA as efficiently as possible.

Scope:

We reviewed the delivery of UK meat hygiene official controls by the Food Standards Agency in Great Britain and those delivered by the Department of Agriculture and Rural Development in Northern Ireland on behalf of the FSA.

The official controls include:

- Approval of meat establishments
- Inspection and verification tasks by Meat Hygiene Inspectors and Official Veterinarians to ensure FBO compliance with EC regulations
- Auditing tasks at approved meat establishments to ensure compliance with EC regulations

The review covered both frontline and support functions.

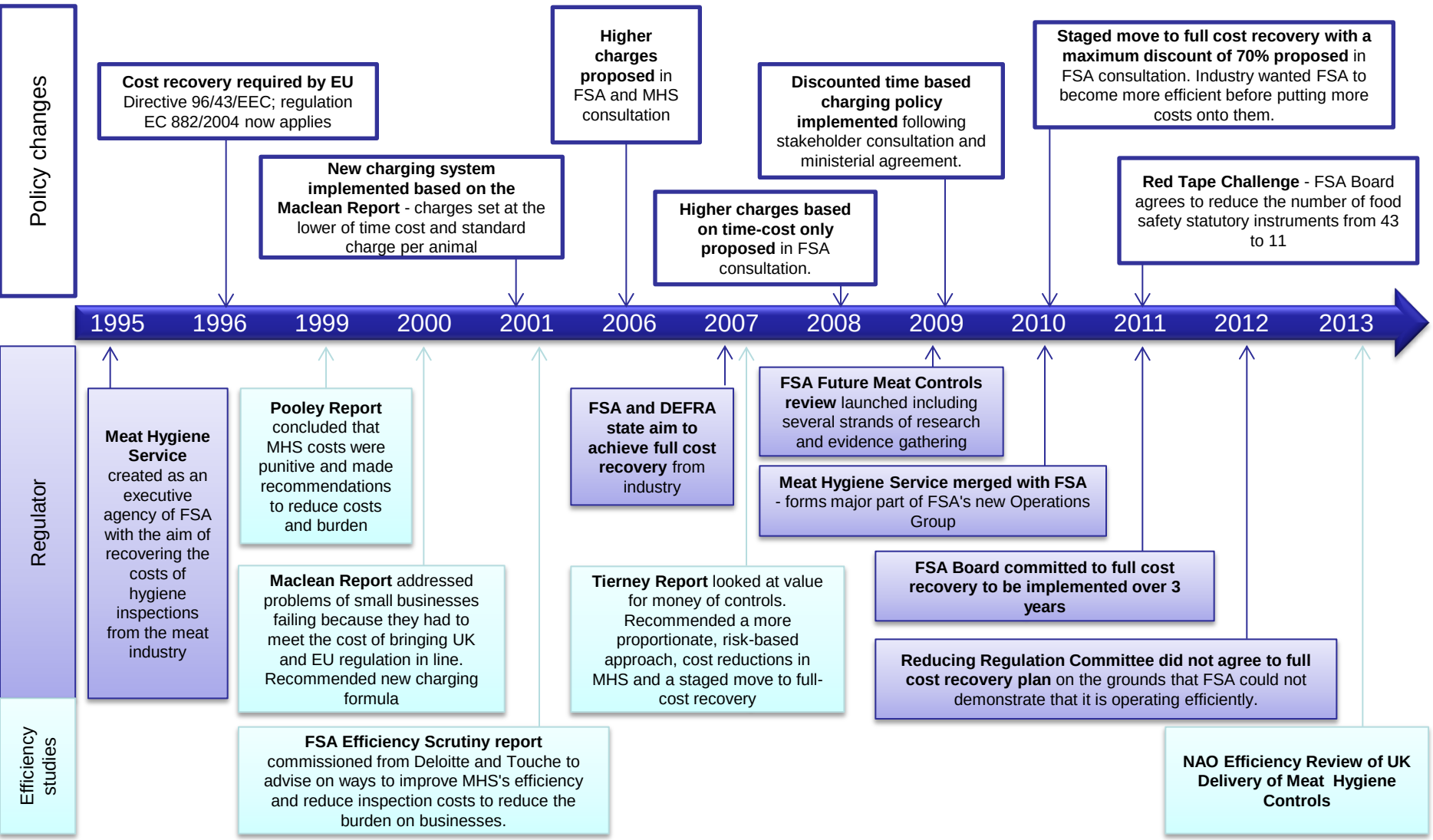
Summary of our efficiency criteria

Criteria	Is "efficiency" clearly defined?	Is FSA exercising influence effectively over efficiency factors?	Do indicators show that FSA is becoming more efficient?	Does comparative analysis show scope for greater efficiency?	Is FSA adopting a structured cost reduction approach for future efficiency?
Questions	How is efficiency defined? What are FSA's objectives for efficiency?	What factors affect efficiency? What influence does FSA have; what constraints? How does FSA make effective use of its influence?	Is FSA becoming more efficient, using its own measures? Is FSA becoming more efficient using other evidence on efficiency?	Is there significant variation in FSA costs at different FBOs? What factors drive those variations? What are the likely indications about FSA's indirect costs relative to others?	What is FSA's longer-term vision for efficiency? How will FSA get there? How will FSA know that it is achieving its vision?
Methods	Discussions with FSA Analysis of corporate documents and information	"Influence workshops" with FSA management and staff in GB and in Northern Ireland Site visits Meetings with FBOs & others in the industry	Analysis of FSA costs, staff numbers, throughput, overtime. idle time, absence Analysis of use of contractors	Regression analysis of FSA costs, throughput Analysis of time recording Comparison of indirect costs with those of other organisations	Identification of "good practice" from other NAO work Comparison of FSA actions to "good practice"

Our review methods

Method	Purpose
1. A series of interviews including: ▪ FSA Management (GB and NI) ▪ Wider FSA (field staff, internal audit, unions) ▪ External stakeholders (FBOs, representatives of FBOs and of farmers, contractors, DARD)	To capture views about meat hygiene oversight activity and its efficiency
2. A series of workshops in GB and NI with ▪ LVs, SDMs, MHIs ▪ Small operators ▪ Large operators	To get the views of FSA operational staff as well as views of larger and small producers on the FSA meat hygiene inspections delivery and where improvements could be made
3. Influence workshops with FSA Management (and DARD Management in Northern Ireland)	To identify factors that effect the FSA's efficiency, and to rank their importance. To identify the FSA's ability to exert influence over these factors; as well as to assess if FSA is using all of its available tools for this
4. Regression and frontier analysis of inspection cost data	To identify relationship between different variables (e.g. inspection costs and throughput and its type, idle time and discount, etc.)
5. Indirect cost analysis	To benchmark with 'similar' government departments
6. Analysis of charging and discount methodology and data	To review the delivery of the FSA's charging policy, including an assessment of the FSA's time and cost estimating practices, the effect of discounts on FBOs.
7. Field visits	To familiarise with the Meat Hygiene Controls process and work done by FSA meat hygiene staff (2 visits: poultry and beef slaughter and cutting plants)
8. Comparison to structured cost reduction principles identified through other NAO work	To review the FSA's preparedness for reducing costs further

The history of meat hygiene regulation and charging policy



Key differences in the delivery of meat hygiene official controls – FSA in GB & FSA in NI

- The Food Standards Agency in Northern Ireland forms part of the UK-wide Food Standards Agency, a non-ministerial Government department. Although the FSA in Northern Ireland delivers the same controls as in Great Britain, operationally it delivers these controls very differently. Furthermore, the structure of the industries that are regulated in Northern Ireland and Great Britain differ considerably.

	Great Britain	Northern Ireland
The legislative framework	• Much of the detailed legislation on meat hygiene official controls originates in the European Union and transposed into domestic legislation. For example the controls that FSA must cover and FBO responsibilities are defined in EU Regulations 852/2004, 853/2004 and 854/2004. These are transposed in the Official Feed and Food Controls (England) Regulations 2009 (SI 2009/3255) and equivalent Regulations in Scotland and in Wales.	• Much of the detailed legislation on meat hygiene official controls originates in the European Union, as for Great Britain. The EU Regulations 852/2004, 853/2004 and 854/2004 are transposed in the Official Feed and Food Controls Regulations (Northern Ireland) 2009 (SR 2009/427).
Delivery model - who delivers meat hygiene controls	• The Food Standards Agency carry out Meat Hygiene Official controls in approved slaughterhouses, game handling establishments, cutting plants and some on-farm slaughtering facilities • The FSA deliver official controls in co-operation with its two contractors: *Eville & Jones* in England, and *HallMark* in Scotland and Wales. Under the arrangements contractors are required to provide a managed service for the supply of Official Veterinarians, and in some instances, Meat Hygiene Inspectors and short term Lead Veterinarians.	• The Department of Agriculture and Rural Development's Veterinary Service carry out Meat Hygiene Official controls in approved slaughterhouses, game handling establishments and cutting plants in Northern Ireland on behalf of the Food Standards Agency. • All staff delivering Official Controls on behalf of the FSA in Northern Ireland are employed by DARD which is part of the Northern Ireland Civil Service (NICS).
What controls are delivered	• The delivery of official controls includes approval of establishments subject to veterinary control, with frontline staff carrying out a range of duties, including ante- and post mortem checks and checks on the health and welfare of animals presented for slaughter. These official control duties ensure that operators have produced meat in accordance with regulatory requirements, with a health mark applied to show that meat is safe to enter the food chain. As well as daily checks, OVs carry out audits on a risk-based frequency. The FSA supports trade through veterinary assurance and certification.	• DARD's Veterinary Service deliver a 'holistic' inspection service. In addition to delivering meat hygiene controls which include the same elements as in GB, DARD also carries out other routine and enforcement duties including residue testing, disease surveillance, animal welfare controls and of animal by-products legislation.
Charging and discount system	At present, part of the cost of the official controls is charged to the industry, with the remainder being paid by the FSA and other parts of government. The same charging and discount system applies across the UK. Four main elements determine FBO's charges (based on Regulation (EC) No. 882/2004) : • Time based charges • A discount to reduce the time cost charge, where applicable • Allowances for agreed slaughterhouse staff costs (commonly known as PIAs) • EU minima (EC legislation sets minimum charges per carcase type and weight of meat for cutting premises)	
Inspection staff in 2012/13 (actual staff numbers)	• Official Veterinarian: 324 • Meat Hygiene inspector: 776	• Official Veterinarian: 29 • Meat Hygiene Inspector: 94 • Senior Meat Inspector: 9

Industry structure: 2011-12		Great Britain		Northern Ireland	
Throughput	***Livestock unit***	***# FBO in GB***	***% of FBOs in GB***	***# FBOs in NI***	***% of FBOs in NI***
Low throughput	0 - 5,000	238	61%	5	25%
Medium throughput	5,000 - 50,000	121	31%	4	20%
Large throughput	50,000 - 125,000	25	6%	9	45%
Very large throughput	> 125,000	9	2%	2	10%

Summary: Defining Efficiency

1. The FSA's goal for efficiency is driven by its 2015 cost savings target

What work we have done

- Outline of different aspects of efficiency in the context of FSA's work on meat hygiene controls
- Review of FSA efficiency objectives, indicators and targets

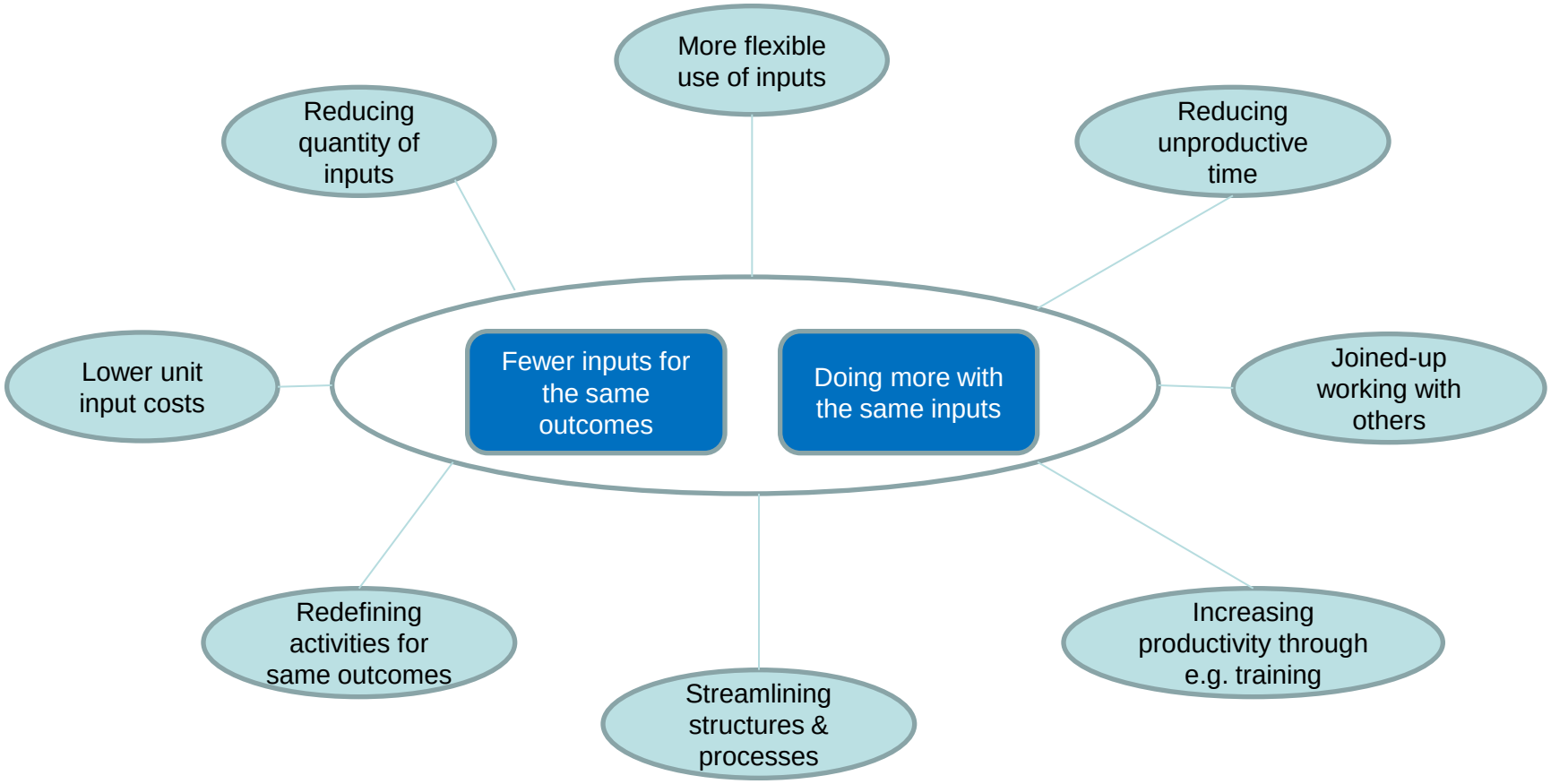
Our criteria

- Clear definition of what is meant by efficiency
- Clear FSA objectives for efficiency, both strategic and operational
- Indicators established, linking clearly to objectives

Our findings

- FSA's efficiency objective is a cost savings target (to save £5m by 2014/15 against a 2010/11 baseline of £55.5m costs to industry) as part of its wider ambition to deliver EU regulations at minimal cost
- It uses Cost per Livestock Unit (CPLU) as its formal indicator of efficiency, alongside a wider basket of measures
- 'Efficiency' is not an explicit strategic objective, but FSA told us that it is a key internal objective which it pursues through its 'proportionate and risk-based' objectives and work to improve compliance

Efficiency can be viewed from many perspectives …



FSA efficiency measures

FSA measures performance outcomes principally through the Operations Group dashboard. The dashboard efficiency indicators effectively link costs with activity measures, but not with quality or outcome measures

Official efficiency indicator

CPLU – Cost Per Livestock Unit

Supporting efficiency indicators

HPLU – Hours Per Livestock Units

IUWT – Idle Unworked Time within Business Agreement where staff are unable to be redeployed

Absence management – Average Working Days Lost per employee per year for meat inspection staff

Supporting monitoring measure

IGN Coding – I-time chargeable to FBOs, G-time chargeable to government departments, N – non-chargeable time; monitoring spending against a maximum 20% target for N-codes

Quality measure

PMI Verification – Accuracy of post-mortem inspections

Output measures

Cause for concern – Monitoring numbers of businesses with poor compliance identified through audit; overall compliance measures are also monitored

Dairy Hygiene Visits – Monitoring the numbers of inspections of the dairy hygiene delivery

Management indicator

Forecast Accuracy – Monitoring accuracy of forecast of net costs

Strategic objectives and cost reduction target

The FSA has the strategic objective to pursue 'risk-based and proportionate' approaches to regulation and enforcement, with efficiency a key internal objective. FSA in GB and FSA in NI have separate cost reduction targets for 2014/15.

Regulation is effective, risk-based and proportionate, is clear about the responsibilities of food business operators, and protects consumers and their interest from fraud and other risks

The main priorities:

- safeguard consumers by making it easier for business to comply with regulations, and minimise burdens on businesses
- secure more proportionate, risk-based and effective regulation by strengthening our engagement in the EU and in international forums
- work internationally to design a model for a new regulatory and enforcement regime for ensuring meat controls are effective.

Enforcement is effective, consistent, risk-based, and proportionate, and is focused on improving public health.

The main priorities:

- secure effective enforcement and implementation of policies within the UK to protect consumers from risks related to food and from fraudulent and misleading practices, targeting the areas where there is highest risk
- strengthen the delivery of official controls
- develop our knowledge of what works in driving up business compliance with regulations

Source: FSA Operations Groups Business Plan 2012/13, p. 2

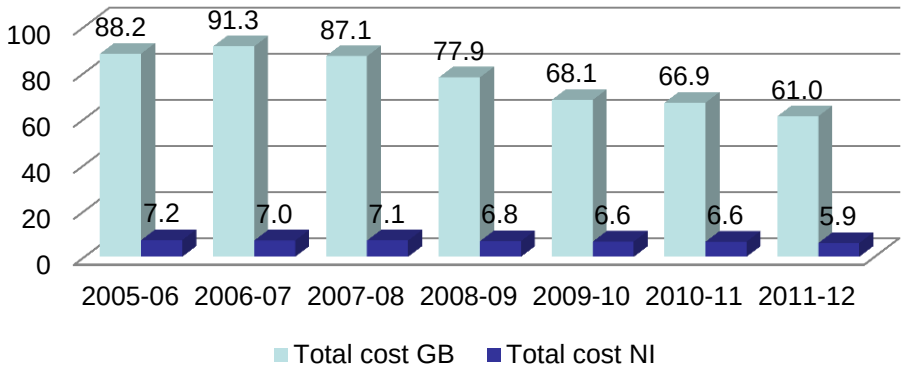
Cost reduction targets:

- The **FSA in GB** has set itself a target to save £5m by 2014/15, against a baseline of £55.5m, which was the FSA's November 2010 estimate of the cost of delivering meat official controls in 2010/11.

- The **FSA in NI** has been required to deliver savings of £949k over the 2011-2015 budgetary period by the Department of Finance and Personnel in NI. It aims to deliver those savings through reducing the cost of meat hygiene controls in NI to £5.8m by 2014/15.

Note: The £55.5m baseline excludes the cost of delivering official controls for which charges are not applied, which amounted to around £11m in 2010/11.

Total Costs of Meat Hygiene Official Controls in GB and NI (current prices)



Source: FSA Operations Annual Report 2011/12, p. 13, and FSA NI Management data 2005 to 2012

Summary: Influence over efficiency factors

2. FSA's influence over the factors impacting its efficiency varies strongly, largely due to the strong interdependencies of its operations with those of FBOs and its lack of direct control over the legal framework and charging/discount system; it is developing its approach to influencing these factors more strategically

What work we have done

- Identification of factors affecting FSA's own efficiency, through workshops with FSA field staff and with small and large FBOs; site visits; interviews with industry
- Workshops with FSA management (GB and Northern Ireland) to rank relative importance of factors affecting efficiency, and FSA's relative influence over them

Our criteria

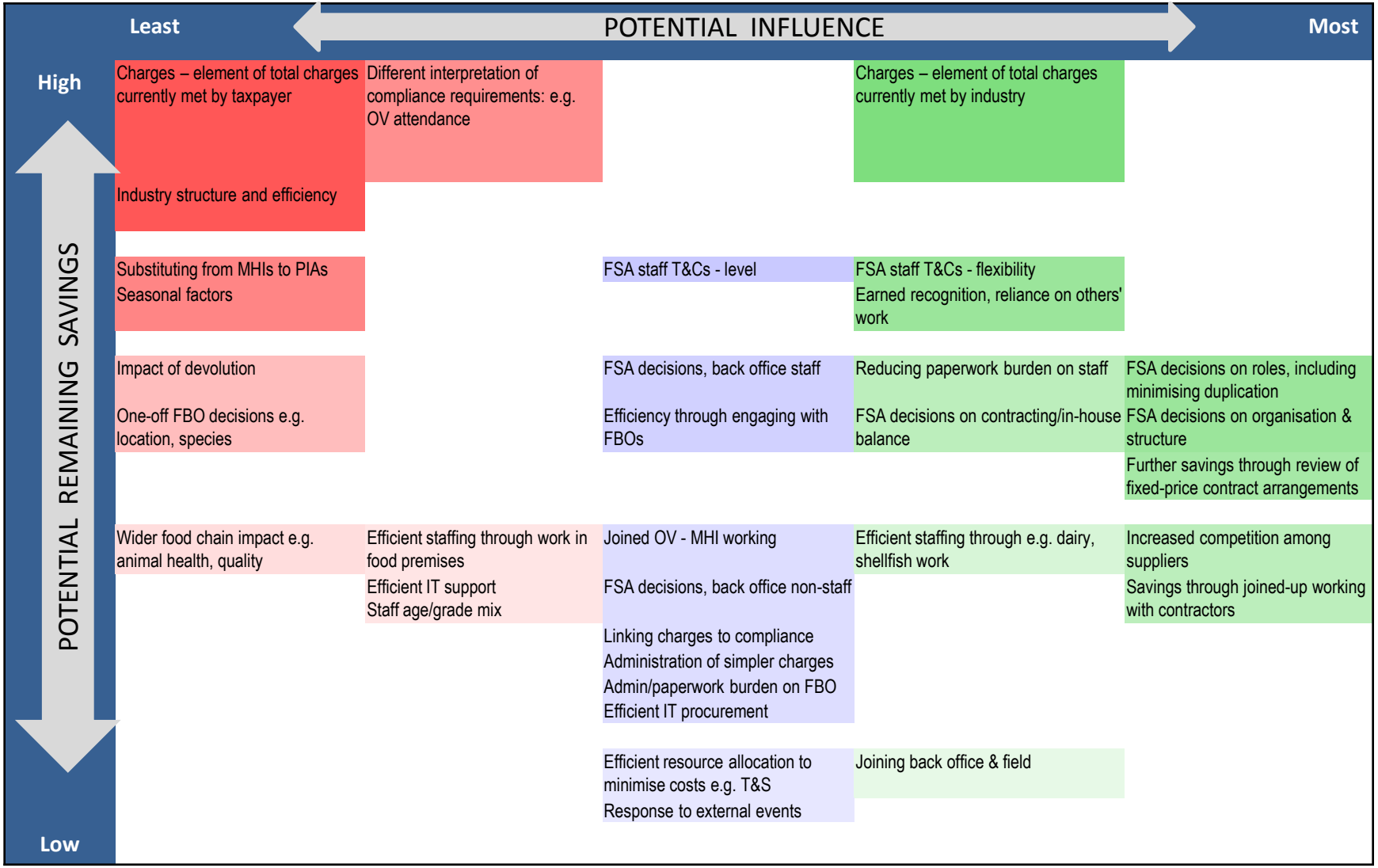
- FSA is clear on the factors and constraints that affect its own efficiency
- Where there is inefficiency, FSA understands the root causes
- Where FSA has direct influence, it uses this effectively
- Where FSA has less direct influence, it engages effectively with others

Our findings

- Many factors affect FSA's efficiency; it has variable influence over these, and limited if any influence on some factors with a very large impact on the efficiency of inspections
- Where it has most influence, FSA has acted and made savings
- There are other factors where the FSA has relatively less, but still some influence, and where there is potential to achieve further savings. In some of these, FSA could engage more effectively with others to unlock this potential

FSA influence over the factors that potentially affect its efficiency varies (GB)

This slide outlines (for GB) a range of factors that potentially affect efficiency, and a joint NAO-FSA assessment of the FSA's relative influence over each factor, and the potential efficiency saving that remains to be made in relation to that factor. Relative influence reflects the degree to which FSA can directly influence a potential efficiency factor, or influence indirectly through stakeholders. Various assumptions have been made regarding potential efficiency savings – for example savings that might be achievable within the next 2-3 years – these assumptions are imprecise but are intended solely to derive an indication of the relative scale of potential efficiency for each factor, relative to other factors shown here.



Where the FSA has direct influence: issues and FSA actions (GB)

This section looks at factors that can potentially impact FSA efficiency, identified in discussions with FSA staff and management and with industry, where FSA has relatively more direct influence. The issues identified represent the views expressed by interviewees; we have not substantiated these views other than where covered in the rest of this presentation.

Potential efficiency factor: Issues identified by interviewees	FSA action in last 3 years	FSA proposals for next 12-18 months
FSA structure: organisational structure (See slide 61) – Some interviewees raised some concerns about the efficiency of the FSA's organisational structure and associated management chain. Some interviewees were unsure if the recent reorganisation had secured efficiency benefits. Some interviewees considered the FSA's operations management structure to be over-engineered, making decision making slow. Some industry representatives feel that FSA has too many layers of management, given the proportion of front line staff managed by external contractors.	• The FSA's field management structure was revised and re-launched in April 2012. The re-organisation saw the delivery of meat hygiene official controls move from a cluster basis to a larger regional structure. FSA states that over 40 management posts were removed in the restructure.	• Review of the Operations Group structure. • Review of the structure and roles of FSA Divisions (beyond Operations Group). • Strategic review of the process for approving new FBOs.
FSA structure: roles and responsibilities – Some interviewees identified a degree of duplication in specific roles. Duplication between FSA Lead Vets and contract Area Veterinary Managers is discussed in Slide 62. Some interviewees questioned the need for Operations Managers in England when the position is not used in Wales and Scotland. Some interviewees questioned the effectiveness of certain aspects of the Service Delivery Manager role, in particular the role's Health and Safety function.	• The FSA's field management structure was revised in April 2012. This re-launch saw the introduction of a number of new roles, including: Veterinary Field Managers, Operations Managers (England only), Service Delivery Managers.	• FSA plans to explore the opportunities and benefits associated with Lead Vets taking on auditing functions. • FSA plans to clarify the role and responsibility of Lead Vets and contract Area Veterinary Managers to ensure no duplication of effort.
FSA operational processes – Several interviewees commented on the excessive paperwork requirements, both out in the field and internally. Some considered that the FSA's IT infrastructure, both out in the field and in the back office, is not as good as it could be. FSA field staff that we spoke to considered that mechanisms for learning and sharing lessons across the organisation that might improve efficiency, and ways of engaging with field staff more generally, could be improved		• Work to develop an IT strategy to improve data collection methods, exploitation and reporting and IT infrastructure. • "Digital By Default" programme with aim of 80% reduction in paperwork. • IT developments planned to improve back office efficiency – see below.
Age profile of FSA inspection staff - With 87% of Meat Hygiene Inspectors aged 40 or over, and 46% aged 50 or over, some stakeholders commented that the aging profile of FSA inspectors is a concern for the future efficiency of the business with the loss of skills when these inspectors retire.		• More regular consultation with unions. • Recruit more MHIs. • Develop in-house training.
FSA back office (See slide 57) – Several industry representatives highlighted the scale of the FSA's back office function, and the associated cost of this, as inefficiency. Some interviewees felt that FSA front and back operations were not well aligned and could provide more effective support to field staff.	• Reductions in back office staff numbers	• Roll-out of lean and continuous improvement initiatives. • Pushing ahead with current IT development plans, including: streamlining the process of administration and developing an 'operations business engine' - a workflow and data validation tool.
Charging system and process (See slides 43-49) - A majority of interviewees feel that the current charging system and process is a major driver of inefficiency in FBO use of FSA resource. Many industry interviewees commented that it was overly-complex and unclear how charges are calculated. Some commented that the discount system is unfair.		• Discount review to be undertaken by the Charging Working Group • Initiatives to increase the flexibility of inspectors, for example increasing their inspection remit.

Where the FSA has less direct influence: influence through stakeholder engagement (GB)

This section looks at factors that can potentially impact FSA efficiency where FSA has relatively less influence, therefore requiring effective engagement with others who have more direct influence. The issues identified represent the views expressed by interviewees; we have not substantiated these views other than where covered in the rest of this presentation.

Potential efficiency factor: issues identified by interviewees	Stakeholder group : evaluation of engagement	FSA action in last 3 years	FSA proposals for next 12-18 months
FBO operations – the influence workshop with the FSA identified a number of FBO specific factors (for example, line speed and use of PIAs) that can potentially impact FSA efficiency.	**Engagement with food business operators –** Some interviewees believed that the FSA listen better to the concerns of small abattoirs since the rejection of the full cost recovery proposal. FBOs praised the accommodating nature of inspection staff around busy periods. Many felt, however, that business agreements are too restrictive and it is not practical for an FBO to forecast production 30 days in advance, or they get punished through overtime rates when this forecast is wrong.	• Existing system of business agreements between the FSA and individual FBOs.	• Business Agreements are being changed to 'Statements of resources' which will be examined by the FBO and FSA on a quarterly, rather than annual, basis. • Building smarter, more collaborative relationships with FBOs. • Speaking to industry about incentives to increase substitution of PIAs for MHIs.
Collaborative working – concern exists that the FSA does not work collaboratively with industry to create greater efficiencies, especially where mutually beneficial outcomes can be realised.	**Engagement with industry representative groups –** Most industry interviewees said that FSA engagement with industry has improved recently, although some still believe that engagement is too formal and consultation is undertaken too late in the decision making process. Some interviewees considered the dropping of industry input to technical guidance was a retrograde step.	• Established the 'Current and Future Meat Controls Group' • Established the 'Partnership Working Group' • FSA consultation on the Meat Industry Guide (MIG) was dropped.	• A renewed commitment to industry engagement. • Develop a mechanism to monitor and act on industry feedback.
Collaborative workings – there is a risk that the FSA does not take a joined-up approach when working with service contractors in order to improve the efficiency and quality of service.	**Engagement with service contractors -** Contractors expressed concern that the FSA does not always take a joined up approach on shared interests such as responding to changes in business agreements, assessing performance, sharing information, IT issues and the delivery of staff training.	• Following a competitive re-tendering process, new fixed price veterinary contracts went live in April 2012. • Regular set-piece engagements with contractors to discuss performance.	• Consultation on future changes to the contract, for example greater clarify the role and responsibility of lead vets and contract area veterinary managers to ensure no duplication of effort.
Staffing and flexibility – Industry interviewees consider the terms and conditions of inspection staff to be too generous, making the service expensive and inflexible, as it is too costly to pay overtime.	**Engagement with unions –** FSA staff said there has been limited engagement between the FSA and unions. Union representatives do not feel the FSA actively seek to engage but rather interaction is imposed. FSA management have pointed to previous threats of industrial action by the unions.	• The Terms and Conditions of MHIs have remained relatively unchanged. The key change has been to the method of overtime accrual that was implemented with the introduction of the 'deficit hours' calculation.	
Implementing EU legislation – the FSA are mandated to follow EU legislation, which has a significant impact on the way the FSA operates.	**Engagement with the EU -** The FSA have been described by some stakeholder groups as a 'proactive' participant in Europe. Some of the factors that can, potentially, have a major impact on FSA efficiency, for example mandatory OV attendance, are set by the EU; but some interviewees considered the FSA could be more flexible in its interpretation.		• 100% OV attendance is an EU requirement - monitor developments in Europe. • Oversight of PIAs is an EU requirement - monitor developments in Europe.

FSA in NI have identified factors that affect its efficiency and how much influence it has over each one

This slide outlines (for Northern Ireland) a range of factors that affect efficiency, a joint NAO-FSA assessment of the FSA's relative influence over each factor, and the importance of that factor to efficiency. Relative influence reflects the degree to which FSA can directly influence a potential efficiency factor, or influence indirectly through stakeholders. Some of the factors identified are common to Great Britain, others are different. Unlike GB, the NAO did not take this output further to identify any potential remaining savings, partly because as the scope for savings is much smaller in Northern Ireland.

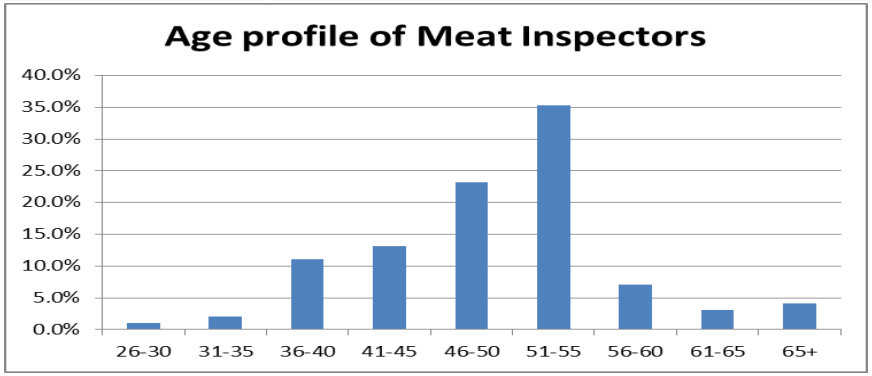
RELATIVE IMPORTANCE TO FSA EFFICIENCY	Least	POTENTIAL INFLUENCE			Most
High					FSA operation of discount system
	Incentives: impact of discounts on idle time	Impact of devolution	Civil service T&Cs - flexibility		Correct charging, FBO or Government
	Efficiency of FBO		TUS involvement		
	Market prices		Business accords		
	Industry structure				
	Seasonality & unpredictability				
	Incentives: cost pass through to farmers	Implementing EU legislation		Staff cost levels	Relationship with industry
	Line speed control				
	EU minima	Exports & trade reputation	OV working expectations: part-time, job-sharing	DARD/FSA, IT & EU minima	Sharing back office costs with DARD
	Weather impact	WTO issues	Managing annual leave, peak working		Flexible DARD/FSA staffing
			Shifting age profile		Internal DARD/FSA IT e.g. timesheets
Low					

Where FSA has direct influence: issues and FSA actions (NI)

This section looks at factors that impact FSA efficiency, identified in discussions with FSA staff and management industry representatives, where FSA has relatively more direct influence. The issues identified represent the views expressed by interviewees; we have not substantiated these views other than where covered in the rest of this presentation.

Potential efficiency factor: Issues identified by interviewees	FSA action in last 3 years	FSA proposals/considerations for next 12-18 months
FSA structure & roles: Some interviewees questioned the need for Senior Meat Inspectors to be present in each plant and the need for 3 Regional Managers given the limited structure and size of the industry.		FSA in NI and DARD plan to initiate discussions on the future deployment of SMIs
IT systems: Some interviewees commented on the front-line delivery of hygiene controls in NI benefits from comprehensive and advanced real-time information systems which allow the efficient collection of inspection information. The IT systems in DARD also support the efficient processing of charging information. However, both management and staff at the FSA are concerned that the current time recording system is not fit for purpose and not sufficiently aligned with the IT charging system.		DARD have initiated a project to integrate their IT systems to facilitate more efficient processing of the information required for meat charging.
FSA staffing arrangements – FSA data indicates that only 3% of meat inspectors are aged 30 or younger, which could pose an operational risk in the near future if the current operating model is maintained.		DARD have proposed to initiate a recruitment exercise as a first step to address any short term concerns. They will then consider any medium and long term options dependant on the outcome of this recruitment exercise.

- The age profile of Meat Hygiene Inspectors in Northern Ireland is unbalanced, with 58.6 per cent aged between 46 and 55.
- This age profile poses minimal operational risk to the business in the short term. In the medium term, however, a lack of forward planning could see the FSA in Northern Ireland risk losing significant resource through retirement over a short period of time, without the benefit of managing this transition by passing on knowledge, skill and experience to a younger cohort.



Source: DARD management information, May 2013

Where FSA has less direct influence: issues & activity (NI)

This section looks at factors that can potentially impact FSA efficiency where FSA has relatively less influence, therefore requiring effective engagement with others who have more direct influence. The issues identified represent the views expressed by interviewees; we have not substantiated these views other than where covered in the rest of this presentation.

Potential efficiency factor: issues identified by interviewees	Stakeholder group : evaluation of FSA engagement	FSA action in last 3 years	FSA proposals for next 12-18 months
DARD, not the FSA, is the significant driver of service cost • Staff inspection costs, which are charged annually to the FSA in NI, are the principle cost component of the inspection service. As veterinarians and inspectors are employed by DARD, the FSA in NI have limited control over what is charged. • The total DARD cost also includes DARD overheads, which the FSA also have limited control over. • FSA rely on DARD management information which is not analysed in a systematic and comparable format to GB	**FSA engagement with DARD** • In written communication between the FSA and DARD, the FSA have expressed concern over the increasing cost of the service provided. • The FSA has also raised concern about the lack of clarity about overheads and the proportion charged to industry. The FSA have requested that DARD describe the indirect costs charged at a more granular level of detail. **FSA engagement with industry and others** • FBOs and industry interviewees raised a lack of transparency in how inspection charges to industry are calculated. Representatives of farmers said some parts of industry levy charges on farmers which they said were disproportionate to the charges that industry itself bears.	• Review of overhead costs (Phase 1) in conjunction with DARD	• Review of overhead costs (Phase 2) to be completed by November 2013 • Produce a publication, to be made available to FBOs, outlining the basis of its charging calculations on an annual basis .
FBO efficiency, throughput fluctuations, line speed and other FBO controlled factors impact on FSA efficiency • The FSA consider that FBOs have a particular impact on levels of idle time. • There were mixed opinions on the effectiveness of the business accord system. Some FBOs, particularly where throughput is stable, find them useful. Other FBOs refuse to sign them.	**Engagement with food business operators and industry representatives** • Industry groups highlighted their long and healthy engagement with the FSA and commented positively on the quality of service provided. • At the FBO plant level, interviewees commented on the good working relationship between FSA staff and FBOs, in particular commenting on their professional and co-operative approach.		• DARD have acknowledged the need to address the issue of IUWT and have recently entered into discussion with FSA in NI on future proposals
Some industry stakeholders felt that the current delivery model is "frustratingly close" to being perfect; that the only remaining unsatisfactory issue is inspection staff terms and conditions which, it is felt, are too generous. • Industry representatives consider that the generous terms and conditions make the cost of the service too high. • It is also felt that inspection staff terms and conditions contribute to limited flexibility of operation, whereby additional inspection hours are expensive.	**Engagement with unions** • NIPSA considered its relationship with DARD to be very positive and highlighted a healthy process of consultation between the two organisations. • The union identified a number of examples of co-operation, including the 'VPHU Directions Handbook'. • In the past 5 years, the only changes to terms and conditions are those applicable to all Northern Ireland Civil Servants; there have been no significant changes to these.		• DARD are looking to increase training of dual red and white meat inspectors to increase staffing flexibility. • In 2012, DARD and NIPSA agreed a clarification of VPH-specific work practices for certain areas where NICS has been silent. DARD intends to revisit the provisions of certain aspects of this document e.g. around payment for Unworked Booked Hours etc. - in the near future.

Summary: Performance against efficiency indicators

3. FSA has achieved considerable cost savings since 2007, but there are large variations of inspection costs across operators due to the strong interdependencies of FSA inspections with FBO operations; the link between cost reductions and inspection quality as well as compliance levels is not analysed systematically

What work we have done

- Analysis of data on FSA's costs and formal efficiency indicator (Cost per Livestock Unit)
- Analysis of data on other indicators of efficiency – overtime, idle time, absence rates
- Analysis of other FSA data covering staff numbers, throughput, HPLU (Inspection Hours per Livestock Unit)

Our criteria

- Performance to date against FSA's cost target
- Improving performance over time of FSA's own efficiency measure
- Other indicators of efficiency supporting the finding on FSA's measure
- Evidence on the impact of cost reductions on quality and service delivery

Our findings

- FSA has reduced Cost per Livestock Unit over time, but plateauing inspection time (HPLU) indicates limits to achieving further savings within current operating model
- There are considerable variations of inspection efficiency across operators, due to the strong interdependencies between FSA and FBO operations which mean FSA has little direct influence over factors such as inspection layout
- Utilisation rates of staff have improved and overtime rates have remained stable
- FSA (in GB) has useful information on costs and monitors various aspects of inspection quality and FBO compliance, but the link between cost reductions and the potential effect on inspection quality is not measured or analysed systematically

Total costs of meat hygiene delivery in GB have fallen by 40% in real terms between 2005/06 and 2011/12, mainly due to a reduction in staff numbers

Overall costs of meat hygiene delivery have fallen over time, before and after the FSA/MHS merger

- Total meat hygiene delivery costs fell by 31% (current prices) between 2005/06 and 2011/12
  - This equates to a 40% decrease (£40.5m – see chart) in constant 2011/12 prices*
- Since the merger with MHS in 2010, FSA has reduced costs by 10% in current prices
  - this equates to a 15% (£10.4m) decrease in constant 2011/12 prices

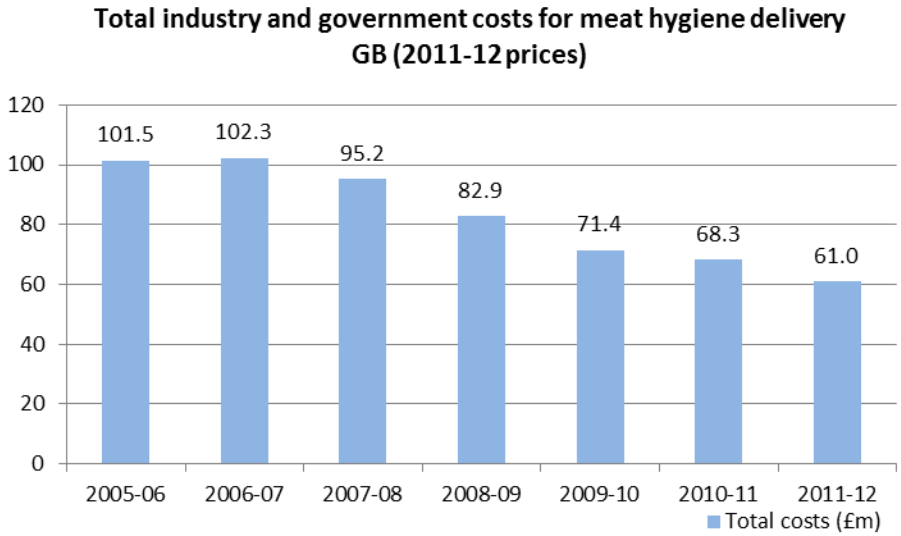
There has been a steep reduction in staff numbers between 2006-07 and 2012-13:

- Total (employed and contract) staff numbers decreased by 651 (35 per cent) to 1,222
- MHI and related roles (the largest element) decreased by 35%
- Official and Lead Veterinarian positions decreased by 17%
- Managerial/admin staff decreased by 55%

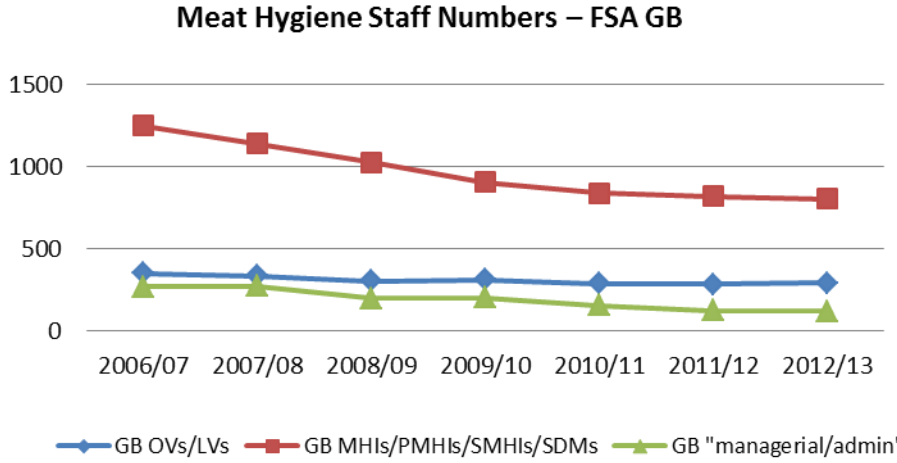
The removal of BSE-related controls during this period explains part of this change

- This removed the need for meat technicians, numbering 150 in 2006/07

Note: * We have converted the FSA cost data (here and elsewhere) to constant 2011/12 prices using the GDP deflator, to assess the change in FSA costs by discounting inflation



Source: FSA Operations Annual Report 2011-12; NAO analysis of FSA data



Source: National Audit Office analysis of FSA data

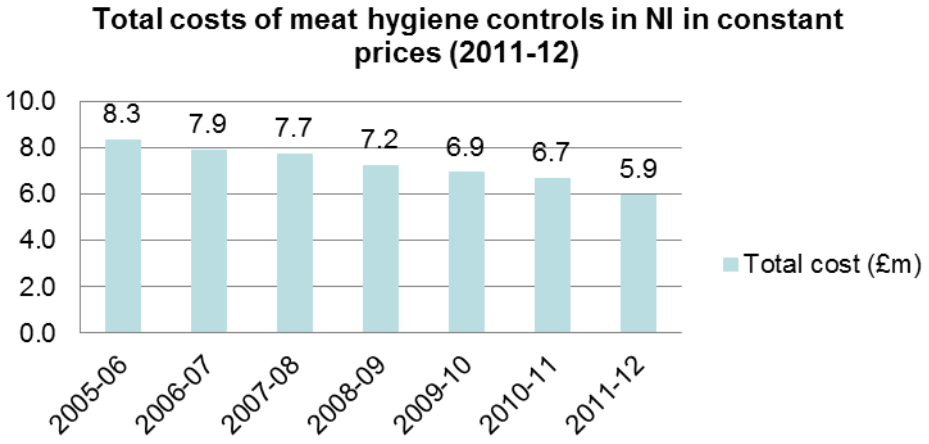
Total costs of meat hygiene delivery in NI have fallen by 29% in real terms since 2007/08 and staff numbers have reduced

The overall costs of meat hygiene controls in NI have also fallen

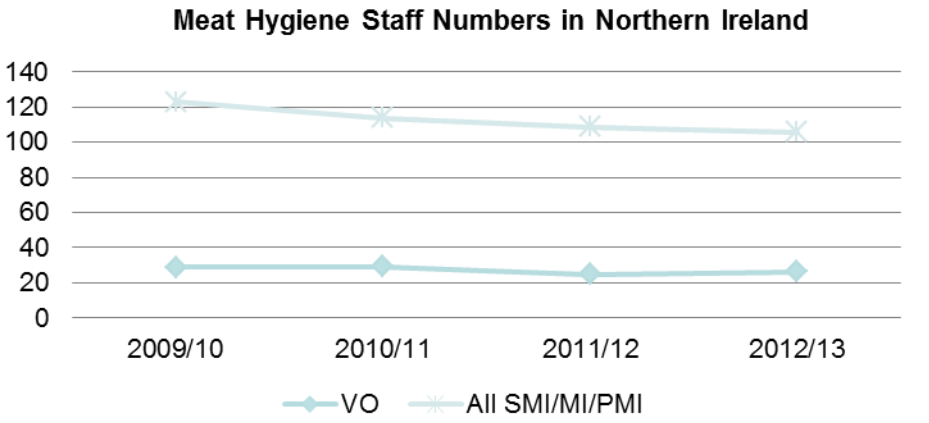
- Northern Ireland FSA's meat hygiene costs decreased by 18% (current prices) between 2005/06 and 2011/12
- This equates to a 29% decrease in constant prices

There has been a gradual reduction in staff numbers in NI since 2009/10

- Meat Inspector and related roles decreased by 14% in the period 2009/10 to 2012/13
- Veterinary Officer (VO) staff numbers decreased by 9% between 2009/10 and 2012/13



Source: NAO analysis of FSA NI Management Data 2005 -2012



Source: FSA NI Management Data 2009-2013

There has been a shift towards contracted field-based staff in GB, which has reduced staff costs

Both OV and Meat Inspector numbers have fallen in GB since 2006/07, but the latter fell at a faster rate

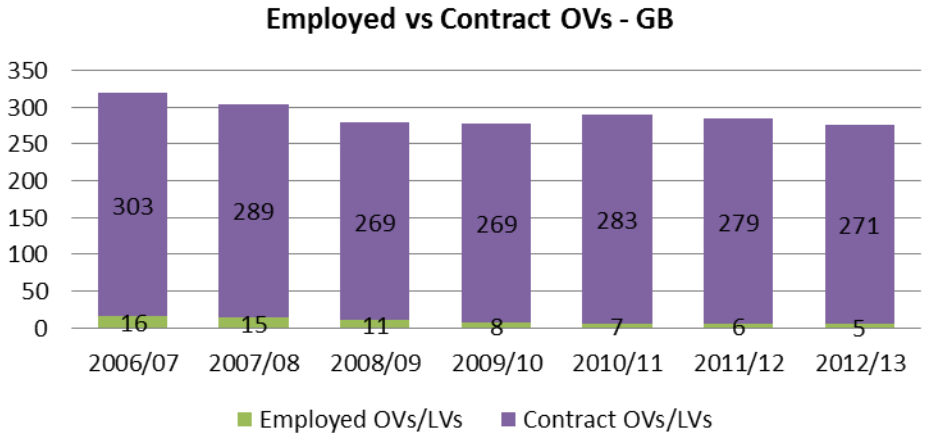
- The ratio of Meat Inspectors to OVs has fallen from 4.5:1 in 2006/07 to 3:1 in 2012/13

FSA is drawing proportionately more resource from contract staff now than in 2006/07

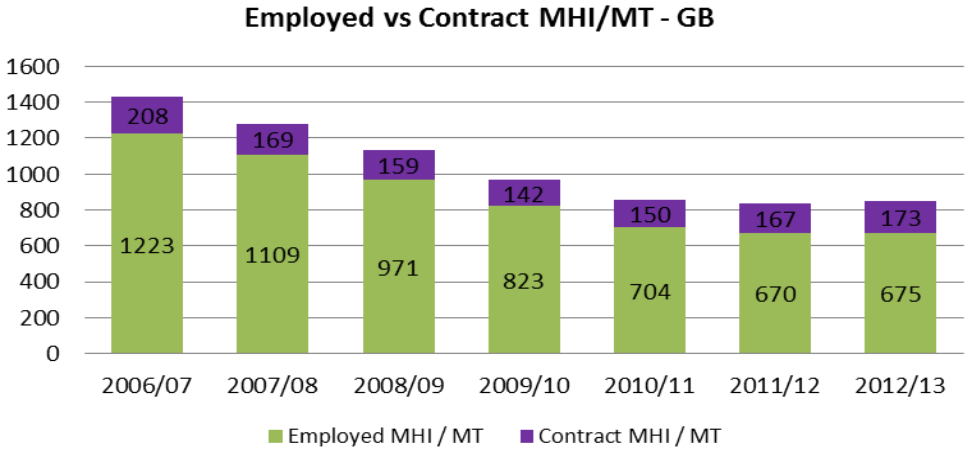
- For OVs/LVs, the ratio of employed to contract fell from 1:19 in 2006/07 to 1:54 in 2012/13
- For Meat Inspectors and related roles, the ratio of employed to contract fell from 6:1 in 2006/07 to 4:1 in 2012/13

Costs are charged differently according to the role and whether the staff member is employed or contracted

- Resourcing a member of staff through contractors costs FSA less than employing them directly
- Under contracts introduced from April 2012, contract MHIs are charged on a time basis, but the FSA does not incur additional overtime charges for contract OVs
- Contract OVs form a larger proportion of staff now compared to 2006/07



Source: National Audit Office analysis of FSA data



Source: National Audit Office analysis of FSA data

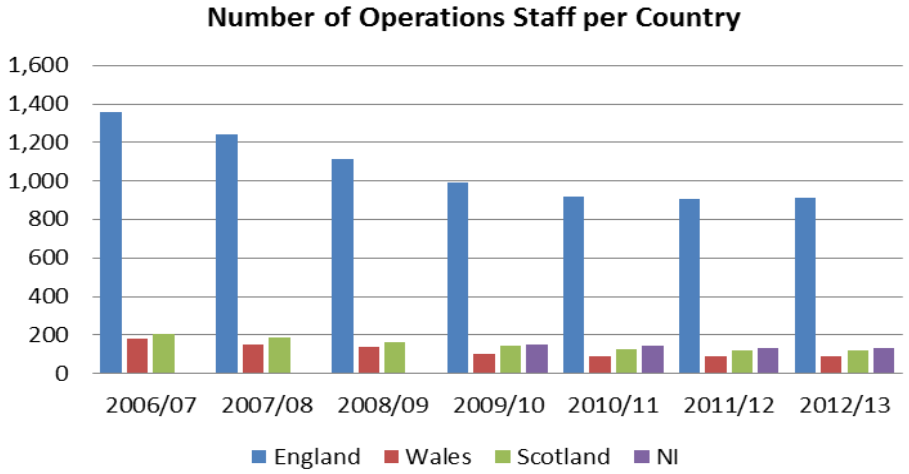
Staff numbers have decreased across all four countries, while throughput data is more variable

Staff numbers are falling across all countries

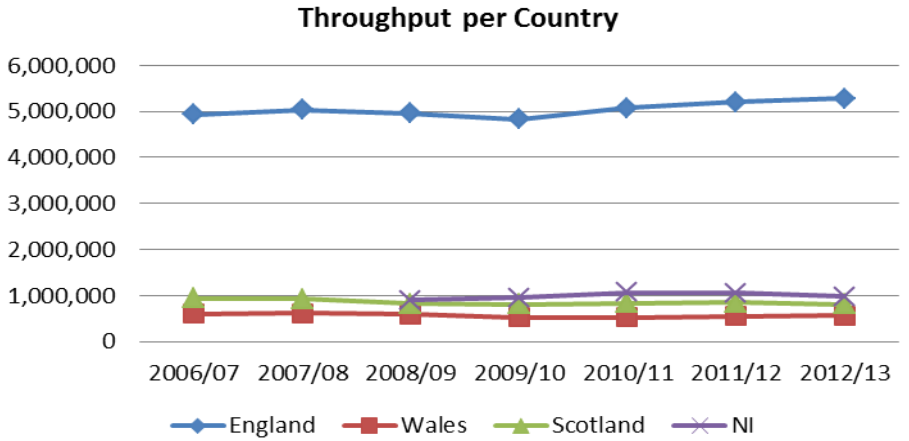
- Decreases in staff numbers between 2006/07 and 2012/13 in staff numbers range from 33% in England to 53% in Wales (NI not available)
- Decreases in staff numbers between 2009/10 and 2012/13 range from 8% in England to 17% in Scotland
- Trends are downward in all countries (except for a small increase in England in 2012/13)

Throughput varies over time across countries, with more annual fluctuation in throughput than in staff numbers

- Compared to 2006/07 (NI not available), GB throughput was 3% higher in 2012/13 but with fluctuations from year to year in-between
    - Changes to 2012/13 range from a 7% increase in England, to a 13% decrease in Scotland
- Compared to 2008-09 (with NI), GB&NI throughput was 5% higher in 2012/13
    - Changes to 2012/13 range from an 8% increase in NI to a 5% decrease in Wales



Source: National Audit Office analysis of FSA data



Source: National Audit Office analysis of FSA data

The number of livestock units inspected per member of operational staff has increased substantially since 2006/07

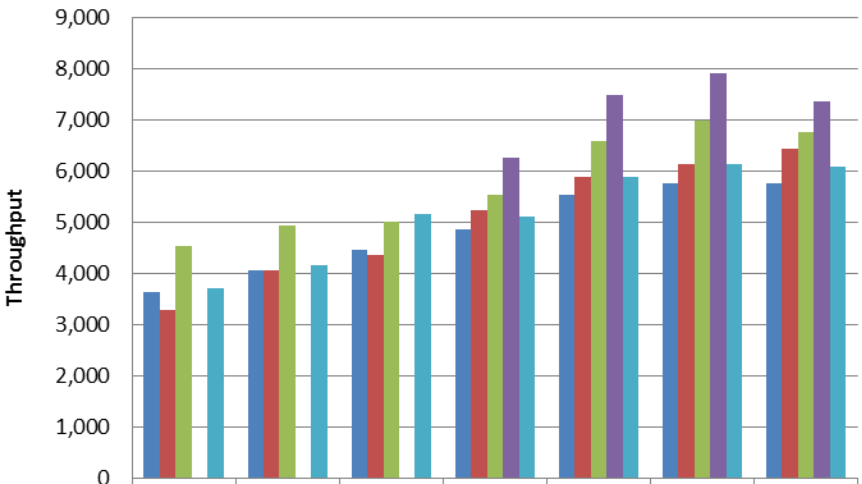
Operational staff inspected more throughput each year from 2006/07 until 2011/12

- Throughput per staff member increased by 60% in GB between 2006/07 and 2012/13 (NI not available)
  - Increases range from +49% (Scotland) to +96% (Wales)
- Throughput per staff member in GB and NI increased by 19% between 2009/10 and 2012/13
  - Increases range from +19% (NI) to +23% (Wales)

Throughput per staff number levels vary considerably across countries

- NI is the most "productive" country within the UK (in terms of the amount of throughput per operational staff member) at 7,348 in 2012/13, followed by Scotland.
- The industry structure, with concentration of meat production in Scotland and NI among a relatively smaller number of FBOs with larger plants compared to England and Wales, is likely to be a key factor in this variation.

Throughput Units per Operational Staff by country



	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
England	3,625	4,060	4,459	4,856	5,539	5,758	5,762
Wales	3,280	4,061	4,355	5,243	5,892	6,141	6,424
Scotland	4,525	4,931	5,014	5,541	6,569	6,989	6,759
NI (note)	0	0	0	6,248	7,485	7,914	7,348
Total	3,695	4,164	5,151	5,107	5,885	6,136	6,070

Note: Throughput data is not available for Northern Ireland for the years 2006-07 to 2008-09.

Source: National Audit Office analysis of FSA data

As inspection hours (per livestock unit) have been stable since late 2010, the potential for further cost savings through staff reductions in the current system is limited

Since mid-2010 CPLU has continued to fall with HPLU.

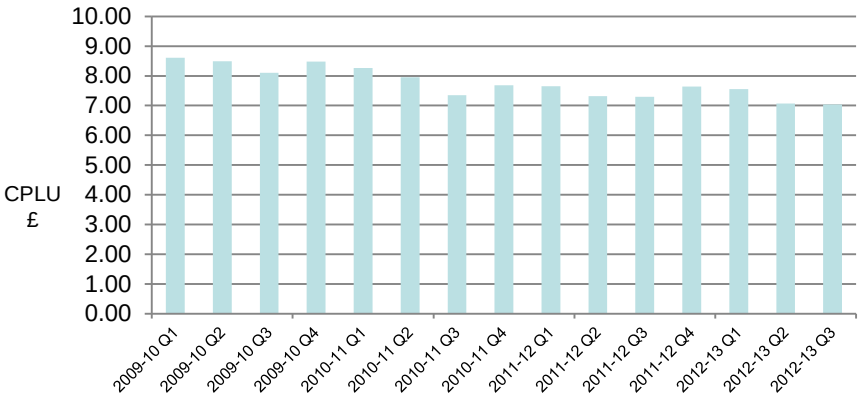
- Cost Per Livestock Unit (CPLU) has continued to fall and decreased by 7.2% in 2010/11 and 4.3% in 2011-12
- Hours Per Livestock Unit (HPLU) fell by 17% between Apr 2010 and March 2013

Recent reductions in CPLU have mainly been due to lower input costs

- Average HPLU* has remained relatively constant (at around 0.33 hours) since the end of 2010
- Input-costs have reduced due to the on-going switch to contracted staff, and the move to a fixed price contract model
- There has also been an improvement in utilisation rates of directly employed staff (reduction of sickness absence rates, see Slide 40)

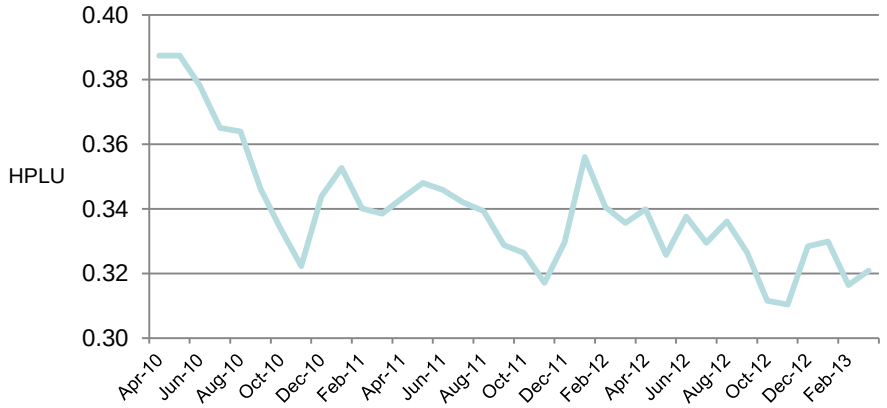
* Note: HPLU units are measured in hours per livestock unit and are interpreted by converting the decimal based times into minutes. For example; 0.33 would represent 20 minutes.

Average CPLU in each quarter, 2009/10 to 2012/13



Source: National Audit Office analysis of FSA data

Monthly average HPLU, 2010-11 to 2012-13



Source: National Audit Office analysis of FSA data

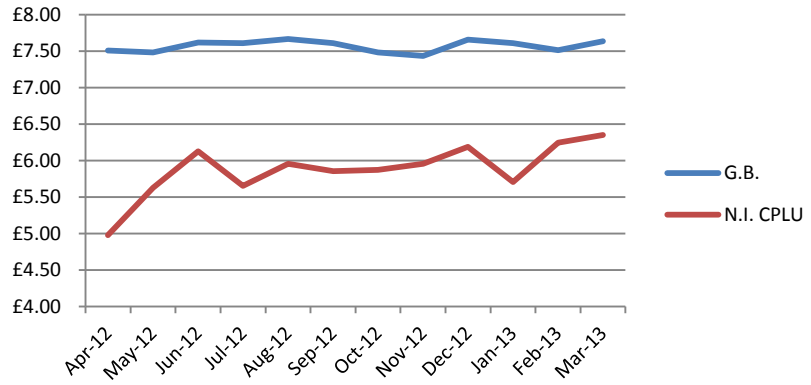
Inspection costs per livestock unit are considerably lower in Northern Ireland than in Great Britain

On average, inspection costs seem to be lower in NI than in GB, on a per-livestock unit basis*

- Average CPLU in NI between April 2012 and March 2013 was £5.56 per livestock unit
- Equivalent CPLU in the rest of GB over the same period was £7.56
- Average HPLU in NI between April 2012 and March 2013 was 0.24 hours per livestock unit
- Equivalent HPLU in GB over the same period was 0.31 hours per livestock unit
- We believe this is mainly due to throughput being concentrated in the hands of companies with a larger average size, which are cheaper to inspect per livestock unit. For instance, in 2011/12, only 25% of FBOs in NI had an annual throughput of 0-5,000 standardised livestock units per year, compared to 61% of FBOs in GB
- Cost per livestock unit in N.I. between April 2012 and March 2013 appeared to be rising, suggesting that efficiency is decreasing (by this measure), though it is not clear whether this will persist.

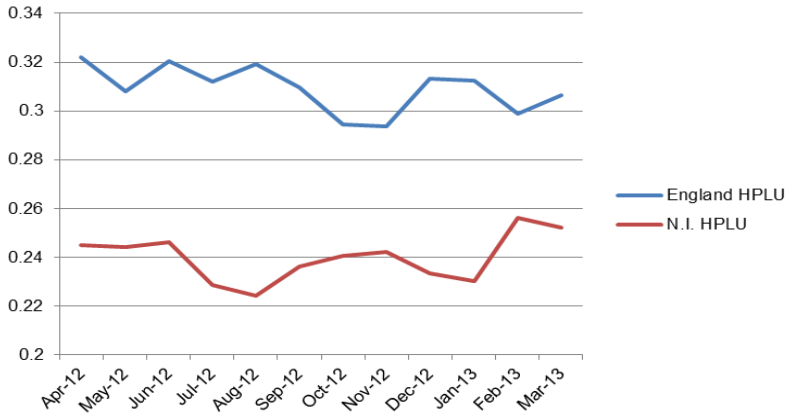
*** Note: Our comparison is qualified because there are differences between GB and NI in the way that time is charged,** in part because FSA undertakes considerably more work for Defra in GB than in NI**.** To derive a comparison, we calculated HPLU for GB by excluding "Defra" time codes: GOBS, GBSE, GIMP, GBSM, GSOM, GPAS, GVMD. The costs of time charged to Defra is not detailed enough to allow exclusion of Defra-booked time costs from the CPLU data for GB.

Cost per livestock unit, 2012-13*



Source: National Audit Office analysis of FSA data

Hours per livestock unit, 2012-13*



Source: National Audit Office analysis of FSA data

There are considerable differences in costs and efficiency of inspections* across operators in both GB and NI

Average CPLU and HPLU (slide 36) mask considerable variation in costs of inspection across operators in GB

- Average CPLU is £5.20 for the most "efficient to inspect" 20% of operators; £86.49 for the least efficient 20%
- On average, the CPLU in the least "efficient to inspect" FBOs is nearly 17 times higher than the cost in the most efficient
- The HPLU of the most "efficient to inspect" 20% of operators is 0.22, around 8 times smaller than that for the least efficient 20%

Variation across operators is smaller in Northern Ireland

- CPLU in the least "efficient to inspect" FBOs is nearly 8 times higher than the cost in the most efficient businesses
- CPLU in NI lies in the range of £3.98 - £36.65, compared with a range of £5.20 - £86.49 in GB
- HPLU in NI lies in the range of 0.15 - 1.25, compared with a range of 0.22 – 1.87 in GB

* Note: HPLU units are measured in hours per livestock unit and are interpreted by converting the decimal based times into minutes. For example; 0.33 would represent 20 minutes.

* Note: "Efficiency" on this slide refers to the efficiency of inspections, as measured by the CPLU (FSA cost of inspection per livestock unit) and HPLU, at different operators during 2012/13.

CPLU and HPLU, 2012/13, GB

	All	Least efficient 20%	Next least efficient 20%	Middle 20%	Next most efficient 20%	Most efficient 20%
CPLU	£7.55	£86.49	£31.52	£17.60	£10.31	£5.20
HPLU	0.32	1.87	1.47	0.85	0.36	0.22

Note: Hours and cost relate to slaughter-associated hours and costs only. CPLU and HPLU are given as averages for the stratum of FBOs represented, by efficiency rank.

Source: NAO analysis of FSA CPLU and HPLU data, 2012/13

CPLU and HPLU, April 2011-Dec 2012, Northern Ireland

	All	Least efficient 20%	Next least efficient 20%	Middle 20%	Next most efficient 20%	Most efficient 20%
CPLU	£5.8	£36.65	£10.66	£7.51	£5.84	£3.98
HPLU	0.24	1.25	0.41	0.32	0.26	0.15

Source: NAO analysis of FSA NI CPLU and HPLU data, 2011/12

Overtime usage in GB have remained stable despite staff reductions, but the charging system does not maximise incentives to reduce it

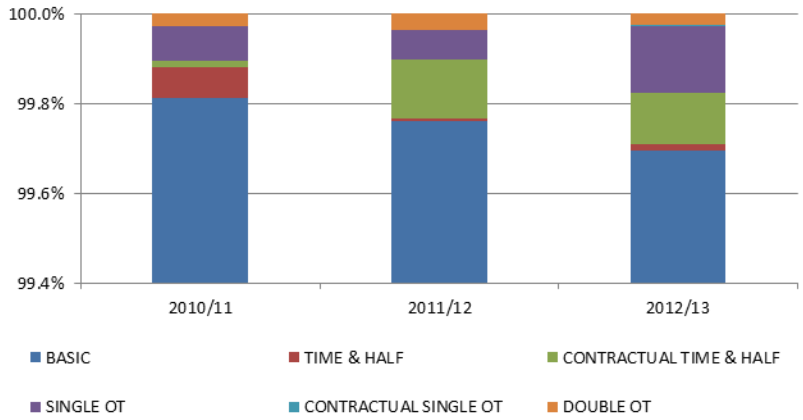
FSA does not appear to be increasing overtime while making headcount reductions

- OV overtime as a percentage of total OV time is increasing but very slightly, due to the majority of OVs being contractors who do not attract overtime charges
- The contribution of contractual overtime suggests at least part of the increase is driven by FBO requests
- MHI overtime as a percentage of total is higher, at around 10%, but is roughly stable

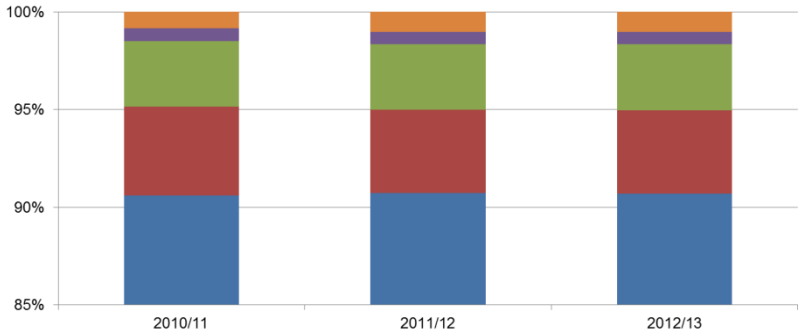
Impacts of the charging system

- FBOs only incur overtime for FSA employed staff, but have no control over their staff mix
- Overtime is charged to an FBO whenever the FSA has to pay overtime to the particular employee working at this plant, although the FBO bearing this charge might not have caused it
- Allowances are part of the regulated charging system (and so firms attract a discount where applicable). They reflect special payments to staff to compensate them for working unsociable hours when asked by an FBO which increases FSA costs, while the FBO does not bear the full costs of this.
- Increased flexibility of service comes at a price to the FSA, but the current charging system does not put a premium on short-notice work (unless it results in individual employees' overtime charges); this limits incentives for FBOs to forecast effectively in advance

Breakdown of OV time, 2010/11 to 2012/13



Breakdown of MHI time, 2010/11 to 2012/13



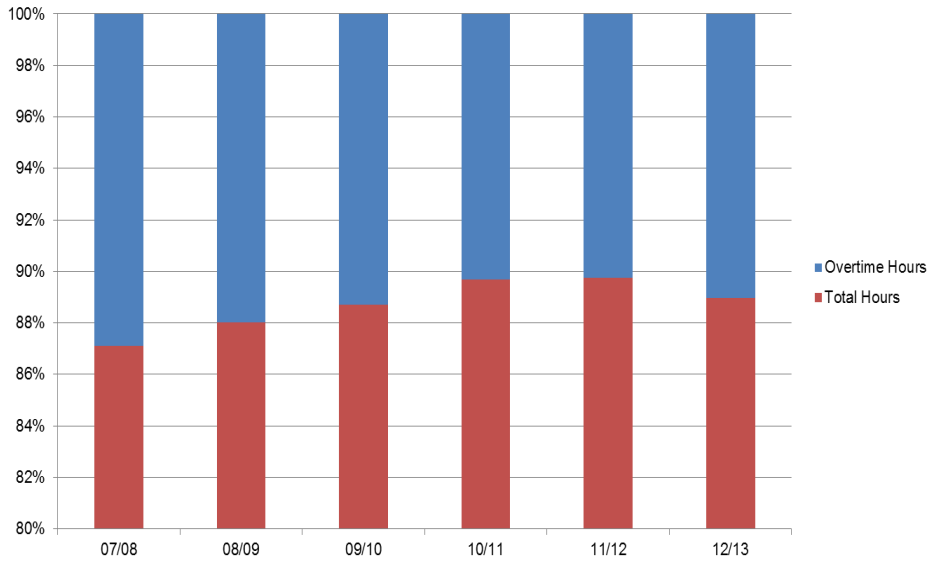
Source: National Audit Office analysis of FSA data

Overtime as a percentage of staff time in Northern Ireland has reduced between 2007 and 2013

As in GB, the FSA in NI and its delivery partner DARD do not appear to have responded to headcount reductions by increasing overtime

- Overtime as a percentage of all staff time has reduced from 13% in 2007/08 to 11% in 2012/13
- Direct comparisons of overtime and utilisation rates of staff between GB and NI are difficult due to different employment models and approaches to calculating overtime, but the available evidence indicates that the share of overtime for MHIs in both GB and NI is broadly similar (around 10%)

Share of overtime hours of all NI inspection staff, 2007/08 – 2012/13*



* Includes FSA in NI, DARD and DEFRA hours booked

Source: National Audit Office analysis of FSA data

Utilisation rates of staff in GB have improved mainly due to reductions of sickness absence

The FSA has achieved gains in absence management, but has not reduced 'idle time'

Idle Time (IUWT) 2012/13 cost : £2.5m

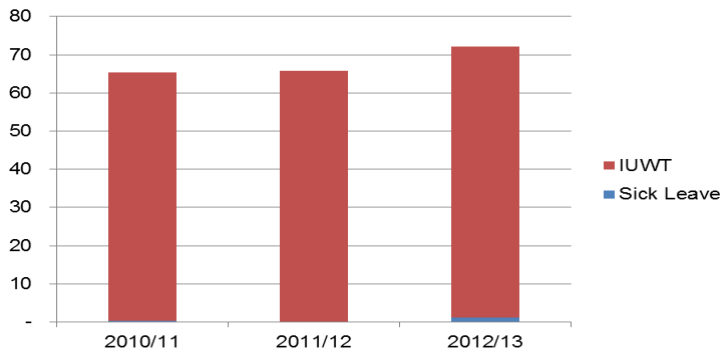
- IUWT is an area for potential efficiency improvements as staff can in theory be deployed to other jobs (although there are practical constraints)
- Year-on-year growth in IUWT for OVs and MHIs between 2011/12 and 2012/13 was 12% and 14%, respectively

Sick leave 2012/13 cost : £1.2m

- Sick leave for OVs and MHIs was 0.15 and 6.8 days a year, respectively. The reason for the very low figure for OVs is that the majority are contracted staff and the FSA do not incur charges for their sickness absence.
- MHI sick days have observed a decreasing trend, and are close to the civil service average of 7 days per year

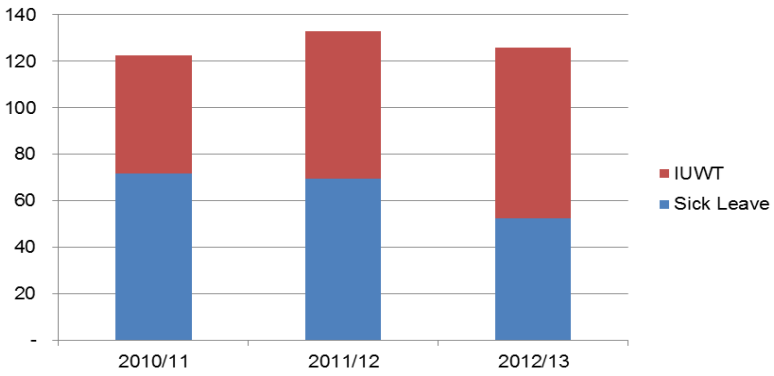
Note: Costs are estimated based on 2012/13 hours data adjusted for overtime factors and multiplied by the appropriate hourly rate

OV – hours per individual per year*



Source: National Audit Office analysis of FSA data

MHI – hours per individual per year*



Note: * - adjusted for overtime factors

Source: National Audit Office analysis of FSA data

Quality of enforcement and inspection is measured in various ways, but the potential impact on this of cost reductions in both GB and NI is not measured or analysed systematically

Measures of enforcement quality:

- The number of FSA enforcement actions have reduced considerably from 2007/08 levels; this could be a consequence of increased FBO compliance, reduced inspector numbers to enforce regulations, or a combination of both.
- The FSA in Great Britain do not monitor how many enforcements have been appealed by industry, and how many of these appeals have been upheld. The FSA cannot, therefore, provide certainty on the quality of its enforcement actions.
- No enforcement actions in NI appealed by industry over the past 5 years.

Measures of inspection quality:

- The FSA has only one routine measure of inspection quality, Post-mortem Inspection (PMI) Verification Checks, and there are concerns over the usefulness of this metric.
- The PMI result for OVs in Great Britain in December 2012 indicated 98.9% accuracy. However, FSA have told us that there is little variation of PMI results which may raise doubts about the value of the measure.
- Agreement has not yet been reached between the FSA in NI and GB on how to report PMI findings on an integrated UK-wide basis through the FSA Operations dashboard reporting system.
- FSA also monitors compliance levels as a proxy for inspection quality

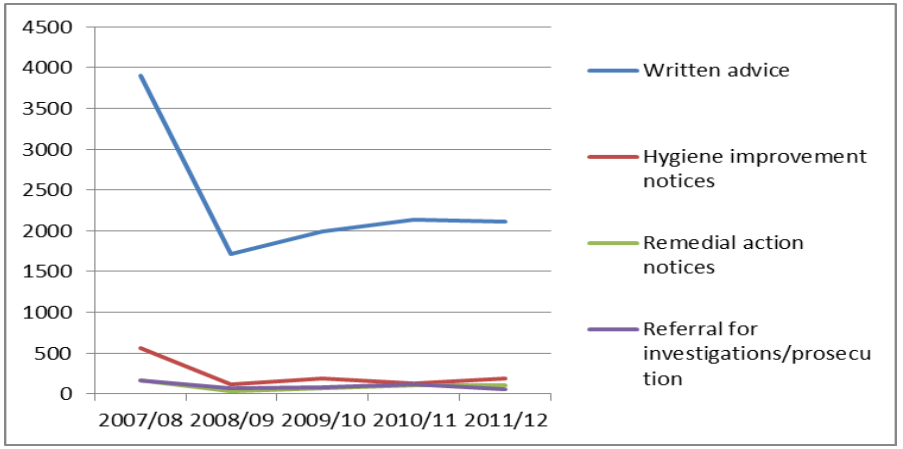
Audits of inspection quality:

- There is a regime of audits to check the quality of inspection, however, this is not independent as it is undertaken by the plant OV. The FSA state that Lead Veterinarians carry out quality checks on around 10% of all OV audits and provide reports on OV competency and enforcement activity.
- The FSA also states that its internal audit function investigates whether effective controls are in place and that audits are undertaken by the Food and Veterinary Office of the European Commission.

Links between quality and cost measures:

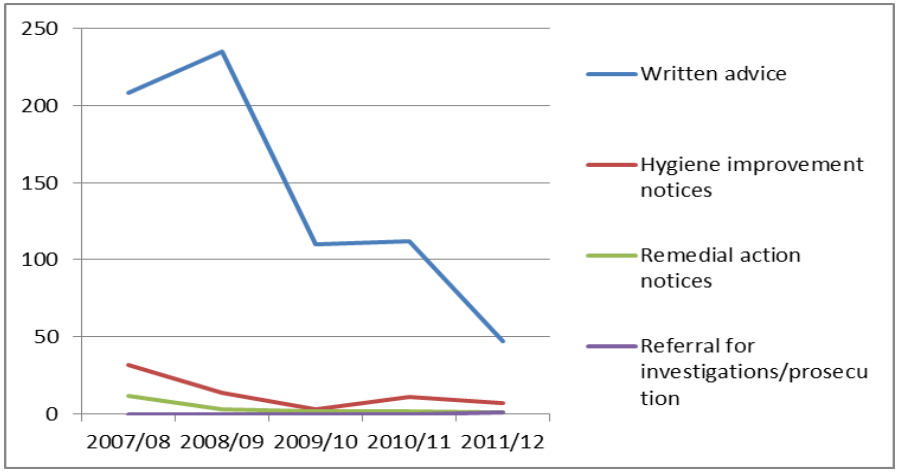
- The FSA's quality and performance measures are not linked to its efficiency metrics. This is becoming more important as the phase of achieving 'quick wins' in cost reductions is coming to an end and further savings could potentially have detrimental effects on the quality of inspection and enforcement.
- Quality metrics are not linked to CPLU or HPLU.
- The FSA has no way of measuring the effect of its efficiency saving measures, for example reductions in Meat Hygiene Inspector FTE, on the quality of FSA's on-going meat hygiene inspections.

Enforcement actions in Great Britain: 2007/08 – 2011/12



Source: National Audit Office analysis of FSA data

Enforcement actions in Northern Ireland: 2007/08 – 2011/12



Source: National Audit Office analysis of FSA data

Summary slide: Scope for further improvements

4. Our comparative analysis indicates that scope remains for further cost reductions and efficiency gains, some of which would require fundamental changes to the wider model of official controls and the incentive structures created through the charging and discount system

What work we have done

- Regression analysis of FSA costs at FBOs, and analysis of outlier characteristics
- Comparative analysis with Cabinet Office 2010 data on back office costs
- Cross-sectional analysis of charges and discounts to Food Business Operators
- Analysis of FSA hourly rates

Our criteria

- FSA understands where FBO costs differ and why
- Back office costs are comparable to other public organisations; explicable differences
- The charging and discount system is effectively targeted, providing the right incentives
- Hourly rates can be explained and justified

Our findings

- The charging and discount system is complex, subsidises certain operators unfairly on the basis of historical data and can penalise operators for investments through higher charges
- This not only makes it costly to administer but also does not create the right incentives for operators to become more efficient, which in turn impacts the efficiency of hygiene inspections
- If the large efficiency discrepancies between operators could be reduced there could be considerable FSA cost savings (potentially £9m at average efficiency), but the FSA has currently limited leverage to achieve improvements
- FSA back office costs appear high relative to other organisations, although they are falling quickly

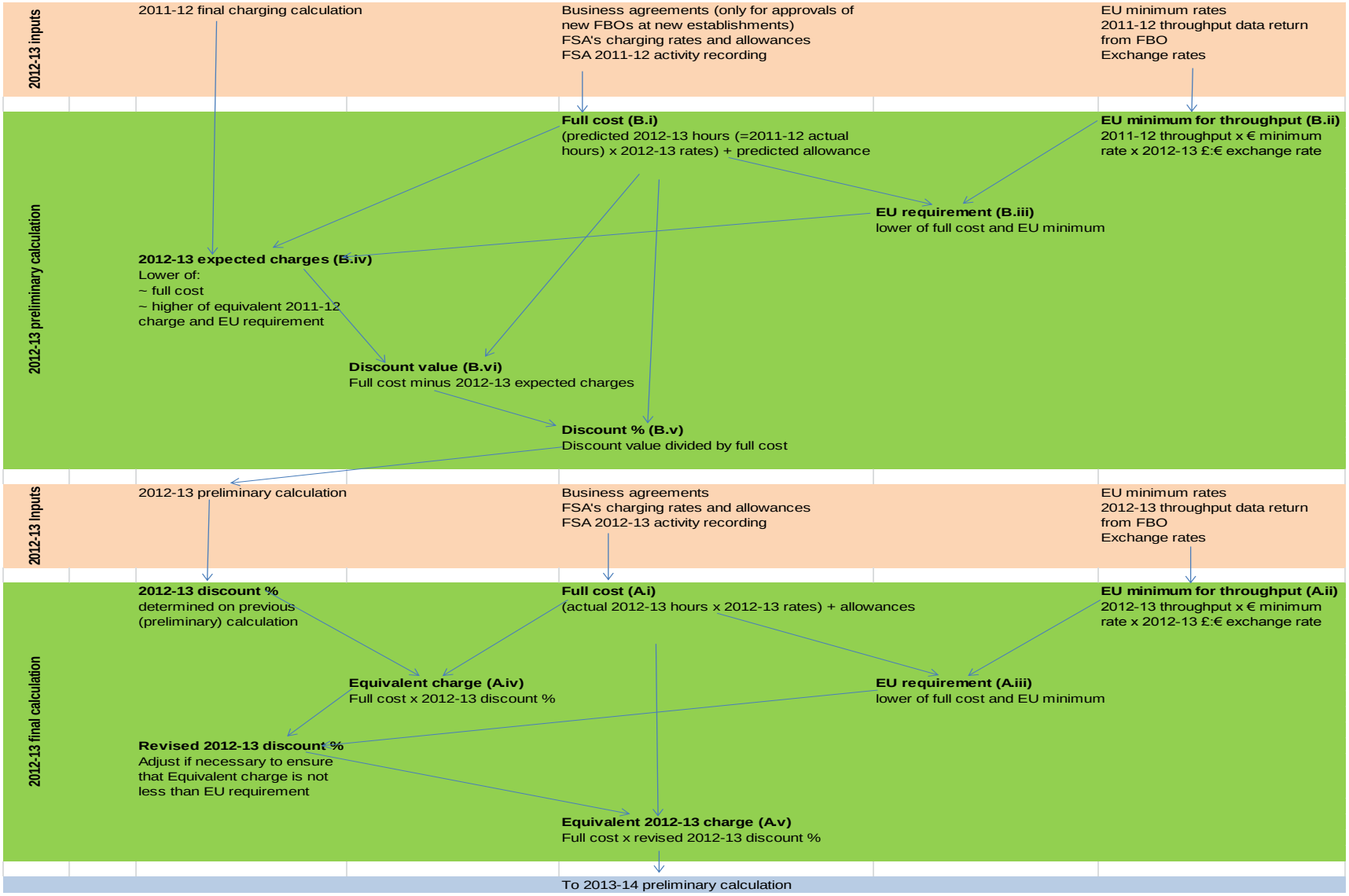
The FSA's charging and discount system has an important impact on the overall efficiency of meat inspections

Four main elements determine FBO's charges (based on Regulation (EC) No. 882/2004) :

- Time based charges
- A discount to reduce the time cost charge (where applicable)
- Allowances for agreed slaughterhouse staff costs (commonly known as PIAs)
- EU minima: EC legislation sets minimum charges per carcase type and weight of meat for cutting premises. Although the FSA charges on a time cost basis, it is still required to ensure compliance with the minimum charges. If time based charges, invoiced in full with no discount, fall below the EU minimum the FBO will not be required to pay any more.

Tierney Review Recommendations (2007): to develop a new charging system for 2009/10 which would	The current charging system
1. Allow a progressive move towards full cost recovery	• FSA's most recent plan to move to full cost charging over a 3 year period (except for low-throughput establishments) was approved by the FSA board and the Regulatory Policy Committee, but rejected by the Reducing Regulation Committee in March 2012 on the grounds that the FSA had yet to demonstrate that it was delivering the official controls efficiently.
2. Permit the more effective targeting of any subsidy	• The current discount system is not effectively targeted and mainly subsidies the least efficient operators; it is highest for very small, but also for some very large operators, and based on per-head inspection cost data from 2008 which has little relevance today.
3. Provide financial incentives to FBOs to comply and to make efficient use of TMHS [now: FSA] services.	• The current system neither rewards FBOs for good compliance, nor does it put a premium on flexibility/short-term requests; for those FBOs with high discounts, it does not incentivise the efficient use of FSA resources. • The application of EU minima can disincentivise FBO's investments (e.g. in platforms) which would improve their efficiency and reduce inspection time, as this might result in them having to pay a large share of costs.

Illustrating the complexity of the current charging and discount system



Comparison of charge out rates

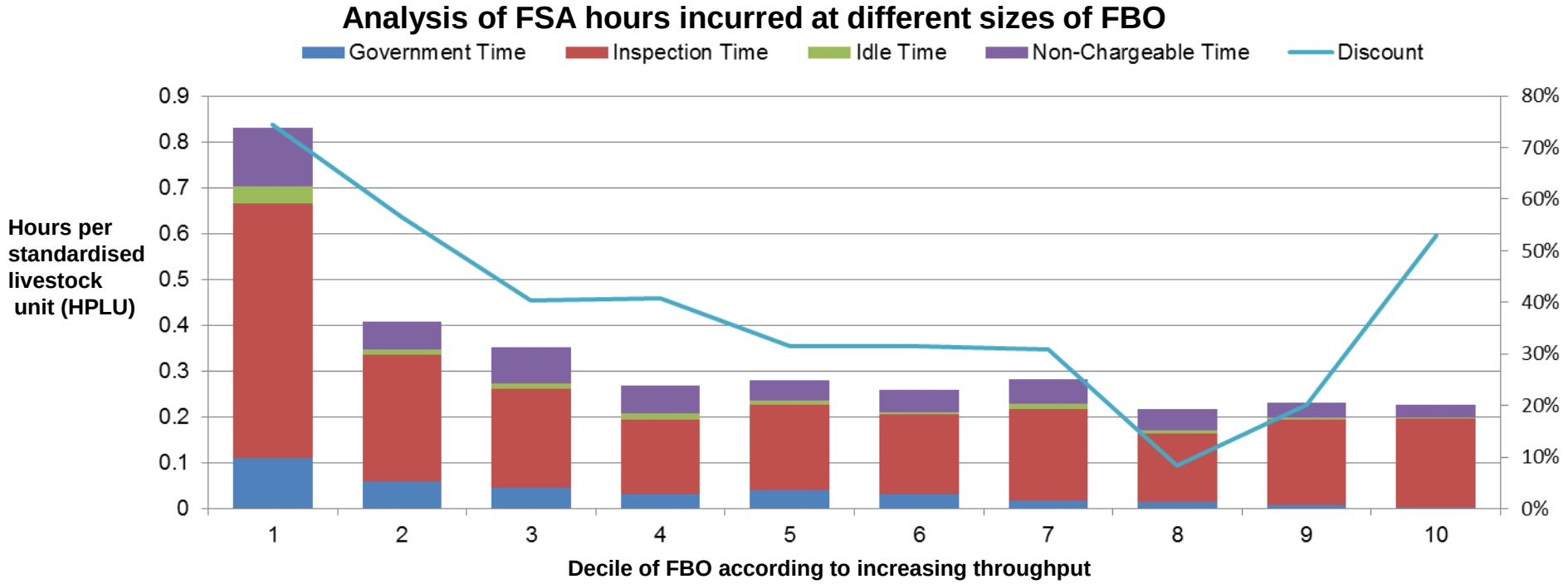
	Great Britain		Northern Ireland	
	Core hourly rate	Overtime hourly rate	Core hourly rate	Overtime hourly rate
OV	£36.80	£55.20	£43.46	£54.63
MHI	£28.80	£43.20	£26.86	£29.73
SMI			£30.28	£34.87

Notes
- Overtime rates in GB are charged when hours for the day/week are exceeded Monday - Friday and on Saturdays, Sundays & Bank holidays.
- NI & GB calculate overtime charges in different ways. GB "plus up" the hours to single time and then spread the overhead across all the hours. NI apply overheads only to basic hours, and then add a time premium to derive overtime rates
- The SMI (Senior Meat inspector) role does not exist in GB.

Source: Food Standards Agency; National Audit Office analysis of FSA data

The discount subsidises smaller, more expensive to inspect FBOs as well as some very large operators

All components of HPLU tend to decrease with the scale of FBOs, as larger operators tend to have faster line speed, a more efficient inspection layout and regular operating hours and throughput (which reduces idle time).



Source: National Audit Office analysis of FSA data

Throughput of decile: (thousands)	660	664	671	653	634	696	654	700	671	622
Companies in decile:	245	31	21	15	11	89	7	6	4	3
Average firm throughput: (thousands)	3	21	32	44	57	78	93	117	168	208

The current charging system provides no incentives for FBOs with high discounts to use FSA resources efficiently

Discount rates are based on historical cost data of individual FBOs, rather than being effectively targeted

- The discount is set so that the monthly charges for official controls will, assuming all factors are unchanged, be the same as in 2008/09 (when inspection costs were calculated on a per-head basis), subject to compliance with EU minima
- FBOs with very similar characteristics can receive extremely different discount rates, and discount rates are on average highest for the smallest as well as largest operators (see slide 46)

2012/13 data indicates an inverse relationship between efficiency and discounts

- The least costly to inspect operators (measured by the CPLU to the FSA) received on average the smallest discounts

Comparison of discount rates to inspection costs (GB), 2012/13

	All	Least efficient 20%	Next least efficient 20%	Middle 20%	Next most efficient 20%	Most efficient 20%
CPLU	£7.52	£81.80	£30.36	£17.80	£10.00	£5.14
% discount	46%	92%	83%	71%	57%	25%

Note: In preparing this table we ordered FBOs according to the average inspection cost per livestock unit (to the FSA) for each FBO during 2012/13. In this context, for example, "most efficient" means the 20% of FBOs with the lowest CPLU.

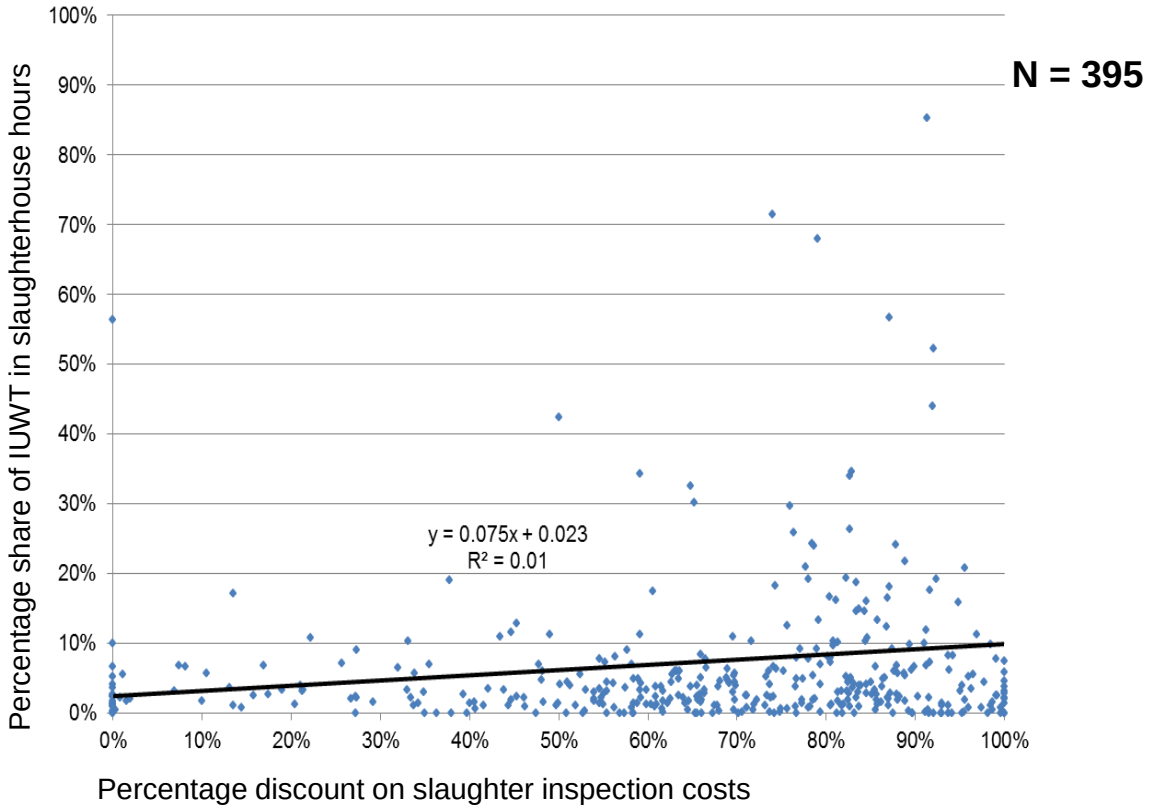
Source: National Audit Office analysis of FSA data

Operators with the highest share of ‘idle time’ tend to receive large discounts

High discounts reduce incentives for FBOs to minimise bookings of unused inspection hours

- There is no strong overall statistical correlation between discounts and the percentage share of IUWT bookings
- But all but one of the FBOs with more than 20% of their inspection hours booked as ‘idle time’ receive a discount of more than 50%

FBO-level Scatterplot: % discount vs. % idle time, 2012/13 (GB)

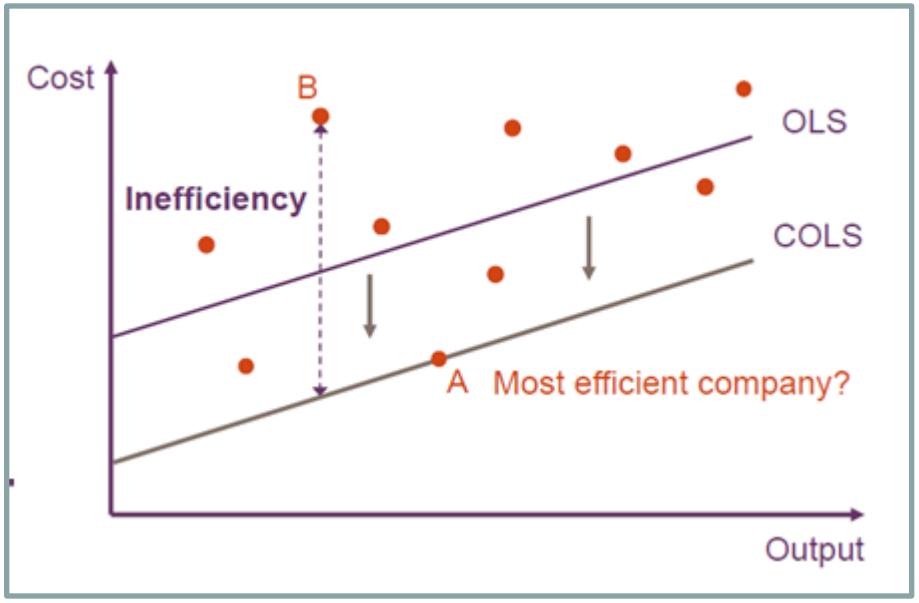


Source: National Audit Office analysis of FSA data

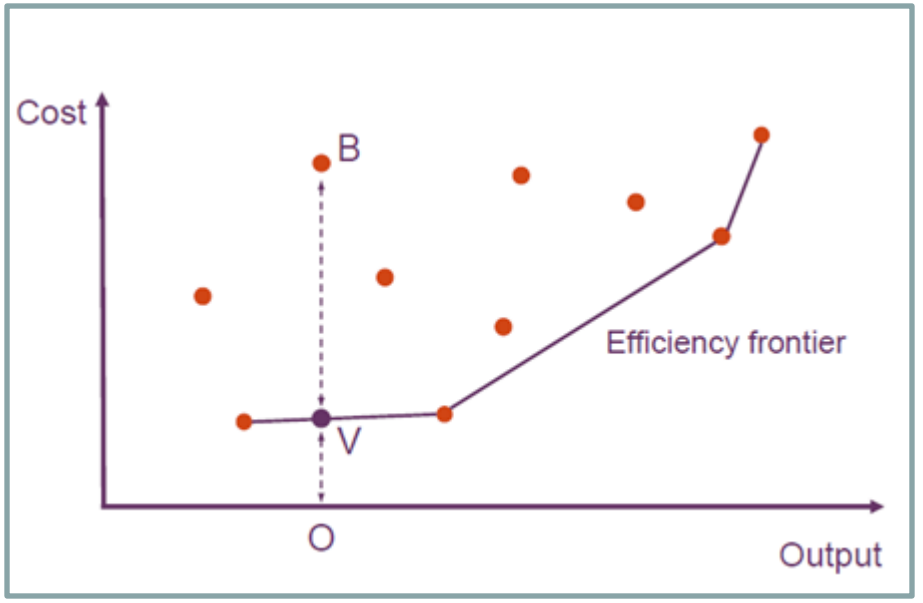
Two ways of thinking of potential efficiency savings:

We outlined in Slide 47 that there are considerable efficiency differences (i.e. inspection costs for a certain size of throughput) between operators. In order to analyse what improvements in efficiency might be possible, we compared the actual inspection costs of all operators with a measure of average costs given a certain throughput (the 'regression line') as well as lowest costs (the 'efficiency frontier', which is based on the operators with the lowest inspection costs relative to their throughput).

1) Comparing actual cost vs. predicted cost from regression line



2) Comparing actual cost vs. lowest-priced comparator in terms of size.

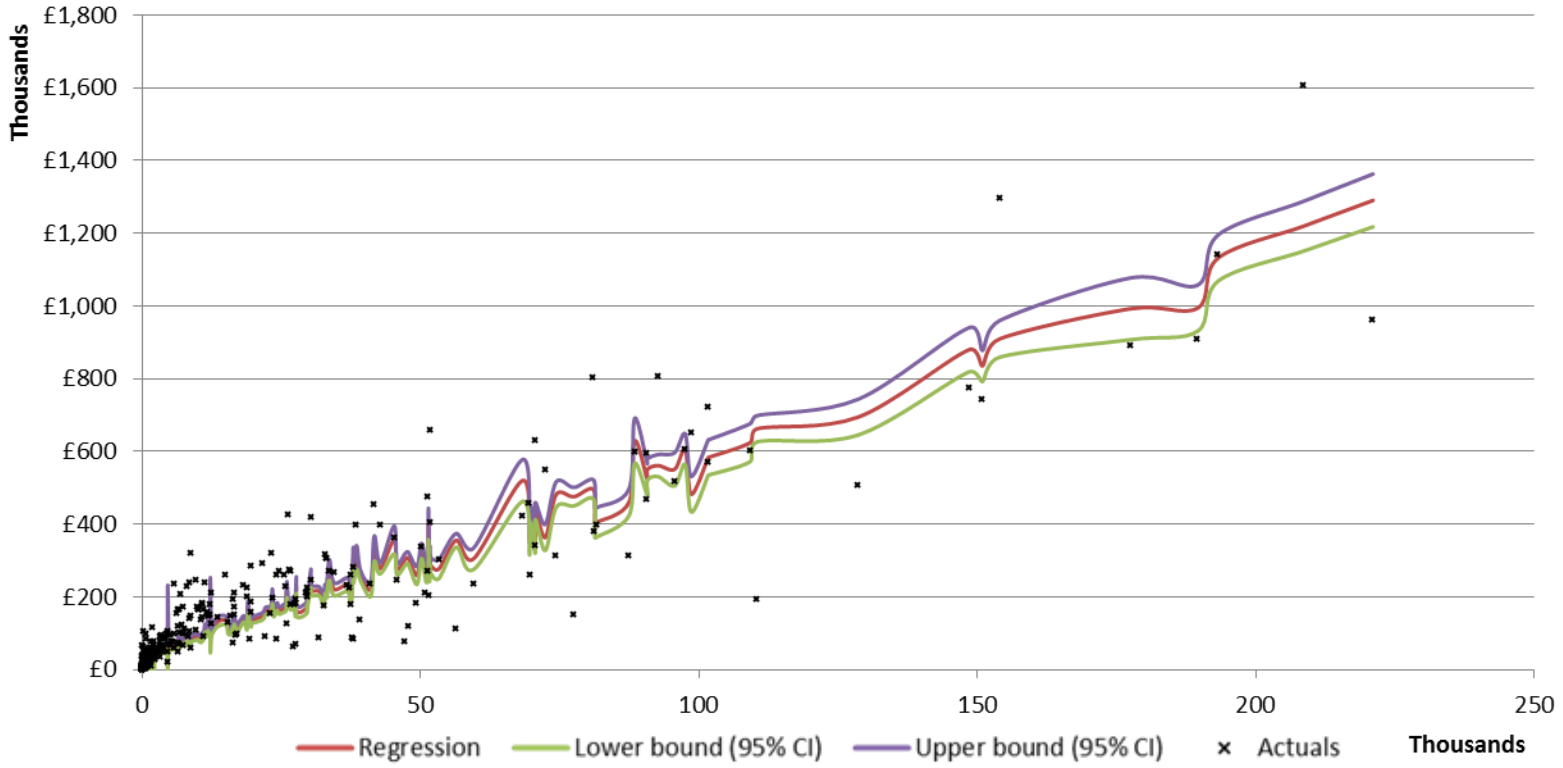


The distance BV represents the potential saving at plant B, if it operated as efficiently as the plants on the efficiency frontier

2012/13 regression line

The analysis shows that there are a number of FBOs with much higher inspection costs than the average predicted costs for their throughput size (the 'regression' line). The efficiency 'frontier' depicts a line of predicted maximum efficiency, on the basis of the FBOs with the lowest inspection costs relative to throughput.

Inspection cost versus throughput (firm level), 2012-13

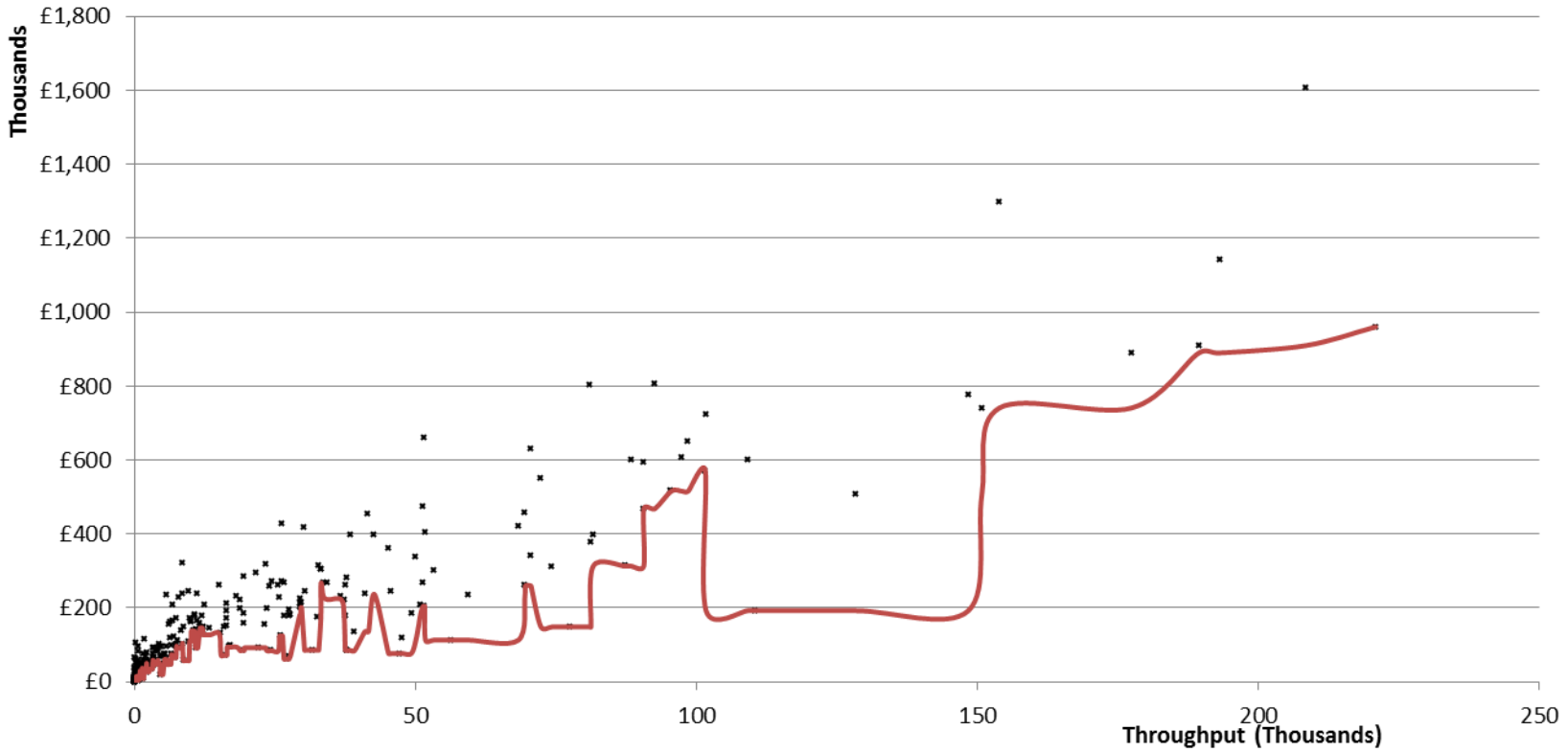


Source: National Audit Office analysis of GB FSA data

2012/13 maximum efficiency frontier

The efficiency 'frontier' depicts a schedule of maximum efficiency, if the actual inspection cost of any given FBO was the same as its two closest neighbours in terms of annual throughput.

Inspection cost versus throughput (firm level), 2012/13



Source: National Audit Office analysis of GB FSA data

If all plants could be inspected at average-to-minimum costs given their throughput size, potential GB savings could be between £9.5m and £28.5m annually

We calculated the potential savings in inspection costs if all plants with costs above the 'average' or 'maximum' efficiency line were inspected at average or maximum efficiency levels:

- Taking into account relative size and type of species of operators, the potential savings would be £9.5 million if average efficiency levels were achieved
- If all plants were inspected at maximum relative efficiency (defined as the 'efficiency frontier' outlined in Slide 51), potential savings could be as high as £28.6m

Potential efficiency gains comparing actual with trendline and efficient frontier (firm level, 2012/13)

	Throughput (Std. Units)	% Throughput	Savings: Regression line [1]	Savings: Frontier [2]
Cattle	2,232,626	34%	£ 2,764,527	£ 9,481,973
Poultry	2,056,645	31%	£ 3,311,409	£ 8,191,737
Pigs	1,252,197	19%	£ 1,400,519	£ 5,842,548
Sheep	1,077,048	16%	£ 1,869,713	£ 4,693,516
Game	21,718	0%	£ 95,575	£ 261,076
Other	9,549	0%	£ 8,007	£ 80,101
TOTAL	**6,649,783**		**£ 9,449,750**	**£ 28,550,952**

Source: National Audit Office analysis of FSA data

Note: [1] Savings from the regression line method represent the reduction in total inspection costs if all FBOs above the cost line predicted by regression line were to lie on the line instead
[2] Savings from the frontier method represent the reduction in total inspection costs if instead of their actual cost, all FBOs instead had the inspection cost that was the lowest amongst the group of 4 most similar FBOs in throughput volume.

The factors that drive the efficiency differences: analysis of 'outliers'

Analysis of the factors that drive above-average inspection costs per livestock unit:

- FBO and FSA efficiency are closely interlinked: if an FBO does not use FSA resources efficiently (e.g. through its choice of plant layout or working hours) this has a direct impact on inspection processes and hours, and therefore costs. FSA decisions and practices also affect how FBOs make use of FSA resources (e.g. charging; terms and conditions of FSA inspectors).
- To identify the factors which drive higher than expected costs and to assess the extent to which the FSA has control over these, we identified from our regression analysis the 20 FBOs with the highest inspection costs relative to expected costs given their size and species mix, and compared key cost drivers (slide 54, four "quant analysis" columns) to those of other FBOs
- We also gathered the views of inspection teams and FSA management on the factors which drive above-average inspection costs.

From this analysis, the main drivers of high relative inspection costs appeared to be:

- Slow line speed (due to old equipment, or variety of slaughtered species), requiring longer inspection time per livestock unit
- Above average idle time and overtime
- Long operating hours /shift working (requiring change-over of staff)

The FSA has only indirect influence on these factors, but a further in-depth analysis of the specific factors driving high inspection costs on an individual FBO basis could help the development of their approach on how to address those (e.g. through better engagement with FBOs and stronger incentives for an efficient use of FSA resources).

Source: National Audit Office analysis of FSA data

Qualitative and quantitative analysis of the factors driving above-average inspection costs in outliers

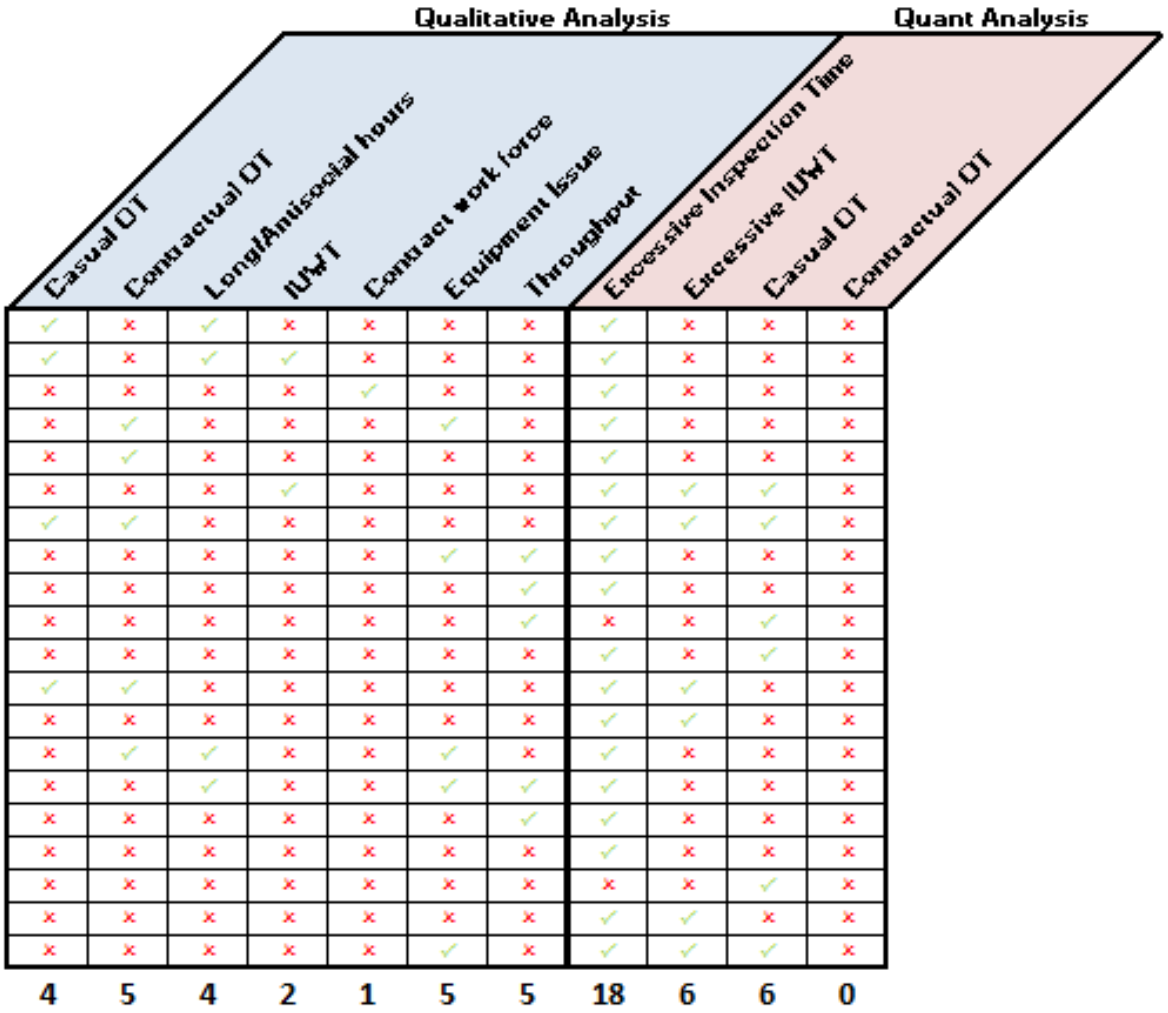
The main factors driving high costs are long inspection time per livestock unit, caused by slow line speed, as well as above average overtime and idle time hours. FSA has only indirect influence on these factors.

Qualitative findings:

- Old equipment, slow throughput, long working hours/shift working and overtime arrangements commonly cited as driving higher than expected costs

Quantitative findings:

- The main factor driving excessive costs is above-average inspection time, with idle time (IUWT) also relevant in several cases
- Average HPLU in the 20 greatest outlier[1] FBOs is around 0.39 – approximately 0.12 higher than the average HPLU which might be expected of this sample of 20, based on the size of FBOs within
- There is no indication that unchargeable codes (such as travel or admin) are important HPLU drivers
- There are more casual and contracted overtime hours per livestock unit in outliers than in non-outliers
- However, basic hours are driving most of the change in average HPLU between outliers and non-outliers



We compared the timecode components of the HPLU for the 20 greatest outliers with the components for HPLU in the remainder of FBOs. Where the difference between actual and expected timecode HPLU was greater than 5% of expected HPLU for a FBO of that size, we flagged this as significant.

Note: [1] Defined as greatest excess cost above the regression line of cost on throughput

Regression analysis of potential efficiency for Northern Ireland

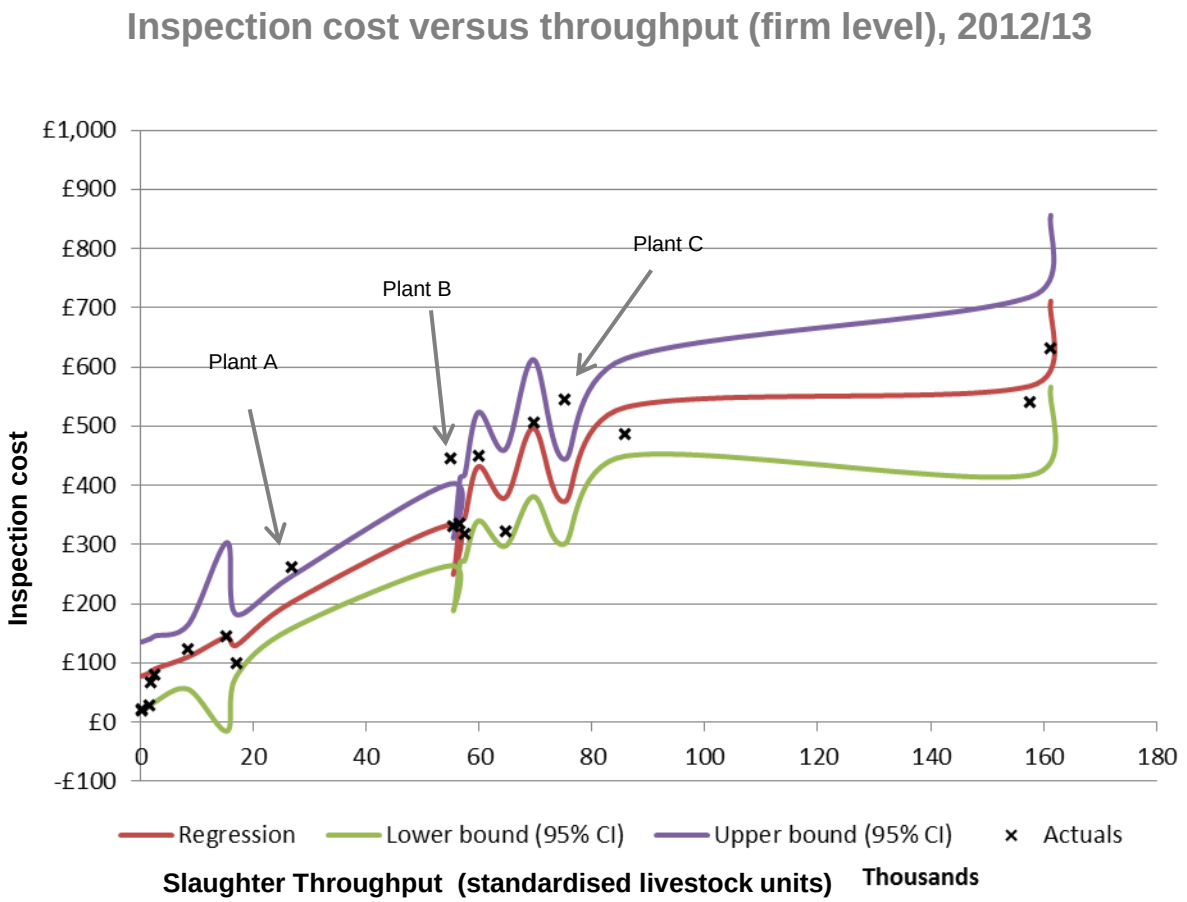
The regression uses the actual NI inspection cost and throughput data from FBOs to predict what the best estimate of cost should be, given any combination of throughput from different species.

Given the much smaller number of operators we had to apply a different approach to the regression analysis compared to the GB data, to reflect the higher degree of statistical uncertainty (1). The line is not straight because there are 5 inputs to the regression (poultry, cattle, pigs, sheep, and other), which can't be depicted in a two-dimensional space.

Cost outliers are the crosses which lie above the line (2). There are three operators with higher than expected inspection cost given their amount and composition of throughput.

1 Because the number of observations is low, there is a degree of statistical uncertainty over where the 'true' line should be drawn, but we are 95% sure that the true line lies between the upper and lower bound.

2 Where they are above the upper-bound line, there is only a 2.5% chance that they lie on the true regression line. This is a high level of confidence that the difference between the actual and predicted inspection cost represents an anomaly.



Source: National Audit Office analysis of FSA data

The estimated potential savings in NI are between £0.2m and £0.5m

We calculated the potential savings in inspection costs if all of the least "efficient to inspect" plants were inspected at improved efficiency levels:

Taking into account relative size and type of species of operators, the potential savings would be £0.46m if average efficiency levels would be achieved. If the three 'outlier' plants were to operate at the Upper Bound efficiency level, savings of £0.18m could be achieved. A more in-depth analysis of the reasons why the 'outlier' plants have higher than expected inspection costs would be necessary to outline the reasons for their relative inefficiency and best approach to address this.

Potential efficiency gains comparing FBO outliers with regression line, 2012/13

	Throughput (Std. Units)	%	Savings: Upper Bound[1]	%	Savings: Regression line [2]	%
Poultry	248,835	26%	£101,713	56%	£185,480	40%
Cattle	449,441	46%	£56,691	31%	£189,394	41%
Pigs	230,967	24%	£21,570	12%	£84,644	18%
Sheep	42,324	4%	£208	0%	£7,424	2%
Other	891	0%	0	0%	0	0%
TOTAL	**972,458**		**£180,182**		**£466,943**	

Note: [1] Savings to the Upper bound represent the reduction in total inspection costs if all FBOs above the 95% CI for the regression line were to lie on the 85% CI upper bound line instead

[2] Savings from the regression line method represent the reduction in total inspection costs if all FBOs above the cost line predicted by regression line were to lie on the line instead

Source: National Audit Office analysis of FSA data

The comparison of back office costs to those of other public sector organisations indicates that costs are relatively high, but considerable improvements have already been made

We compared back office costs of FSA and other public sector organisations:

- Around 120 organisations in the 2009/10 Cabinet office exercise; a smaller selection (around 20) of similar size and function

Caveats – the comparison is illustrative because:

- FSA back office data is for the whole of FSA, not just meat hygiene controls
- FSA data is for 2011/12 and 2012/13; with one Cabinet Office exercise, only 2009/10 data is available for other organisations
- FSA is not comparable in 2009/10 or 2010/11 due to merger with MHS; 2011/12 is the first "stable" year for comparison
- Few if any exact comparators exist
- FSA has unique attributes (for example support for a more challenging operational work environment) or different accounting treatments which might explain higher than average costs (for example travel costs recorded as indirect)

Results

- 2011/12 function costs were higher than average for most functions
- Costs per member of function staff are relatively lower for Finance, HR and communication
- Relatively high function staff numbers seem to drive the high relative cost; FSA reduced back office staff numbers by 135 (56 per cent) in the five years to March 2013
- Comparisons are weaker by 2012/13 (since other organisations' costs will also have changed since 2009/10)
- There is some improvement when 2012/13 data is used; movement from band 4 to band 3 (hence comparator averages) for several indicators; this reflects reductions in these 6 categories (total) from 2011/12 of 28% staff (mostly IT) and 4% costs
- FSA proposes further changes to reduce costs in 2013/14: moving to shared services; roll-out of Lean pilot; review of payroll and revenue accounting delivery model

1. Scores indicate which quintile (20% band) FSA appears in; 1 = "best" i.e. lowest cost or staff ratio relative to other organisations
2. Bandings are shown for 2011/12 and 2012/13; brackets indicate the 2012/13 where it has changed from 2011/12

	Function cost / organisation cost	Function cost / organisation staff	Function cost / function staff	Function staff / organisation staff
Finance	4 (3)	4	3	4 (3)
HR	4 (3)	4 (3)	2	4
Procurement	4	4	5	4 (3)
Communication	4	3	2	4
IT	3	3	*	*
Legal	2	2	*	*

* Comparative data for other organisations is not available against these indicators

Source: National Audit Office analysis of Cabinet Office and FSA data

Working with contractors: *Context and methodology*

Context

- In 2012 the FSA moved to a new operations field structure. To accompany this change the FSA restructured its arrangements with its contractors for the delivery of official meat controls by re-tendering contracts on a larger regional basis, rather than the "cluster" basis that existed previously. FSA said it also wanted to address problems with the previous model associated with poor supplier performance. There are six regions and contractors were invited to tender to supply to each region. The 6 main regions are Scotland, Wales and 4 regions in England.

- The FSA issued contracts to two contractors: *Eville & Jones* in England, and *HallMark* in Scotland and Wales. Under the arrangements contractors are required to provide a managed service (meaning, the contractor is responsible for elements such as staff management and training) for the supply of Official Veterinarians, Meat Hygiene Inspectors, and short term Lead Veterinarians. Suppliers must meet detailed conditions, as specified in the relevant contracts. In conjunction with the FSA, suppliers are required to develop, maintain and improve performance and service with a view to enhancing the overall delivery of service. Contractors have their own management structures in place to facilitate this and the FSA manages contractor performance using a performance management framework.

- The number of contract staff as a proportion of total staff is increasing. Almost all OVs who work at FBO plants are contracted staff. MHIs are primarily employed directly by the FSA, although contractors provide some, primarily to fill the gaps and provide a resource "pool". Under the new contract arrangements, the FSA pay a fixed price for the provision of Official Veterinarian staff, contract Meat Hygiene Inspectors are supplied on a time basis. In 2011/12 , FSA delivery partners provided 320 (98.8%) Official Veterinarians and 188 (24.2%) Meat Hygiene Inspectors.

- The value of the current fixed price contract for the provision of OVs is £14.8 million per year. Total contractor costs charged to the FSA increased from £22 million in 2010/11 to just over £23 million in 2011/12. This is largely explained by an increase in contractor hours worked by 32,000 over this period. FSA forecasts that contractor costs charged to the FSA will decrease by an estimated £2 million in 2012/13, and a further £200K in 2013/14, savings partly attributed to the move to the fixed price charging structure.

What we did

We analysed the effect of the FSA's current contractual arrangements on its ability to deliver meat hygiene controls as efficiently as possible. To examine this we:

- held discussions with the FSA on contract management issues;
- held discussions with representatives of both contractors – *HallMark* and *Eville & Jones*;
- undertook a review of the management structures of the FSA and its contractors, and of FSA data on its use of contractors.

Working with contractors: *Risks associated with the FSA's contracting model*

The fixed price contract provides the FSA with a number of benefits, including; reduced contractor costs in the short term, increased staff flexibility (as overtime is included in the total cost) and greater budgeting stability. There are, however, risks attached to the revised contracting model which could impact on the longer-term efficiency of the FSA both directly and indirectly. There are risks associated with the choice and structure of the FSA's contractor model, identified in discussions with FSA management and staff and with the contractors, detailed below.

Risk area	What we found	Potential impact on FSA efficiency
Sustainability	• Sustainability of competition: the latest contract could reduce competition and increased the FSA's reliance on a small number of contractors. • Sustainability of the contract model: FSA is aware of the fact that having contractors on a call-off basis in increasing numbers may be a difficult model to sustain	• Failure or withdrawal of one or more suppliers could, potentially, have severe consequences on the ability of the FSA to deliver its service in the short term. In the longer-term it could lead to a monopoly situation which would have a negative impact on FSA efficiency.
Alignment of contractor and FSA incentives	• The current contract provides limited opportunity for contractors to grow and expand their business. As revenues are fixed there is no potential for increased margins. As there is no way to win more business the only way to improve profit position is to reduce costs. There is a risk that the contractor is therefore incentivised to let go experienced (and better paid) staff and replace them with cheaper, less qualified people. • As contractors can no longer win any new contracts, and the FSA has limited choice between different suppliers, there is little incentive for contractors to develop and improve the quality of service delivered. • Due to a lack of contractor competitions within regions it is impossible for contractors to demonstrate, through comparison between competitors, improved performance.	• The fixed price contract could have an unintended negative impact on the quality of the delivery of controls. In the long term, without an appropriate performance monitoring framework in place, this could lead to increased inefficiency. For example, good, experienced staff should make less mistakes, ask fewer questions, and deliver things right-first-time more often. (e.g. audits) therefore requiring less time and effort managing them.
Quality control mechanisms	• Some industry representatives expressed concern that the FSA in Great Britain has not been effective in maintaining consistent OV interpretation of meat hygiene controls and enforcement actions in response to non compliance. By comparison, the FSA in Northern Ireland have received much praise from its stakeholder community for the quality and technical expertise of the OVs who work on site. • Under the current delivery model, where the technical team leader at the plant level is not directly employed by the FSA, there is a risk that the competent authority lacks direct influence to instruct OVs on their enforcement approach to ensure FBO compliance. • There is no provision in the current contract to incentivise the contractor to control where resources are focused i.e. match skill/experience with difficulty.	• Inconsistent interpretation of legislation could cause delays to the enforcement processes, FBO grievances and damage the FSA's credibility.

Working with contractors: *Risks associated with FSA contract management*

There are also risks attached to the way in which the FSA manages contracts with suppliers, identified in discussions with FSA management and staff and with the contractors, detailed below.

Risk area	What we found	Potential impact on FSA efficiency
Duplication of management activity	• There is some duplication of management activity between FSA and contractor staff, in particular at the level of the FSA's Lead Veterinary role which replicates the work of the contractor's Area Veterinary Manager. FSA states that they had to move to a separate management structure to avoid approx. £1million costs as a consequence of the Agency Working Directive.	• Duplication & waste of effort and resources.

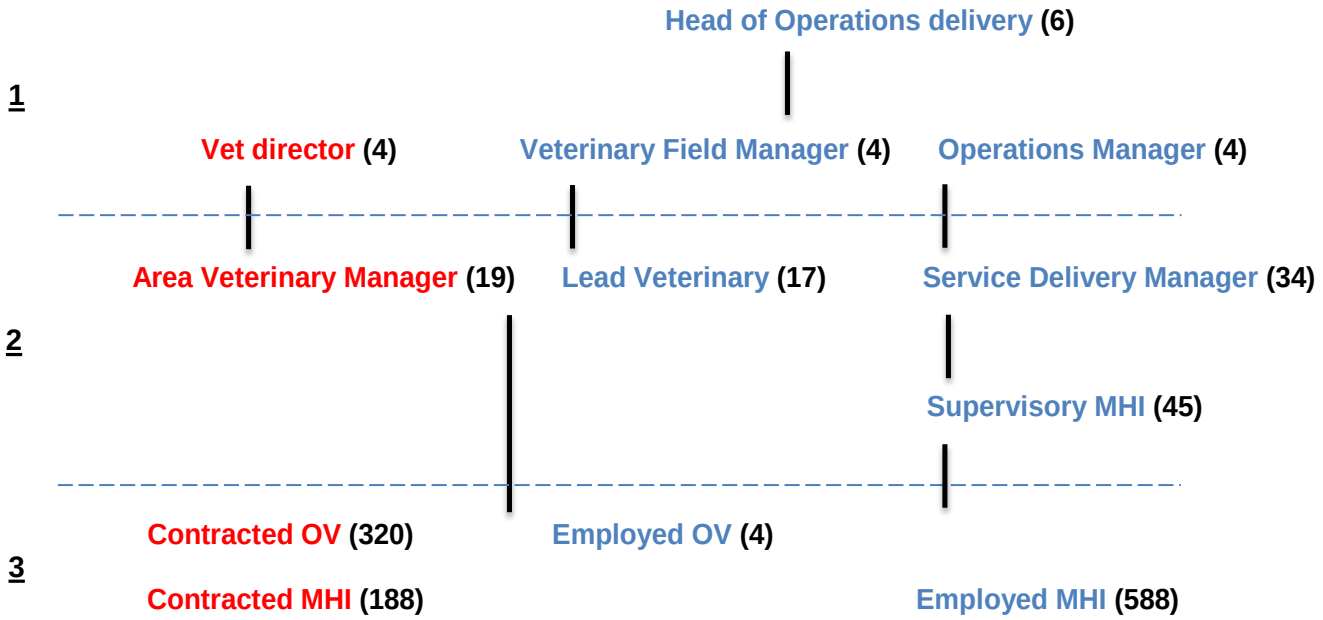
Benefits of the managed service contract	• The FSA has contracted a managed service, which aims to allow contractors to choose how they allocate and manage resources to deliver the outputs and outcomes required under the contracts with FSA. There is a risk that the benefits of this approach are not being fully realised, because
	  • FSA management of the contract at a local level may be duplicating the contractors own management;
	  • contract performance monitoring is not sufficiently focused on outcomes; and
	  • information sharing that could be more joined-up and timely.
		• Duplication of effort and resources; a potential lack of clarity over who is responsible for what; the full benefit of the managed service approach may not be realised.

Performance monitoring	• The FSA's framework for managing contractors' performance tends to measure administrative tasks and processes more than the quality of the work being done by contractors. KPIs do not evaluate the contractor's entire delivery of a managed service (the outcome of their work) but instead focus on individual processes. • KPIs for each contractor are reported individually, on a regional basis and do not appear to be aggregated to a national level to provide an overview performance and facilitate comparison between the 2 contractors. Furthermore, the results are available on a monthly, rather than real time basis. • Meetings between FSA and contract field managers and staff to discuss contract performance have been described by contractors as sometimes being unwieldy and inefficient.	• The FSA may not be able to fully measure the quality of service provided by contractors, on a timely basis
Plant level working relationships	• Working relationships between contract and in-house FSA inspection staff have generally improved, but can vary considerably between plants.	• Low staff morale and a lack of teamwork can affect productivity at the plant level.

FSA Operations field structure: Great Britain, May 2013

The diagram illustrates the FSA's current field management structure and how it aligns with the management structures of its contractors.

- Our discussions with industry representatives, FSA management, *Eville & Jones* and *HallMark* identified potential role duplication between contractor Area Veterinary Managers and FSA Lead Veterinarians.
- Lead Vets support Official Veterinarians, providing technical support and ensuring compliance. Part of their role is to work closely with contractors. There is a risk that this relationship is not working effectively and that Lead Vets are getting involved in the day-to-day management of contracted OVs, a role undertaken by Area Veterinary Managers.



Notes:

- FSA staff are denoted in blue, contract staff are denoted in red.
- 1 = senior management, 2 = middle management (performance monitoring), 3 = front line delivery.
- The FSA Operations Manager position relates exclusively to England.
- FSA Supervisory MHIs are not fulltime management posts.
- The figures, in brackets, represent the number of staff employed to each grade, May 2013 (source: FSA, *HallMark* and *Eville & Jones*).

Summary slide: Mitigating future risks and structured cost reduction

5. Achieving efficiency in future carries risks, and requires a more structured cost reduction approach

What work we have done

- Identification of risks to the FSA arising from cost reduction measures (through interviews, document review, quantitative analyses)
- Comparison to structured cost reduction good practice developed by the NAO in its cross-government work

Our criteria

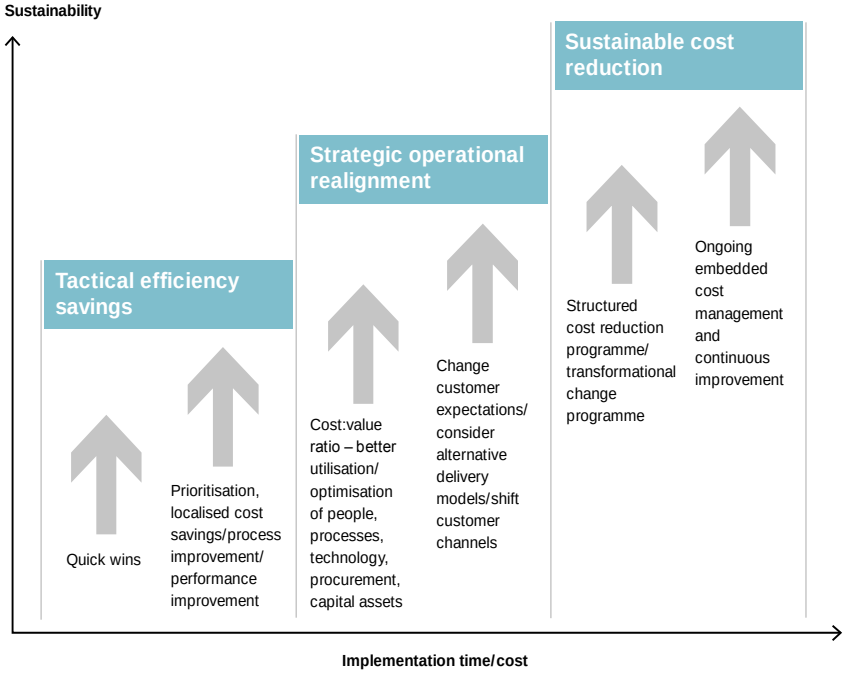
- Application by the FSA of structured cost reduction principles and practices
- Evidence of the FSA acting on any areas where weaknesses in its approach have been identified

Our findings

- Achieving greater efficiency in future carries risks requiring careful management
- The FSA will need to adopt a more structured approach to cost reduction in future to achieve these savings while at the same time managing these risks
- The FSA has started to take actions which should lead to a more structured approach

A more structured cost reduction approach by FSA will be much more important in future

Stages of cost reduction



FSA has achieved cost reductions through a combination of:

- The availability of "quick wins" meant FSA has been able to reduce costs though for example
  - removal of SRM controls, and the associated requirement to employ meat technicians
  - reducing relatively large back office staff costs and numbers before and following merger with MHS
- Better utilisation of field staff
- Some changes to the delivery model, for example contracting, with increased use of contract staff and adopting a managed service

A move towards a more strategic and sustainable cost reduction approach is much more important in the future because (for example):

- There are fewer (if any) quick wins available
- FSA (GB) has useful information on costs and monitors various aspects of inspection quality and FBO compliance, but the link between cost reductions and the potential effect on inspection quality is not measured or analysed systematically and holistically
- This link is becoming more important as further cost reductions become harder to achieve
- The FSA has an expanding range of initiatives (slide 65)
- Risks in some areas have increased, for example regarding the sustainability of the contracting model

Cost reduction can be managed at different levels; FSA is seeking to move away from its past focus on individual initiatives

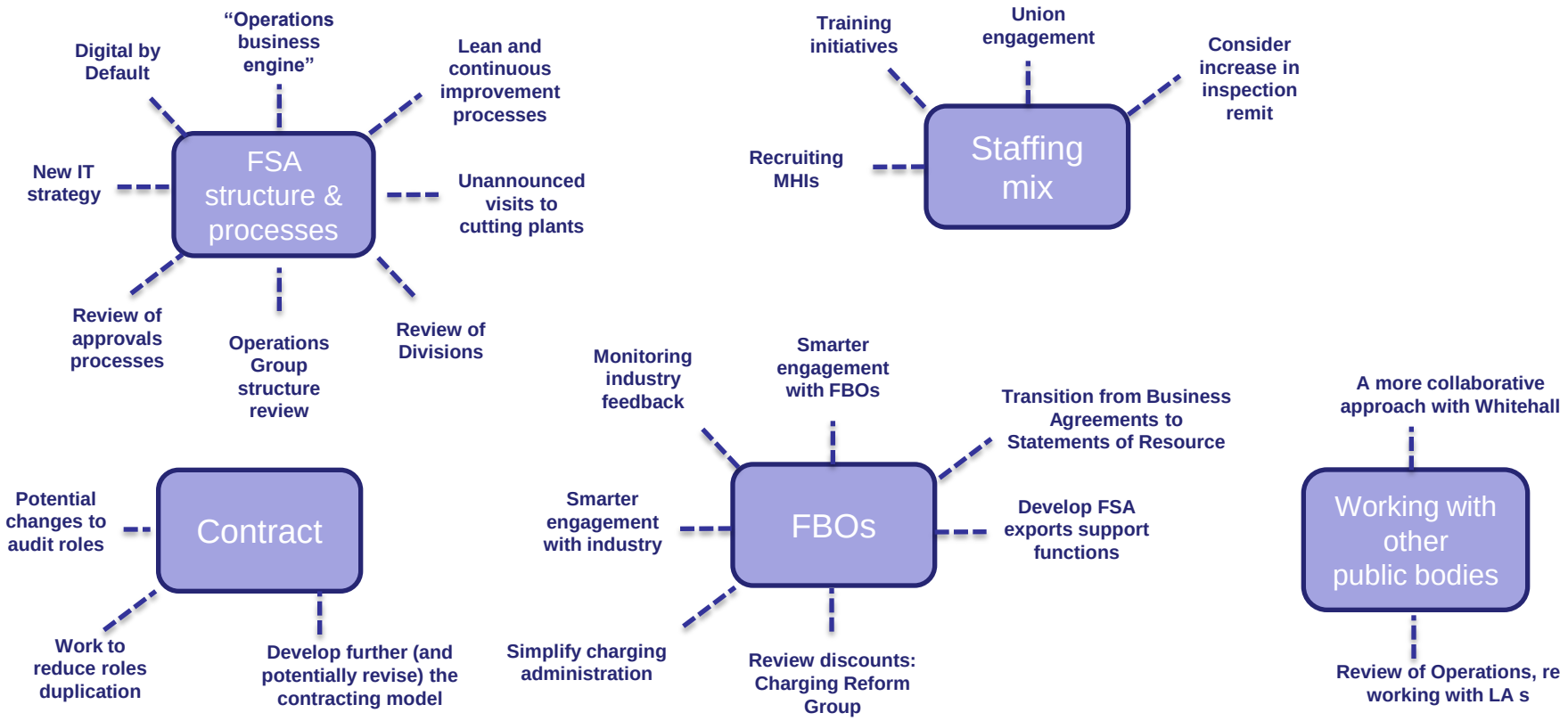
There are opportunities for the FSA to reduce costs at three levels: at individual plants and FBOs, as individual initiatives across all plants and FBOs, and through programme management of individual initiatives. Historically, FSA's focus has been on reducing costs through individual initiatives, and review of cost variances at plant level. But:

- Managing individual initiatives in isolation may mean that they are subjected to insufficiently strategic oversight, to ensure that the intended outcomes and progress are aligned with strategic objectives; or poorly co-ordinated, for example through failing to recognise interdependencies between individual initiatives.
- There are opportunities for FSA to learn in a more sophisticated way more about costs at individual plants and FBOs, and how much these vary from what could be expected given the characteristics of individual plants, using regression analysis

Level of management	Assessment of maturity	FSA actions or proposals
Managing cost reduction initiatives as a programme	Least mature. The Capability Review identified that the FSA needed to develop its programme management skills and capability. Evaluation of initiatives and learning from them has tended to take place informally and has not always been well documented. Evaluation has taken place at project close, but not at a later date to capture post-project effects.	Development of programme management capability through establishment of • a Change Board to oversee individual initiatives • a Programme Management specialist and team
Managing individual cost reduction initiatives	Most mature.	FSA is planning a wide range of initiatives (slide 65) The FSA has introduced a business case system to minimise the risk of initiatives being launched without programme-level oversight
Managing costs at individual plant of FBO level	Somewhat mature. Variances in costs to FSA are reviewed by managers within the field management structure.	

FSA is developing many efficiency initiatives that require careful management to achieve intended outcomes

This chart shows the initiatives that the FSA is considering, proposing or developing over the next 12-18 months that will affect the efficiency of its meat hygiene official controls work. The volume of change initiatives is substantial, and many of the initiatives are interdependent and require participation of internal or external stakeholders. The FSA will need to manage the initiatives as a programme to ensure that they are undertaken in a planned and co-ordinated way, to deliver individually and collectively the FSA's intended outcomes.



Moving to more mature strategic approaches to cost reduction

What maturity looks like – key examples	FSA actions or proposals to move towards maturity
Objectives • Longer-term (e.g. 5 year horizon) vision for efficiency, SMART strategic and intermediate objectives, regularly reviewed and prioritised, communicated internally and externally • Fully developed Target Operating Model supporting vision and covering all operations	• Discussion paper on future Delivery Model, May 2013
Programme management • Initiatives selected form a balanced portfolio with interdependencies with other initiatives and business as usual well understood. • Appropriate skills & support for those in governance roles, which are clearly defined. • Processes for change and risk management, quality assurance, benefits realisation across portfolio	• Establishment of Change Board to oversee programme management • Executive approved the Programme Management Strategy April 2013
Initiatives • Consideration of a range of options with associated costs, benefits, risks and strategic fit • Each initiative supported by: a robust business case; a logic model clearly showing how options will lead to achievement of objectives and outcomes; robust appraisal of costs and benefits, subjected to sensitivity analysis • Project plans and milestones; plans for "contingency" savings in reserve if under-achievement • Appropriate accountability, governance and monitoring at initiative level	• Online business case system implemented late 2012
Organisation, systems and processes • Processes for learning and continuous improvement, change and risk management, quality assurance, benefits realisation of initiatives and across portfolio	• Review of Operations Group structure and of FSA divisions in 2013 • Roll-out of Lean pilots from Spring 2013
Communication and engagement • Interests and influence of internal and external stakeholders evaluated; Communications Plan; stakeholder engagement and involvement in decisions; strong relationships with others who have more direct influence over efficiency factors	• Strategic stakeholder engagement plan in development
Skills and innovation • Structured analysis of skills needs and gaps; continuous improvement culture prioritised by leadership and embedded, with associated performance assessment and rewards	• Audit of skills undertaken by HR • Post with specific continuous improvement remit
Performance measurement, evaluation and feedback • Strong understanding of links between costs, activity and service delivery • Robust counterfactual for measurement of progress • Indicators link clearly to activities and objectives; measurement of continuous improvement activity • Management information systems provide sufficient, timely information across all costs and activities; underlying data quality checked and validated • Evaluation planned at outset and undertaken; stakeholder feedback; informs decisions; lessons shared	• IT strategy from 2013, moving towards more real-time information • Digital by default work