

In Confidence

Office of the Minister of Agriculture
Office of the Minister for Biosecurity
Office of the Minister for Food Safety

Chair
Cabinet Economic Development Committee

RELEASE OF CONSULTATION DOCUMENT: A REVIEW OF COST RECOVERY FOR SELECTED SERVICES PROVIDED BY THE MINISTRY FOR PRIMARY INDUSTRIES

Proposal

1. I seek agreement to publicly release the attached consultation document: *A review of cost recovery for selected services provided by the Ministry for Primary Industries* in February 2018. The document outlines proposals to update fees and levies, and improve the Ministry for Primary Industries' (MPI's) cost recovery arrangements across the biosecurity and food systems.

Executive Summary

2. Cost recovery plays a significant role in ensuring that MPI has sufficient funding to effectively deliver services critical to the success of the primary industries, which contribute \$37 billion in exports annually. Approximately 40% of MPI's departmental funding comes from cost recovery through more than 300 fees and levies authorised under ten different Acts.
3. Costs are recovered from those that directly benefit from provision of MPI's services, or those that create risks which those services are designed to manage. For these proposals, the majority of MPI's charges in the food system are collected from businesses who produce or export primary products; and in the biosecurity system charges apply to those that import goods or enter New Zealand.
4. MPI commenced a First Principles Review (the review) of its cost recovery arrangements in late 2015 following a major update to fees. The objectives of the review were to support a more consistent and transparent approach to cost recovery across the range of services that MPI provides, and to ensure alignment with the Treasury and the Controller and Auditor-General's cost recovery guidance. The review found MPI's cost recovery settings are broadly appropriate, but identified a number of areas where changes could be considered.
5. In parallel to the review, MPI undertook an assessment of the level of existing charges and identified several that need to be updated to avoid unrecoverable deficits accumulating in memorandum accounts, reduce the size of future adjustments to fees and levies and minimise the risk of unrecoverable deficits.

6. Proposals for amendments to cost recovery arrangements are set out in the attached consultation document. I seek your approval to release it for public consultation as soon as possible.
7. The consultation document includes seven proposals - three in the biosecurity system and four in the food system. Six of these include specific changes to:
 - 7.1. increase the Biosecurity System Entry Levy (BSEL) from \$17.37 by (an indicative) \$2.99 to \$20.36 per consignment
 - 7.2. amend the Biosecurity (Border Processing Levy) Order 2015 to enable the Traveller Border Clearance Levy to be set for a period of up to 3 years
 - 7.3. amend the Biosecurity (Costs) Regulations 2010 to align inspection rates for all jurisdictions
 - 7.4. introduce new charges for services under the Food Act - primarily related to approvals of Food Control Plans and subsequent renewals and amendments
 - 7.5. update the hourly rate for circuit verifications, to address historical and ongoing under-recovery for these services
 - 7.6. introduce a new targeted rate to address a historical under-recovery for circuit verifications of storage premises and seafood processors.
8. The seventh proposal relates to deficits for services funded by levies charged to meat, dairy and fish processors. However, in light of conditions currently affecting farmers in many parts of New Zealand, it may not be appropriate to proceed with these increases from 1 July 2018. I propose including options for the timing and amount of any levy increases in the consultation document, and seeking feedback about industry's preferences about how best to address these deficits.
9. The proposals are considered high priority as they seek to avoid unrecoverable deficits of at least \$6.4 million accumulating in memorandum accounts. Most of MPI's cost recovery provisions require deficits to be recovered within a set period after they have been incurred.
10. If agreed, consultation will take place for a four week period from approximately 20 February to 20 March 2018. After considering feedback, I will then report back to Cabinet seeking approval to amend cost recovery regulations, targeting implementation on 1 July 2018.
11. Most proposals involve increases in charges. The impacts for individual businesses is likely to vary considerably. I am particularly mindful of the effects of cost increases on small businesses, and have directed MPI to undertake analysis on the impacts of cost recovery on small, remote, or developing businesses as part of the consultation process. Officials will report to me in later in 2018 with further options for managing the impacts of cost recovery arrangements on such businesses.

12. MPI is developing a second tranche of cost recovery proposals, aiming for consultation later in 2018 and implementation on 1 July 2019. These will include further adjustments to charges as well as improvements to policy settings, in particular simplification and re-design of charging arrangements.
13. MPI engaged with key stakeholders late in 2017 to convey the timing and scope of proposals, so they are prepared for consultation to commence shortly.

Background

Cost recovery is important to achieving MPI's priorities

14. MPI provides a range of services to ensure that New Zealand is protected from biological risks, that the food we produce is safe and suitable, and that our natural resources are sustainable while also enabling the primary sector to grow the value of its exports (over \$37 billion per annum).
15. In 2016/17, MPI received approximately \$200 million via cost recovery (approximately 40 percent of its total departmental revenue).
16. Where appropriate and practical, MPI's costs are recovered from third parties who directly benefit from MPI services and/or give rise to risks that it manages. This means cost-recovered services do not need to be funded from general taxation, putting less pressure on Crown revenue. Not all MPI's services are cost recoverable, but where cost recovery is applied, MPI seeks to recover all relevant costs.
17. In total MPI administers more than 300 fees and levies, authorised under 10 different Acts. There are a wide range of charges from broad-based levies (such as biosecurity levies on goods and travellers entering New Zealand) to targeted fees for services provided to domestic food production or other animal products businesses.
18. The businesses that pay fees and charges to MPI are diverse, located in all parts of New Zealand and range from part-time owner-operators to some of New Zealand's largest corporate entities.

MPI takes a principle-based approach to cost recovery

19. Four key principles underpin MPI's cost recovery approach. These principles are common features in most authorising legislation and can be summarised as follows:
 - 19.1. *equity* – services should be funded from users that benefit from the service, or people who generate the risks that the service is designed to manage
 - 19.2. *efficiency* – costs should be charged to ensure that maximum benefits are delivered at minimum cost
 - 19.3. *justifiability* – charges should only recover the reasonable costs of providing the service

19.4. *transparency* – costs should be identified and allocated to the service for the recovery period in which the service is provided.

20. In addition to the four principles above, MPI also applies the general guidance on cost recovery for public entities published by the Treasury and Controller and Auditor-General.

MPI manages cost recovery through memorandum accounts

21. Memorandum accounts monitor revenue and expenditure associated with charges and enable MPI to identify when it is under- or over-recovering for services. While memorandum account balances fluctuate over time, they should generally trend towards zero. A growing negative balance (deficit) in a memorandum account suggests charges need to be increased, and a growing positive balance (surplus) suggests charges could be decreased.
22. Revenue from fees and levies must be used for the purpose(s) for which it is collected. If costs are over-recovered and a surplus results, that surplus must be returned via a reduction in charges for the same activities. It is not available to fund other services.

MPI has progressed a First Principles Review of its cost recovery arrangements

23. Cost recovery arrangements in the biosecurity and food systems were last updated in 2015. This was the first review of biosecurity fees since 2010 and the first substantive review of food safety fees since 2008.
24. Subsequent to the 2015 review, MPI commenced a First Principles Review of Cost Recovery to identify improvements to MPI's cost recovery arrangements. The review sought to promote a consistent and transparent approach across the different systems MPI administers, and ensure alignment with cost recovery guidance published by the Treasury and the Controller and Auditor-General.
25. This work is largely complete. The review found cost recovery policy settings are broadly appropriate, but identified a number of areas where changes could be considered. Over the last 12 months, MPI has been developing a package of improvements to address the findings of the review.
26. To support the First Principles Review, MPI has been working with a cost recovery Industry Reference Group (IRG) comprised of the key industry bodies from within the primary industries¹ and independently chaired by Sir John Hansen, former High Court Judge. MPI has met with the IRG eight times to date, with the last meeting held in December 2017.

¹ Deer Industry New Zealand; New Zealand Wine; Dairy NZ; Federated Farmers; Food and Grocery Council; AGCARM; Horticulture New Zealand; Pipfruit New Zealand; New Zealand Forest Owners Association; Seafood New Zealand; Meat Industry Association; Retail NZ (includes Pet Industry Association of New Zealand); Dairy Companies Association of New Zealand; Board of Airline Representatives New Zealand; and Port Companies of New Zealand.

MPI has also reviewed the levels of existing charges

27. In parallel to the First Principles Review, MPI has also completed a comprehensive review of current charges to identify areas where updates may be required to ensure costs continue to be recovered appropriately.
28. Since charges were updated in 2015, the scale and complexity of MPI's services has continued to expand as a result of volume growth, more diversity in trade and tourism, and increasing market access requirements from international trading partners. This has contributed to cost increases in some areas, and as a consequence some charges need updating.

Consultation proposals

29. There are seven proposals detailed in the consultation document. These include a mix of updates to rates to address under-recovery of costs, minor changes to policy settings to improve the operation of existing charges, and introduction of a small number of new charges. These proposals are summarised briefly below. Further information, including the likely impact of updates to rates and the policy proposals is provided at appendix A. Proposals are also set out in full in the consultation document at appendix B.
30. Treasury's *Guidelines for Setting Charges in the Public Sector*² encourages agencies to adopt an open-book approach when setting fees and levies. Accordingly, MPI has included additional background information in the consultation document including: the drivers of costs and planned investments; the different types of costs which make up charges; service volumes; and information on service efficiency and effectiveness.

Increase the Biosecurity System Entry Levy

31. The Border Biosecurity Clearance account is expected to move to deficit during 2018/19 driven by increased expenditure in 2017/18 and forecast expenditure in 2018/19. This expenditure is primarily recovered via the Biosecurity System Entry Levy (BSEL) on cargo entering New Zealand. This levy funds a range of activities associated with the clearance of imported goods.
32. Expenditure is projected to increase more rapidly than import volumes and revenue, primarily due to additional investment in frontline staff and infrastructure (including increased use of data analysis and technology to more effectively identify and manage risk). In addition, one component of the BSEL partially funds the Joint Border Management System (JBMS), and it is intended to move to fully recover the costs of this system.
33. The BSEL is set by the Director-General of MPI by notice in the Gazette, up to the maximum rate specified in the Biosecurity (System Entry Levy) Order 2010. Implementing this increase will require a policy amendment to increase the maximum levy rate currently permitted in the levy order, from \$18 to \$25.

² Available at <http://www.treasury.govt.nz/publications/guidance/planning/charges/settingcharges-apr17.pdf>

34. Indicative rates are shown in Appendix A; the current estimate is for an increase in the total rate (including the JBMS component) from \$17.37 to \$20.36. These indicative rates are based on November 2017 forecasts of expenditure and volumes, which will be reviewed in March 2018, and if necessary revised prior to gazetting.

Amend the Biosecurity (Border Processing Levy) Order 2015 to enable the Traveller Border Clearance Levy to be set for a period of up to 3 years

35. This levy funds MPI's border processing activities for travellers entering New Zealand. Currently levy periods are defined as 12 months. This change will enable levy periods of up to three years and will support more stable levy rates over time. This also aligns levy settings with the New Zealand Customs Service, which also uses this mechanism to fund border processing activities; Customs has its own levy order, which specifies 3-year levy periods.

Amend the Biosecurity (Costs) Regulations 2010 to align inspection rates for all jurisdictions

36. These charges recover costs of inspection activities for imported live animals, animal products and other goods at the border. The change will remove lower differentiated rates for imports from the European Union (EU) and Switzerland to ensure consistency of treatment with other countries.

New charges for services under the Food Act

37. A small number of new charges are required to enable MPI to recover costs associated with the approval of templates developed by third parties under the Food Act, services relating to food control plans using templates, and charges for administrative services. This will ensure consistency with other regimes where MPI provides similar services.

Increase charges for circuit verification services

38. Verification services ensure that businesses are operating consistently with legal requirements and risk management programmes. Circuit verifiers travel around the country undertaking audits of meat, dairy, seafood, and other premises. These differ from verifications of export meat processors (including slaughterhouses), where there are verifiers located permanently on-site.
39. The Verification of the Food Regulatory Programme memorandum account has a growing deficit driven by two factors:
- 39.1. Under-recovery associated with circuit verification services provided under the Animal Products Act 1999. This is forecast to result in an accumulated deficit of \$1.3 million by 30 June 2018, and the under-recovery is projected to continue. Consequently I propose updating hourly rates for these verification services to ensure full cost recovery, including recovery of the historical deficit.

39.2. A one-off under-recovery of the circuit verification programme charge for coolstores and other storage premises, and fish processors. This under-recovery arose in 2015/16 as a consequence of a drafting error in regulations (which has since been rectified). I therefore propose introducing a temporary charge (applied over the 2018/19 and 2019/20 financial years) for these processors to address this.

Update export levies for red meat, dairy, and fish processors

40. Levies under the Animal Products Act 1999 recover costs associated with certain types of monitoring programmes (such as testing food products for chemical residues), development and maintenance of standards for processing food products for domestic and export markets, and engagement with other governments in support of market access for exports. Levies are charged to meat, dairy, seafood and other primary processors based on processing volumes, and accounted for through the Standards Setting for the Food Industry memorandum account.
41. This account has an emerging deficit driven by under-recovery associated with red meat, dairy and fish processing.³ Consequently there is a requirement to increase these levies for all processors (except for red meat plants supplying only the domestic market, for which estimated costs are lower).
42. However, the effects of introducing higher levies on 1 July 2018 could be problematic in light of weather conditions currently affecting farmers in many parts of New Zealand. These impacts are not clear. I therefore propose to consult on a range of options and seek feedback from industry as to the best way forward. There are four options I propose to consult on:
 - 42.1. increasing these levies with effect from 1 July 2018
 - 42.2. increasing them on 1 July 2019 – recognising that the increases would need to be significantly higher
 - 42.3. staggering the increase in order to relieve short-term pressures but still enable full cost recovery by 30 June 2021; through an increase on 1 January 2019, at a level midway between the above two increases⁴
 - 42.4. staggering the increase through equal increases on 1 July 2018 and 1 July 2019.

³ This does not include processors of bivalve molluscan shellfish; costs for these processors are accounted for separately, and there are no immediate financial pressures relating to these costs.

⁴ Note that under section 115 of the Animal Products Act 1999, fees and levies may only be increased on dates other than 1 July if the Minister is satisfied that persons affected by the increase substantially agree with it. Therefore, this option could only proceed with agreement of industry.

43. The levy updates for these options are shown in the table below:

Table 1: Impact of alternative implementation dates for APA levy updates (percent change)¹

Levy category	Effective date			
	1 July 2018	1 July 2019	1 January 2019	1 July 2018/ 1 July 2019
Red meat (lamb equivalent)				
• export	11%	25%	18%	9% 12% ¹
• domestic	-33%	-33%	-33%	-16% -16%
Dairy (\$000 per annum)				
• processing	43%	61%	52%	24% 24%
• export	8%	15%	11%	6% 6%
Fish processing (\$ per tonne)				
• export	124%	170%	147%	43% 43%
• domestic	12%	19%	16%	8% 8%

(1) The different percent changes includes the Meat Industry Association levy of 2.5 cents per lamb equivalent.

44. I also propose to simplify cost recovery arrangements by combining the deer, horses, and ostriches and emus levy categories within the red meat category. Although overall expenditure related to these species is low, very small changes in expenditure can have significant impacts on these levies. This change will see a decrease in most levies for these operators.

Risks

45. Six of the seven proposals involve net increases in charges. Affected businesses are likely to respond negatively to these increases, some of which they may not expect. The impacts for individual businesses is likely to vary considerably. I expect that there will be feedback on this point through the consultation process, and I will include this information in my report back to Cabinet.
46. I have been mindful of the impact of increases when reviewing rates, especially on small businesses. MPI will continue to work to manage costs down and closely monitor memorandum accounts to assess whether further increases are necessary over the forecast period.

47. I have directed MPI to undertake further work on the costs and impacts of cost recovery charges on small, remote and developing businesses, and provide options to mitigate these impacts, for possible inclusion in the second tranche of cost recovery changes targeting consultation later in 2018.

Circuit verification charges

48. The most significant impact is expected to be the updated rates for circuit verification services, particularly when this is combined with other increases:
- 48.1. The increase in circuit verification rates will affect over 800 businesses, including small and medium-sized primary processors; these increases are required to address historical under-recovery of costs and have not been previously signalled.
- 48.2. Storage premises and fish processors (including wet fish and shellfish) will be subject to a temporary charge (over two years) on top of the general increase in circuit verification rates, to address under-recovery for services provided in 2015/16. These businesses will be aware of the rationale for the temporary charge, but not necessarily MPI's intention to recover this.

Animal Product Act levy increases

49. These increases will fully recover historical deficits and ongoing costs over the three financial years to 30 June 2021. Deferring the increases and/or lowering the initial amount may reduce the impact of charges. However the different options would alter the timing of when costs are recovered but not the total amount.
50. Fish processors (including wet fish but excluding shellfish) will also be affected by the increases in the Animal Products Act levy that will apply to them. The levy rates were deliberately reduced in 2015 to return a surplus that had previously accumulated. The surplus has now been fully returned and this part of the memorandum account is forecast to move to a small deficit that now needs to be addressed.
51. The increases in levies for dairy processors are substantial as a result of increases in costs, including more residue testing and costs of staff associated with responding to the Whey Protein contamination event⁵ which have previously been Crown-funded. The industry is aware that MPI intends to recover on-going costs of this work via levies.

⁵ In 2013, there was a suspected contamination of whey protein concentrate. Testing later confirmed no products had been contaminated. MPI has since aligned its structure and governance to provide for greater visibility and focus on food safety.

52. Small meat and dairy processors will not be substantially affected by these levy increases. Small meat processors who process exclusively for the domestic market will receive a reduction in levies because the domestic levy rate is decreasing. The dairy levy increase will not affect small and medium dairy processors because there are separate, fixed rate levies for small and medium dairy processors and small exporters, which it is not proposed to change.

Other risks

53. The proposed increases under the Food Act 2014 could potentially affect up to 5,000 businesses annually. These businesses produce food products that are categorised as 'higher-risk' under the Act, including people selling hot food directly to the public, rather than processed foods such as teas or popcorn. They are required to have a food control plan that specifies how they will manage risks and ensure their food is safe to consume.
54. Under these proposals there will be a one-off fee for registration of food control plans that is generally no more than \$194. Renewals and amendments will generally cost \$78. I have instructed MPI to actively explore ways to reduce costs for these businesses. Work will be reported back on this later this year.
55. The proposal to align biosecurity inspection rates for all jurisdictions might generate comment from the European Commission and importers of affected products from the EU and Switzerland. MPI is working with the Ministry of Foreign Affairs and Trade to ensure the EU is aware of the proposal.
56. Industry has consistently expressed a desire for the Crown to contribute a greater share of costs, and for stronger incentives for MPI to be efficient. MPI has included some information in the consultation document about efficiency and effectiveness of recovered services. MPI will continue to seek efficiencies in service provision, and to demonstrate to stakeholders that these result in fees that are no higher than necessary.
57. In addition:
 - 57.1. Where possible, MPI benchmarks its charges against comparable fees in other jurisdictions, and generally finds fees are lower in this country. For example, the increased BSEL of \$20.36 is significantly lower than the equivalent fee of \$53-159 (depending on consignment value) charged for imports into Australia.
 - 57.2. MPI is committed to ongoing performance reporting to improve the transparency of its cost recovery arrangements. It intends to publish additional reports on all cost-recovered services, and will continue to work with industry to ensure that performance information is meaningful.

Wider work programme on cost recovery

58. Proposals in this document form the first tranche of a wider work programme. MPI is finalising a further package planned for consultation later in 2018, and implementation on 1 July 2019. The second tranche of proposals will include further rate adjustments, including some small increases and fee reductions, as well as improvements to policy settings, in particular simplification and re-design of charging arrangements.
59. Following these changes, MPI will seek to review charges and policy settings under each regime at least once every three years, but to phase these reviews to avoid reviewing all charges at once (e.g. biosecurity charges are reviewed one year, food system charges the next). Reviews will consider both policy settings and fee and levy rates.
60. This means that there will be fee reviews and changes to charging regulations for some charges every year. In addition, MPI already manages three annual levy processes (for the two biosecurity levies and the annual fisheries and conservation services levy). MPI is actively seeking ways to create more flexible mechanisms for keeping charges up to date and will include options for Ministers to consider in the second package of proposals in development.
61. MPI is also working on improvements for more routine and consistent reporting to stakeholders on the performance of cost recovery charges, including costs and service performance. This is central to MPI's objectives around greater transparency and to ensure that updates to charges are more predictable for fee and levy payers. MPI will work with the IRG to develop a clear understanding of industry expectations and anticipates some initial improvements to be in place from 1 July 2018.

Next steps

62. Following consultation I will report back to Cabinet with final proposals by 30 April 2018, with the aim of introducing and amending regulations to enable new and amended fees and levies to come into force from 1 July 2018.
63. MPI will continue to progress the wider work programme described above, a key focus being preparation of a second tranche of proposals targeting implementation by 1 July 2019.

Consultation

Border sector agencies

64. MPI works closely with other border agencies that make up the Border Sector⁶, to ensure that each agency's proposals are aligned with the border sector work programme. An important part of this is ensuring that the cumulative impacts of each agency's operations (including cumulative costs to travellers and traders from cost recovery charges) are clearly understood.
65. In addition to the changes to border charges signalled in this consultation document, MPI has been made aware of other work in development as follows:
 - 65.1. Subject to Ministerial approval, the Ministry of Business Innovation and Employment (MBIE) is planning to consult on a review of immigration-related fees and levies during 2018. That review may include further advice on potential mechanisms (such as an Electronic Travel Authority) to improve the way that the costs associated with the immigration system are recovered.
 - 65.2. The Ministers of Finance, Tourism and other relevant portfolios will be considering options for implementing an international visitor levy in late February 2018. It is intended that the levy will be in place no later than 2019/20. MBIE is co-ordinating development of advice on the international visitor levy across agencies, and will continue to work with MPI to ensure that advice aligns with border policy.
 - 65.3. The Treasury, Inland Revenue, New Zealand Customs Service and MPI are working on options to collect GST on low value goods imported into New Zealand. The Government has announced that this issue will be considered by the Tax Working Group.

Other agency consultation

66. The following departments were consulted, with feedback taken into consideration in the development of this paper and the attached consultation document: New Zealand Treasury, the Department of Prime Minister and Cabinet (Policy Advisory Group), Department of Internal Affairs, New Zealand Customs Service, Ministry of Foreign Affairs and Trade, Ministry of Business, Innovation and Employment (Tourism, Immigration), and Ministry of Transport.
67. The State Services Commission has been informed.

⁶ New Zealand Customs Service, the Ministry of Business, Innovation and Employment (MBIE), the Ministry of Transport and the Department of Internal Affairs.

Financial Implications

68. If fully implemented, MPI estimates that the proposals would result in an increase of approximately \$11 million in third party revenue from charges.
69. If the increases are not implemented on 1 July 2018, \$6.4 million will be unrecoverable:
 - 69.1. \$1.0 million in proposed fees under the Food Act 2014 will not be able to be collected in the absence of new provisions in the relevant regulations
 - 69.2. \$5.4 million will be unrecoverable because under the Biosecurity Act 1993, any deficits must be recovered within one year of being incurred.
70. There are significant pressures on MPI's overall financial position. These proposals will alleviate some of MPI's cost pressures for cost recovered activities. However, they will not materially impact MPI's overall financial position as the majority of cost pressures relate to Crown-funded activities.

Legislative Implications

71. There are no proposals to amend primary legislation in the consultation document. However, amendments to the following regulations and levy orders would be required to implement the proposed changes:
 - 73.1. Animal Products (Fees, Charges, and Levies) Regulations 2007
 - 73.2. Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015
 - 73.3. Biosecurity (Costs) Regulations 2010
 - 73.4. Biosecurity (System Entry Levy) Order 2010
 - 73.5. [Biosecurity \(Border Processing Levy\) Order 2015](#)
 - 73.6. Food (Fees and Charges) Regulations 2015.

Regulatory Impact Analysis

74. A Regulatory Impact Assessment is not required at this stage because no policy decisions are being taken. MPI has however worked to ensure good assessment of the impacts of the proposals has been included in the consultation document.
75. MPI will provide a Cost Recovery Regulatory Impact Assessment to Cabinet in April 2018, once proposals have been finalised.

Human Rights, Gender Implications and Disability Perspective

76. There are no human rights, gender or disability implications from the release of the consultation document.

Publicity

77. If Cabinet approves the release of the consultation document, I propose that public consultation will be for four weeks, commencing on approximately 20 February 2018 and remaining open until 20 March 2018. MPI will seek feedback via written and email submissions.
78. Consultation on this timeframe is essential if changes to MPI's cost recovery arrangements are to be implemented by 1 July 2018.
79. Public meetings are not planned. However, MPI will engage in targeted consultation with industry bodies and other stakeholders as appropriate, to identify issues and gather feedback. In particular, MPI intends to utilise the IRG to arrange meetings with relevant industry bodies.
80. MPI may issue a press statement announcing that this consultation is open for submissions.
81. I propose that MPI should proactively release this paper (with any necessary redactions) and the resulting Cabinet minute at the same time as the consultation document.

Recommendations

82. The Minister of Agriculture, Biosecurity and Food Safety recommends that Cabinet:

1. **note** that the proposed changes to fees and levies charged by the Ministry for Primary Industries (MPI) contained in the attached consultation document are needed to avoid unrecoverable deficits accumulating in memorandum accounts, reduce the size of future adjustments to fees and levies and minimise the risk of unrecoverable deficits;
2. **note** that the consultation document includes options for the timing and amount of levy increases charged to meat, dairy, and fish processors, to seek feedback about industry's preferences about how best to address the underlying deficits;
3. **agree** to release the consultation document *A review of cost recovery for selected services provided by the Ministry for Primary Industries* (attached as Appendix B) for public consultation for a period of four weeks, from 20 February to 20 March 2018;
4. **agree** to invite the Minister of Agriculture, Biosecurity and Food Safety to report back to Cabinet by 30 April 2018 with the outcomes of consultation and proposed changes to fees, charges, and levies;
5. **invite** the Minister of Agriculture, Biosecurity and Food Safety to include specific advice on the impacts of the cost recovery proposals on small, remote and developing businesses in the report back;
6. **note** that MPI intends to contact its Cost Recovery Industry Reference Group and key stakeholders to convey the timing of planned consultation and the scope of proposals;
7. **note** that MPI is developing a second tranche of cost recovery proposals, aiming for consultation later in 2018 and implementation on 1 July 2019;
8. **authorise** the Minister for Agriculture, Biosecurity and Food Safety to agree final non-substantive edits to the consultation document to amend or clarify minor or technical points.

Authorised for Lodgement

Hon Damien O'Connor

Minister of Agriculture
Minister for Biosecurity
Minister for Food Safety

Appendix A: Summary of proposals, current and proposed rates, and impact on Crown revenue and fee and levy payers

Proposal	Service provided	Issue	Current rates	Proposed rates or change	Current annual revenue	Impact on revenue	Impact on fee/levy payers
Updates to rates							
Increase the maximum rate for the Biosecurity System Entry Levy (BSEL) to allow for an increase in the BSEL, including full cost recovery of the Joint Border Management System (JBMS)	<p>BSEL funds initial screening to determine if further inspection is required to manage biosecurity risks posed by imports of goods.</p> <p>Also contributes to costs of related services such as surveillance activities and monitoring programmes.</p> <p>MPI's Director-General can reset the levy by Gazette notice, within the maximum regulated levy rate.</p>	<p>The maximum levy rate needs to increase to allow for full recovery of relevant biosecurity costs and JBMS. JBMS costs are currently partially Crown funded. The costs of services recovered through the BSEL have also increased.</p>	<p>Maximum regulated levy rate: \$18</p> <p>BSEL only: \$13.15</p> <p>JBMS component: \$4.22</p> <p>BSEL plus JBMS: \$17.37</p>	<p>Maximum regulated levy rate: \$25</p> <p>BSEL only: \$15.24*</p> <p>JBMS component: \$5.12*</p> <p>BSEL plus JBMS: \$20.36*</p> <p><i>* Indicative rates only</i></p>	\$31.5 million	Additional \$5.4 million per annum recovered	Additional \$2.99 per consignment where duty is payable (usually consignments valued at over \$400)

Proposal	Service provided	Issue	Current rates	Proposed rates or change	Current annual revenue	Impact on revenue	Impact on fee/levy payers
Update the circuit verification rate	<p>Verification services are generally provided to ensure food is safe and to support overseas market access requirements.</p> <p>Circuit verifications confirm that the premises is operating its internal systems (and for some aspects, its external supply chain) consistently with legal requirements and risk management plans.</p>	There is under-recovery of costs of providing circuit verification services.	\$165.00 per hour	Recover the cost to deliver the service. Proposed total charge: \$204.56 per hour	\$8.5 million	Additional \$1.6 million per annum revenue	Increase of 24% on verification costs
Introduce a new targeted rate to address a historical under-recovery for circuit verifications of coolstores and other storage premises, and fish processors	The services provided are the same as for the proposal above. However, a particular issue has arisen with regard to fees for coolstores, and other storage premises, and fish processors.	The basic ('programme') charge was not recovered from these facilities in the 2015/16 year because of an error in drafting the regulations.	Not applicable – new charge	<p>A targeted rate of \$23.60 per hour on top of the circuit hourly rates, for two years only</p> <p>The total circuit verification charge for these processors would be \$228.16 per hour.</p>	Not applicable – new charge	Total additional revenue of approximately \$1.0 million over two years (\$0.5 million per year)	Increase of 38% on verification costs

Proposal	Service provided	Issue	Current rates	Proposed rates or change	Current annual revenue	Impact on revenue	Impact on fee/levy payers
Options for update to levies for some animal products - red meat, dairy and fish	Development and maintenance of standards, compliance monitoring and some market access programmes.	There is memorandum account deficit and ongoing under-recovery of costs. Changes are required to prevent a larger deficit accumulating.	20 rates, based on volumes processed or exported	Ranges from decrease in red meat domestic rates to increase in fish export rate	\$9.9 million	Additional \$3.0 million per annum recovered (annual average – actual amounts in different years depend on option selected)	Varies, from decrease for domestic red meat processors to increase for fish exporters

Proposal	Service provided	Issue	Current rates	Proposed rates or change	Current annual revenue	Impact on revenue	
Policy proposals							
Border Clearance Levy (BCL) levy review period	Managing the biosecurity risks posed by travellers arriving in NZ via air or cruise pathways or on private vessels. Includes pre-border screening, at border arrival documentation, and post-border management of high-risk travellers.	MPI currently has a 12 month levy period for the BCL while the New Zealand Customs Service has a 36 month levy period. Aligning these would make it easier to manage this levy, improve equity between people travelling in different levy periods, reduce volatility with a longer period.	MPI: 12 month levy period	MPI: up to 36 month levy period	Not applicable	Not applicable	Not applicable
Align biosecurity inspection rates for all jurisdictions	Inspection of goods arriving at the border from other jurisdictions that may pose a risk to New Zealand's biosecurity.	Importers of general goods, including animals and animal products from the EU and Switzerland are currently paying lower rates than other countries because the current EU and Swiss rates were limited by the EU Sanitary Agreement. This agreement was amended in 2015 to allow higher rates to be charged.	Biosecurity inspections (animal/pet) : \$28.19 Inspection of documents: \$28.19 Other types of inspection: \$56.37 Veterinary inspector: \$94.38 per hour	Charged according to time required: Biosecurity inspector: \$102.27 per hour Veterinary inspector: \$186.30 per hour	\$52,000	Additional \$30,000 per annum recovered	Expected to be minimal, difficult to determine exactly as moving from a fixed fee to a portion of an hourly rate.

Proposal	Service provided	Issue	Current rates	Proposed rates or change	Current annual revenue	Impact on revenue
<p>Introduce new charges for approvals under Section 40 of the Food Act (industry developed templates for food control plans (FCPs)), and for a small number of administrative services.</p>	<p>An FCP identifies risks to food safety in a business's operations and describes how it will actively manage these risks. Industry can develop an FCP template which must be approved by MPI (under section 40 if the Food Act). MPI will then register FCPs from businesses based on this template and approve amendments, renewals and voluntary suspensions. There are also some administrative services under the Food Act (eg laboratory registration).</p>	<p>Industry associations are currently developing templates for their members. MPI anticipates that more than 5,000 businesses may register under these templates creating a financial risk for the Crown. MPI cannot currently recover costs for approvals, renewals or amendments of:</p> <ul style="list-style-type: none"> • a template developed by an industry organisation • FCPs based on an industry-developed template. <p>Some administrative services do not currently have charges under the Food Act (e.g. initial registration of a laboratory can be charged but not a renewal of registration).</p>	<p>Not applicable – new charges</p> <p>Approvals, amendments and renewal of a section 40 template, and administrative services - charge the hourly rate used for other Food Act approvals (\$155 per hour). Other charges – fixed fee based on this hourly rate</p>	<p>Not applicable – new charges</p>	<p>Additional \$1.0 million per annum revenue</p>	<p>Largest impact expected to be charges for businesses registering an FCP based on an industry developed template - approx. \$194 per registration</p>

Appendix B: Consultation document - *A review of cost recovery for selected services provided by the Ministry for Primary Industries*
