

Chair
Cabinet Economic Development Committee

RELEASE OF CONSULTATION DOCUMENT: PROPOSALS TO IMPROVE COST RECOVERY IN MPI'S FOOD SYSTEM

Proposal

1. This paper seeks agreement to publicly release the attached consultation document *Proposals to improve cost recovery in MPI's Food System* in November 2018. The document outlines proposals to update some of the Ministry for Primary Industries' (MPI's) fees and levies, and improve other aspects of its cost recovery regime, with effect from 1 July 2019.

Executive Summary

2. Cost recovery plays a significant role in ensuring that services critical to protecting New Zealand's biodiversity, food safety, and the \$43 billion in primary industry exports annually are sufficiently funded. Approximately 40% of MPI's departmental funding comes from cost recovery through more than 300 fees and levies authorised under ten different Acts. This includes funding the biosecurity, fisheries and food systems.
3. Cost recovery settings are reviewed annually to ensure they are fair and effective. Industry is strongly supportive of this approach, as it provides transparency about costs and avoids overdue and sharp rate increases.
4. A number of fees were updated from July 2018 in the biosecurity and food systems. Those updates increased funding to those systems by approximately \$9.4 million per year. The current proposals, while strengthening the system, will decrease total cost recovered revenue by approximately \$1.5 million.
5. The attached consultation document includes further proposed changes to the food system¹, which were not included in the February 2018 consultation. Cost recovery in the food system helps ensure the food New Zealand produces is suitable and safe for consumption and export. Cost recovery funds a wide range of food system services, such as developing domestic standards, providing clearances of imports, and ensuring that our primary products are fit for export.

¹ The food system includes the Food Act 2014, Animal Products Act 1999, Agricultural Compounds and Veterinary Medicines Act 1997 and Wine Act 2003. The Animal Welfare Act 1999 is not part of the Food System, but uses the same base hourly rates. This document includes proposals to update cost recovery rates under the Animal Welfare Act.

6. The proposals include seven fee updates (with a mixture of increases and decreases) to ensure the amount recovered continues to reflect the costs of providing the services. Three proposals are for changes to simplify current cost recovery arrangements, improve transparency and ensure equitable distribution of costs. There is also a proposal for several minor and technical changes. These last four proposals will have no or very little impact on charges.
7. If agreed, consultation will take place for a five week period from 14 November 2018. Final proposals will be reported back for Cabinet approval to amend cost recovery regulations from 1 July 2019.

Background

Cost recovery is important to achieving the Government's priorities

8. Cost recovery funds a range of services to ensure that New Zealand is protected from biological risks, that the food we produce is safe and suitable for export, and that our natural resources are sustainable, while also enabling the primary sector to grow the value of its exports (over \$43 billion per annum).
9. In 2018/19, MPI will receive approximately \$200 million revenue via cost recovery (approximately 40 percent of its total departmental revenue). Cost-recovered services do not need to be funded from general taxation, releasing Crown revenue for other priorities.
10. Four principles (equity, efficiency, transparency, justifiability) underpin MPI's approach to cost recovery. These principles are common features of the authorising legislation in the food system. The general guidance on cost recovery for public entities published by the Treasury and the Controller and Auditor-General is also applied.
11. Memorandum accounts are used to monitor revenue and expenditure associated with charges and identify any under- or over-recovering for services. Revenue from fees and levies must be used for the purpose(s) for which it is collected. It is not available to fund other services.

Consultation proposals

12. The eleven proposals are summarised in the table below.

Proposal	Rationale	Current rates	Proposed rates (fiscal impact)
Proposals Changing How Much MPI Recovers			
Proposal 1: Update Base Hourly Rates across the Food System	Amend rates to avoid future over-recovery and provide greater certainty	\$155 per hour	\$135 per hour Replace 51 variable charges with fixed fees (-\$3.1m)
Proposal 2: Update Trade Name Product Registration Fees under the Agricultural Compounds and Veterinary Medicines Act	The existing fixed charges (\$540) do not reflect current practice (waivers used) for two stages of the process	\$540 for pre-screening (waived for minor amendments and renewals) \$540 for registering (partially waived for minor variations and registration renewals)	Minimum charge for pre-screening of \$67.50 for the first 30 minutes plus an assessment charge of \$135 per hour after the first 30 minutes The charge for registering TNPs \$405 per registration (variable)
Proposal 3: Cost recovery for approvals of manufacturers or suppliers of official devices under the Animal Products Act	Amend regulations to clarify approval of an Official Device also covers applications to be an approved manufacturer or supplier	Nil. Not currently charged	\$135 per application plus \$135 per hour after the first 60 minutes (less than \$1,000)
Proposal 4: Update Official Assurance (non-live animals) fees under the Animal Products Act	Align the fee with the base hourly rate used in the Food System	\$32 plus \$155 per hour after the first 15 minutes	\$33.75 plus \$135 per hour after the first 15 minutes (\$0.2m)
Proposal 5: Update Official Assurance and Animal Welfare Export Certificate (AWEC) Fees For Live Animal Exports under the Animal Products and Animal Welfare Acts	Update fees to ensure exporters pay the correct amount for the services they receive	Official assurance: \$32 plus \$186.30 per hour after the first 15 minutes AWEC: \$21 plus \$186.30 per hour after the first 15 minutes	\$46.58 plus \$186.30 per hour after the first 15 minutes for both fees (46% increase per Official Assurance; 118% increase per AWEC) (\$70,000)
Proposal 6: Update Unit Charges for export of live animals and animal germplasm	Update rates to reflect the costs of providing the services to support the export of live animals and animal germplasm	A range of rates exist	A range of rate changes are required (\$0.5m)

Proposal	Rationale	Current rates	Proposed rates (fiscal impact)
Proposal 7: Update Circuit Verification Charges under the Animal Products Act	Amend rates to avoid future under-recovery	\$165 per hour	\$176 per hour (\$1.1m)
Proposals to Simplify, Improve Transparency, and Make Charges More Equitable			
Proposal 8: Simplify the Process for Changing the Export Levy Rate under the Wine Act and the Agricultural Compounds and Veterinary Medicines Act Levy Rate	Amend the Regulations to specify a formula to calculate the levy rate and a process for the Director-General of MPI to change the levy rate by Gazette notice.	No rate change proposed	N/A
Proposal 9: Clarify the Provisions Governing the levy under the Agricultural Compounds and Veterinary Medicines Act	Clarify that the levy is payable for each Trade Name Product registration and to more accurately reflect the services that are funded by the levy	No rate change proposed	N/A
Proposal 10: Modify the Animal Products Act dairy levies for small processors and exporters	Amend the amounts and thresholds for small processors and exporters levies, and eliminate the medium processor levy to simplify and more fairly distribute costs	Small processors: \$465 per year Medium processors: \$930 per year Small exporters: \$310 per year	Small processors: \$400 per year Medium processors: category disestablished; will pay \$0.000432 per kg milk solids processed Small exporters: \$200 per year (\$-20,000)
Proposal 11: Animal Products Act minor and technical	Four small changes that will have limited financial impact	N/A	(\$20,000)

13. Further information, including the likely impact of the proposals and cost drivers is provided in Appendix One. Proposals are set out in full in the consultation document (Appendix Two).
14. Overall, the proposals are expected to result in a decrease of approximately \$1.5 million annually in MPI's third party revenue. This is driven by the proposal to reduce the base hourly rate for fees across the food system (from \$155 per hour to \$135 per hour). These fees are paid by a wide range of businesses, from large corporates to small and regional food retailers.

15. Where possible, the Minister of Agriculture and Food Safety (the Minister) has invested in improving the services subject to these fees, but for some services further investment would not be justified. As cost recovery funding must be used for the purpose(s) for which it is collected, adjusting the hourly rate will reflect the costs of providing these services. The proposed reduction in the base hourly rate is due to greater than anticipated volumes and lower costs for these services.

Investing in the right services

16. In developing these proposals the Minister has been mindful of the need to ensure MPI continues to deliver services in the food system that protect consumers and support the growth of the primary sector, and directed MPI to invest in the services necessary for a well-functioning system before considering whether to return any surplus revenue. For example, MPI has recently increased resourcing for services to the wine export sector to support its ongoing growth. The Minister has therefore delayed proposing to reduce certain fees.

Circuit verification services

17. Following consultation in February 2018 on the previous package of proposals, the Cabinet Business Committee agreed not to progress a change to the hourly rate for circuit verification services ² [CBC-18-MIN-0049 refers]. The proposed increase to the hourly rate was to be from \$165 to \$204.56 per hour (24% increase).
18. In line with the Government's priorities, the Minister directed MPI to first undertake work to ensure that service delivery is as efficient as possible, particularly to mitigate the impact of any cost increase on small and remote businesses. MPI has since progressed further work to improve service delivery for circuit verifications.
19. The proposed increase for this service is now from \$165 to \$176 per hour (6.7% increase), which includes recovery of the historic deficit that has accrued. The majority of the cost reduction for this service in the last financial year is a result of some spare capacity being redirected to the *Mycoplasma bovis* response.
20. Officials have advised the Minister they are confident that as planned service delivery improvements are implemented MPI will be able to continue delivering circuit verification services at \$176.00 per hour. The rate for this service has not been adjusted since 2015, and the 6.7% increase proposed is in line with inflation for the same period (5.3%). This proposal will result in an estimated \$1.1 million per year increase in third party revenue.

² Verifications are intended to confirm that premises are operating their internal systems (and in some cases, aspects of their external supply chains) consistently with legal requirements and risk management plans. In particular, they confirm compliance with domestic and export food standards. MPI circuit verifiers travel between a wide range of businesses processing food and related products, rather than being permanently located on-site on client premises.

Risks

21. The businesses that pay fees and charges 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.
22. Four proposals include increased fee rates and affected businesses may respond negatively to the increases. However, the rate increases are relatively modest at the level of the individual business and are not expected to have an undue impact. For example, the proposed increase to the circuit verification rate discussed above is in line with inflation.
23. The consultation document includes information on the expected impacts on different sizes of business. The report back to Cabinet will include a summary of all feedback received during consultation, prior to final policy decisions being made.
24. The proposal to remove Cabinet scrutiny of levy rate resets under the ACVM and Wine Acts may raise concern that there is insufficient Parliamentary oversight of the process. However, the proposed process is similar to that already used for levies under the Biosecurity Act 1993. The ability of the Director-General to re-set rates would be constrained by a requirement to consult on any proposed changes, and an upper limit prescribed in regulation, above which any increase would require Cabinet approval.

Next steps

25. Following consultation the Minister will report back to Cabinet by 31 March 2019 with final proposals, with the aim of introducing and amending regulations to enable new and amended fees and levies to come into force from 1 July 2019.

Consultation

Industry Reference Group

26. MPI has worked with the cost recovery Industry Reference Group (IRG) to test the proposals during development. The IRG is comprised of the key industry bodies from within the primary industries.³ This engagement also means the IRG members have an understanding of the thinking behind the proposals when they are released for consultation.

³ 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.

Other agency consultation

27. 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 the Prime Minister and Cabinet (Policy Advisory Group), Ministry of Business, Innovation and Employment, and Te Puni Kōkiri.
28. The State Services Commission has been informed.

Financial Implications

29. If fully implemented, MPI estimates that the proposals would result in a decrease of approximately \$1.5 million in third part revenue from charges (0.75% of current cost recovered revenue).

Legislative Implications

30. There are no proposals to amend primary legislation in the consultation document. However, amendments to the following regulations would be required to implement the proposed changes:
 - Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Regulations 2015
 - Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015
 - Animal Products (Fees, Charges, and Levies) Regulations 2007
 - Animal Welfare (Cost Recovery) Regulations 2015
 - Food (Fees and Charges) Regulations 2015
 - Wine Regulations 2006.

Regulatory Impact Analysis

31. A Regulatory Impact Assessment is not required at this stage because no policy decisions are being taken. MPI has ensured that the elements of a Cost Recovery Impact Statement (CRIS) have been incorporated in the consultation document, including an assessment of the impacts of the proposals on fee and levy payers.
32. MPI will provide a CRIS to Cabinet in March 2019 to accompany a final package of proposed changes.

Human Rights, Gender Implications and Disability Perspective

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

Publicity

34. If Cabinet approves the release of the consultation document, the Minister proposes that public consultation will be for five weeks, commencing on approximately 14 November 2018 and remaining open until 20 December 2018, with automatic extensions until 16 January 2019 on request. MPI will seek feedback via written and email submissions.
35. All relevant fee payers will be informed by email, similar to the process used in the consultation earlier this year. That consultation proposed fees and levies that increased revenue to MPI by an estimated \$9.4 million and MPI received 39 submissions. The Minister does not expect significant public interest in these proposals.
36. 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.
37. The Minister proposes that MPI should proactively release this paper (with any necessary redactions) and the resulting Cabinet minute at the same time as (or shortly after) the consultation document.

Recommendations

38. The Minister of Agriculture and Food Safety recommends that Cabinet:

1. **Note** that the proposed changes to the Ministry for Primary Industries' (MPI) cost recovery arrangements are needed to fully recover (but not over-recover) costs of providing MPI's services, and to ensure that fees and levies continue to recover costs from service users in an appropriate way;
2. **Agree** to release the consultation document *Proposals to improve cost recovery in MPI's Food System* (attached as Appendix 2) for public consultation for a period of five weeks, from 14 November to 20 December 2018, with automatic extension on request to 16 January 2019;
3. **Agree** to invite the Minister of Agriculture and Food Safety to report back to Cabinet by 31 March 2018 with the outcomes of consultation and proposed changes to current cost recovery arrangements;
4. **Authorise** the Minister of Agriculture and Food Safety to make minor or technical edits to the consultation document.

Authorised for Lodgement

Hon Damien O'Connor
Minister of Agriculture
Minister for Food Safety
/ / 2018

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

Proposal	Rationale	Current rates	Proposed rates	Impact on MPI	Impact on fee payers
Proposals Changing How Much MPI Recovers					
Proposal 1: Update Base Hourly Rates across the Food System	Amend rates to avoid future over-recovery and provide greater certainty	\$155 per hour	\$135 per hour Replace 51 variable charges with fixed fees	-\$3.1m (-22%)	-\$20 per hour; minor to major reduction depending on assessment time
Proposal 2: Update Trade Name Product Registration Fees under the Agricultural Compounds and Veterinary Medicines Act	The existing fixed charges (\$540) do not reflect current practice (waivers used) for two stages of the process	\$540 for pre-screening (waived for minor amendments and renewals) \$540 for registering (partially waived for minor variations and registration renewals)	Minimum charge for pre-screening of \$67.50 for the first 30 minutes plus an assessment charge of \$135 per hour after the first 30 minutes The charge for registering TNPs \$405 per registration	Variable	Variable; generally minor reduction (2,600 applications processed pa)
Proposal 3: Cost recovery for approvals of manufacturers or suppliers of official devices under the Animal Products Act	Amend regulations to clarify approval of an Official Device also covers applications to be an approved manufacturer or supplier	Nil. Not currently charged	\$135 per application plus \$135 per hour after the first 60 minutes	Less than +\$1,000	\$135 per hour of assessment
Proposal 4: Update Official Assurance (non-live animals) fees under the Animal Products Act	Align the fee with the base hourly rate used in the Food System	\$32 plus \$155 per hour after the first 15 minutes	\$33.75 plus \$135 per hour after the first 15 minutes	+\$0.2m (+5%)	\$1.75; Minor increase (126,000 issued pa)
Proposal 5: Update Official Assurance and Animal Welfare Export Certificate (AWEC) Fees For Live Animal Exports under the Animal Products and Animal Welfare Acts	Update fees to ensure exporters pay the correct amount for the services they receive	Official assurance: \$32 plus \$186.30 per hour after the first 15 minutes AWEC: \$21 plus \$186.30 per hour after the first 15 minutes	\$46.58 plus \$186.30 per hour after the first 15 minutes for both fees	Official assurance: +\$70,000	\$26 and \$15; Small increase (2,900 Official Assurances issued pa; 1,200 AWECs issues pa)
Proposal 6: Update Unit Charges for export of live animals and animal germplasm	Update rates to reflect the costs of providing the services to support the export of live animals and animal germplasm	A range of rates exist	A range of rate changes are required	+\$0.5m (+59%)	Variable ranging from small reductions to moderate increases.
Proposal 7: Update Circuit Verification Charges under the Animal Products Act	Amend rates to avoid future under-recovery	\$165 per hour	\$176 per hour (6.7% increase)	+\$1.1m (+11%)	Moderate increase (63,000 hours pa)

Proposal	Rationale	Current rates	Proposed rates	Impact on MPI	Impact on fee payers
Proposals to Simplify, Improve Transparency, and Make Charges More Equitable					
Proposal 8: Simplify the Process for Changing the Export Levy Rate under the Wine Act and Agricultural Compounds and Veterinary Medicines Act Levy Rate	Amend the Regulations to specify a formula to calculate the levy rate and a process for the Director-General of MPI to change the levy rate by Gazette notice.	No rate change proposed	N/A	Faster process requiring fewer resources	N/A
Proposal 9: Clarify the Provisions Governing the levy under the Agricultural Compounds and Veterinary Medicines Act	Clarify that the levy is payable for each Trade Name Product registration and to more accurately reflect the services that are funded by the levy	No rate change proposed	N/A	N/A	N/A
Proposal 10: Modify APA dairy levies for small processors and exporters	Amend the amounts and thresholds for small processors and exporters levies, and to eliminate the medium processor levy to simplify and more fairly distribute costs.	Small processors: \$465 per year Medium processors: \$930 per year Small exporters: \$310 per year	Small processors: \$400 per year Medium processors: category disestablished; will pay \$0.000432 per kg milk solids processed Small exporters: \$200 per year	-\$20,000 (-14% from small processors to -57%)	Small decrease for most small processors and exporters (< 200 processors)
Proposal 11: APA minor and technical	Four small changes that will have no or minor financial impact			+\$20,000	Variable

The cumulative impact of these proposals would be a reduction in cost recovered revenue by MPI of approximately \$1.5 million per annum. Because there are cross-overs between some of these proposals, adding the individual impacts as set out in the table will result in a slightly different figure.

Appendix Two: Consultation document – *Proposals to improve cost recovery in MPI's Food System*
