

NB Use of this **template is optional** – regulators may choose to agree an alternative approach with relevant business representatives.

Please keep all entries **as brief as possible** consistent with allowing businesses to understand them.

## Business Engagement Assessment

<b>Title of Proposal</b>	<b><i>Proposal to amend the Plant Health (Fees) Regulations 2006 (as amended)</i></b>
Lead Regulator	<i>Forestry Commission</i>
Contact for enquiries	<i>Nick Mainprize</i>

Date of assessment	
Net Cost to Business (EANCB):	<i>£36k</i>
Which area of the UK will be affected by the change(s)?	<i>England &amp; Scotland</i>
Does this include implementation of Red Tape Challenge commitments?	<i>No</i>

Stage of assessment	<i>Discussion</i>
Commencement date	
Price and Present value base years	<i>(Price/Present Value)</i>
Is this directly applicable EU or other international legislation?	<i>EU</i>

### ***Brief outline of proposed change in regulatory action***

The proposed change is to increase fees for Plant Health Inspection Services from their current levels in order to achieve full cost recovery (FCR) and remove the current taxpayer funded subsidy for the statutory provision of Plant Health Inspection Services due to under recovery.

The intended effect of the change is a more efficient use of public resources by transferring the cost of service provision from the general taxpayer to the direct beneficiaries of the service (i.e. the importers) and to ensure cost recovery in accordance with EU Plant Health Directive (Council Directive 2000/29/EC). As well as being a public subsidy, the under-recovery is reducing funds available for higher tree health issues. Controlled imported consignments of up to 100m<sup>3</sup> currently require:

- a documentary check at £6.00 per consignment,
- a plant health check at £26.00 per consignment
- an ID check at £6.00 per 30m<sup>3</sup> of volume or part there of

The proposals would see these each increase by 20% to £7.20, £31.20 and £7.20 respectively. Bulk shipments also incur an additional plant health charge of £0.20 for each cubic metre imported above the first 100m<sup>3</sup> and one ID check of £12.00 per shipment. The proposals will see this plant health check increase to £0.25 and the ID check increase to £14.40.

### ***Why is the change proposed? Evidence of the current problem?***

In 2012/13 sixty two (62) freight firms imported around 3,500 consignments and this activity cost the Forestry Commission around £230,000 to deliver a Plant Health Inspection Service. The percentage split of the costs involved 62% (£142k) external contractor inspector costs and 38% (£88k) fixed internal costs. At current inspection fee rates FC Plant Health Services recovered around £194,000 with the £36,000 shortfall being subsidised through income from general taxation. Total overall under recovery for the past 3 years is £57,000.

In order to achieve full cost recovery an increase in fees is proposed from 2013/14 in order to remove a taxpayer funded subsidy of £36,000 to industry. Fees have not been increased for the past 3 years and in the face of rising external costs for Plant Health services ie increases in contractor inspector rates and falling numbers of imports which have lead to higher unit costs of inspections, a funding gap has arisen which is now being paid for by the general taxpayer. The external contractor rates increased in April 2012 post a competitive tender exercise through which the contractors submit tender bids for their own set rates. The contract rates were previously set in April 2009 following a similar tender exercise and they were held for 3 years during which there were fuel price increase and therefore it was inevitable that rates would increase in the most recent tender exercise.

The Forestry Commission's Plant Health Service has continually kept its chargeable business unit staffing levels under review and in 2011 it took the opportunity to reduce the number of hours that the Enquiry Officer and Admin Support officer were employed on plant health duties from full-time to part time. In the Edinburgh office there is one Operations Manager, one Enquiry Officer and one administrative support officer and two Regional Managers are employed at satellite locations. Furthermore the Forestry Commission through Voluntary Early Exit schemes has reduced the number of shared central services staff in the Edinburgh office. Certain Forestry Commission internal charging costs such as the provision of credit account facilities are passed onto controlled timber importers by the FC's Plant Health Service and therefore the reduction of £11k in FY2012/13 of internal financial accounting service charges has resulted in a cost reduction of the plant health service delivery. The Forestry Commission does not believe there are any opportunities for further staff reductions without seriously compromising its ability to provide full cover, particularly during periods of absence of any member of staff, for whatever reason. The Forestry Commission's local plant health inspectors are self employed contractors and are engaged after the completion of competitive tender exercises. These inspectors are only paid for the work that they perform which ensures that the Forestry Commission's customers receive value for money through the inspection service that it provides.

As highlighted above, controlled imported consignments of up to 100m<sup>3</sup> currently require:

- a documentary check at £6.00 per consignment,
- a plant health check at £26.00 per consignment
- an ID check at £6.00 per 30m<sup>3</sup> of volume or part there of

The proposals would see these each increase by 20% to £7.20, £31.20 and £7.20 respectively. The average consignment is between 30m<sup>3</sup> and 60m<sup>3</sup> requiring 2 ID checks implying an increase from £44.00 to £52.80 per consignment. Based on a forecast of 3,300 consignments this additional £8.80 per consignment will remove £29,000 of the shortfall.

Bulk shipments also incur an additional plant health charge of £0.20 for each cubic metre imported above the first 100m<sup>3</sup> and one ID check of £12.00 per shipment. The proposals will see this plant health check increase to £0.25 and the ID check increase to £14.40. Based on a forecast of 175 additional bulk shipments of 200,000m<sup>3</sup> the additional charges would remove £7,000 (175 ID checks, documentary checks and plant health checks of material up to the first 100m<sup>3</sup> plus additional charges for bulk material over 100m<sup>3</sup> of 182,500m<sup>3</sup>) of the shortfall bringing the total to £36,000.

One of the critical factors that came out of our consultation with industry in previous consultations of this kind was the need for importers to be able to accurately predict the actual inspection fee to which any particular consignment would be liable. In formulating the current proposals the Forestry Commission has tried to meet this need and it believes that it still applies to the majority of inspections, that is, where the material complies with landing requirement or minor infringements occur that can be dealt with quickly on the spot.

#### ***Which types of business will be affected? How many are affected?***

The Forestry Commission and the inspectors it engages for inspections mainly deal directly with the freight agents and timber distributors responsible for importing sawn timber and not the customers who receive the material. It is assumed that the increase in fees will be passed on in full to the freight agent and distributors' customers. In 2012/13 sixty two (62) freight firms imported around 3,500 consignments.

#### ***How will the change impact these businesses?***

In order to achieve full cost recovery an increase in fees is proposed from 2013/14 in order to remove a taxpayer funded subsidy of £36,000 to industry. Fees have not been increased for the past 3 years and in the face of rising costs for Plant Health services and falling numbers of imports which have lead to higher unit costs of inspections a funding gap has arisen which is now being paid for by the general taxpayer.

### ***Impact on small businesses***

A significant proportion of companies in this sector are 'small' to 'medium' sized enterprises which will be provided with copies of the Consultation paper and this Business Engagement Assessment for comment. In previous consultations of this kind that Forestry Commission has contacted some 'micro' firms to obtain their views to ensure that these businesses would not be affected more than larger companies. From the responses received there was no indication that micro firms would be disproportionately affected. Although we collect import inspection fees from SMEs and micro businesses, as mentioned previously, these businesses act as intermediaries for much larger timber importers and merchants.

Some companies confused the Plant Health Inspection charges with charges that they receive from Port Authorities for the handling of their freight containers so that they can be safely presented for inspection and therefore it was made clear that the Forestry Commission has no control over Port Authority charges.

There is no option to apply charges at a level below the standard fees set out in Council Directive 2000/29/EC but, as part of the review and consultation process prior to any move towards increasing charges to cover costs, we would invite small business to confirm that there is no disproportionate effect on them via the consultation process.