

## **Explanatory Memorandum**

Explanatory Memorandum to The Animal Gatherings (Fees) (Wales) Order 2018 and The Animal By-Products and Pet Passport (Fees) (Wales) Regulations 2018

This Explanatory Memorandum has been prepared by the Office of the Chief Veterinary Officer and is laid before the National Assembly for Wales in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1

## **Minister's Declaration**

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of The Animal Gatherings (Fees) (Wales) Order 2018 and The Animal By-Products and Pet Passport (Fees) (Wales) Regulations 2018. I am satisfied that the benefits justify the likely costs.

Minister for Energy, Planning and Rural Affairs

22 May 2018

## **1. Description**

1.1 The Animal and Plant Health Agency (APHA) deliver a wide range of services for a wide range of end users. It is appropriate to consider applying a charge to businesses that benefit from a service in order to recover the full cost of delivering the service rather than looking to the taxpayer to subsidise it. APHA currently charges end-users for a number of services however; some services are not currently charged for.

## **2. Legislative background**

2.1 There are a number of statutory bases for charging fees in relation to the work areas considered as part of this Regulatory Impact Assessment. Whilst the functions of charging fees are Welsh Minister's functions, the charges are in reality levied by APHA acting as an agent of the Welsh Ministers pursuant to section 83 of the Government of Wales Act 2006. The relevant statutory bases are as follows.

2.2 The Animal Gatherings (Fees) (Wales) Order 2018 is made under section 84 of the Animal Health Act 1981. It sets out the fees payable to the Welsh Ministers in the field of animal health relating to the licencing of certain animal gatherings in Wales.

2.3 The Animal By-Products and Pet Passport (Fees) (Wales) Regulations 2018 are also made under section 2(2) of the European Communities Act 1972. They set out the fees payable to the Welsh Ministers in the field of animal health by operators of rendering plants, incinerators, etc, and by veterinarians for blank pet passports.

2.4 As APHA is an executive agency of the different administrations, Scottish Government, Welsh Government and Defra lawyers have worked together to ensure a uniform fee structure.

## **3. Purpose & intended effect of the legislation**

3.1 Officials from each of the 3 GB Administrations in liaison with APHA, have been taking forward a project to review existing APHA charges and identify where new charges may be applied.

3.2 The purpose of this instrument is to provide for the introduction of fees in relation to statutory services delivered by the APHA.

3.3 APHA delivers a wide range of services for a wide range of end users. These include for example, facilitating trade in animals and animal products through a range of inspection and certification services; approval and inspection of premises handling animal by-products and licencing of events where animals are gathered such

as markets and shows. Businesses using the services range from large companies to small and micro businesses.

- 3.4 APHA already charges end users for some statutory services and these charges have also been reviewed as a separate piece of work. In the majority of areas considered, charges were significantly out of date and did not reflect the full cost of delivery. In a move to increase these charges through a phased approach, charges were first increased in 2013 and will be increased to full cost recovery in 2018.
- 3.5 APHA is an executive agency of Defra but responsibility for funding policy delivery in Wales rests with the Welsh Government. The consequence of not introducing these changes would be a gap in funding provisions which, the Welsh Government is likely to become liable for.
- 3.6 Due to the lack of Welsh specific data the Regulatory Impact Assessments (RIAs) have been completed on a GB wide basis. Where possible, Welsh data has been presented and used to estimate the impact to businesses in Wales.

#### **4. Consultation**

- 4.1 A public consultation was launched on the 26 October 2015. The consultations sought views on the proposed changes to charges.
- 4.2 Over 370 businesses, organisations and individuals were contacted by email to alert them to the consultation. A total of 61 responses were received: 51 consultation questionnaire responses and 10 by email or letter.
- 4.3 Of the received responses, 19 were from Welsh businesses or businesses that operate in Wales.

### **Regulatory Impact Assessment**

#### **5. Introduction**

- 5.1 The following sections present Regulatory Impact Assessments (RIAs) for three services currently provided by APHA. In each assessment, as well as 'do nothing' the following options are being considered:
  1. Introduce charges at full cost recovery;
  2. Phase in charges rising to full cost recovery after two years
- 5.2 The objective of this policy is to transfer the costs of providing this service from the taxpayer to those businesses that receive and

benefit from the service. The intended effect is to reduce the cost to taxpayers and, by charging at full cost recovery, to improve the general allocation of resources across the economy, while continuing to safeguard public and animal health in a proportionate way.

- 5.3 In setting charges APHA have followed the HM Treasury principles, which are set out in their guidance, Managing Public Money. The standard approach is to set charges to recover full costs. The approach is intended to make sure that the government neither profits at the expense of those it charges, nor makes a loss for taxpayers to subsidise.
- 5.4 HMT have agreed with the APHA approach to cap travel time at 90 minutes per visit (including the return journey). This will ensure that businesses are not disadvantaged who are located further away from APHA offices or are based in remote locations.
- 5.5 Travel time will be charged from the closest APHA field office to the premises. APHA will combine visits wherever possible to ensure that travel costs are minimised.
- 5.6 For the purpose of this assessment APHA have assumed an average of 45 minutes per visit for staff travel time and this has been included in the figures below. The rate used to calculate the travel time costs for a Veterinary Officer is £84 per hour. The rate used to calculate the travel time cost an Animal Health Officer is £56 per hour.
- 5.7 Government must recoup costs wherever possible to avoid cross-subsidisation by the general taxpayer. To stop providing the services altogether to avoid having to apply charges is not an option due to the risk to animal and human health.
- 5.8 Within the boundaries set by HMT guidance APHA have been able to apply a cap to travel time charges and are also able to phase in some new fees towards full cost recovery. These may be considered as options applied to help mitigate the impact of charges.

## **6 Risks and Benefits**

- 6.1 Funding for delivery of animal health and welfare policies is subject to considerable pressures. There is a risk that if government spending should decrease then services may become compromised, posing a risk to human or animal health. Introducing charges that cover the cost of providing the service ensures that services can continue to be provided.
- 6.2 APHA is an executive agency of Defra but responsibility for funding policy delivery in Wales rests with the Welsh Government. The

consequence of not introducing these changes in Wales would be a gap in funding provisions which, the Welsh Government is likely to become liable for.

6.3 APHA would face difficulties in having to apply different fees for the same services across borders and this could result in increased costs to industry and all 3 GB Administrations.

6.4 The main risks if the requirement to introduce full cost recovery based charges is implemented are that the increase in charges proposed may:

- Reduce demand, for the service if some market sectors become unprofitable
- Potentially increasing cost to domestic market and importers
- Increases the risk of non-compliance.

6.5 These costs are transferred to industry by charging, essentially there is a cost to the industry and an equivalent benefit to government as the revenue is paid to APHA. This arrangement avoids the implicit subsidisation of the private sector at taxpayer expense.

6.6 The intended effects are a fair and transparent set of charges for users of the services, and more efficient use of public resources.

## **7 Regulatory Impact Assessment – Animal By-Products**

7.1 Animal by-products (ABPs) are animal carcasses, parts of carcasses, or products of animal origin not intended for human consumption. If not used, processed or disposed of properly ABPs have the potential to spread disease to animals and humans. This is a negative externality which can impose costs on society through infectious disease. Such costs are not fully borne by those parties that are undertaking activities or practices which may present a risk to public or animal health. There is currently a system of approval/registration and subsequent inspection of premises and processes in place to ensure that businesses are compliant with regulations to handle material safely and thereby inhibit the spread of disease. The specific proposal is to charge for approvals and inspections.

## **8 Preferred policy option**

8.1 Option 2 is the preferred option as it will allow businesses more time to adjust to the new charging regime. The annual costs estimated reflect the maximum costs for a year after charges have been fully phased in.

## 9 Expected level of business impact

- 9.1 Types and numbers of businesses affected: A range of businesses of different kinds handle, use, and dispose of ABPs. New premises or operators are either 'approved' or 'registered' depending on the requirements of the EU ABP regulations. Plants carrying out higher risk operations require approval e.g. rendering plants, on farm incinerators and fallen stock collectors. Lower risk activities e.g. transporters of ABPs or manufacturers of technical products may simply require registration.

The approval process varies depending on the operation, but generally includes a Veterinary Officer (VO) or a Senior Veterinary Inspector (SVI) and an Animal Health Officer (AHO) considering the application, discussing the application with the operator, carrying out a number of site visits to inspect the plant, taking samples if necessary, checking computer records, supervising validation exercises and issuing approval documentation. There may be just one site visit for simple plants, e.g. small pet food plants but more than one for more complex operations. There are also administrative requirements.

For those ABP operators where registration rather than approval is required, plants or operators need only notify the competent authority that they are carrying out ABP activities without the need for prior authorisation. In these circumstances registration will not be charged for although the operator may still be subject to chargeable risk based inspection.

**It is proposed to charge businesses for 1) ABP approvals, and 2) ABP routine risk based inspections for both approved and registered businesses.**

- 9.2 ABP approved plants: Plants using or disposing of ABPs must obtain approval before they begin to operate. Approved ABP plants vary considerably in size and complexity, and include rendering (processing) plants, composting and biogas plants, incineration plants, pet food plants, organic fertiliser(OF/SI) production plants, and various intermediate ABP handling & storage plants.

Plants are approved on a one-off basis (re-approvals only take place if there is a substantive change in the material received, equipment used or treatment process).

It is anticipated that about 15 new plants will seek approval each year as this is equal to earlier years on average.

Approximately 70% to 90% of approved plants are small to microbusinesses (*based on APHA management information and initial feedback from stakeholder groups including the Community*

*Composting Network, the Anaerobic Digestion and Biogas Association, the Organics Recycling Group, the Renewable Energy Association, the Licenced Animal Slaughterers' & Salvage Association, The Hunting Office, The Association of Masters of Harriers and Beagles, UK Renderers Association, The Foodchain and Biomass Renewables Association, and the Pet Food Manufacturers Association).*

- 9.3 ABP Registered plants: Although registration will not be charged for, certain registered plants will still be subject to chargeable risk-based inspection. Registered ABP plants vary considerably in size and complexity, and include game trophy producers, taxidermists, producers of medical devices, wool processors and tanneries, specified users such as those feeding ABPs to hunt dogs, producers of diagnostic kits, maggot farms and zoos, collection centres and any other registered users.

Approximately 70% to 90% of registered plants are small to microbusinesses (*based on APHA management information and initial feedback from stakeholder groups*).

- 9.4 ABP Routine risk-based inspections: Both approved and registered ABP plants are subject to a regime of risk-based inspections to ensure that operators are meeting the terms of their approval, and the requirements of regulations. A risk-based inspection typically includes a site visit, sampling if required, analysis of any results and admin tasks including data logging. Time taken varies considerably depending on the size and complexity of the plant.

Approved ABP Plants are risk assessed on initial application, and then visited for inspection biannually annually, quarterly or monthly depending on their risk rating. This is a function of the risk posed by the type of operation, material being handled and the compliance record of the operator concerned.

In practice although, on notification, all registered ABP plants are subject to risk-based inspections, where the risk is assessed as minimal many are unlikely to require an inspection visit. Others will be visited as set out above.

In 2017 APHA carried out 2,773 risk-based inspections of approved premises, and 1,501 risk-based inspections of registered plants and operators.

The number of inspections is risk based but is not expected to increase, and may decrease slightly as business compliance improves, incentivised by the impact of charging. However, for the purposes of this exercise the same number is assumed to be typical for future years.

Given that the charges being applied for services provided by APHA relate to a small percentage of the overall costs incurred by businesses in their day to day activities it is assumed that the proposed increase in costs will not dis-incentivise activity in each area.

## **10 Estimated costs to businesses affected**

- 10.1 We have quantified the unit costs (i.e. the cost of carrying out various services) and volume of specific approval and inspection services at point 15 below - Schedule of Fees, and 16 - Compliance Costs. The costs set out at 15.1 and 15.2 are an estimated basic minimum fixed charge (not including travel costs, shown at 15.3) which most businesses falling into the various categories could expect to pay annually for inspections or; for a complete approval process. For businesses that are more involved there may be additional visits required that will increase charges as set out at 15.3.
- 10.2 Businesses will be informed of the level of charges they can expect to pay either on application (in the case of a new approval) or on the anniversary of their approval/at the start of the business year (in the case of inspections); including the possibility of additional charges in case the process is more technically involved or compliance issues arise.
- 10.3 Inspection visit frequency is determined annually on a risk basis. The risk model takes into account the nature of the business (category of by-product involved, scale of the operation and the risk of ABPs coming into contact with livestock) and operational control (management of risk and compliance history). Depending on the outcome of the risk assessment, either monthly, quarterly annual or biannual visits will be assigned to operators. 15.1 shows a breakdown of estimated costs for sites visited monthly, quarterly or annually. A travel cost will also be added to the visit costs. Indicative travel costs per visit are given in the table at 15.3.
- 10.4 As described above, new operations that require approval will need to demonstrate compliance with the ABP regulations. As a minimum this is likely to involve two separate site visits (one prior to the start of operation and one when the site is operational). With more elaborate operations such as rendering then multiple site visits may be required prior to the site achieving approval. In addition, some operations may need to carry out a formal validation exercise including sampling activities and analysis of data. 15.2 shows a breakdown of the estimated typical approval costs for each plant type. A travel cost will also be added to the visit costs. Indicative travel costs per visit are given in the table at 15.3.
- 10.5 In certain cases it may be necessary to carry out additional visits to a site during the approval phase for example, if a site experiences

difficulties during validation. The fees associated with these additional visits are described at 15.3.

10.6 The intricacy, risks, and therefore the nature and cost of plant approvals vary widely, inspections are more standardised but can also vary depending on the type of plant and, for example, its compliance history.

## 11 Impacts, costs & benefits of options 1 & 2

11.1 Impacts on ABP approved or registered premises: The key benefit of Options 1 & 2 is a direct transfer of costs from the taxpayer to industry in the region of £940k p.a. (building up to this total over two years in the case of Option 2). This is based on the total cost to APHA of carrying out animal by-product approvals and risk-based inspections in 2019/2020 in GB as set out below at 15 - *Schedule of Fees*.

The APHA charging model recovers direct and indirect costs which can be attributed to or are essential for the service provided. This total cost is made up of a charge for the economic cost of APHA employing a Veterinary Officer (VO), an Animal Health Officer (AHO), or an administrator to carry out ABP inspections, approvals, or associated ABP work; travel time (capped at 90 minutes) and other related costs.

Some mitigation of the new costs to industry is provided by Option 2 which provides a period during which the business operator could adjust their operations to take account of the increased costs, and engage with APHA to review and develop a high quality, streamlined process of inspection.

Charging would also give industry the incentive to look for ways to reduce the frequency and time required for inspections, such as by ensuring their Hazard Analysis & Critical Control Points (HACCP) plans are complete and effectively implemented, improving their compliance levels, and possibly developing sectoral codes of practice. These could demonstrate that certain standards are met, which would then permit APHA to apply 'earned recognition' criteria and plants participating in the sector scheme would potentially face fewer inspections and so lower APHA charges.

11.2 The majority of businesses in the affected sectors are small or microbusinesses. It will not be possible to waive or provide significant mitigation for these businesses as this would undermine the charging policy objectives. It might also adversely affect the competitive position of larger businesses. APHA are proposing to provide partial mitigation by:

- A phased approach to fees in the first year (50%) and then full cost recovery in the second year for Animal By-Products services.
  - A cap on travel time of 1 ½ hours.
- 11.3 APHA will charge the actual travel time incurred per visit but cap the travel time charge at 1 ½ hours maximum for the return journey which brings the charge more in line with the visit fees charged by private veterinary surgeons. APHA's approach to travel will mitigate the impacts of charging on small/micro businesses and will not disadvantage businesses located at a distance from APHA Field Offices or in remote rural areas.
- 11.4 It is likely some of the costs will be passed from those businesses on whom charges are levied to their customers up and down the supply chain - such as generators of ABPs (e.g. livestock farmers, abattoirs, & food manufacturers), and from there on to retailers and their customers. For the purposes of this RIA however, we ascribe charges to those ABP plants and processors on which charges are first levied.
- 11.5 In addition to the charge there will also be compliance costs to operators for processing and recording invoices and making payments. We assume that businesses have established processes for handling invoices but that there is a small cost associated with these activities (on average 10 minutes labour time or £2.40 per invoice). We estimate this cost at about £7,200 per annum (see *number 16 for details*).

## **12 Key Assumptions**

- 12.1 We do not expect there to be an increase in businesses undertaking activities illegally in order to evade charges, such as by not acquiring the relevant approvals or undergoing necessary inspections resulting in 1) a potential increase in the policing function & enforcement costs, and/or 2) presenting a risk to public & animal health (e.g. an increase in illegal burial of fallen stock). A combination of tracings and local intelligence would make the operation of an unapproved plant unlikely, and with regard to inspections, it is almost impossible for an operator to continue operating illegally since inspections will be arranged automatically unless the plant notifies that it has ceased to operate. Single Farm Payment rules require farmers to record how their fallen stock is disposed of, which we assume will mitigate the latter risk.
- 12.2 We do not expect there will be a decline in competitiveness or the numbers of businesses operating in ABP sectors as a result of charges, as the one-off cost of approval for new businesses is a relatively small proportion of the total cost of setting up a new business, and the ongoing costs of inspection should be

manageable, especially if businesses work with APHA to reduce their compliance costs in advance of these changes.

### 13 Uncertainty around cost estimates

13.1 The estimates of volume are based on the number of approvals and inspections which took place during 2016/17. The number is not expected to increase significantly in future and may even decline. This is based on figures on inspection visits over the last few years which, despite a steady number of new approvals, have declined overall. In terms of new registrations, not all premises will require visits, and not all approvals will be new businesses (some may be 're-approval' following changes or new approval to an existing site). In addition there will be some existing premises that will no longer operate.

### 14 Benefits

14.1 The benefit of levying a charge for ABP approvals and inspections rather than supplying them free of charge is that there is a reduction in the cost to taxpayers equal to the revenue raised by the charge i.e. a benefit to taxpayers of about £940,000 a year.

### 15 Schedule of fees – Animal By-Products

15.1 Risk based inspections: Estimated minimum fixed charge fees (not including travel time) for sites visited monthly, quarterly or annually. Estimated fee is based on a single invoice per year. Fees rounded to the nearest £ and volumes rounded to the nearest 5 except where less than 5.

15.2 Approvals: Estimated minimum fixed charge fees (not including travel time) for sites visited monthly, quarterly or annually. Estimated fee is based on a single invoice per year.

ABP	New Fee	Volume	Cost to Business
-	Including (where applicable)	(no of activities undertaken pa)	(new fee x volume)
-	- Typical visit time		
-	- Typical travel fee		
	Payment processing		
<b>Table 2 - Routine Visit</b>			
Annual/Biennial Inspections	£ 204	1,604	£ 327,216
Quarterly Inspections	£ 750	396	£ 297,000
Monthly Inspections	£ 2,225	28	£ 62,300
<b>Table 1 - New Applications</b>			
Rendering Plant	£	3	£

	2,541		7,623
Compost Plant	£ 1,455	2	£ 2,910
Anaerobic Digestion	£ 1,455	7	£ 10,185
Handling Plant	£ 611	0	£ -
Storage Plant	£ 611	39	£ 23,829
Incineration Plant	£ 521	45	£ 23,445
Petfood	£ 521	19	£ 9,899
<b>Additional Charges from either Table 1 or 2</b>			
VO Additional Time (per 15 minutes)	£ 16	5,069	£ 81,104
AHO Additional Time (per 15 minutes)	£ 9	4,833	£ 43,497
AO Additional Time (per 15 minutes)	£ 6	1,815	£ 10,890
VO Travel Time (per 15 minutes)	£ 21	1,010	£ 21,200
AHO Travel Time (per 15 minutes)	£ 14	806	£ 11,277
Additional Time Admin (includes 15 minutes of AO)	£ 13	605	£ 7,865
			£ 940,240

Source – APHA Management Data

Travel Time: The calculation assumes that the round trip travel time is on average 45 minutes (i.e. half of the capped total travel time of 90 minutes). The number of visits is defined at the beginning of the Application/Re-application process – additional visits may need to be arranged but the number of visits is never reduced during the year.

- VO Travel Time: We have assumed that all new applications are visited by a VO, and only a quarter of all existing business/re-applications are visited by a VO.
- AHO Travel Time: Three quarters of all existing business/re applicants are visited by an AHO

Invoices: Invoice will be raised quarterly for visits completed.

Charge out rates:

The following APHA charge out rates per hour has been used to calculate the above fees:

- Veterinary Officer (VO): £64
- Animal Health Officer (AHO): £32
- Administrative Officer (AO): £24

## 16 Compliance Costs – Animal By-Products

16.1 This sets out an estimate of the costs for ABP businesses associated with the receipt, processing, recording and paying of invoices received for charges levied by the APHA.

16.2 The assumption is that affected businesses already have established processes for dealing with invoices and that it takes on average 10 minutes of a junior staff members time to deal with all aspects associated with receipt, paying and recording of an invoice.

### Data

- £11.20 hourly rate for records clerk/assistant (ONS)
- 30% labour overhead mark up (covering NI, pension contribution and paid leave etc)
- 10 minutes – time taken to process and pay invoice
- 3,000 – number of invoices issued by APHA to ABP businesses.

### Cost per annum

- $11.20/60 \times 10 \times 1.3 \times 3,000 = \text{£}7,280$

## 17 Competition Assessment – Animal By-Products

The competition filter test	
Question	Answer yes or no
<b>Q1:</b> In the market(s) affected by the new regulation, does any firm have more than 10% market share?	No
<b>Q2:</b> In the market(s) affected by the new regulation, does any firm have more than 20% market share?	No
<b>Q3:</b> In the market(s) affected by the new regulation, do the largest three firms together have at least 50% market share?	No
<b>Q4:</b> Would the costs of the regulation affect some firms substantially more than others?	Yes
<b>Q5:</b> Is the regulation likely to affect the market structure, changing the number or size of businesses/organisation?	No
<b>Q6:</b> Would the regulation lead to higher set-up costs for new or potential suppliers that existing suppliers do not have to meet?	Yes
<b>Q7:</b> Would the regulation lead to higher ongoing costs for new or potential suppliers that existing suppliers do not have to meet?	No
<b>Q8:</b> Is the sector characterised by rapid technological change?	Yes – some elements
<b>Q9:</b> Would the regulation restrict the ability of suppliers to choose the price, quality, range or location of their products?	No

## **18 Regulatory Impact Assessment – Animal Gatherings Order**

18.1 Animal gatherings (markets, shows etc.) are places where animals from different holdings are gathered together. This has the potential to spread infectious disease. The spread of disease like this is a negative externality which can impose economic costs on unwitting third parties - costs which are not fully borne by those responsible for the spread of disease. Animal gatherings are licenced in accordance with existing regulations to ensure that the risk of disease spread is adequately mitigated. For higher risk and all new gatherings, an inspection is required to verify that conditions of a licence can be met. The specific proposal here is to charge for these licences and inspections in line with UK government policy on fees and charges.

## **19 Preferred policy option**

19.1 Option 2 is the preferred option as it will allow businesses more time to adjust to the new charging regime. The annual costs estimated below reflect the maximum costs for a year after charges have been fully phased in.

## **20 Expected level of business impact**

20.1 Number and type of affected businesses: The bringing together and subsequent dispersal of animals introduces a high risk of disease spread when compared to direct movements of animals from a single premises to another premises or slaughterhouse. The bringing together of animals in different ownership are regulated under the Animal Gatherings (Wales) Order 2010. For the purposes of this assessment gatherings have been grouped into markets, collection centres and shows.

20.2 Markets bring together animals for sale (change of ownership) and onward movement either to another farm or to a slaughterhouse. Markets tend to be held at long established venues, although from time to time they move to a new venue or there are significant changes to the infrastructure or type of business conducted. Volume of animal movements through markets tends to be high, with some venues holding several sales a week. There are a few local markets which operate infrequently in response to local demand or seasonal events. Markets are generally issued with a single licence to cover all their business for a year. Markets tend to have the largest financial turnover of the categories and will generally be a company limited by liability or other form of company, often part of a larger auction business. Based on APHA figures there are 95 licenced markets in England & 35 in Wales, some managed by a single company. It is understood the livestock market part of the business will normally have less than 50 employees.

- 20.3 Collection centres are primarily used to allow efficient logistics in the distribution of animals from or to multiple destinations over longer distances and are therefore of benefit to hauliers. Collection centres for export are outside the scope of this legislation so therefore no fee is proposed for the approval of export assembly centres. Whilst the business of collection centres is less complex, many are held at farms and therefore can present a higher risk of disease transmission between resident and transitory animals. Collection centres are generally issued with a single licence to cover all their business for a year. Collection centres move location more frequently requiring new or amended licences. These tend to be smaller businesses. Based on APHA figures there are 45 collection centres in England & 42 in Wales. It is understood collection centres tend to have few employees (less than 50).
- 20.4 Shows bring together animals from multiple locations for showing to public and producers. APHA have included in this category gatherings to inspect animals specific breed characteristics. Animals tend to return to their farm of origin. Animals attending shows usually are of a high health status, whereas those at markets and collection centres are usually of mixed status. Shows tend to occur just once a year at each location. They typically last one or 2 days but the largest last up to a week. The majority of shows are therefore issued a licence for the event only. Many shows are annual so are licenced each year and this relicencing is straightforward, where the structure of the show is unchanged. A licence for a show tends to represent lower risk since shows are single events rather than multiple events in a single year. A proportion of the smaller shows move location each year and licencing at the new venue is more complex. Many shows are registered charities and, apart from the largest agricultural shows, turnover is relatively low. The number of shows varies from year to year but it is anticipated by APHA that there are expected to be around 446 shows in England & 178 in Wales. It is understood that the majority of shows have few employees (less than 50).
- 20.5 Following comments from the respondents to the consultation, it has been proposed that an exemption from fees will apply to an animal gathering on premises, or on a separate part of a premises to which the licence relates, involves only shows or exhibitions that are open to the public for not more than one day at a time, and no public sale or auction of animals take place at the premises, or separate part of premises to which the licence relates, where such one-day show or exhibition take place. A person is also exempt from any fee where the licence is related to premises, or separate part of a premises, used solely for the purpose of a gathering for inspection to confirm that animals possess specific breed characteristics.
- 20.6 All these businesses will be affected by the introduction of fees for a licencing service for which costs are currently not recovered. Fees to

markets will be highest as they are the most complex to licence with collection centres incurring similar fees. Fees to shows will be the lowest as they are the most straightforward to licence. The scale of fees ranges from approximately £105 for relicencing a single event such as a small show, through to approximately £406 for a new multi-event market. Some licence applications may be rejected or issued on a provisional basis. In such cases the additional actions necessary to issue a full licence will be charged at a fixed rate.

20.7 The majority of AGO businesses will only receive one invoice annually therefore it is believed that the impact will be minimal.

## **21 Costs to business**

21.1 Costs of licencing and inspection vary according to size and complexity of the business which in turn reflects the animal disease risk each type poses. Informal consultation with industry has indicated a strong preference for similar business operations to incur similar fees. The proposal is to charge a fixed fee (as set out below) to reflect the effort to licence similar categories of business, categorised according to the risk and complexity of the gathering being licenced.

21.2 This assessment of cost is based on annual full cost recovery and does not take account of the phasing in of charges; this assessment represents the charges after they have been phased in. An assessment has also been made of the compliance costs incurred by business in making payments for these new charges to APHA. It therefore reflects an estimate of the maximum annual cost that will be faced by business.

21.3 All gatherings will already have systems in place for the payment of charges. The proposal is to require payment at time of application and this should reduce processing burdens. It is estimated that a typical cost to a business of processing a fee payment in this manner will be approximately £2.50<sup>1</sup> per licence. With about 300 licences issued annually this gives a business cost for paying/processing the licence fee of about £750.

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<sup>1</sup> These are existing businesses that have established processes for dealing with invoices. The cost to business for processing, paying and recording invoices is estimated to be about £2.50 per invoice. This assumes it takes about 10 minutes per invoice to undertake these activities for a person earning about £11.20 per hour (records clerk/assistant ASHE 2012 code 4131). This cost is then increased by 30% overhead to account for employer national insurance, holiday pay and pension payments etc.

21.4 We understand all gatherings charge clients a fee, typically an entry fee for shows or a transactional fee for markets. Our expectation is the costs of licencing will be passed on to customers as part of this fee but for the purposes of this RIA we have ascribed the costs to the animal gathering businesses. In practice for most gatherings the proposed fees are small relative to their other operating costs and turnover. It is understood that the level of charges proposed will not have a significant impact on the viability of businesses. It is also the case that this scale of fees mirrors affordability, although this will be tested more rigorously during consultation. It is therefore assumed that volume of licences issued annually will not be affected.

21.5 Table 1 below summarises the anticipated fees to business of licencing.

<b><u>Animal Gatherings -</u></b>	<b>New Fee</b>	<b>Volume</b>	<b>Cost to Business</b>
	Including (where applicable)	(no of activities undertaken pa)	(new fee x volume)
	- Typical visit time		
	- Typical travel fee		
	Payment processing		
<b>Market</b>			
Application for issue or amendment of a licence for sales premises or a collection centre - low risk of disease	£ 319	9	£ 2,871
Application for issue or amendment of a licence for sales premises or a collection centre - more than low risk of disease	£ 477	4	£ 1,908
Annual licence renewal fee for premises used for animal sales or use as collection centre - low risk of disease	£ 280	62	£ 17,360
Annual licence renewal fee for premises used for animal sales or use as collection centre - more than low risk of disease	£ 468	170	£ 79,560
<b>Shows -</b>			
Application for a licence to organise shows or exhibitions - low risk of disease	£ 155	0	£ -
Application for a licence to organise shows or exhibitions - not presenting low risk of disease	£ 308	2	£ 616
Annual licence renewal - no inspection visit required	£ 91	0	£ -
Annual licence renewal - basic visit	£ 151	0	£ -
Annual licence renewal - more than a basic visit	£ 220	57	£ 12,540

<b>Additional Fees</b>			
Additional Visit	£ 236	77	£ 18,172
			£ 133,027

Source – APHA Management Data

21.6 In summary APHA anticipate issuing approximately 300 licences with associated invoice and payment. These will reflect total costs of close to £133,027 with additional industry compliance costs for processing payments circa £720, giving a total impact circa £133,747.

21.7 In arriving at these fees APHA assessed the staff effort required to complete each step of licencing within each category, together with associated costs. Staff time is converted to a fee by use of the appropriate APHA hourly rates, which include salary costs, non salary related costs, indirect costs and specific costs that are associated directly with the delivery of the service. The main variance in effort between categories arises from the complexity and risk of the application and the number of site visits needed to assess the proposal. Where satisfied the application minimises animal disease risks and complies with the requirements of the Animal Gatherings Order, a licence is issued. The fee calculation is summarised below.

21.8 The lack of operating history means application for licences from new animal gatherings cannot be classified at the lowest level of risk, resulting in additional work to assess new applications. Renewals can benefit from this history and a lower fee is available to those assessed as lowest risk.

21.9 APHA understand that businesses are likely to compare fees and they will expect to incur the same fee for the same type of business and are therefore likely to support this banding approach. APHA anticipate the introduction of fees may influence business behaviour in a positive manner as they try to reduce their charges. Since APHA propose to structure fees based upon risk (APHA intent to publish the criteria) a consequence may be improved quality of licence applications and improved in-year compliance. Industry is not in favour of additional fees during their licence period for purposes such as minor licence amendments; a separate fee may discourage licencees reporting in-year changes.

21.10 It is likely the introduction of fees will change practices of both the licencing authority and the licencee. Where licence applications are rejected due to failure to meet the required standards or a

provisional licence can only be offered pending remedial action, additional fees will be incurred to cover the additional administration and inspection costs to issue a full licence. An estimate has been included for these under the Additional Visits table below.

## **22** Uncertainty around cost estimate

22.1 APHA is in the process of improving the efficiency of the delivery of its services utilising lean methodologies. These fees are set at the level that anticipates these improvements to the businesses practices of APHA. In addition, departmental efficiencies are driving down the costs to be recovered from this service. APHA also anticipate industry will improve the standard of licence applications leading to a reduced need for re-inspection or support from APHA. If this was not delivered there could be a small increase in the number of additional visits estimated.

22.2 Whilst it is inevitable there is a small degree of business change year on year leading to some variability in the number and cost of licences issued, the overall number of licences issued is broadly stable. Ongoing work will continue to review the risk categories of current licencees. This will therefore generate some uncertainty in the final fee and volume in each category. Notwithstanding these elements of uncertainty, APHA are confident the estimate of the overall scale of impact on industry is correct.

## **23** Benefits

23.1 The benefit of this proposal is a reduction in cost to tax-payers broadly equal to the income received. In addition, there is the potential for additional benefits, through improved behaviour and compliance in order to reduce the need for additional inspections. This behaviour has the potential to reduce the risk of spreading disease further, and therefore reducing any disease control costs that may have otherwise resulted.

## **24** Summary of fee calculation

24.1 Unit fees for each category have been estimated based on a review of the licencing activities undertaken by APHA. These estimates assume the standardisation of some processes and additional efficiency measures to minimise the variability between teams. This has allowed standard fixed figures per category of application to be estimated.

24.2 Rate per hour by grade –

<b>Grade</b>	<b>Rate</b>
Veterinary Officer (VO):	£64
Animal Health Officer (AHO):	£32

Administrative Officer (AO):	£24
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## 25 Competition Assessment – Animal Gatherings Order

The competition filter test	
Question	Answer yes or no
<b>Q1:</b> In the market(s) affected by the new regulation, does any firm have more than 10% market share?	No
<b>Q2:</b> In the market(s) affected by the new regulation, does any firm have more than 20% market share?	No
<b>Q3:</b> In the market(s) affected by the new regulation, do the largest three firms together have at least 50% market share?	No
<b>Q4:</b> Would the costs of the regulation affect some firms substantially more than others?	No
<b>Q5:</b> Is the regulation likely to affect the market structure, changing the number or size of businesses/organisation?	No
<b>Q6:</b> Would the regulation lead to higher set-up costs for new or potential suppliers that existing suppliers do not have to meet?	Yes
<b>Q7:</b> Would the regulation lead to higher ongoing costs for new or potential suppliers that existing suppliers do not have to meet?	No
<b>Q8:</b> Is the sector characterised by rapid technological change?	No
<b>Q9:</b> Would the regulation restrict the ability of suppliers to choose the price, quality, range or location of their products?	No

## 26 Regulatory Impact Assessment – Pet Passports

26.1 The UK is currently free of rabies and the tapeworm *echinococcus multilocularis* (EM). These can infect animals and humans. Disease freedom is a public good<sup>2</sup> and typically, markets under-provide public goods as incentives for private parties to provide them may not exist. There can therefore be a role for government to fill the gap as in this case. Pet passports are an integral part of the existing regulation to control the international movement of pets (cats, dogs and ferrets) in order to maintain freedom from the above disease and parasite. Specifically, the proposal here is to charge for the provision of the passport document in line with government policy to charge users for the provision of specific services. APHA regularly review their services to ensure they are delivered as efficiently as possible. Pet passports are issued by veterinary practices that prepare pets for international travel. Currently passport documents are provided free

<sup>2</sup> Freedom from a disease is enjoyed by everyone in society (non-excludable) and the cost of providing it for one extra person is zero (non-rival). These are the two criteria for a public good. It can be difficult for private sector operators to appropriate an adequate return from the provision of public goods because non-excludability often leads to free riding (i.e. people enjoying the benefits without paying for them). This can lead to under provision of public goods by the private sector and a potential role for government intervention to provide them.

of charge (at taxpayer expense) by the APHA to those veterinary practices.

## **27 Preferred Policy Option**

27.1 APHA intend to introduce charges for passport documents to reflect full cost recovery. The plan is to introduce the charge in one go (rather than phasing-in) as the cost is relatively modest.

## **28 Expected level of business impact**

28.1 Number and type of affected businesses: The businesses that will be affected by this charge are veterinary practices that prepare pet animals for international travel. Most veterinary practices are small or micro businesses. It will therefore not be possible to waive or mitigate the cost for small and micro businesses as this would seriously undermine the policy of charging for passports.

In practice APHA expect veterinary practices to pass on the costs of passports to their customers (typically these are members of the public undertaking international travel with their pets e.g. taking pets on holiday abroad) and thus vets will recoup any charges incurred. These customers already pay for their pets to be prepared for international travel by their vet (for rabies vaccination, blood test etc.) which is required by the pet travel regulations and the additional costs associated with the passport document would be small. For transparency APHA plan to publicise the cost of the pet passport on their website. For the purposes of this RIA we ascribe the cost of passports to those businesses (veterinary practices), which will initially purchase the passports from APHA rather than the owners of pets.

Given that the charges being applied for services provided by APHA relate to a small percentage of the overall costs incurred by businesses in their day to day activities it is assumed that the proposed increase in costs will not dis-incentivise activity in each area.

In 2017, a total of 4440 pet passports were issued to 126 practices in Wales. (Source: APHA management data).

This policy relates to the UK. The situation across other EU member states is mixed. Some countries e.g. Sweden, Denmark, Austria, Ireland also make a charge for pet passports.

28.2 Costs to business: The cost of passports (and hence proposed charge) is set out in the table below:

### **COST PER BATCH OF PET PASSPORTS**

Description of item	No of items	Cost (£)
Passport document	Per 20 passports	56.00

Source: APHA.

The cost of passports reflects the printing cost and the full cost of AO time to receive a request for passports, make up order, despatch and keep records etc.

28.3 Pet passports last for the life of the pet or until they are full (whichever happens first). Currently about 100,000 new pet passports are issued annually. As shown in the table above, the normal practice is that these are issued to veterinary practices in batches of 20 at a cost of £56 per batch including invoicing costs. The total annual cost would therefore be about £280,000. In addition businesses will incur a compliance cost associated with processing, paying and recording invoices received. We anticipate about 2500 invoices a year being issued with a business compliance cost of about £2.50<sup>3</sup> per invoice i.e. £6250. The total cost to business would therefore be around £286,250.

28.4 Passport costs for Welsh businesses have been estimated at £112 per practice per year. This is based on two batches of passports being issued per practice. There would also be an additional cost of £2.50 per invoice.

## 29 Uncertainty around cost estimate

29.1 Pet travel regulations were harmonised with the EU from 1 January 2012. In practice this made it slightly easier to travel abroad with a pet and the numbers of pets acquiring passports has since risen. The number of pets travelling abroad may also rise as GDP and incomes recover in future years. Furthermore the EU Commission require more secure pet passports to be issued (from the end of 2014) which increased the cost of the document.

## 30 Benefits

30.1 The benefit of introducing a charge for the pet passport document rather than supplying it free of charge is that there is a reduction in the cost to taxpayers equal to the revenue raised by the charge i.e. a benefit to taxpayers of about £280,000 a year. There may also be resource allocation benefits of charging e.g. providing the document

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<sup>3</sup> These veterinary practices are existing businesses that have established processes for dealing with invoices. The cost to business for processing, paying and recording invoices is estimated to be about £2.50 per invoice. This assumes it takes about 10 minutes per invoice to undertake these activities for a person earning about £11.20 per hour (records clerk/assistant ASHE 2012 code 4131). This cost is then increased by 30% overhead to account for employer national insurance, holiday pay and pension payments etc.

free of charge may encourage over ordering and waste by veterinary practices which would be reduced if a charge is introduced.

### 31 Competition Assessment – Pet Passports

The competition filter test	
Question	Answer yes or no
<b>Q1:</b> In the market(s) affected by the new regulation, does any firm have more than 10% market share?	N/A
<b>Q2:</b> In the market(s) affected by the new regulation, does any firm have more than 20% market share?	N/A
<b>Q3:</b> In the market(s) affected by the new regulation, do the largest three firms together have at least 50% market share?	N/A
<b>Q4:</b> Would the costs of the regulation affect some firms substantially more than others?	No
<b>Q5:</b> Is the regulation likely to affect the market structure, changing the number or size of businesses/organisation?	No
<b>Q6:</b> Would the regulation lead to higher set-up costs for new or potential suppliers that existing suppliers do not have to meet?	No
<b>Q7:</b> Would the regulation lead to higher ongoing costs for new or potential suppliers that existing suppliers do not have to meet?	No
<b>Q8:</b> Is the sector characterised by rapid technological change?	No
<b>Q9:</b> Would the regulation restrict the ability of suppliers to choose the price, quality, range or location of their products?	Yes

## Welsh Specific Data

### Animal By Products visits in Wales 2017

The tables are for Wales alone using 2017 Jan- Dec and excluding approval and reactive visits. A = Approved, R = Registered

Approved or Registered	A
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Count of Visit Date	Column Labels		Grand Total
	Follow Up	Routine	
SECTION I Intermediate Activity/Storage Plant		93	93
SECTION II Derived Products Storage Plant	1	4	5
SECTION III Incineration/Co- Incineration/Combustion Plants	5	54	59
SECTION IV Processing Plants		1	1
SECTION VI Biogas Plants	1	36	37
SECTION VII Composting Plants		12	12
SECTION VIII Petfood Plants	3	37	40
TSE Approved Plant	1	44	45
<b>Grand Total</b>	<b>11</b>	<b>281</b>	<b>292</b>

Approved or Registered	R
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Count of Visit Date	Column Labels		Grand Total
	Follow Up	Routine	
SECTION X Specified Users	4	32	36
SECTION XI Collection Centres	8	118	126
SECTION XIII Other Registered Operators		18	18
<b>Grand Total</b>	<b>12</b>	<b>168</b>	<b>180</b>

### Animal Gatherings Wales 2017

The industry sector in Wales consists of:

Licenced Markets: 35  
 Collection Centres: 42  
 Animal Gatherings: 178