

REFORM OF THE AGRICULTURAL AND HORTICULTURAL LEVY BOARDS IN THE UK

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Agriculture sectors in the UK

- Value of production at market prices for 2005
 - Red meat - £2.6 billion (\$5.6 billion)
 - Potatoes - £482 million (\$1 billion)
 - Fruit/veg/flowers - £2.15 billion (\$4.6 billion)
 - Milk - £2.6 billion (\$5.6 billion)
 - Cereals/oil seed rape/sugar beet - £1.9 billion (\$4.2 billion)

The Food Chain

- Agri-food sector accounts for **7.6%** of national economy (2004)
- Food supply chain received **£142 billion** from spending by consumers (2005)
- Agri-food sector provided **3.8 million** jobs
- Self sufficiency: **60%** for all foods; **73%** for indigenous type foods

Background

- Origin of levy boards go back to 1930s
- **Self sufficiency** a key goal of Government policy
- Need to **intervene** in the market
- ‘para-fiscal’ tax
- Legislative origins date back to **Industrial Organisations Development Act 1947**
 - Cereals Marketing Act 1965 (as amended)
 - Agriculture Act 1967

Levy Bodies

- The British Potato Council
- The Home Grown Cereals Authority
- The Horticultural Development Council
- The Meat & Livestock Commission (QMS, HCC)
- The Milk Development Council
- Other voluntary trade organisations

Functions of the existing levy bodies

- Near market R&D
- Promotion
- Market information
- Business efficiency
- Consumer research

Levy incomes

| Levy body | Total income (£m) (2004) | % Value of whole chain sector |
|-----------|-----------------------------|----------------------------------|
| BPC | 5.87 | 1.09 |
| HDC | 4.67 | 0.18 |
| HGCA | 9.76 | 0.41 |
| MDC | 7.28 | 0.26 |
| MLC | 26.33 | 0.78 |
| Total | 53.91 (\$116.45) | (Av 0.54) |

Why change?

- Established in **different era** responding to different challenges
- Seen by levy payers as **part of Government**
- **Global policy** – trade liberalisation
- **EU policy** – CAP reform: ‘decoupling’
- **Environmental regulation** – e.g. Water Framework Directive, Waste Framework Directive
- **Societal change** – consumer choice, nutrition, No. of households etc
- Sustainable Farming and Food Strategy

Radcliffe Review

- Rosemary Radcliffe was commissioned by Defra and Devolved Ministers to undertake a “cross-cutting and fundamental review of the rationale, and role, organisation, funding and functions” of the five agricultural and horticultural statutory levy boards
- Economist by training – PwC partner
- “Market failure” as the principal determinant of the case for statutory levies
- Reported in November 2005

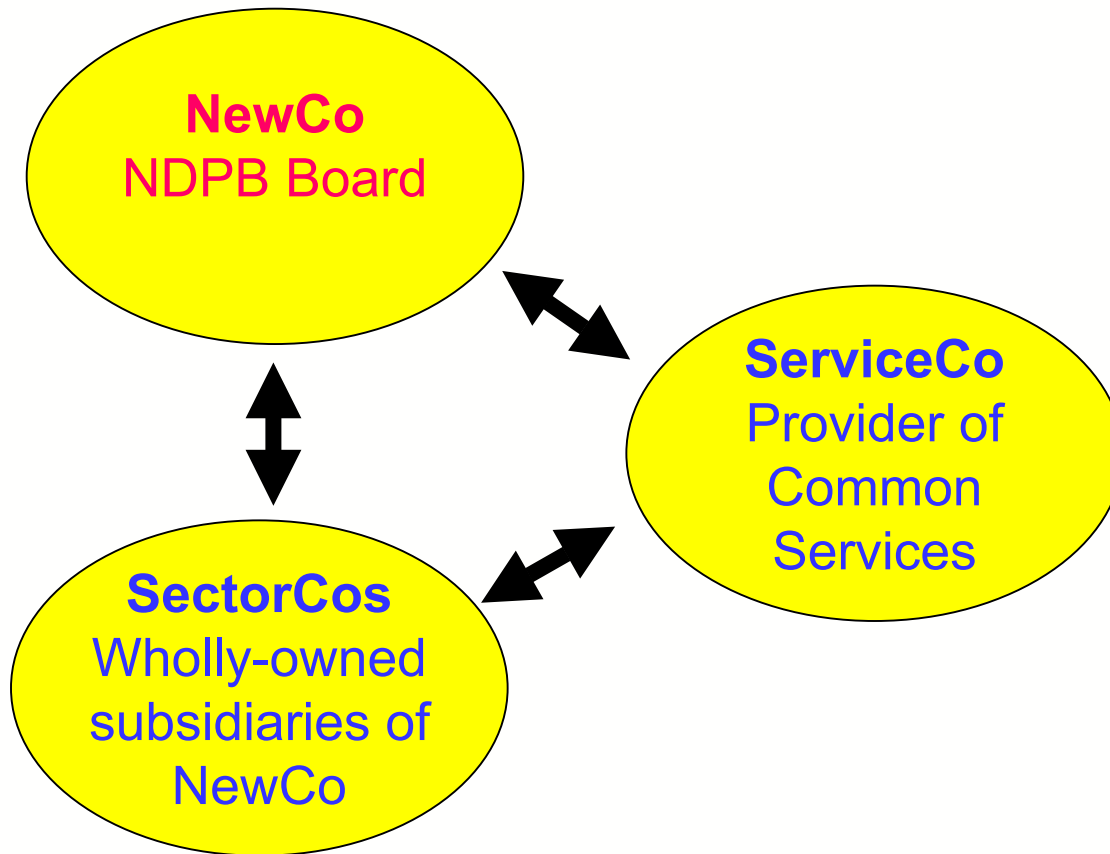
Criteria used in appraising options for change

- Clear **'ownership'** of the industries whilst retaining accountability for public monies (accountabilities 'out' and 'up')
- Decisions taken **close** to levy payers
- **Common framework** of activities
- **Efficiency** and **effectiveness** in delivery
- **Flexibility** – levies should be easier to remove

Conclusions of the Review

- The retention of **statutory levies** in the sectors covered by the current boards;
- The need for a **common framework** of activities and priorities across the sectors;
- A '**Fresh Start**' approach to calculating the levy and what it is spent on, based on discussions with stakeholders;
- A new structure consisting of a **single levy board** with **subsidiary sector companies** and a shared service company
- A full public consultation on the Report and recommendations finished on 3 February

Radcliffe model



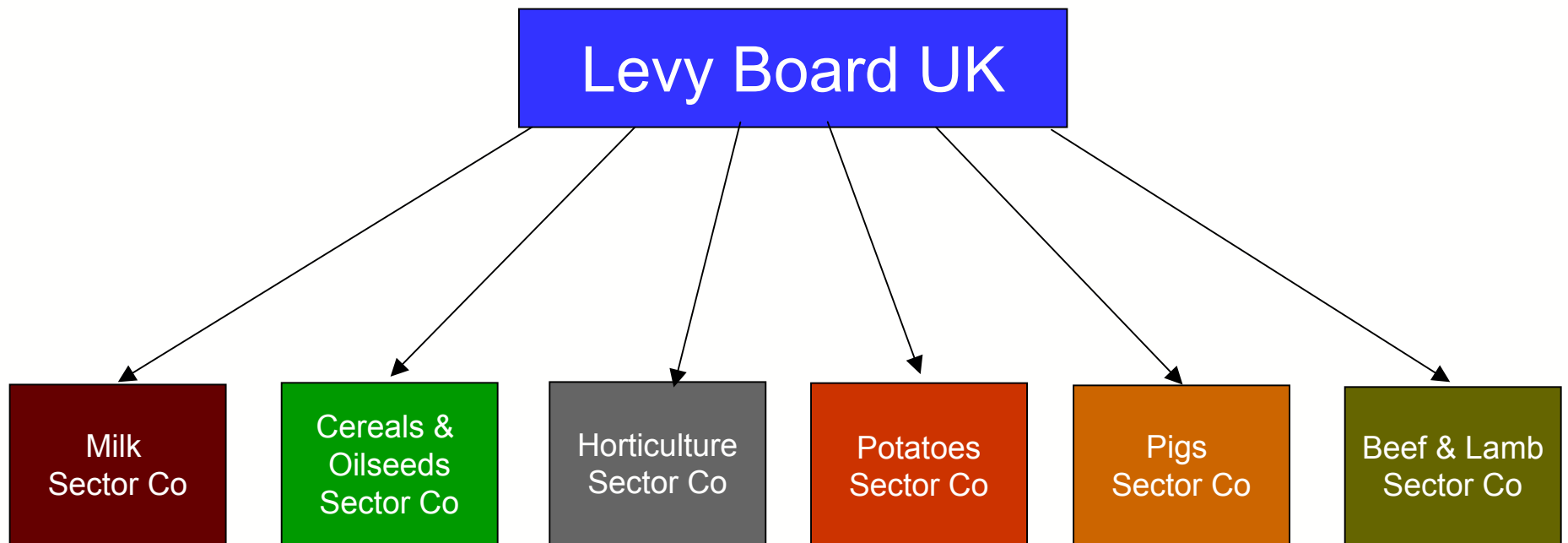
Options for the Future Structure of the Levy Boards

- No structural change but enhanced co-operation
- Radcliffe model
- Modified Radcliffe model

Fresh Start

- All options would include a “Fresh Start” initiative.
- In the Radical model this would be led by the Shadow Chair of Levy Board UK
- Would *“entail a bottom up strategy and planning exercise by the levy bodies, under these new arrangements, to identify needs; consider how best they can be met; determine a set of value-for-money activities; and revisit the rate of levy in the light of this analysis”*

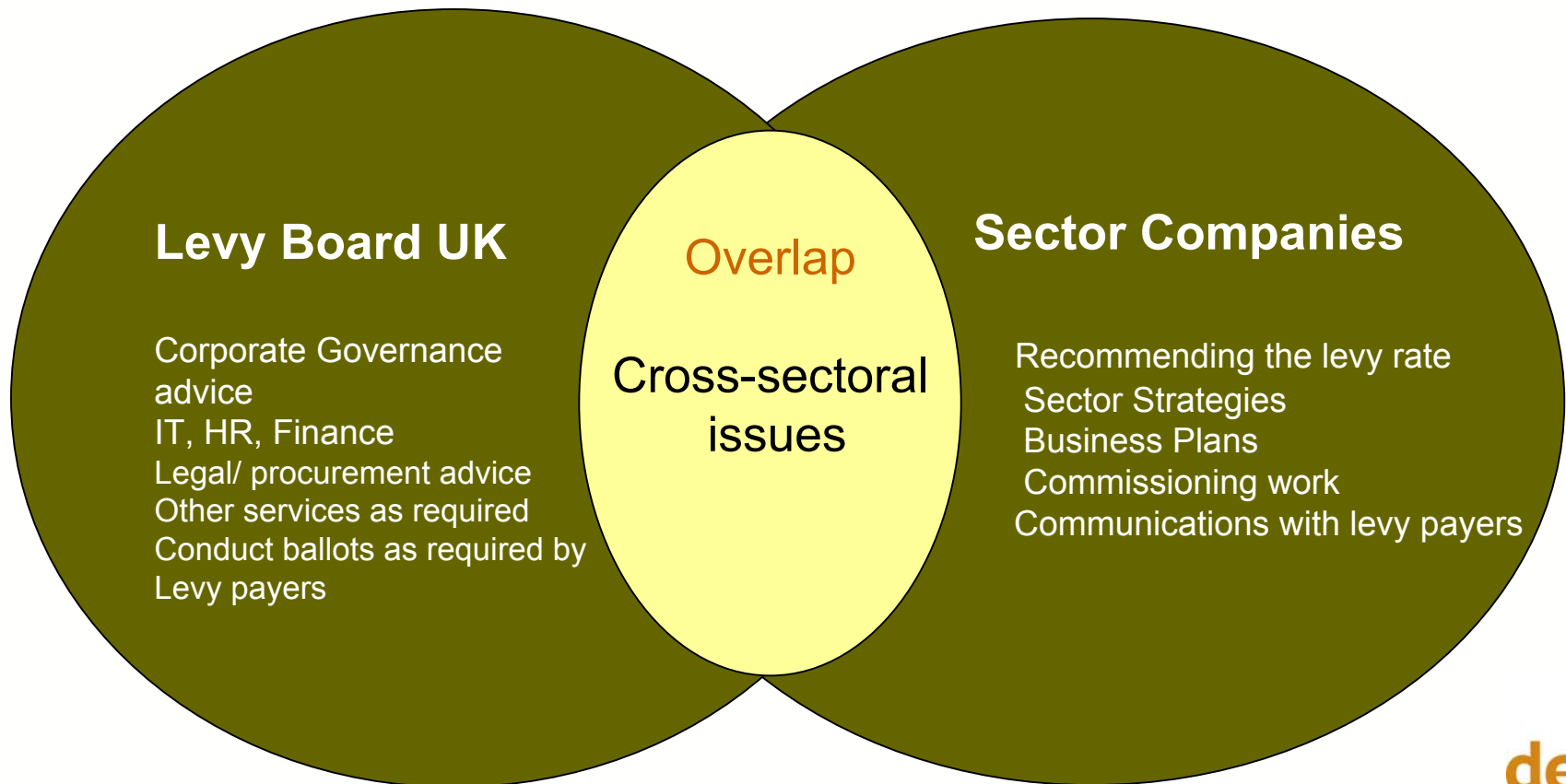
Proposed Structure Under the Radical Reform Option



The Board of Levy Board UK

- The Board will consist of 10 members including:
 - The **six sector company** chairmen
 - 4 **independent members** (one of whom must be the chairman)
- The independent members will be required to bring specialist expertise to the board.

The Roles of Levy Board UK and the Roles of the Sector Companies



Sector companies

- Sector companies will not be Non Departmental Public Bodies but **Companies Limited by Guarantee**
- Majority of sector company boards will be made up of **levy payers**
- Sector companies will be responsible:
 - For carrying out functions, specified in the SI.
 - For **communication** with levy payers
 - To **Levy Board UK** for levy expenditure
- Functions will depend on the results of **“Fresh Start”**.

Levy Board UK

- It will be **legally responsible** for raising levy but it may delegate collection to the sector companies
- It will be the **public body** accountable to Ministers for levy expenditure
- The Board will be **appointed by Ministers**
- It will be responsible for **setting levy rates** based on recommendations from the sector companies.
- It will perform a **challenge role** in respect of sector strategies and CLG activities.
- It will act as a driver for overall **efficiency improvements** for levy arrangements.
- It will provide a **forum** to discuss cross-sectoral issues.

Benefits of the Radical Reform model

- Improved governance and transparency with decisions on sector strategies and levy expenditure taken close to levy payers
- Fresh Start likely to provide additional cost savings and ensure appropriate activities are undertaken
- Improved performance evaluation and scope for 'learning from one another'
- More efficient and effective service provision to levy payers (cont...)

Benefits of the Radical Reform Model (cont)

- Improved co-ordination of scientific and other R&D
- A more strategic outlook
- Increased flexibility
- Defra benefits (reduction in sponsorship role)
- It will enhance industry ownership of levy arrangements

Radical model costs: set-up and running

- Total set-up costs likely to be around £2.1 million
- Potential benefits of reform in the Radcliffe Report (£900K per annum) appear to be underestimated and a rigorous **Fresh Start** exercise should increase savings above this estimate.
- Produce revised **business case**

Challenges

- Tight legislative **timescale**
- Need to carefully **project manage** the interdependencies – particularly **Fresh Start**
- Loss of **key personnel**
- Lack of support from some sectors (but English farming unions strongly in favour)

Key Milestones for April 2008 start date

- Appointment of Shadow Levy Board UK Chairman to lead Fresh Start process (early November 2006) ([John Bridge appointed in October](#))
- Appointment of remainder of [shadow board](#) (independent members and sector company Chairmen) by end January 2007
- [Drafting of the SI](#) to abolish the existing arrangements and set-up Levy Board UK by December 2007
- Clear the proposed activities with the European Commission to ensure compliance with the [state aids regulations](#) by March 2008
- [Corporate Plan](#) and [MSFM](#) agreed by March 2008

In Summary....

- **Fundamental restructuring** of levy board arrangements in UK
- Has the **potential** to produce long-term benefits in both quantitative and qualitative terms