

Chair
Cabinet Legislation Committee

CHANGES TO FOOD SYSTEM COST RECOVERY REGULATIONS

Proposal

1. I seek authorisation to submit amendments to six sets of food system cost recovery regulations to the Executive Council.

Executive Summary

2. On 22 March 2019 Cabinet agreed to a range of changes to cost recovery settings in the food system [CAB-19-MIN 0109 refers]. These involve changes that are designed to either:
 - increase or decrease the amount that is charged for a service to reflect actual service costs, and address accumulated surpluses or deficits
 - simplify, clarify and improve the transparency and equity of charges
 - simplify and improve the administration and operation of cost recovery by the Ministry for Primary Industries (MPI).
3. Overall, the changes are expected to result in virtually no change to MPI's third party revenue, with approximately \$1.4 million of annual reductions offset by \$1.4 million in increases.
4. I now seek authorisation to submit the attached amendment regulations to the Executive Council to implement these changes as soon as possible to ensure they come into effect by 1 July 2019 and comply with the 28-day rule.

Policy

5. The food regulatory system is of vital importance to New Zealand. By ensuring food is safe and suitable, it protects the health and well-being of New Zealanders and facilitates access to important export markets. In 2018, food exports were worth over \$36 billion in value,¹ representing 80% of primary sector exports and over 12% of GDP.

¹ Includes wine, beverages, and related products.

6. MPI has regulatory oversight of the food system, delivering services under four Acts:²
 - Agricultural Compounds and Veterinary Medicines Act 1997 (ACVM)
 - Animal Products Act 1999 (APA)
 - Wine Act 2003
 - Food Act 2014.
7. MPI funds approximately 60% of the costs of the regulatory services it provides in the food system by recovering costs from food businesses. Cost recovered services include developing domestic and export standards, verifying that businesses across the food supply chain comply, and providing official assurances that export products meet importing country requirements.
8. On 22 March 2019, Cabinet agreed to a number of changes to cost recovery in the food system [CAB-19-MIN 0109 refers], summarised in Appendix One. The attached regulations give effect to those decisions and I am seeking agreement to submit them to the Executive Council.

Overall, I consider that the changes will have minimal financial impact on most businesses, including small and regional businesses. The two proposals with the greatest impact are:

- a reduction in the base hourly rate for services across the food system from \$155 per hour to \$135, which will result in modest savings that benefit a large number of food businesses
- an increase in the hourly rate for circuit verifications³ from \$165 to \$176 per hour (note that cost increases are less than inflation since this rate was last changed).⁴

Implementing the changes

9. I seek authorisation to submit the following amendment regulations to the Executive Council so that they can come into force on 1 July 2019:
 - 9.1. Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Amendment Regulations 2019
 - 9.2. Animal Product (Fees, Charges, and Levies) Amendment Regulations 2019

² The Animal Welfare Act 1999 is not part of the food system, though it is related to it and a number of similar services are provided under it. Because the hourly costs of providing some services under it are the same as under food system services, a small number of changes to cost recovery rates for animal welfare services are included within this package of change.

³ Circuit verifications involve verifiers travelling (on a 'circuit') to food businesses' premises to confirm that they are operating consistently with standards and their risk management plans.

⁴ The rate for this service has not been adjusted since 2015. The \$11 per hour increase is made up of \$7 (4.3 percent) to recover the historic deficit and \$4 (2.4 percent) to recover higher service delivery costs. The increase to recover higher service delivery costs is less than inflation for the same period (5.2%).

- 9.3. Animal Products (Dairy Industry Fees, Charges, and Levies) Amendment Regulations 2019
- 9.4. Wine Amendment Regulations 2019
- 9.5. Food (Fees and Charges) Amendment Regulations 2019
- 9.6. Animal Welfare (Cost Recovery) Amendment Regulations 2019.

Timing and the 28-day rule

10. These regulatory changes will come into force on 1 July 2019. I intend that they be notified in the New Zealand Gazette no later than 31 May 2019 to ensure sufficient time to inform stakeholders and meet the 28-day rule.

Compliance

11. These regulations comply with:
 - 11.1. the principles of the Treaty of Waitangi
 - 11.2. the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993
 - 11.3. the principles and guidelines set out in the Privacy Act 1993
 - 11.4. relevant international standards and obligations
 - 11.5. the Legislation Guidelines (2018 edition), which are maintained by the Legislation Design and Advisory Committee.

Regulations Review Committee

12. There are no known grounds for the Regulations Review Committee to draw the regulations to the attention of the House of Representatives under Standing Order 319.

Certification by Parliamentary Counsel

13. The draft regulations were certified by the Parliamentary Counsel Office (PCO) as being in order for submission to Cabinet.

Impact Analysis

14. MPI prepared a stage two Cost Recovery Impact Statement (CRIS) in accordance with Cabinet Office requirements. It was submitted at the time policy approval for these changes was sought [CAB-19-MIN 0109 refers].

Publicity

15. Once these regulations have been approved, MPI will provide details of the changes on its website and notify those it contacted during consultation advising of this.

Proactive release

16. I propose that MPI proactively release this paper and corresponding Cabinet minute in full within 30 days, in line with Cabinet's policy to proactively release Cabinet material and the State Services Commission's guidance on proactive releases of official information.

Consultation

17. The five Acts that the amendment regulations are subject to require consultation with affected parties or organisations likely to be representative of them before regulatory changes are made. Consultation on these changes took place between November 2018 and February 2019, and I am satisfied that all statutory pre-requisites for consultation have been met.
18. Treasury has been consulted throughout the policy development process. Best practice guidance by the Treasury and the Office of the Controller and Auditor General on cost recovery have guided the development of these regulatory amendments.
19. The following departments were consulted during the development of the policy: Department of the Prime Minister and Cabinet (Policy Advisory Group), New Zealand Treasury, Ministry of Business, Innovation and Employment, and Te Puni Kōkiri. The State Services Commission has been informed.

Proactively released

Recommendations

I recommend that the Cabinet Legislation Committee:

1. **Note** that on 22 March 2019 Cabinet gave policy approval to make changes to food system cost recovery [CAB-19-MIN 0109 refers];
2. **Note** that I am satisfied that all statutory pre-requisites have been met for making the regulatory changes to food system cost recovery agreed to by Cabinet;
3. **Note** that the following regulations will give effect to Cabinet decisions to make changes to food system cost recovery:
 - a. Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Amendment Regulations 2019
 - b. Animal Products (Fees, Charges, and Levies) Amendment Regulations 2019
 - c. Animal Products (Dairy Industry Fees, Charges, and Levies) Amendment Regulations 2019;
 - d. Wine Amendment Regulations 2019;
 - e. Food (Fees and Charges) Amendment Regulations 2019;
 - f. Animal Welfare (Cost Recovery) Amendment Regulations 2019;
4. **Note** that the regulations giving effect to Cabinet decisions to make changes to food system cost recovery will come into force on 1 July 2019;
5. **Authorise** the submission of the regulations giving effect to Cabinet decisions to make changes to food system cost recovery to Executive Council.

Authorised for lodgement

Hon Damien O'Connor
Minister for Food Safety
Minister of Agriculture
/ /2019