

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry for Primary Industries (MPI). It provides an analysis of options to recover the costs incurred in providing veterinary inspections required to clear the import of cats and dogs imported from Australia. The analysis addresses a potential shortfall for MPI of \$730,000 per annum under the status quo. This shortfall is based on estimates derived from the number of pets imported in recent years and the estimated average time to inspect each pet. These estimates are considered to be a good basis for analysis.

Multi-criteria analysis is used to assess the options.

The preferred option will result in an estimated additional cost compared to the status quo of \$264 (GST inclusive) for each first pet in a consignment. This assumes one and a half hours of inspection for the first pet. Subsequent pets in the same consignment are estimated to take 45 minutes in inspection time. The additional costs for subsequent pets are estimated at \$103.

There are otherwise no key gaps, dependencies, or significant constraints, caveats or uncertainties concerning the analysis.

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Biosecurity (Costs) Regulations – Regulatory Impact Statement

Status Quo

Import Health Standard for Cats and Dogs

People wishing to import live animals into the country must ensure that the imports comply with the conditions of Import Health Standards set under the Biosecurity Act 1993 to manage the associated biosecurity risks.

The Import Health Standard for Cats and Dogs was recently updated to require that cats and dogs arriving in New Zealand from Australia are subject to a biosecurity inspection carried out by veterinary inspectors. Previously the inspection of these pets was carried out by general biosecurity inspectors.

The change was implemented on 1 December 2014 following a new biosecurity risk analysis, which identified that a robust process was needed to manage the possible introduction of ticks, which are external blood-sucking parasites. Several species of ticks, including the brown dog tick, are widespread in Australia but not present in New Zealand.

Cost recovery

The Biosecurity Act 1993, section 135 requires MPI to recover from industry the costs of providing services that are not funded by the Crown. Up to 1 December 2014, MPI charged a fixed fee of \$40.88¹ per animal for a general biosecurity officer to inspect cats and dogs from Australia.

The new inspection process costs more, because it is more detailed, it takes longer, and it must be done by a qualified veterinary practitioner. The charge was, therefore, changed from a flat fee to the hourly veterinary services rate. It was expected that most inspections would take one and a half hours of the inspector's time.

A review of cost recovery rates under the Biosecurity Act was conducted by MPI in 2015. The review identified that the current rate for recovering the costs of veterinary services provided in inspecting animals for import or export was significantly under-recovering the actual costs of providing the service. The rate was last reviewed in 2008.

A range of updated fees under the Biosecurity Act, including the veterinary services rate, was publicly consulted on, approved by Cabinet in May 2015 and implemented from 1 July 2015 in the Biosecurity (Costs) Regulations 2010.

¹ All fees cited in this RIS are GST inclusive.

The new hourly rate for vet inspections was set at \$214.25 per hour. This was intended to apply to inspections of pets from countries other than the EU and Switzerland. (In practice this means cats and dogs from Australia).

Problem Definition

Following the implementation of the new cost recovery rates on 1 July 2015, MPI received legal advice that charging the hourly rate for veterinary inspections in the case of pet animals was not clearly provided for in the Biosecurity (Costs) Regulations 2010. The regulations as drafted only allow for a flat fee to be charged in these situations.

As a result, MPI is not currently able to charge the new hourly rate as set in the updated Biosecurity Costs Regulations for inspecting pets being imported into New Zealand from Australia. The only charge that can be made is the (updated as at 1 July 2015) fixed fee per animal of \$57.05.

This fee does not cover the increased costs of inspection. There are approximately 4000 pets imported from Australia each year. The inspections cost about \$0.93 million annually, accounting for approximately 5000 hours based on one and a half hours per inspection. At the current rate of cost recovery, approximately \$0.20 million is recoverable, leaving a shortfall of about \$0.73 million per year.

People charged the hourly rate for veterinary inspections from 1 December 2014 until 30 June 2015, when the advice was received, have been overcharged. MPI is taking steps to reimburse the people affected.

Objectives

To determine the objectives for this work we have looked to the cost recovery principles of the Biosecurity Act 1993. We have taken account of the guidance on cost recovery provided by the Treasury and the Office of the Auditor-General.² We have also referred back to the objectives and criteria used for the March 2015 cost recovery RIS which analysed the options for changes to the range of charges under the Biosecurity Act 1993, titled; *RIS: Cost recovery for biosecurity and food safety*.³

² *Guidelines for Setting Charges in the Public Sector*, The Treasury, December 2002.

<http://www.treasury.govt.nz/publications/guidance/finmgmt-reporting/charges>

Charging Fees for Public Sector Goods and Services. Good Practice Guide. Office of the Auditor-General, June 2008. <http://www.oag.govt.nz/2008/charging-fees/>

³ <http://www.mpi.govt.nz/law-and-policy/legal-overviews/regulatory-impact-statements/> ISBN No.: 978-0-908334-26-1 (o)

As noted above, the Biosecurity Act 1993, section 135 requires MPI to recover from industry the costs of providing services that are not funded by the Crown. Section 135 requires that cost recovery is considered according to principles of equity and efficiency. We have derived the principles of justifiability and transparency from the guidance of Treasury and the Office of the Auditor-General.

The objectives of this current work are to implement a cost recovery charge for inspections of cats and dogs from Australia that recovers the true cost of providing veterinary inspection services in ways that are equitable, efficient, justifiable and transparent.

On the basis of these objectives, we have developed the following decision criteria to analyse the options; each has equal weight:

Equity – funding should generally be sourced from the user beneficiaries of a function, power or service at a level that reflects their use or benefit;

Efficiency – costs should generally be allocated and recovered in a manner that ensures maximum benefits are delivered at minimum cost;

Justifiability – costs (including indirect costs) should be collected only to meet the reasonable costs for providing a function, power or service; and

Transparency – the cost of providing a function, power or service should be identified and allocated as closely as possible to the period when the service is provided.

Options and Impact Analysis

There are two options for the cost recovery charge for inspections of cats and dogs from Australia:

- **A charge based on a flat fee per animal.** This is the status quo and is the only option provided for in the current regulations. It was the method used before veterinary inspections were introduced under the new Import Health Standard (IHS). In the 2015 update to cost recovery charges the rate was set at \$57.05.
- **A charge based on the hourly rate for veterinary services** (preferred option). This was the intended method when the new IHS was introduced. Each inspection is expected to take one and a half hours. In the 2015 update to cost recovery charges the rate was set at \$214.25 per hour. This rate would appropriately cover the costs of providing this service. It compares favourably to professional rates charged for clearing animals by other New Zealand agencies such as the Civil Aviation Authority for similar inspections (up to \$241), and agricultural verification rates in Australia (between \$132 and \$306 AUD).

Non-regulatory options, ie voluntary cost recovery, are not feasible. This would be at odds with the Biosecurity Act and longstanding government policy. It would

not meet the criteria of equity, efficiency, justifiability nor transparency, as the system would rely on good will and encourage free-riders.

Consideration of options against criteria:

option	equitable	efficient	justifiable	transparent
Option 1: Status quo A charge based on a flat fee per animal	No- Level of cost recovery does not reflect the level of use (and therefore benefit) to fee payers. Taxpayers fund the shortfall.	Partially - A standard invoice can be issued which minimises compliance costs. But arrangements would be needed to secure Crown funding to meet the shortfall, or MPI would breach sec 135 of the Biosecurity Act. Multiple funding mechanisms are less efficient than the preferred option.	No – The flat fee does not reflect the higher costs of the veterinary inspection required by the Import Health Standard.	No – The charge is not closely identified with the cost of providing the service.

option	equitable	efficient	justifiable	transparent
Option 2: A charge based on the hourly rate for veterinary services (preferred option).	Yes – Those benefitting from the service would pay according to the benefit received.	Partially - Individualised invoices would need to be issued each time according to the time taken. This may be slightly more expensive than the fixed fee option but this difference is not expected to be material.	Yes – The hourly rate reflects the actual time taken and an up-to-date assessment of the costs to MPI of providing the service, as set in the recently amended Biosecurity (Costs) Regulations 2010.	Yes – The charge is closely identified with the actual cost of providing the service.

The analysis shows that the status quo of the flat fee per pet only partially meets one criterion, that of efficiency.

Option 2: A charge based on the hourly rate for veterinary services meets all of the criteria, apart from efficiency. It is therefore recommended.

Consultation

It was always intended that the increased costs of vet inspections would be recovered by increased cost recovery charges. The proposal to charge an hourly rate instead of a flat fee was consulted on in 2013 as part of the implementing the new Import Health Standard for Cats and Dogs. No specific concerns were raised about the import of pet animals from Australia.

The increased hourly rate was then consulted on among the range of cost recovery increases in 2015. Most importers of goods subject to biosecurity clearances were not opposed to fee increases for services, provided there was demonstrable value for money. No specific concerns were raised about the impact of charging the proposed hourly rate for veterinary inspection of pet animals.

Having carefully considered stakeholder submissions and the impacts of different options, MPI recommended that the proposals should be implemented as presented in the public consultation document.

Conclusion and Recommendations

MPI has assessed the options for recovering the true cost of providing veterinary inspection services for clearing the import of cats and dogs into the country, considering the status quo position of a flat fee against the proposal to base the charge on the hourly veterinary service rate. These options have been assessed against the criteria of equity, efficiency, justifiability and transparency.

Having considered the analysis of the two options and stakeholder submissions on the earlier consultation on the HIS change and the charging rates, MPI recommends that the proposal to change the veterinary service rate for inspections of cats and dogs from Australia be implemented.

Implementation

The Biosecurity (Costs) Regulations 2010 need to be amended to make clear that the hourly rate can be applied to veterinary inspection services for clearing the import of pet animals into the country.

This amendment has been drafted by Parliamentary Counsel Office as the Biosecurity (Costs) Amendment Regulations (No 2) 2015.

MPI will lead stakeholder communications to ensure that all applicants are aware of the requirements and cost structure for importing cats and dogs into New Zealand from Australia. This will involve updating the information provided on

MPI's website, and contacting import agents who deal with the import of live animals from Australia.

This is line with the expectations given MPI's charging practice since 1 December 2014, and prior communications around updates to fees and charges.

MPI is in the process of refunding all the people who we know have been incorrectly charged, and for whom we have contact details.

Monitoring, evaluation and review

Monitoring of the charges relative to costs will be undertaken through financial analysis of the memorandum accounts and checking the activity against assessed levels, and comparing this to the Ministry's costs.

All charges under the Biosecurity Act are subject to as periodic reviews of the fees and the policy settings that support them.

In addition, MPI is to undertake a 'first principles' review of its cost recovery provisions.