

13 January 2010

## **CONSULTATION ON CHANGES TO THE HORTICULTURE LEVY REGIME**

### **Background**

The Agriculture and Horticulture Development Board (AHDB) became operational on 1 April 2008 to undertake the work previously conducted by five agricultural levy boards; British Potato Council, Home Grown Cereals Authority, Horticulture Development Council, Meat and Livestock Commission and Milk Development Council.

The duties and powers of AHDB are enshrined in the AHDB Order 2008 and this legislation authorises the new board to raise levies in the five inherited sectors to fund its activities.

AHDB is advised on matters related to the Horticulture levy regime by its Sector Board; HDC (referenced throughout this consultation as AHDB-HDC).

Most of the levy schemes operated by the predecessor levy boards were transferred across to AHDB unaltered but in the case of the Apple and Pear levy this was changed to integrate it better into the wider Horticulture levy system. It was therefore converted from an area-based levy into a turnover-based calculation, consistent with other horticulture sectors. The current horticulture levy regime charges all relevant growers with turnover above £60,000 after permissible deductions at 0.5% of turnover.

Following the first season of operation some apple and pear growers felt dissatisfied with their levy charges and thought the increases were caused by the application of the revised levy system. Apple and Pear levy payers had expressed concern from the outset about the changes, particularly that related to the threshold. AHDB-HDC agreed to conduct an independent review to consider the impact of the changes and whether these were fair. AHDB-HDC commissioned an economic evaluation by Sean Rickard an agricultural economist from Cranfield University.

## Results of the Economic Evaluation

The terms of reference for the study were:

- To analyse the effect of the change to the levy collection method for apples and pears on the total levy income for the tree fruit sector.
- To analyse the effect of the change to the levy collection method for apples and pears on tree fruit growers.
- To clarify whether the change from an area based method of levy collection to a turnover based system for apple and pear growers is equitable for the horticulture industry as a whole.

The key findings from the evaluation were:

- Equity demands a much lower threshold and a reduction in the levy threshold to £20,000 [from the existing £60,000 referenced in the legislation] is proposed. This is broadly in line with the previous area based levy threshold of two hectares and the levy raised would exceed the costs of collection. In the absence of any other changes the effect of this would be to require practically all commercial apple and pear growers to pay a levy and the additional revenue raised would be significantly in excess of £30,000, an increase of at least 10%.
- The present system of permissible deductions, while logical, is also a source of inequality. Deductions cannot be made more equitable without greatly increasing the costs and complexity of the system – for both growers and administrators – and therefore the alternative of bringing the system of permissible deductions to an end is proposed. From the perspective of growers this would reduce the time and effort that they have to devote to calculating their levies, it would remove much of the scope that exists for ‘game-playing’ and the system would become more transparent and equitable. From the perspective of the authorities it would reduce the costs and greatly simplify the administration
- In return for removing all deductions the levy rate could and should be lowered. Removing all deductions has the attraction of simplification but it would not be acceptable to take such action and maintain the levy rate at 0.5 per cent, nor would it be necessary. On average the permissible deductions amount to 20 per cent of gross turnover so the effect of removing them would be to significantly increase the revenue raised by the levy. If the aim is to generate a similar total levy income to that raised in 2008 then in compensation for removing the system of permissible deductions the levy rate could be reduced to 0.35 per cent.

The full report can be found on the industry consultation area of the AHDB website

<http://www.ahdb.org.uk/publications/consultation.aspx> .

## Consultation

The horticulture levy regime is a single integrated system and were the findings of the review of the apple and pear levy to be implemented they would also have to be implemented across all sectors of horticulture to ensure equality of treatment for all.

Therefore AHDB-HDC is now seeking the views of stakeholders across GB horticulture sectors on whether the findings and recommendations should be implemented across the entire horticulture regime.

### ***Question 1 – Do you agree or disagree that the threshold above which levy is chargeable should be reduced to £20,000?***

The current threshold is set at £60,000 and is designed to capture the majority of production within an efficient collection system. Reducing the threshold in all sectors will increase the amount of levy collected but also increase the number of small levy payers and consequently the cost of collection.

### ***Question 2 – Do you agree or disagree that the current system of permissible deductions should be brought to an end?***

This proposal will reduce the burden of administration for the levy payer and AHDB. The current system of deductions is designed to adjust levy charges to a more equitable basis across all sectors; this facility will be lost if permissible deductions are brought to an end.

### ***Question 3 – Do you agree or disagree that the levy rate should be reduced from 0.5% to 0.35% of turnover?***

This proposal is designed to adjust the levy collected back to that which would have been collected had the above proposals not been made. The need to reduce the levy rate would not be necessary if the threshold and deductions were left unchanged.

## Next Steps

Following this consultation the AHDB-HDC sector board will consider the responses and make recommendations to the AHDB Board on potential changes to the horticulture levy regime. If changes are recommended and agreed, the next step will be to make a case to Ministers to modify the AHDB Order accordingly. This process may take up to 18 months.

**This consultation closes at 17.00 hours on Monday 22 February 2010. Could you please ensure that your responses are emailed to [levy.consultation@ahdb.org.uk](mailto:levy.consultation@ahdb.org.uk) or posted for the attention of Guy Attenborough at the address on this letterhead.**