

Executive Summary

Background to the Review

1. On 15 March 2005 I was asked by UK and Devolved Administration Ministers to undertake an independent Review of the five GB and UK statutory agriculture and horticulture levy bodies: the British Potato Council (BPC); the Horticultural Development Council (HDC); the Home Grown Cereals Authority (HGCA); the Meat and Livestock Commission (MLC); and the Milk Development Council (MDC). I was asked to make recommendations to Ministers and to include, where changes to present arrangements were advocated, proposals on how such changes could be carried forward. I was asked to submit my findings and recommendations to Ministers by the end of October 2005. This Report meets this requirement.
2. In discharging my remit I have taken as a primary focus the need to understand the present and future requirements of the industries concerned, and in doing this to engage with all the stakeholders: the levy payers themselves; their representative organisations; and all the other stakeholders who have a direct or indirect interest in the issues. I have accordingly conducted a substantial exercise to obtain their views, and am most grateful to the very many individuals and organisations who have helped me in this way.

An introduction to the levy bodies

3. I have undertaken a comparative analysis of the five levy bodies and have drawn the following conclusions:
 - Whilst there may be some broad similarities between the five bodies, there are also very considerable differences. Their broad statutory remits are similar – they all focus on the need to promote efficiency and productivity in the industries concerned – but the detailed remits vary. In terms of their governance arrangements, all five are NDPBs (Non Departmental Public Bodies) but there are variations with regard to board size and composition and to remuneration arrangements. Whilst the bodies undertake a similar range of activities the extent and degree of focus on particular activities varies considerably. Arrangements with regard to the levy are not uniform. And the size and scale of the bodies' operations varies greatly.
 - Until recently, little was done to coordinate the work of the five bodies and to identify areas where making common cause would bring benefits. It is encouraging that steps have recently been taken to improve the degree of coordination between the efforts of the five bodies but these initiatives are still in their infancy.
 - Consideration of the work of other bodies indicates, first, that in some industries arrangements can be made that do not require the backing of a statutory levy;

however, it may be argued that the circumstances in some of these industries are different in a number of material respects from those faced by the five bodies. Nonetheless, there are several other organisations quite properly operating independently but who might also be able to benefit from some degree of cooperation with one another in order to save costs.

The needs of the industries

4. I have examined the needs of the industry sectors the levy bodies were set up to serve. My principal conclusions are as follows:
- At first sight the economic significance of the agricultural sector to the UK economy is modest: it accounts for only 0.8% of gross value added in the UK economy as a whole and has been declining in relative importance for many years. But its output is a key input to the agri-food sector. The food processing sector is now the largest manufacturing sector in the UK. A further relevant issue relates to self-sufficiency: whilst the degree of self-sufficiency is no longer a specific objective of UK government policy it is relevant to an assessment of risk in the event of an interruption of trade. Self-sufficiency as a proportion of all foods is around two thirds and as a proportion of 'indigenous type foods' is nearly three quarters. The economic health of the primary production sector is thus indirectly of much greater economic significance than its direct size would suggest, a significance that is enhanced when the role of the sectors in the wider sustainability agenda is also recognised.
 - The size and structure of the industry sectors has been changing significantly. In primary production there are still very many small producers, although fewer than there were. Further up the supply chain it is evident that, in keeping with all other sectors, the degree of concentration in the processing of agricultural products, in food manufacture and in retailing is increasing.
 - The industries operate in a highly complex policy environment. Policy, and changes to policy, impact at the global level, where liberalisation of global markets is of great significance; at the EU level, where key considerations are the CAP and the reforms to it that have recently taken place, the State Aids regime and the framework of regulations; and at the UK level, where key issues include the sustainability agenda, animal health and welfare, health and nutrition, the need for efficiency in public services, the need to reduce regulatory burdens, and the implications of the devolution of agricultural policy to Scotland, Wales and Northern Ireland.
 - In addition, these industry sectors, in common with many other businesses, face a very substantial array of other change drivers. All this amounts to a degree of challenge and need for change which is by any standards huge. And many of the businesses concerned are small, often micro, businesses. Primary producers, and some of the smaller processors, may have to be their own production director, marketing director, and finance director all in one.
 - The industries have a number of key needs that must be met if they are to rise to the challenges of change. These needs may be summarised as the 'business performance' need; the 'business development' need; the 'producer market information' need; the 'consumer market information' need; the 'product promotion' need; and the 'crisis management' need arising from major issues such as climatic variation and animal and plant diseases.
 - The range of organisations, including the levy bodies, providing services that may be relevant to these needs is large and complex. Much good work is going on, but the framework is not in all respects as effective as it might be. There are four issues that go beyond the scope of this Review but where comment is due. There are very many

organisations involved: there would appear to be considerable scope in principle for reducing the degree of complexity here through mergers and amalgamations. There is a highly complex framework of regulation to contend with: help with understanding the framework and implementing new approaches is essential. On the subject of scientific R&D, which is essential to underpin improved business performance in these industries, it would appear that the whole R&D ‘supply chain’ is not as robust as it should be. And the wide range of different quality assurance schemes is opaque to consumers. A clearer strategy in this area would be helpful.

- There are also four issues of particular significance to current levy body activity where improved focus is indicated: training and skills enhancement; export promotion; support for innovation; and the crucial requirement to ensure the whole supply chain is engaged in supporting the process of change in these industry sectors.
- In the wider context of the total framework of assistance, the levy bodies are quite small. Between them, their total budgets amount to only a little over £60 million. It follows that their contribution will be most effective when carefully focused on activities where they have a comparative advantage, and/or where they work in partnership with others. The levy bodies, with their role as independent, non-commercial, but ‘industry-focused’ bodies, have shown that they can be particularly good at partnership working and facilitating new approaches.

The role and performance of the levy bodies

5. I have examined the role and performance of the levy bodies, taking particularly into account the comments made in consultation by levy payers and other stakeholders. My principal conclusions are as follows:
 - With regard to **governance and accountability**, I conclude that, although there do not seem to be major weaknesses in the bodies’ compliance with the requirements imposed on them as NDPBs, the governance and accountability arrangements in relation to levy payers could do with improvement.
 - With regard to **activities**, I conclude that much hard work is being done by the various bodies but that there are significant differences in priorities that would not appear to be fully explained by differences in the needs of the industries, and variations in the nature and degree of focus that may not be consistent with the best return for levy payers from the use of their funds.
 - On **arrangements with regard to the levy**, I conclude that there are significant variations that do not appear to have a clear objective basis. Costs of collection vary substantially. Equity and efficiency considerations suggest that these arrangements would benefit from adjustment.
 - On **operational issues**, I conclude that there is some scope for effecting savings in ‘back-office’ costs and reducing the cost and/or improving the quality of some of the services delivered by the levy bodies.

Options for the future

6. I have considered options in relation to the **statutory levy**, and to future **structural options**.
7. On the matter of the **statutory levy**, I conclude that there continues to be a case in principle, based on the application of the ‘fragmentation test’ and the ‘scale of change test’ of market failure, for a statutory levy in each of the product areas to which it

currently applies. But the case is stronger in some product areas than in others and is likely to continue to weaken over the next few years in some of the areas. There is a need to continue to keep these issues under review and to be prepared to wind up arrangements that may, at some future date, outlive their usefulness. Moreover, while the case in principle for continuing with a levy is well made, it is necessary to ensure that, in practice, the levies deliver what the industries need in the most effective way. This, in my view, requires some important changes.

I therefore recommend that the statutory levy be maintained in each of the product areas to which it currently applies, but that changes should be made in respect of governance and accountability; activities; arrangements with regard to the levy; and efficient and effective service delivery.

- **Governance and accountability.** Given the nature of statutory levies, I consider that the arrangements for raising and spending levy money need to be, and to be seen to be, more clearly in the ‘ownership’ of the industries concerned than is the case at present. The levy bodies are not part of Defra’s ‘delivery landscape’; rather, they are there to spend levy payers’ monies on meeting levy payers’ needs. And there needs to be greater transparency and more consistent and effective reporting to levy payers on what is being done with their money (‘accountability out’) whilst at the same time continuing to ensure proper accountability for ‘public’ money (‘accountability up’).
- **Activities.** The work of the bodies in establishing priorities and planning activities would be assisted, and their ability to assess their own effectiveness and report thereon enhanced, if there were to be a more coherent common framework of activities linked clearly into the needs of the industries and the levy bodies’ role, within the overall framework of assistance, in meeting these needs. Linked to this, there need to be arrangements actively to promote common working. Common approaches can reduce duplication and thus costs and can also lead to better quality fact-finding. And as and when these changes are implemented, there should be a ‘Fresh Start’ initiative entailing a ‘bottom up’ strategy and planning exercise to identify needs; consider how these can best be met; determine a set of value-for-money activities; and revisit rates of levy in the light of this analysis.
- **Arrangements with regard to the levy.** The two questions which I have considered are whether a levy should be raised only on primary production or also on processing; and whether the current bases for the levy and the collection arrangements are appropriate.
 - On the first question, the arguments for and against producer-only levies are finely balanced, with persuasive points on both sides. I have concluded, however that, for now, the arrangements should stay as they are, but should be kept under review and revisited in, say, two years’ time when new arrangements have been implemented and the strength of the opposing arguments tested in practice. This issue may, however, be one on which Ministers will wish to consult before arriving at a final conclusion.
 - On the second question, I have considered a fair basis for the levy and concluded that it would be desirable to move to value-based arrangements for all products. I have considered the ‘small producer/processor’ exemption and concluded that, if exemptions are to be operated, they should be applied consistently across the product areas where possible. I have considered the matter of geographical coverage and concluded there is no need in general to move away from the current arrangements but that there is a particular issue to resolve in relation to meat that needs to be further investigated. On yield, I conclude that the current variations by sector in levy collected as a percentage of the value of output need to be looked at again as part of ‘Fresh Start’. On scope, I am not aware of any major examples of

other products where a case for a statutory levy is well-made now, but circumstances can change and it would be desirable to keep this under review. On the mechanics of collection, I conclude that the aim should be to apply pragmatism so as to combine, as far as possible, equity with efficiency. Arrangements whereby levy is collected at first point of sale are relatively cheap; if the changes described above are implemented, arrangements of this kind would be appropriate in most product areas. Finally, there are in the meat sector two levies: a general levy and a species promotion levy. This latter is paid only by producers. I have concluded that the two levies should be combined into a single levy.

- **Efficient and effective service delivery.** Changes are required relating to the provision of back-office services and the provision of information services on a shared service basis.

8. With regard to future **structural options**, I conclude that these need to be appraised against a set of five criteria that reflect the relevant key business drivers.
9. Using these criteria, I have looked at a full range of options, including options involving mergers between existing bodies. Such options do not meet the appraisal criteria well. I conclude that, to meet all of the criteria I have identified, a new set of arrangements is needed.

I therefore recommend a move to a New Model that would recognise the importance of each of the five key business drivers I have identified.

10. The New Model has three components within a single structure, each component making its contribution to the overall requirements. The three components are:
 - SectorCos, which are the basic ‘building blocks’ of the model, and would be responsible for the delivery of services close to the beneficiaries;
 - NewCo, which would be in the role of a ‘holding company’, acting as guardian of the common framework and a common planning and performance monitoring system; and
 - ServiceCo, which would be the vehicle for enhanced efficiency and reduced costs.
11. Together, the components of the model provide a framework for meeting all the criteria. The respective roles and responsibilities of each component are described in detail in Section V of the Report and in Diagram V.1.
12. I have examined the costs and benefits of change, looking at the one-off costs of transition to the new arrangements and at the on-going costs and benefits in comparison with the current situation. On the basis of the figures presented, which are based on relatively prudent assumptions, the project has a very short payback period; it breaks even during year two and delivers net savings in excess of £900,000 per annum thereafter:

Implementation of change

13. I have identified the key steps that would need to be taken to implement my proposals for change. I have identified four sets of issues that are crucial:
 - **Legislative and other public administration arrangements** will need to be made, including the need for certain ‘enabling’ primary legislation and Statutory Instruments that will give effect to much of the important detail; there will also be a range of tasks related to the creation of NewCo and the abolition of the levy bodies

and it will be necessary to obtain State Aids clearance from the European Commission for the new arrangements.

- **Project management arrangements** will be essential to successful implementation.
- **'Early Action' items** consist of communications, with all stakeholders but especially with levy body management and staff; the need for early management of important issues such as tax and pensions; and early recruitment to fill key positions in the New Model.
- **The timetable** assumes implementation from the start of the 2007/08 financial year. This is a challenging timetable but achievable. And in view of the net benefits of change to levy payers there is considerable advantage in implementing change as rapidly as possible.