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|---|---|--|--|------------------------------------|
| Title: Wash Fishery Order (1992) Licence fees IA No: EIFCA005 RPC Reference No: Lead department or agency: Eastern Inshore Fisheries and Conservation Authority Other departments or agencies: | Impact Assessment (IA) | | | |
| | Date: 11/08/2017 | | | |
| | Stage: Development/Options | | | |
| | Source of intervention: Domestic | | | |
| | Type of measure: Other | | | |
| Contact for enquiries: Julian Gregory - CEO Eastern IFCA (01553 775321) | | | | |
| Summary: Intervention and Options | | | | RPC Opinion: Not Applicable |

| Cost of Preferred (or more likely) Option | | | | |
|---|----------------------------|---|-------------------|-------------------------------|
| Total Net Present Value | Business Net Present Value | Net cost to business per year (EANDCB in 2014 prices) | One-In, Three-Out | Business Impact Target Status |
| £-437,845 | £-437,845 | £-48,410 | Not applicable | To be determined |

What is the problem under consideration? Why is government intervention necessary?
 Eastern IFCA manages certain shellfish fisheries within The Wash through the Wash Fishery Order (1992) which also enables EIFCA to charge fees in relation issuing licences. The current fees associated with the hand-work cockle and mussel fisheries do not reflect a proportionate contribution of the cost to the Authority (or public purse) which is estimated as circa £170,500 per annum.

What are the policy objectives and the intended effects?
 The current licence fee mechanism is administered through the provisions of the Wash Fishery Order (1992). Voluntary measures are not appropriate for increasing licence fees.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
 Option 0. Do nothing.
 Option 1. Licence fees increase over 3 years to reflect 50% cost recovery
 Option 2. Variable licence fees
 Option 3. 100% cost recovery
 The preferred option is option 1 – The proposed licence fees increase over 3 years will mitigate impacts to businesses by allowing time for business models to adjust to fee increases. A review will be undertaken after 3 years to determine if the fee increases are appropriate.

| | | | | |
|--|--|--|----------------------|---------------------|
| Will the policy be reviewed? It will be reviewed. If applicable, set review date: 04/2021 | | | | |
| Does implementation go beyond minimum EU requirements? | | | N/A | |
| Are any of these organisations in scope? | | | Micro Yes | Small Yes |
| | | | Medium Yes | Large Yes |
| What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent) | | | Traded: | |
| | | | Non-traded: | |

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Chief Executive: _____ Date: _____

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

| Price Base Year | PV Base Year | Time Period Years | Net Benefit (Present Value (PV)) (£m) | | |
|-----------------|--------------|-------------------|---------------------------------------|-----------|--------------------|
| | | | Low: 0.0 | High: 0.0 | Best Estimate: 0.0 |

| COSTS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Cost (Present Value) |
|---------------|---|--|----------------------------|
| Low | 0.0 | 0.0 | 0.4 |
| High | 0.0 | 0.1 | 0.5 |
| Best Estimate | 0.0 | 0.1 | 0.4 |

Description and scale of key monetised costs by 'main affected groups'

Monitised impacts relate to businesses operating in the WFO cockle and mussel hand-work fishery. Licence fee increases represent between 4 and 5.5% of annual first sale value of vessels operating in cockle fishery (the primary fishery over last 5 years). Total cost to businesses in relation to WFO Licence fees are between estimated to be between 5.2 and 7.2% of annual first sale value per vessel. This represents an over-estimate in years where a mussel fishery is open.

Other key non-monetised costs by 'main affected groups'

None identified.

| BENEFITS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Benefit (Present Value) |
|---------------|---|--|-------------------------------|
| Low | Optional | Optional | Optional |
| High | Optional | Optional | Optional |
| Best Estimate | n/a | n/a | n/a |

Description and scale of key monetised benefits by 'main affected groups'

None identified

Other key non-monetised benefits by 'main affected groups'

None identified

Key assumptions/sensitivities/risks

Discount rate

3.5%

Costs as a proportion of first sale value of catch is dependant on the productivity of the fishery - estimates are based on averages of first sale values from Marine Management Organisation data and Eastern IFCA data. Costs are considered over 10 years however a review of the fee increases will be undertaken after 3 years. Costs of the licence may impact on earnings of crews of vessels differently depending on financial arrangements.

BUSINESS ASSESSMENT (Option 1)

| | | | |
|---|---------------|----------|---|
| Direct impact on business (Equivalent Annual) £m: | | | Score for Business Impact Target (qualifying provisions only) £m: |
| Costs: 0.0 | Benefits: 0.0 | Net: 0.0 | |

Evidence Base

Problem under consideration

Eastern IFCA undertakes annual surveys of the cockle and mussel fisheries with The Wash to inform fisheries management. In addition, high levels of resource are expended on the enforcement of the fishery each year given i) the compliance risk associated with the fishery and ii) the risk of damage to designated features which form parts of the various Marine Protected Area designations (including Special Area of Conservation, Special Protected Area). Surveys and enforcement both represent significant cost to the Authority, estimated to be circa £170,500 per annum.

Prior to the introduction of Marine and Coastal Access Act 2009 tolls could only be applied for the 'improvement and cultivation' of a regulated fishery under the Sea Fisheries (Shellfish) Act 1967. This was amended by MaCAA 09, which provided that tolls could be applied '...for purposes relating to the regulation of...' the fishery. The amendment also enabled costs associated with making the 1992 Order to be passed on to fishers.

Detailed costings indicate that vessel based shellfish surveying in support of the Wash fisheries costs c£3,000 per day. The estimated total cost of facilitating and managing an annual cockle and mussel fishery will likely exceed £170,000 (Appendix 1). It should be noted that in 2012 it was estimated to be £222,000.

The current level of charges and mechanism for annual increases for permits for cockle fishing in the regulated fishery under the Wash Fishery Order 1992 were established and approved by the Secretary of State in 2012 for the 5-year period to 2017. The permit cost has two elements, one being the administration fee payable to the General Fund and the other a propagation fee which is held as a reserve to maintain and improve the fishery. The charges to apply for 2016/17 (unchanged from 2015/16) are as follows:

| | Administration | Propagation | Total |
|-------------|----------------|-------------|--------|
| Hand worked | 180.00 | 150.00 | 330.00 |

During the 2016-17 season 58 licences were issued with a resultant income to the Authority of £10,440 for administration and £8,700 went to the propagation fund. The average price of cockles per tonne during this fishery was in the region of £500-600 and the TAC was circa 8,500 tonnes, giving the fishery a value in the region of £4.25 million. This meant that income to the Authority for managing the fishery was less than 0.25% of the catch value for 2016. The total amount generated by the licence fee was £19,140, which equates to less than 0.5% of the catch value for the year.

Noting that 2016 was an exceptional year for the TAC the figures for a more conventional TAC of 3,000 tonnes at the same cockle price would give a value of £1.5 million. Income to the Authority for managing the fishery would be circa 0.7% of the catch value for the year. The total amount generated by the licence fee would be £19,140, which equates to circa 1.3% of the catch value for the year.

It is clear from analysis of the activities required to facilitate and manage the fishery that Authority expenditure does not correlate to the value of the fishery and that the current level of cost recovery represents less than 7% of actual costs incurred.

Examination of the Propagation Fund indicates that it is under-utilised, which raises questions about its utility and therefore its continuance. Analysis of the fund from 2009/10 shows:

| | £ |
|----------------------|----------|
| 2010 opening balance | 88,450 |
| Up to 2016 income | 52,755 |
| Up to 2016 spend | (22,630) |
| 2016 closing balance | 118,575 |

Majority of the spend was for the rejuvenation project, buying and laying cockle shells on selected areas.

Rationale for intervention

The Authority, in common with many other organisations funded from the public purse, is under pressure to continually deliver more for less and to find ways of generating more income. As such identifying opportunities for income generation and ensuring judicious expenditure of public money is a key consideration for the Authority.

Policy objective

The policy objectives are as follows:

1. 50% cost recovery in relation to the management of the Regulated mussel and cockle fisheries administered through the Wash Fishery Order (1992);
2. To mitigate the impact to businesses by phasing in fee increases, allowing time for business models to adjust as required to account for the extra cost;
3. To ensure judicious expenditure of public money.

Description of options considered (including status-quo);

Option 0 (do nothing) – Status Quo

This option would be to maintain the status quo and to make no change to the licence fee structure, save to plan for annual increments in line with inflation.

This option would have no impact upon the viability of industry as costs would remain the same for fishers. It would not improve the financial position for the Authority as income would remain at a very low level and the fishery would, in effect, continue to be subsidised by the public purse with just over 6% of actual costs incurred being recovered.

Option 1 (preferred option) – Licence Fee increases over 3 years to reflect 50% cost recovery

The Licence fee would increase to £1,375 over 3 years (noting that the current cost is £330) in increments (£348 in years 1 and 2 and £349 in year 3). To achieve 50% cost recovery, all 62 available licences would have to be purchased in each year which is unlikely.

The phased increase would allow for business models to adjust to the increased fee.

Option 2 – Variable licence fees

This option would see a licence fee comprising a fixed element and a variable element that would be linked to the quantity of cockles landed by each vessel.

This option would see costs to fishers being aligned to income, which may help some business models and would involve a shared approach to the prosperity, or otherwise, of the fishery. It would inevitably introduce some administrative challenges and the potential for some to seek to minimise their recorded landings to reduce the variable element of the licence fee. Full cost recovery would be more difficult for the Authority and the level of income could not be guaranteed.

Option 3 – full cost recovery

Full cost recovery represents an increase of an order of magnitude compared to current fees and is more likely to impact on the viability of the industry, particularly given the differing business models within The Wash.

Partial cost recovery (Option 1) will be reviewed after 3 years to determine the appropriateness of full cost recovery.

Monetised and non-monetised costs and benefits

Monetised costs have only been considered for Option 1.

Option 1 would see licence fees increase from £330 per year to £1,375 per year over 3 years. Where all 62 available licences are active during a year, this would represent 50% cost recovery of costs incurred by the Authority's management the fishery.

During the period 2014 to 2017, the number of active licences has ranged from 51 to 59. This reflects that licences only need to be 'renewed' once in every 2 years to retain an 'entitlement' to another licence. Although, the low figure is likely an under-estimate as this is based on fishers prosecuting the

fishery rather than purchasing a licence – some fishers purchase a licence every 2 years solely for the purpose of retaining the ‘entitlement’.

The high cost to businesses is estimated as £493,571 over ten years. This is based on all 62 available licences being taken out each year at a cost increasing as per table 1 (below). The low cost to business is £406,002 over ten years and is based on only 51 licences being taken out in each year. It is conceivable that only 31 licences are taken out on average (given that they must be renewed at least once in two years) although this is very unlikely and not considered to be a true reflection of the low cost. It is worth noting that the cost to each business will stay the same regardless of the number of licences taken out given that the licence fee will be fixed.

The best estimate is based on 55 licences being taken out each year and is estimated as £437,845 over 10 years. This is based on the average number of active licences during 2014 to 2017 (inclusive).

Costs are considered over 10 years but a review is planned for April 2021 to consider the long-term viability of the industry considering the licence fee increases. In addition, the number of licences is likely to vary over this time (potentially decreasing or increasing) which would change to total cost to the industry.

| Date | Increase | WFO Licence fee |
|-------------|-----------------|------------------------|
| April 2018 | £348 | £678 |
| April 2019 | £348 | £1026 |
| April 2020 | £349 | £1375 |

Costs are also considered as a proportion of annual first sale values of cockle catch per vessel. Cockle catch is used only because only cockle catch data is available for the past 5 years. The licence (and associated fee) relates to both cockle and mussel hand-work fisheries however, there have been limited mussel fisheries over the past 5 years due to poor productivity and low stocks. Table 2 (below) sets out the potential scale of impact on average across the industry considering the value of the cockle fishery.

Low estimates of first sale value are based on Marine Management Organisation (MMO) landings data. An average first sale value was estimated across all vessels for which there was a record of landing cockles during the period 2010 to 2015. However, there are significant deficiencies in the MMO dataset and as such, data for the years 2010 and 2014 was not used. In addition, datasets for years which were used are missing landings data for vessels known to have landed significant amounts of cockles. This was adjusted for in the analysis of the data by excluding data which appeared to be anomalous.

High estimates of first sale value are based on the average price per tonne of cockles, the Total Allowable Catch (TAC) set by Eastern IFCA and the average number of vessels which partake in the fishery annually (being 52.5 for the period 2014 to 2017 inclusive). This is regarded as a high value given that the entire TAC is not necessarily taken in all years.

Annual profit takes into account other costs to the fishers (i.e. fuel costs, vessel maintenance, insurance and the current Licence fee). These have been estimated as £12,501 per year and this is based on informal dialogue with several members of the industry.

Both the high and low estimates are likely to be lower than would be the case if considering the mussel fishery for which the licence fee also applies. The cost of the licence fee as a proportion of first sale value of catch would be considerably lower if the mussel fishery was taken into account.

Table 2. Impact of licence fee increase as a proportion of average cockle catch per vessel.

| | Annual profit (£) per vessel | Annual profit (£) per vessel | | | Total cockle fee |
|---------|------------------------------|------------------------------|--------|--------|------------------|
| | | Year 1 | Year 2 | Year 3 | |
| Low | £18,967 | 1.83% | 3.67% | 5.51% | 7.25% |
| High | £26,407 | 1.32% | 2.64% | 3.96% | 5.21% |
| Average | £22,687 | 1.53% | 3.07% | 4.61% | 6.06% |

There is significant inter-annual variability within the cockle fishery. Variations of the price of cockle, the TAC and fuel costs will have an effect on cockle fishers profit. For example, the TAC has ranged from 957 tonnes (2011) to 8,609 tonnes (2016). As such, licence fee as a proportion of profit is likely to vary a great deal from year to year.

There are also significantly different business models within the fishery. The larger business models (i.e. vessels owned by processor companies) are likely to have capital enough to provide for the licence fee without significant impacts to the business model. In addition, these business models are more likely to be able to absorb the cost of the licence even in years where the fishery is less productive or of less economic value. In contrast, smaller business models are at more of a risk of not making the fishery profitable if productivity is low however, have lesser overheads and are more likely to make a profit during periods of poor productivity as a result. An increased licence fee increases the risk associated with purchasing a licence and must be taken into consideration within each business model.

Table 2 (above) only considers the cost of the licence as a proportion of the cockle fishery. Generally, fishers will prosecute several different fisheries during a year however, during the period 2010 to 2015 (inclusive) the cockle fishery accounts for 69% of annual incomes of the vessels involved. Cockles as a proportion of total annual value of catch ranges from just over 0% to 100%. Generally, smaller vessels rely on the cockle fishery to a greater extent than the larger vessels which have different business models and so also target shrimp and whelks.

Rationale and evidence that justify the level of analysis used in the IA (proportionality approach)

Licence fee increases are not considered of a magnitude which is likely to put any business model at significant risk although impacts on profit are likely to occur. The analysis provided above is considered appropriate for the scale of impact anticipated.

Risks and assumptions

The key risk in relation to the increase in WFO Licence fees is the potential for licence fees to compromise the viability of the fishery which is most likely to happen when fisheries productivity is poor. The proposed increase in licence fees represents an increase in overheads of just over 10% (on average) which is a significant increase. However, this also only represents a circa 4 to 5.5% reduction in profits.

The proposed increases are unlikely to provide 50% cost recovery to the Authority given that this would require all 62 vessels to purchase a licence each year which is not the case.

Summary and preferred option with description of implementation plan

The Wash Fishery Order (1992) cockle and mussel fisheries are administered by Eastern IFCA which includes annual stock assessments, production of reports to inform decision making and enforcement at a cost of circa £170,500 per year. Recent amendments to Sea Fisheries (Shellfish) Act 1967 enable Eastern IFCA to recover the cost of management of the fishery which is considered appropriate given the current climate of austerity in relation to public money.

The preferred option is to achieve 50% cost recovery through licence fee increases phased in over 3 years. A further review will be conducted after this is achieved. This is the preferred option because the phased approach minimises 'shock' to business models which have to account for increased overheads.