

Maritime and Coastguard Agency: Merchant Shipping Fees

Public Consultation

2016

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**Introduction**

The Maritime and Coastguard Agency (MCA) is required to comply with the guidance set out in HM Treasury’s publication *Managing Public Money* when recovering the full cost of the fee-funded services it provides in its role as a regulator which covers direct and indirect costs associated with delivering services to the public. The full cost recovery norm to fees ensures Government neither profits at the expense of consumers nor makes a loss for taxpayers to subsidise.

Since September 2006, the MCA has not changed its fee level and has consequently absorbed increases in **ship registrations**, **ship surveys** and **merchant navy training** costs. As a result, the industry has paid below-cost fees so the services which the industry has received have been publicly subsidised. There has been a shortfall between income and costs for the services provided in each year since 2010-11 (and likely since 2006). The shortfall for 2010-11 (the base year) is estimated at £3.7m (in 2010 prices). MCA efficiency improvements have helped maintain standards while keeping costs down.

The recently published Maritime Growth Study identified full cost recovery as critical to improving the service provided by the MCA. Lord Mountevans recommended that government take:

“timely action to fully recover the cost of the services being provided and facilitate continuous improvement in service delivery, while remaining competitive with other international shipping registries.”

Achieving full cost recovery will allow the MCA to establish a strong foundation for future service improvements and enable the transformational change to services which will improve productivity and responsiveness.

Public sector organisations normally pass on the full cost of providing a service to each user of the service. The law allows the MCA to set fees to cover the full cost which we incur in the course of statutory service provision provided except in the case of Inspections where the power under the Merchant Shipping Act 1995 is excluded and no mandatory fee is raised.

The MCA recently performed a time and cost study to apportion costs against each fee generating activity for the Agency to get an up-to-date picture of the processes involved, as the fees were last updated in 2006. This exercise has improved the direct cost and overhead allocation mechanism which ensures that the user pays principle is applied.

It should be noted that the Premium service fee is unchanged and remains payable in addition to the revised fee for certain services if a customer wishes for their request to be prioritised above the standard delivery timeframe.

The Agency intends to review fees on a more frequent basis in future to minimise the impact of fee changes on its industry stakeholders. The Agency also intends to update its modelling capability to ensure future costs for statutory work are fully recovered, and to enable it to respond more quickly to changes to the cost base as services to customers improve.

**The Consultation**

We would now like to hear from individuals or groups affected by the proposed changes outlined in this document. The consultation period will be shorter than usual and will run for six weeks from 14 September 2016 to 26 October 2016. Any responses received after this date will only be considered in exceptional circumstances.

This consultation document has been issued to government departments and agencies, trade bodies and other relevant industry associations. Please contact us if you can suggest other groups that may wish to be involved.

The changes proposed in this consultation will apply across the United Kingdom.

**Description of options considered in this consultation**

Description Do Nothing:

**A “do nothing” option** would leave the fees as they are currently (i.e. at 2006 levels). Remaining at these fee levels will mean that the MCA cannot implement government policy of moving towards full cost recovery for the provision of services with services continuing to be subsidised by taxpayers.

The recommended policy option considered below is compared to the do nothing option.

Option 1 (the preferred option):

An increase in fees covering marine surveys; registration, transfer and mortgage of fishing vessels (RSS); and seaman, training and certification (STC) examinations in line with the full costs of delivering these services.

Under this option, each fee within scope of this consultation would be increased in line with the MCA’s best estimate of the full cost of service provision in FY 2015-16. (See the separate Annex A document for a full list of current and proposed fees.)

Whilst the MCA’s costs have been increasing and increased in 2015/16, there have been significant efficiency improvements (e.g. staff reductions of 12.3% between 2006/07 and 2012/13). This has helped to deliver services more efficiently and bear down on costs. However, there will be an annual shortfall between income and costs for the services covered which was estimated at £3.7m (in 2010 prices) in 2010-11 due to below cost fees which the MCA is unable to absorb. The total income from the full range of fees covered by this consultation is estimated at approximately £12.7m (in 2010 prices). In order to bridge the gap between costs and income, without reducing service standards, high level estimates and analyses demonstrate that an increase in fees by an average (based on forecast volumes) of 57% for marine services, 17% for RSS and 20% for STC examinations is needed. The plan is to move the MCA to immediate cost recovery for these service areas, in line with full cost recovery and to eliminate any cross-subsidisation across individual fees.

Immediate fee increases in line with full cost recovery

At the current fee levels, the MCA is not covering its costs of providing marine surveys – (MS), registrations (RSS) and training (STC) services. Without an immediate change in fee levels, we would expect this trend to continue and for the UK tax-payer to bear the burden of the annual deficit from UK tax revenues. This is reflected in the financial years 2011-12 and 2012-13, where total under recovery exceeded the £3.7m seen in 2010-11*.* [See below.]

**Table 1**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2010-11** | **2011-12** | **2012-13** | **2013-14** |
| Total MCA Cost  | £141,165,651 | £154,128,966 | £149,465,385 | £158,241,821 |
| Total MCA Income  | -£13,739,506 | -£15,483,095 | -£12,176,819 | -£13,466,667 |
|  |  |  |  |  |
| Marine survey Cost | £8,428,949 | £8,620,569 | £8,337,856 | £7,801,488 |
| Marine survey Income | -£5,384,893 | -£5,000,401 | -£4,940,759 | -£5,092,082 |
| hours worked by MCA Staff on survey work | 46,907 | 43,605 | 42,339 | 42,555 |
| Net position each year | £3,044,056 | £3,620,168 | £3,397,097 | £2,709,406 |
|  |  |  |  |  |
| RSS gross cost  | £1,768,427 | £1,808,404 | £1,749,097 | £1,636,579 |
| RSS income  | -£1,517,061 | -£2,011,185 | -£1,224,536 | -£1,570,617 |
| Net position each year | £251,366 | -£202,781 | £524,561 | £65,962 |
|  |  |  |  |  |
| STC cost | £2,557,030 | £2,614,032 | £2,528,305 | £2,365,661 |
| STC income | -£2,139,192 | -£2,019,762 | -£2,086,878 | -£2,109,318 |
| Net position each year | £417,838 | £594,270 | £441,427 | £256,343 |
|  |  |  |  |  |
| Survey fees % increase for cost recovery | -57% | -72% | -69% | -53% |
|  |  |  |  |  |
| RSS fees % increase for cost recovery | -17% | 10% | -43% | -4% |
|  |  |  |  |  |
| STC fees % increase for cost recovery | -20% | -29% | -21% | -12% |
|  |  |  |  |  |
| Total under recovery | £3,713,261 | £4,011,657 | £4,363,085 | £3,031,711 |

\* All negative (-) values indicate income to the MCA

\*\* Figures are in the price base of their respective years and have not been discounted

Addition figures[[1]](#footnote-1) for the last complete financial year and forecast for the current financial year is shown below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2014-15** | **2015-16** |  |  |
| Total MCA Cost  | £180,235,720 | £301,025,631 |  |  |
| Total MCA Income  | -12,997,248 | -£10,525,631 |  |  |
|  |  |  |  |  |
| Marine survey Cost | £8,434,493 | £8,787,535 |  |  |
| Marine survey Income | -£4,069,426 | -4,155,332 |  |  |
| hours worked by MCA Staff on survey work | 43,292 | 44,206 |  |  |
| Net position each year | £4,365,067 | £4,632,203 |  |  |
|  |  |  |  |  |
| RSS gross cost  | £1,769,370 | £1,843,430 |  |  |
| RSS income  | -£1,246,581 | -£1,076,026 |  |  |
| Net position each year | £522,789 | £767,404 |  |  |
|  |  |  |  |  |
| STC cost | £2,557,608 | £2,664,662 |  |  |
| STC income | -£1,994,019 | -£1,820,982 |  |  |
| Net position each year | £563,590 | £843,680 |  |  |
|  |  |  |  |  |
| Survey fees % increase for cost recovery | -107% | -111% |  |  |
|  |  |  |  |  |
| RSS fees % increase for cost recovery | -42% | -71% |  |  |
|  |  |  |  |  |
| STC fees % increase for cost recovery | -28% | -46% |  |  |
|  |  |  |  |  |
| Total under recovery | £5,451,445 | £6,243,287 |  |  |

\* All negative (-) values indicate income to the MCA

\*\* Figures are in the price base of their respective years and have not been discounted

Small and Micro Business (or Wider Impact) Assessment

Smaller operators are likely to be the most affected by an immediate uplift as they are less able to absorb cost increases. Larger operators may choose to ‘flag out’ of the UK and register under another flag State, although there is evidence that considers these impacts to be minimal for larger operators.

In most cases, the cost of fees paid for the MCA’s ship surveys forms only a small part of the cost of owning or operating vessels. Therefore, the impact of increasing survey fees on a typical cross section of vessel operating costs, between fees paid to the MCA and typical operating costs for businesses of various sizes operating vessels is not considered highly prohibitive to vessel operators. The analysis estimates that the annualised flag State fees for large internationally trading container vessels will increase from 0.2% to 0.3% of total operating costs. Mid‑sized continental cargo ships would see increases from around 0.3% to 0.5%, while domestic passenger vessels and fishing boats would face increases of 0.9% and 0.3%. The data used to estimate these effects are from an internal report commissioned by the MCA.

It has not been considered appropriate to exempt or charge different fees by size of business for small and micro business because this would not achieve the public expenditure rule of full cost recovery for all government fees and charges. The services provided are critical to maintaining safety and preventing environmental incidents and all relevant businesses are mandated to use these services. It would therefore leave an uneven playing field and increased administrative burden with larger operators paying more for services than smaller ones if we introduced different fees based on business size.

In addition, the response from the Regulatory Policy Committee (RPC) to the MCA’s completed Economic Impact Assessment (IA) for these fees can be found below:

“The IA is fit for purpose. The IA has set out in detail the rationale for intervention, and the costs and benefits of the proposal to increase various fees charged by the Maritime and Coastguard Agency (MCA). Even though these increases are out of scope of ‘One-in, Two-out’, the assessment of the impact on business (reflected in an initial estimate equivalent annual net cost to business (EANCB) of £3.08million)) appears to be robust. The small and micro business assessment is sufficient.”

Competition Assessment

The increase in fees is expected to be a relatively small proportion of business costs and therefore is unlikely to have a significant impact on competition. However, for a small number of ships it is possible that the fee increase makes the business not commercially viable and therefore reduces the number of businesses in the market. The independent analysis commissioned by the Agency has not been able to quantify this impact due to the number of possible permutations. Since businesses have in effect been receiving services at below market rates due to under recovery of costs, this impact would simply restore the competitive market position.

**Consultation Questions**

We would like your opinions on the options identified in this consultation. Please answer the following questions:

|  |
| --- |
| 1. **Do you agree that the MCA should charge fees that cover the cost of its services, provided those services are as efficient as possible and of high quality?  If not, please explain your reasoning.**
 |
| 1. **If you do agree that the fees should be increased in line with current costs immediately, please explain why.**
 |
| 1. **If you do not agree that the fees should be increased in line with current costs immediately, please explain why. If not, how should they be increased and how could we ensure full cost recovery?**
 |
| 1. **How do you think the MCA can further improve the efficiency and effectiveness of its service provision in order to minimise any future fee increases and offer better value to customers and still meet the stated objectives of marine safety and environment protection?**
 |
| 1. **You are invited to provide any additional evidence on the potential impact of the fee increases on small and micro businesses.**
 |
| 1. **You are invited to offer any additional evidence on the potential for the fee increases to impact on competition.**
 |

The impact assessment will be updated post-consultation.

**How to respond**

If you are affected by the changes proposed in this consultation, please consider the questions above. Responses should be received by 26 October 2016. When responding, it would be helpful if groups could indicate the people and organisations they represent.

You can respond in the following ways:

* online, using the response form at the following link: [www.gov.uk/government/consultation/mca-fees-consultation](http://www.gov.uk/government/consultation/mca-fees-consultation)
* by post to the MCA, Finance, Directorate of Strategy & Corporate Services, Spring Place, 105 Commercial Rd, Southampton, SO15 1EG.
* by email to: mcafeesconsultation2016@mcga.gov.uk

Please use one of the above contact methods to request a copy of the consultation in an alternative format, or if you have any questions.

**What happens next?**

|  |  |
| --- | --- |
| **MCA reply** | We do not intend to acknowledge receipt of individual responses unless you request that.We may be unable to reply individually to the points you raise as part of your reply.We aim to publish a summary of responses to the consultation within three months of the consultation closing. Those who respond to the consultation will be notified when this happens.  |
| **Confidentiality of responses** | We may publish all or some of the comments we receive in response to this consultation. If we receive a request from any third party for sight of such comments, we may be obliged by law (for example under the Freedom of Information Act 2000) to disclose it.If there are particular reasons why you would not wish your comments to be disclosed or published, please let us know. Although your wishes may not override any statutory obligations to disclose, they will be taken into account as far as possible. If you reply by email, the statements made above override any confidentiality disclaimer generated by your IT system. |
| **Consultation Principles** | This consultation complies with the Consultation Principles published by the Cabinet Office on 17 July 2012, shown below. This replaced the code of practice on consultations.  |

**The Consultation Principles**

The Consultation Principles are published by the Cabinet Office online at

<http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>.

A summary is shown below:

* Engagement should begin early in policy development.
* The evidence base for the proposed policy should be made available at an early stage.
* The timeframe for consultation should be proportionate and realistic to allow stakeholders sufficient time for a considered response.
* The amount of time required will depend on the nature and impact of the proposal and may typically vary between two and 12 weeks.
* Information should be presented in an accessible and useful form to stakeholders with a substantial interest in the subject matter.
* The choice of the form of the consultation will depend on the issues under consideration and the available time and resources.
* Information provided should be easy to comprehend, use plain language and clarify the key issues.
* Consideration should be given to more informal ways of engaging that may be appropriate.
* The objectives of the consultation process should be clear.

If you consider that this consultation does not comply with the consultation principles or you have comments about the consultation process, please contact:

Fees Consultation Coordinator

MCA HQ

Spring Place

105 Commercial Rd

Southampton

SO15 1EG

1. This additional information will be included in the post consultation impact assessment [↑](#footnote-ref-1)