

A modern levy system

Horticulture

7 December 2020

Foreword

The way the AHDB horticulture levy is raised, set and spent is a long-standing bone of contention in the industry. In a competitive and highly consolidated sector, a rate of 0.45% of turnover represents a big bill to some growers and a significant proportion of business profit.

In response to growers' feedback, AHDB is transforming how the horticulture levy is calculated and how budgets are set. Our aim is to ensure the levy rate is fair, proportionate and is also flexible enough to reflect the varying needs of crop sectors.

Seeing more detail on where the money goes, particularly AHDB's costs, is also something growers consistently raise. Growers can expect to see costs come down, and greater transparency and clarity on where the levy is being spent.

Three key changes are set out in this paper, which we hope growers will welcome as a positive step change.

First, in future, AHDB will only raise the funds necessary to deliver the work a sector needs, and this most likely will vary from crop to crop. We will move away from a 'one-size-fits-all approach' and work with the growing community to ensure we only make investments in activities which deliver value for money.

Second, we are changing the way we collect the levy. Over the last 12 years, the industry has consolidated, and AHDB should not collect a levy on parts of the supply chain where we offer no service. In future, we will not collect a levy on added-value operations in a business.

Third, we are open to alternative ways of collecting the levy and are exploring the potential for an area-based levy for a range of crops, as well as different formulas.

It's important to get this right. We are in the process of testing new formulas and methodologies to achieve these changes, with a view to proposing amendments to the AHDB Statutory Instrument in 2021, which are planned to take effect in 2022.

We would ask growers to consider the levy changes we are making and invite you to share your views. We hope it will give you sufficient confidence that AHDB has taken on board your long-standing criticisms in this area and is embarking on a process of fundamental change.

Hayley Campbell-Gibbons
AHDB Horticulture Sector Chair

Nicholas Saphir
AHDB Chair

A modern levy system

At the heart of AHDB's Change Programme is the need to deliver programmes and projects which are wanted by levy payers, which deliver value for money and are funded by a levy which is transparent, fair and proportionate.

This paper focuses on two important areas:

- How AHDB agrees and sets the levy rate in horticulture
- The mechanism AHDB uses to collect the levy for horticulture

AHDB welcomes your views on the proposals set out below. Following your feedback, AHDB will work with Defra, devolved governments and Parliament to implement necessary legislative changes. Where AHDB has the power to make change itself, it will do so.

AHDB Horticulture levy setting

The horticulture industry is incredibly diverse, with around 300 crops covered by the levy and a myriad of business sizes and structures. Although there are clear commonalities on the nature of the challenges faced, the actual needs of each crop can vary significantly.

One levy rate is therefore too simplistic. AHDB plans to change this.

AHDB levy rates are currently agreed by Ministers on an annual basis. Since AHDB was formed in 2008, there has been little change in levy rates for the horticulture sector.

Over the next 18 months, AHDB will focus closely on working with all levy payers and grower groups to identify the key challenges and opportunities to address. This will be used to plan the work and budget required to deliver the necessary research, products, tools and services to address the industry's needs.

Based on work programmes agreed with levy payers, different levies will be set for different sectors to cover the work required – a so-called 'zero-based budget' approach.

This is a significant change from the current practice, whereby a set levy is raised across the whole horticulture sector and then decisions are made about how to invest it. It will ensure work will only be done if it delivers clear benefits and value for money to levy payers and the industry, and only costs associated to that specific work programme will be charged.

The new principles for levy setting are:

1. Each crop sector¹ will propose and agree to fund work programmes which deliver clear benefits and value for money to levy payers, much like the current panel model that exists now
2. Levy rates will likely vary across sectors and crops to reflect the work required in, and agreed with, the sector
3. AHDB will undertake work where there is value in the industry resourcing it collectively
4. All work will be fully costed, including staff time and support costs, to ensure levies raised reflect agreed work streams, rather than the current system of hypothecating a set level of expenditure to a sector based on its levy income
5. All work programmes will be reported and evaluated transparently to reflect the cost and benefit to levy payers
6. Any levy underspends, current or future, will remain in the relevant crop sector reserves and will be used to offset the cost of future levies

As is the practice now, Ministers will continue to agree levy rates, based on AHDB recommendations

1 Field Vegetables, Tree Fruit, Soft Fruit, Protected Edibles (inc. mushrooms), Protected Ornamentals, Bulbs and Outdoor Flowers, Hardy Nursery Stock.

AHDB Horticulture levy collection mechanism

Levy collection mechanism is the means by which AHDB raises a levy in a sector, once a levy rate has been agreed.

Currently this is a one-size-fits-all formula approach of 0.45% of business turnover. The current formula (set out in Annexe 1) is complex and it can be unclear which deductions can and cannot be made.

Some levy payers also consider paying the levy based on the previous year's turnover unfair if, for example, their current year's turnover is worse.

AHDB is reviewing collection mechanisms with levy payers to get the right balance between fairness, simplicity and practicality, and will agree a new approach best suited to the needs of crop groups in early 2021.

The key principles being applied here are:

1. Horticulture grower levies will be set on the basis of when products leave the farmgate
2. Where appropriate for a crop/sector, the levy will be collected on an area basis

AHDB levy collection principles

AHDB will also apply the following principles to levy collection across all sectors of agriculture and horticulture in future:

- AHDB will not charge levy on crops which have not been sold – occasionally this currently happens, e.g. if a potato field is flooded and the crop is lost
- AHDB will not charge a higher rate for levy payments that are paid late but will recover any legal costs from those who are late-paying, including that AHDB may charge interest on overdue levy payments. This change helps ensure those who pay on time are not subsidising late payers
- AHDB has never undertaken a criminal prosecution. Defra, devolved governments and Parliament will be asked to remove this power in regard to levy record-keeping or payments. AHDB will still reserve the right to take action through the civil courts to recover unpaid levy debt and may charge appropriate interest for late payment

Timescale for implementation

AHDB understands levy payers are keen to see rapid change implemented. Where AHDB has the authority to make agreed changes, it will do so immediately.

Changes to legislation require approval from Defra, devolved governments and Parliament. AHDB will work closely with government to implement changes as soon as feasible and allowed.

In the meantime, AHDB will continue focusing on changes that it can make, for example, increasing levy-payer engagement and, through a cost-reduction exercise, increasing the proportion of levy that can be spent on R&D project costs in horticulture for 2021/22.

We want your views

Feedback on this proposal can be submitted through [AHDB's feedback form](#), or by emailing strategy2021@ahdb.org.uk by the closing date of 5pm on 31 January 2021.

- Do you support the concept of setting the levy at the level of crop groups?
- If so, are the proposed groupings correct? If not, what groups would you suggest?
- Would you be willing to get involved with helping to evaluate the best mechanisms?

Annexe 1

Horticulture levy collection formula (other than mushrooms)

Maximum levy for horticultural products

18.—(1) In the case of horticultural products the levy is based on the sales made during the accounting year of the grower that ended in the year ending 31st March, and the maximum levy is 0.6% of the adjusted sales figure.

(2) The adjusted sales figure is—

$$£AS = W + \frac{R}{2} - (P + T + B + Pr)$$

where—

£AS =
the adjusted sales figure

W =
wholesale sales

R =
retail sales

P =
the cost of packing materials

T =
the cost incurred by the grower in transporting the materials or derivatives from his premises to his customer

B =
the purchase cost of products that are bought in to be grown on and re-sold

Pr =
the cost of the following processing procedures: canning, freezing, drying, juicing, or extracting or any similar process that substantially alters the raw product.

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