

Committee(s)	Dated:
Port Health & Environmental Health Services – For decision	15 January 2019
Subject: Animal Reception Centre – Heathrow Airport: Annual Review of Charges	Public
Report of: Interim Director of Consumer Protection & Market Operations	For Decision
Report author: Rob Quest, Assistant Director (Animal Health & Welfare)	

Summary

The purpose of this report is to seek approval of the increase to be applied to the Schedule of Charges in respect of services provided at the Heathrow Animal Reception Centre (HARC), for the forthcoming financial year 2019/20.

I propose a general inflationary increase to the fees of 2.5%. I also propose a split fee for dogs, cats and ferrets travelling under the Pet Travel Scheme, with a standard charge if the consignment undergoes a pre-check of its paperwork, and a surcharge of £58 for not having a pre-check done.

A new charge of £15 is also proposed to cover the cost of introducing and administering a new mandatory Customs approved electronic inventory system for the declaration of goods.

It is anticipated that the service will operate at a surplus in 2019/20 due to the continued level of throughput, the modest overall increase in general fees for 2019/20, the surcharge for failing to have Pet Travel Scheme documentation pre-checked and the new administration fee to cover our costs of being an ITSF.

Recommendations

Members are asked to:

- Approve the charges included in the Appendix to this report with effect from 1 April 2019, or as soon as practicable thereafter.
- Approve the proposed Byelaws contained in the Appendix to this report and recommend to the Court of Common Council that the Byelaws be made, and that the Comptroller and City Solicitor be instructed to seal the Byelaws accordingly.

Main Report

Background

1. The charges for holding animals and provision of other services at the Heathrow Animal Reception Centre (HARC) are due to be reviewed towards the end of the financial year to enable an appropriate variation to be applied with effect from the following April. This advance consideration is necessary because the major proportion of the charges is in respect of quarantine animals and allied services and has to be introduced as an “additional byelaw” to the principal byelaws for the Centre. This takes somewhat longer than a more simplistic, discretionary fee increase. The second, smaller element of the charges is not byelaw controlled and relates to non-quarantine (export and boarding) charges but for practical and operational reasons the two are dealt with together.
2. The funding review in 2011 agreed that the facility should aim to achieve full cost recovery within five years, and this was achieved in 2011/12 (with the exception of one-off capital charges incurred in that year), with continuing surpluses until 2016/17. The budgeted outturn for 2018/19 is a deficit of £49,000, but the latest forecast is for a surplus of circa £40,000.
3. The main source of income at HARC, the Pet Travel Scheme, is a non-statutory function and is thus open to competition from commercial enterprises (see paragraph 14 below). Following a period of substantial fee increases to ensure a move towards full cost recovery, annual increases from 2013 - 2015 were in line with inflation, but in 2015/16 the overall increase was 1% above inflation, returning to an inflationary increase for 2017 - 2019.
4. From 1 January 2012 the UK harmonised its rules with the rest of the European Union for the importation of dogs, cats and ferrets, as the previous derogation to the rules expired on 31 December 2011. The new arrangements make it extremely easy for people to bring their animals in from ‘listed countries’ (these are the countries that were in the Pet Travel Scheme prior to 1 January 2012 and are those deemed rabies free, or with good rabies controls in place) and allows the importation of animals from ‘un-listed countries’, (i.e. the rest of the world) without having to undergo six months quarantine on arrival. The process for the rest of the world is similar to the process for ‘listed’ countries’ prior to 1 January 2012.
5. Thus, there is now a dual set of requirements. For ‘listed countries’, all that is required is a microchip, vaccination against rabies, a wait of 21 days, and then the animal can travel. For un-listed countries, there is a requirement for a microchip, vaccination, a blood test 30 days after vaccination and then a three month wait before travel. This is similar to the former scheme, except that the wait has come down from six months to three months. This consolidates the old legislation and makes very few changes to the current regime. The changes made since the introduction of the Pet Travel Scheme in 2003 have now been consolidated into new EU regulations which have been enacted by an amendment to the UK legislation, which came into force on December 2014.

Current Position

6. The income for Animal Health during 2018/19 was originally projected as £3.340M with the revised estimate being £3.397M and a deficit of £49K. Expenditure at the HARC has risen over the past two years to cover the increased throughput, which has necessitated greater use of consumables (food, bedding etc.) and recruitment of additional staff.
7. Current budgeted income for Animal Health in 2019/20, taking into account the proposed increases in charges in this report, is £3.612M, and the overall projected net outturn for 2019/20 is a surplus of £468K. This will contribute to funding any expenditure on buildings, equipment etc. as part of set-up costs for new services.
8. EU Exit should not have an impact on throughput at HARC in 2019/2020. Government has been quite clear that the 'rules' will remain the same for import consignments for the foreseeable future. It is likely however, that there will be a dip in April 2020 whilst people wait to see what happens on 29 March. There is a longer-term risk that some of the expats who travel to work in the UK may be diverted to other European cities, depending on the outcome of any deal with the EU.
9. The City of Corporation has had discussions with Heathrow Airport Limited regarding a change of location for HARC. However, if a move does go ahead, the timing of it will not impact on HARC during this financial period.

Proposals

10. Having regard to the continuing need to balance and maximise the HARC income against the danger of reducing the customer base at the Centre, I propose that the HARC Schedule of Charges is amended as shown in Appendix 1 and that this is introduced from 1 April 2019, or as soon as practicable thereafter.
11. Generally, I propose that fees are increased by 2.5%, but to promote more efficient use of resources I do not propose to increase the minimum charge for each Pet Travel Scheme consignment. However, I do intend to add a surcharge of £58 to each Pet Travel Scheme consignment that has not been 'pre-checked', based on the overall cost of non-compliant consignments when they arrive at HARC.
12. Pre-checking paperwork has a three-fold benefit: firstly it allows the required paperwork checks to be carried out during quieter periods; secondly it will decrease the levels of non-compliance with the Regulations which are an administrative burden and finally, it decreases the time the pets are with HARC, therefore freeing up kennels for other pets and improving customer service.
13. HARC has been advised by Her Majesty's Revenue & Customs (HMRC) that it has to become an Internal Temporary Storage Facility (ITSF) in its own right, which requires it to have a Customs approved electronic inventory system for the declaration of goods. Historically, HARC has always been an extension to

every other Storage Facility on the airport and has thus benefitted from not being required to have electronic systems in place for the declaration of goods. However, this will come to an end on 31 March 2019 and so HARC is required to have a Customs approved electronic inventory systems for the declaration of goods from 1 April 2019.

14. There is a cost attached to operating the electronic inventory system of £8,000 for its rental and the administration of data entry into the system. I therefore propose a new charge of £15 per consignment for all shipments that terminate at Heathrow. This is competitive when compared to other airport facilities, but will ensure full cost recovery.
15. The Comptroller and City Solicitor will prepare the necessary revised Byelaws that reflect the proposed charges as contained in Appendix 1 for approval by the Court of Common Council and sealed subsequently.

Implications

16. The Comptroller and City Solicitor and the Chamberlain have been consulted and have agreed with the proposal to implement the surcharge on those Pet Travel Scheme consignments that do not send through their documentation to be pre-checked. The Comptroller and City Solicitor also comments:

“The statutory provision under which these charges are now made is Section 30 of the City of London (Various Powers) Act 1987 (which was an enactment removing the need for Ministerial approval of the HARC Byelaws), which provides ... “the charges imposed by such Byelaws shall be such as to secure so far as is possible, that taking one year with another, the aggregate amount raised by such charges is equivalent to the reasonable costs incurred by the Corporation in operating the Animal Reception Centre”. The need for increases to be reasonable is especially important here, since, unusually, the Byelaws machinery which implements the new charges is not subject to any public notification procedure or to confirmation by the appropriate Minister”.

17. There is the potential for competition at Heathrow for the Pet Travel Scheme (PETS) as this part of our business is not a statutory function. At Heathrow Airport, the City Corporation has negotiated Service Level Agreements with all the airlines that are currently in PETS, but this does not mean that a private organisation could not enter this ‘market’ by undercutting HARC fees. There is, therefore, a need to keep charges competitive.

Conclusion

18. Changes to fees in previous years have resulted in the Animal Health Service increasing its income, and the fees that are proposed for 2019/20 should offset recent and future increases in costs, and maintain the service at an operating surplus.

Appendices: Appendix 1, Additional Byelaws relating to Heathrow Animal Reception Centre, to incorporate revised charges for 2019/20.

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