

The Government Diamond Office

Consultation on Kimberley Process Certificate Fees

Introduction

1. The Government Diamond Office (GDO) is carrying out a review of its charging structure. In light of the UK's largest diamond company, De Beers, moving its operations to Botswana in October 2013, and the reduced number of certificates that will be issued as a result, the Government Diamond Office (GDO) will be unable to recover the full cost of issuing certificates under its current fee structure. We need to address this shortfall, in order to continue to maintain an effective service for the rest of the UK rough diamond industry and to manage public money in line with Government's best practice on fee charging. The GDO currently charges exporters a fee for issuing Kimberley certificate by shipment value, within one of three ranges.

Consultation period

2. This consultation will run from Thursday 13th March to Thursday 27st March. The Government believes that this review is necessary in order to continue to maintain an effective service for the rest of the UK rough diamond industry and to manage public money in line with the Government's good practice on charging for services. For this reason, we believe that the length of the consultation period is reasonable and provides sufficient time for respondents to provide a meaningful response. We will use the findings in our analysis of the charging structure. Once we have decided upon a charging structure we will seek agreement from the Privy Council.
3. We anticipate that any revisions to the charging structure will come into effect from June 2014. A public announcement will be made on the FCO website at the time.

Background

4. The UK is one of six EU Member States responsible for the implementation of the Kimberley Process Certification Scheme (KPCS) in the EU. The GDO, which is based in the Foreign and Commonwealth Office (FCO), must ensure that imports and exports of rough diamonds shipments entering and exiting the UK comply with KP requirements. The GDO is responsible for issuing Kimberley certificates for all rough diamonds being exported from the UK, and for other EU Member States which decide to route their exports through the UK. The GDO also deals with problematic shipments, carries out inspections to ensure compliance with the KP, and provides advice to potential importers and exporters on KP requirements.
5. European Council Regulation 2368/2002, implementing the KPCS, allows EU Member States to charge a fee for the production, issue and/validation of a certificate and for a physical inspection. In 2012, the income which the GDO received for processing Kimberley certificates for De Beers accounted for the majority of its income. In October 2013, De Beers transferred its operations to Botswana, which led to a significant reduction in UK exports of rough diamonds and an associated fall in the number of certificates issued. As a result the GDO is unable to recoup the costs of issuing certificates, maintain its current level of service and meet its legal requirements.

6. Government best practice, as set out in “Managing Public Money” is normally to set charges to recover full costs.

What policy options have been considered?

7. **Option 1:** Replace the current charging structure with one flat fee per certificate.

This option will allow the GDO to revise the cost of issuing Kimberley certificates to reflect the full cost of the service of processing each application for a certificate, and will bring the GDO’s charging structure in line with the UK Government’s best practice on charging for services. The GDO’s best estimate of the full cost of the service for the period in question is £37 per certificate.

8. **Option 2:** Maintain the current fee structure.

The fees would not reflect the actual costs incurred by the GDO in issuing certificates and would not be in keeping with the UK Government’s best practice on charging for services. Further public funds will be required to support this option.

9. **Option 3:** Withdraw the GDO’s service altogether.

Closing the GDO would mean that the UK rough diamond industry would have to request Kimberley certificates from one of the other five Competent Authorities within the EU. These are the governments of Belgium, Bulgaria, The Czech Republic, Germany and Romania.

10. Our preferred option is **Option 1**.

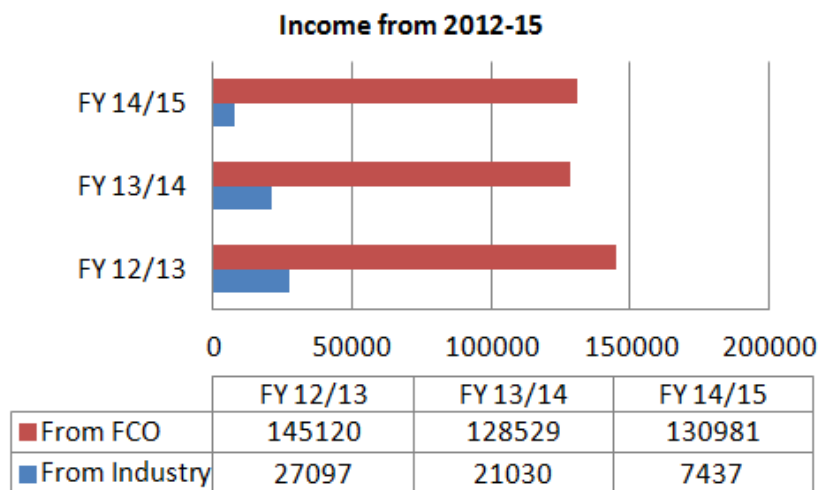
What is Full Cost Recovery?

11. HM Treasury guidance on “Managing Public Money” states that charges for services provided by the public sector normally pass on the full cost of providing them. The standard approach is to set charges to recover full costs, which should include overheads. This is to ensure that the Government neither makes a profit or a loss in providing a service. A full breakdown of what is included in the full cost of providing a service is set out below:

Accommodation, including capital charges for freehold properties
Fixtures and fittings
Maintenance, including cleaning
Utilities
Office equipment, including IT systems
Postage, printing, telecommunications
Total employment costs of those providing the service, including training
Overheads, e.g. (shares of) payroll, audit, top management costs, legal services, etc
Raw materials and stocks
Research and development
Depreciation of start up and one-off capital items
Taxes: VAT, council tax, stamp duty, etc
Capital charges
Notional or actual insurance premiums

Fees to sub-contractors
Distribution costs, including transport
Advertising
Bad debts
Compliance and monitoring
Provisions

12. The GDO last increased its fees in 2004. At the time, a commitment was made to move the GDO towards full cost recovery of issuing certificates. The GDO is currently operating at less than full cost recovery. In order to maintain an effective level of service to the rough diamond industry, it is critical that the GDO increases fees to recoup the full cost of providing the service of issuing certificates. The GDO has already taken steps to reduce its costs, but these will be insufficient to maintain the service without changing the fee structure.
13. From June 2014, the FCO will no longer fund the salaries and overhead costs attributed to issuing certificates. These costs will be recovered through the fee for each certificate. The FCO will fund the overheads for GDO work for which we do not charge: inspections, UK representation within the KPCS and related policy work. The Government believes that this policy offers a fair deal to the industry and the taxpayer.
14. The graph below shows the FCO's contribution (overheads) and Industry's contribution (fees) to the KPCS in the UK over the last three financial years, together with our projection for 2013-2014 and 2014-2015. This assumes our income stays at its current level with no increase in charges.



Current Fee Structure

Certificate Fee	Shipment Value	Cost Breakdown	Cost
£10	Value of Shipment between \$0-\$10k	300 certificates @ £2.86	£858.00
		3 inspections @ £237	£711.00
		300 Salary charges/cert prep @ £10.625	£3,187.50
		3 salary charges/	£262.50

		inspections @ £87.50	
			£5,019.00

£5,019/300 certificates = £16.73
Rounded fee charge = £10

Certificate Fee	Shipment Value	Cost Breakdown	Cost
£15	Value of Shipment between \$10k-£100K	100 certificates @ £2.86	£286.00
		2 inspections @ £237	£474.00
		100 Salary charges/cert prep @ £10.625	£1,062.50
		2 salary charges/ inspections @ £87.50	£175.00
			£1,997.50

£1,997.50 /100 certificates = £19.98
Rounded fee charge = £15

Certificate Fee	Shipment Value	Cost Breakdown	Cost
£25	Value of Shipment 100K plus	1200 certificates @ £2.86	£3,432.00
		35 inspections @ £237	£8,295.00
		1200 Salary charges/cert prep @ £10.625	£12,750.00
		35 salary charges/ inspections @ £87.50	£3,026.50
			£27,539.50

£27,539.50 /1200 certificates = £22.95
Rounded fee charge = £25

Proposed New Fee (Option One)

Cost Breakdown	Volume of Activity	Cost
Certificates production @ £2.00	500	£1,000.00
Full cost recovery for GDO issuing 1 certificate @ £34.80	Estimated 500 certificates	£17,400.00
		£18,400.00

£18,400/500 certificates = £36.80
Rounded fee charge = £37

Methodology used for calculating the fee

15. As set out in option one, the proposed new certificate fee has been calculated on a full cost recovery basis in line with *Managing Public Money*. This includes all staff costs and overheads (listed in paragraph 11) for the service of providing the certificate. This service includes:

- Assessment and follow up work of certificate request
- Preparation of the certificate
- Preparation of a certified copy of the certificate
- Invoicing of the certificate

Monitoring and Review

16. The GDO's charging structure will be reviewed annually.