

## DfT Regulatory Triage Assessment

<b>Title of regulatory proposal</b>	Increasing the rate of Payments in Lieu of Training (PILOT) under the tonnage tax in line with inflation
<b>DfT RTA number</b>	DfTRTA00134
<b>Lead DfT directorate/Agency</b>	Maritime Directorate
<b>Expected date of implementation</b>	01/10/2017
<b>Origin</b>	Domestic
<b>Date</b>	12/05/2017
<b>Lead Policy</b>	Andrew Phillips, 020 7944 5121
<b>Lead Economist</b>	Shafiq Pandor, 07881 011781
<b>Departmental Triage Assessment</b>	Low-cost regulation (fast track)

### Rationale for intervention and intended effects

The minimum training obligation (MTO) in the UK tonnage tax scheme was designed to correct the declining numbers of UK-based seafarers. It requires firms to train officer cadets or, where this is not possible for a shipping company and subject to DfT agreement, to pay PILOT which should be at least equivalent to actual training costs.

The intended effects of increasing the rate of PILOT are to reduce the risk of (i) those tonnage tax companies which are meeting their training obligation through actual training facing higher costs than those paying PILOT and (ii) creating a perverse incentive for firms to pay PILOT rather than recruit and train officer cadets.

### Viable policy options (including alternatives to regulation)

The policy option is to introduce Regulations to uprate PILOT in line with the general level of inflation. This would reduce the risk that those companies who are fulfilling their MTO through training would face higher costs than those companies who pay PILOT in the training commitment year 2017/18, and the risk that companies would seek to pay PILOT rather than train.

### Initial assessment of business impact

#### Costs

The 'Do Nothing' scenario represents what would happen if no action were taken.

Compared to the 'Do Nothing' scenario, it is possible that an increase in the level of PILOT could affect the number of trainee months that are met by actual training and the number that are met by PILOT. No evidence is available on this issue. Therefore,

two scenarios are considered to reflect the range of uncertainty.

Under a scenario where the number of trainee months met by PILOT remain constant relative to the 'Do Nothing' scenario (Scenario A), the total annual gross costs to shipping companies are estimated at up to around £0.1 million per year (see supporting evidence).

These additional costs represent the change in the value of PILOT payments that are paid by shipping companies to the Maritime Training Trust (MTT).

Alternatively, as the cost of paying PILOT will be higher than under the 'Do Nothing' scenario, it is possible that the number of trainee months met by actual training could increase relative to the 'Do Nothing' scenario (Scenario B) although this is uncertain.

The costs to shipping companies of meeting any additional trainee months by actual training under Scenario B are uncertain. However, if these costs are in line with the estimated average training costs presented in the supporting evidence section, the additional costs to shipping companies under Scenario B would be less than the additional costs to shipping companies estimated for Scenario A above. This is because the rate of PILOT comprises the estimated average training costs plus an additional element in respect of the MTT's overhead costs.

### **Benefits**

Under Scenario A, the MTT would receive additional funds to use to promote seafarer training. The increase in the value of PILOT payments received by the MTT would be equal to the additional costs to shipping companies.

The benefits would differ under Scenario B.

1.) Although the MTT would have less funds to use, the number of officers being trained by shipping companies would be higher. So, it is likely the number of trained officers available to work in the shipping industry in future years would be higher than under Scenario A.

2.) The MTT has identified several other benefits to companies that train officer cadets rather than pay PILOT. For example, the MTT consider that a company training officer cadets will benefit as officers trained by a company will gain knowledge of the company (such as its operations and policies).

### **Business Impact Target**

This policy is not a Regulatory Provision because it is an amendment to adjust a fee and so is outside the scope of the Business Impact Target. The policy is considered to be an "Operation of periodic adjustments to a pre-existing regulation or regulatory regime that are intended to maintain the current level of regulation in the face of general wage and price inflation – the adjustment must be provided for in existing legislation" (Better Regulation Framework Manual, Paragraph 1.9.8 (viii)). In this regard, paragraph 29 of Schedule 22 to the Finance Act 2000 provides for the Secretary of State to make regulations relating to payments in lieu of training, which are "to be calculated on such basis as may be prescribed". The Regulatory Policy Committee has previously given its view that only uplifts to PILOT above price or wage inflation should be considered in scope of One-in, Three-out (OI3O). As this policy is to increase PILOT in line with general inflation, this policy would also have therefore been considered out of scope of OI3O. However, the new Government has

not yet set a new Business Impact Target nor established the scope of a new Better Regulation Framework, once that has been done the need for any further Better Regulation requirements can be assessed.

### **Rationale for Triage rating**

On the basis that the total annual gross cost to business of this measure is estimated at up to around £0.1 million per year, it is proposed that this measure is a 'low-cost' regulation and therefore qualifies for the fast track.

### **Confirmation that the proposed measure is suitable for Fast Track**

*Please note that sign-off has now **replaced RPC clearance** and must be G6 and above.*

**Policy sign-off:**

Signature **Petra Wilkinson**

Date **29<sup>th</sup> June 2017**

**Economist sign-off:**

Signature **Nishan Shah**

Date **23<sup>rd</sup> June 2017**

**Better Regulation Unit sign-off:**

Signature **Chris Simon**

Date **29<sup>th</sup> June 2017**

## Supporting evidence

### Background

PILOT payments are made to the Maritime Training Trust (“MTT”), a body independent of Government which holds and allocates the monies received by it for the purpose of promoting the training of seafarers. Currently, the PILOT rate is £1,236 per trainee month, made up of a basic rate of £1,151 and a further sum of £85 in respect of the MTT’s overhead costs.

The MTT made representations in April 2017 calling for PILOT payments to be increased in line with the HM Treasury Gross Domestic Product (GDP) Deflator, in order that the PILOT level should continue to reflect the current cost of training. The HM Treasury GDP Deflator can be viewed as a measure of general inflation in the domestic economy<sup>1</sup>. The MTT has advised that this is “felt to be an appropriate increase” as “there are no other reported factors that are impacting in any significant way on the costs of officer cadet training”.

Given that the current PILOT payment level came into force on 1 October 2016 and the new PILOT payment level would come into force on 1 October 2017, HM Treasury’s latest forecast of the GDP Deflator for the 2017/18 financial year (1 April 2017 to 31 March 2018) is considered to be an appropriate measure of the general level of inflation in this period. This forecasts that the GDP Deflator will increase by 1.8% on average between the 2016/17 financial year (1 April 2016 to 31 March 2017) and the 2017/18 financial year (1 April 2017 to 31 March 2018).<sup>2</sup>

The current basic rate of £1,151 which came into force on 1 October 2016 is based on the MTT’s estimate of the average cost of a ‘generic’ training programme provided by a ‘generic’ company from 2016 (£41,442). Applying the above GDP deflator increases the average cost of a ‘generic’ training programme provided by a ‘generic’ company to around £42,188. This equates to around £1,151 per month over the 36 months of the training commitment. In addition, applying the above GDP deflator increases the element of PILOT which is in respect of the MTT’s overhead costs from £85 to £87, rounded to the nearest whole number. The new basic rate of PILOT would therefore be £1,172, and the new PILOT payment level, which also reflects the element in respect of the MTT’s overhead costs, would be £1,259.

### Expected level of business impact

An increase in PILOT could potentially affect all company groups in the tonnage tax regime (71 as at April 2017). The additional obligation being imposed on them is an increase in PILOT of £23 per trainee month (i.e. £1,259 minus £1,236).

The number of PILOT payments between 2000/01 and 2015/16 is presented in Table 1 below.

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<sup>1</sup> <https://www.gov.uk/government/publications/gross-domestic-product-gdp-deflators-user-guide/gdp-deflators-user-guide>

<sup>2</sup> <https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-december-2014-quarterly-national-accounts>

**Table 1 – Number of PILOT Payments (2000/01 to 2015/16)<sup>3</sup>**

	Number of company groups in tonnage tax	Number of Trainee Months <sup>4</sup>	Number of months met by making PILOT Payments	Number of months met by training <sup>5</sup>
2000/01	15	862	186	676
2001/02	42	4,689	1,142	3,547
2002/03	59	9,590	1,657	7,933
2003/04	59	13,043	2,457	10,586
2004/05	71	15,726	3,423	12,720
2005/06	77	16,684	3,229	13,801
2006/07	79	17,659	3,157	15,176
2007/08	86	19,010	2,802	17,191
2008/09	90	20,818	2,402	19,676
2009/10	90	21,960	2,844	20,625
2010/11	90	22,184	3,189	20,873
2011/12	86	21,558	2,334	21,372
2012/13	82	21,243	1,801	21,515
2013/14	74	20,799	1,565	20,880
2014/15	76	19,706	1,202	20,362
2015/16	71	19,019	1,031	19,615

The highest number of PILOT payments made in any given year in this period was 3,423. If this number of PILOT payments was made in a future year, the additional cost to shipping companies in this year are estimated at around £78,729 (i.e. £23 x 3,423). This is considered to be a reasonable estimate of the likely upper bound on the total annual gross cost to business of this measure.

<sup>3</sup> Department for Transport – Annual summary of Training Commitment and PILOT

<sup>4</sup> The number of trainee months is the total number of months in respect of which company groups were required to provide training.

<sup>5</sup> The number of months met by training is the number of trainee months less the number of PILOT payments made. Additional trainee months were achieved by those company groups who had more trainees than were needed to meet their training commitments.