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**RE: SA Rock Lobster Fishery Research & Assessment Service Provision**

Dear Sean

Thank you for meeting with Kyri Toumazos, Trent Gregory and myself on 31 March 2015 regarding the above issue.

As discussed, SARLAC has identified three priority areas as the South Australian Rock Lobster Industry's long-term 'agenda' for cost recovery and associated reductions in commercial licence fees, as follows;

1. Competitive Service Provision (across a range of areas / services e.g. fishery research and assessment and fishery compliance programs).
2. Greater transparency / accountability and reductions in Government overhead costs charged to industry.
3. Reducing costs of fishery compliance activity for Rock Lobster (directly links with point 1 above).

To be clear from the outset, and as per email correspondence sent by me to Professor Mehdi Doroudi on 5 June 2014, the South Australian Southern Rock Lobster Industry is not supportive of any shift from cost recovery to a licence fee model based on percentage of fishery Gross Value of Production (GVP).

Any move towards a GVP-based model would be resisted by our industry; our preference is for a transparent cost recovery system which facilitates the provision of [relevant] services to industry efficiently, cost-effectively and on a competitive basis.

In relation to point 1 above, on 29 April 2014, the issue was raised, specifically in relation to fishery research and assessment services, during a meeting between various Rock Lobster industry representatives, Minister Leon Bignell and the PIRSA Group Executive Director.

Subsequent to that meeting, PIRSA issued a letter dated 21 October 2014 to all sectors of the South Australian commercial fishing industry, stating that;

*"...SARDI is the Government research service provider for statutory stock assessment and monitoring services for all South Australian Fisheries."*

*"Each year statutory scientific stock assessment and monitoring services are conducted, consistent with the legislative obligations outlined in Section 7(1)(a) of the Fisheries Management Act 2007 to effectively manage the State fisheries resources."*

*“...Stock assessments are a fundamental service, similar to compliance and fisheries management, necessary for the effective management and health of our marine ecosystems and sustainable economic exploitation of the State's fisheries resources.”*

*“Research and development activities beyond core stock assessment services are competitively tendered, such as through the FRDC or Seafood Cooperative Research Centre. SARDI will continue to compete for these funds in an open process.”*

In January 2015, SARLAC, at the direction of its members; the South Australian Northern Zone Rock Lobster Fishermen's Association Inc (SANZRLFA) and the South Eastern Professional Fishermen's Association Inc (SEPFA), sought advice regarding any requirement for industry to utilise the services of SARDI for fishery research purposes.

Following receipt of that advice, SARLAC now intends to further investigate whether efficient and cost effective [data collection and analysis / research to inform] fishery management (as required by the Objects of the *Fisheries Management Act 2007* - the Act) is in fact being delivered through the Minister choosing to utilise SARDI.

SARLAC also intends to consider what research services are strictly necessary and related to the Minister performing his obligations under the Act - there may be services not linked to stock assessment or protection against over exploitation that could be ceased (not always the best outcome) or decoupled from SARDI to improve efficiency.

These 'actions' are noted as part of a key recommendation of the 2009 Deloitte Report commissioned by PIRSA (Review of Fisheries Cost Recovery Policy - FINAL REPORT, 11 February 2009), specifically Recommendation 2 from that report.

In order to assist with this investigation, SARLAC has engaged the services of accounting and financial services firm, Edwards Marshall, to undertake an analysis of the type and quantum of costs being recovered by PIRSA for SARDI from the South Australian Rock Lobster Industry and also a benchmarking / 'market-testing' exercise in relation to SARDI's Stock Assessment and Monitoring program, and to report accordingly.

SARLAC has also engaged Dr Ian Knuckey, of Fishwell Consulting, in an advisory capacity to both SARLAC and Edwards Marshall. Dr Knuckey will have no direct contact with any 'alternate research providers' approached as part of Edwards Marshall's activities.

As discussed with you during our meeting, we believe it is critically important that Edwards Marshall be afforded the opportunity to liaise directly with SARDI Aquatic Sciences as part of this process.

SARLAC also believes that any such interaction should occur in an open and transparent manner.

SARLAC and Edwards Marshall believe the most constructive and efficient way for Edwards Marshall to conduct their engagement would be to have an initial meeting with representatives of SARDI in order to outline the desired approach, gain an understanding of SARDI's financial and information systems and discuss available

information required to determine the SARDI personnel best placed to respond to any queries.

It would be ideal if communication could remain open between SARDI and Edwards Marshall throughout the course of their engagement so that any issues arising with respect to interpreting information or the need for further information could be addressed efficiently and effectively.

Edwards Marshall ultimately wish to determine:

- The true nature of costs recovered.
- The quantum of each of those costs (to the extent they are material).
- The means by which they are allocated to the Rock Lobster fisheries.
- The reasonableness of the cost allocations having regard to relevant cost drivers.
- How the costs relate to the various program deliverables.

SARLAC and Edwards Marshall acknowledge that some information has already been provided with regard to the nature of costs; however it is too general for conclusions to be drawn on relevant matters.

While it is difficult at this preliminary stage for Edwards Marshall to determine the precise information that may exist of relevance to their engagement, they have endeavoured to articulate the issues they confront and the information that may be relevant to resolving those issues in a document comprising **Attachment 1** to this correspondence.

**Attachment 1** is designed to provide some context to our engagement of Edwards Marshall but, as indicated above, we consider that a preliminary meeting with SARDI personnel would allow Edwards Marshall to more accurately scope their engagement and identify relevant documents or other information. Please note the request from Edwards Marshall for copies of 2015-16 Cost Recovery Programs for each commercial fishery.

Thank you for your consideration and please call at any time if you would like to discuss further, I would also be happy to meet with you and / or any of the relevant SARDI personnel.

We look forward to hearing back regarding your thoughts on the best way to facilitate the proposed contact between Edwards Marshall and SARDI, and would be happy to assist in any way.

Yours sincerely

Justin Phillips  
**Executive Officer**  
South Australian Rock Lobster Advisory Council Inc.

Cc: Professor Gavin Begg  
Research Chief, Aquatic Sciences  
South Australian Research & Development Institute - SARDI

## **Attachment 1 - Edwards Marshall 'Scope'; Required Information - SARDI**

In order to benchmark the costs recovered by PIRSA, on behalf of SARDI, from the Rock Lobster fisheries to fund the conduct of SARDI's Stock Assessment and Monitoring Program, we consider it necessary to:

- Understand the composition of those costs and the means of allocating indirect costs to the Rock Lobster fisheries.
- Satisfy ourselves that only costs relevant to the services provided are being recovered.
- Compare the relevant costs of services provided by SARDI against costs that would be incurred by alternative service providers in providing similar services.

### **Understanding of costs currently recovered and the method of recovery.**

We consider it necessary to be fully apprised of the nature of the costs recovered from the Rock Lobster fisheries, the quantum of those costs and the means by which those costs are said to be recovered.

We have been provided with copies of the PIRSA Fisheries & Aquaculture Cost Recovery Program 2015-16 for both the Southern and Northern Zone Rock Lobster Fisheries. That program, inter alia, provides an overview of a number of programs conducted for the fisheries and a high level overview of the costs recovered.

The program identifies costs of \$1,061,375 with respect to Stock Assessment and Monitoring, which we understand have since been revised to \$1,013,612; the reduction representing a government contribution of 4.5%.

A table titled "Project Cost Summary" provides some further information with respect to the costs (excluding the 4.5% government contribution). That table is reproduced below for convenience.

PROJECT COST SUMMARY		
<b>Cost</b>	<b>Detail</b>	<b>\$</b>
Salaries	4.20	519,201
<b>Operating</b>		
Logbook program		79,160
Payment to industry for surveys		76,590
Fieldwork		107,371
Laboratory		-
Travel		8,915
Office & communication		3,000
Capital equipment		-
SARDI overhead		267,138
SARDI inkind		191,314
<b>Total Costs</b>		<b>1,252,689</b>
<b>Revenue - PRICE</b>		
PIRSA F&A	85%	1,061,375
<b>Total Revenue</b>		<b>1,061,375</b>
<b>SARDI Investment</b>	15%	<b>191,314</b>

A table titled 'Project Staff' provides some further information with respect to the composition of the item described as 'Salaries'. That table is reproduced below for convenience.

PROJECT STAFF			
Staff (if identified)	Position	FTE Commitment	Funded/ In-Kind
S Mayfield	Program Leader	0.05	Funded
A Linnane	Principal Investigator	0.80	Funded
R McGarvey	Research Scientist	0.45	Funded
P Hawthorne	Research Scientist	0.90	Funded
J Feenstra	Research Scientist	0.60	Funded
A Hogg	Research Scientist	0.40	Funded
TBA	Field Officer	1.00	Funded
<b>TOTAL</b>		<b>4.20</b>	

While both these tables provide some insight as to the costs being recovered from the Rock Lobster fisheries the requisite detail in order to properly assess these costs is not provided. For example:

- The amount of \$519,201 attributed to "Salaries" equates to approximately \$124,000 per FTE. This would appear excessive and accordingly it would seem unspecified costs in addition to salaries are included in this figure. The nature and quantum of these costs is not clear, nor is the actual direct costs of remunerating the relevant employees.
- It is not apparent how the time of particular SARDI employees is assessed as being relevant to the Rock Lobster fisheries.
- The amount of \$267,138 attributed to "SARDI Overhead" would appear to be an allocation of a 'bucket' of costs. While we have been provided with a general description of the nature of the costs<sup>1</sup>, the aggregate quantum of the costs comprising the 'bucket' and the method of allocation is not disclosed.
- The amount of \$191,314 attributed to "SARDI In-Kind" contains no description of the costs it comprises. We understand that it may comprise cost of capital and depreciation that would otherwise be included in overhead; however the quantum of each is not disclosed, nor is the nature of the assets being depreciated or the means by which cost of capital is determined.
- The "Logbook Program", "Payment to Industry for Surveys" and "Fieldwork" costs, for example, are said to include certain costs, however there is no quantification of these specific costs.
- It is not clear how the costs making up categories such as "Logbook Program", "Payment to Industry for Surveys" and "Fieldwork" are estimated. Are they, for example, based on prior year actual costs? Are they directly identifiable costs, or an allocation of a 'bucket' of costs?

It is also unclear from the program how the costs relate to the various deliverables. For example, which costs, and what quantum of costs, relate to "Collection of Fisheries Statistics" as compared to "Analysis and Interpretation"? There is also no breakdown of employee time with respect to the various deliverables.

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<sup>1</sup> i.e. overhead costs include SARDI Executive and Business Services, WHS, training, staff development, infrastructure and facilities, IT, and cost of capital and depreciation (as per email exchange between Justin Phillips and Gavin Begg dated 10.04.2015).

It would be our intention to request and examine more detailed documentation pertaining to the recovered costs and to discuss the costs and their allocation with relevant finance personnel in order to determine:

- The true nature of costs recovered.
- The quantum of each of those costs (to the extent they are material).
- The means by which they are allocated to the Rock Lobster fisheries.
- The reasonableness of the cost allocations having regard to relevant cost drivers.
- How the costs relate to the various program deliverables.

It is difficult to identify the precise documents or reports that would address these matters without having an understanding of SARDI's accounting, finance and information systems. Relevant documents are likely to include:

- Employee timesheets identifying the work being performed and for who the work is being performed.
- Calculations supporting the cost attributed to salaries of the various employees and ultimately the various programs.
- Print-outs of general ledger expense accounts identifying the various direct and indirect costs being recovered.
- Detailed budgets and supporting calculations or analyses.
- Allocation calculations for indirect costs.

We expect that the process would be greatly assisted if we are able to discuss the cost recoveries with relevant SARDI personnel as it would likely identify relevant documents or analyses, add relevant context to that information and help avoid misunderstandings.

Ultimately we do not envisage this exercise to be particularly time consuming or onerous with the cooperation of SARDI. We expect that more detailed information would be readily available and explainable.

### **Comparison with other fisheries and service providers.**

We consider one relevant benchmarking exercise would be to compare the costs recovered from the Rock Lobster fisheries with the costs recovered from other fisheries serviced by SARDI.

Whilst other fisheries will have different requirements and hence not be directly comparable to the Rock Lobster fisheries, we consider that various elements will provide meaningful comparison.

Accordingly, we seek copies of the PIRSA Fisheries & Aquaculture Cost Recovery Program 2015-16 for each fishery. We currently have copies of the programs for the Rock Lobster fisheries and the Marine Scalefish Fishery (including Mud Cockles).

Our review of the Marine Scalefish Fishery program indicates that the information provided is of a similar level to that provided for the Rock Lobster fisheries and therefore it would be useful to be provided with the more detailed cost information alluded to above with respect to the Rock Lobster fisheries.

It may ultimately be necessary to be able to discuss the costs of the various fisheries with the relevant personnel of SARDI to understand the reasons for any differences in costs recovered between the different fisheries. We expect that differences in the deliverables will explain most differences in costs.

Assuming that we are able to obtain the detailed cost information alluded to above; we will be well placed to undertake a benchmarking exercise with alternative service providers. The detailed cost information will allow us to ensure that potential alternative service providers submit costings on a readily comparable basis to SARDI. Detailed information on the methods and deliverables of the research / monitoring program and the stock assessment will also be useful.

So as to ensure we have a fair comparison of cost we would have regard to the deliverables set out in the SARDI program. We would, however, expect to discuss with SARDI whether or not there are deliverables, and accordingly costs, that may not be specifically necessary in order for the Minister to meet his obligations under the Act.