Productivity Commission Inquiry into Cost Recovery
Submission by the Australian Fisheries Management Authority (AFMA)

1. History of Cost Recovery in AFMA

Current Government policy on cost recovery for fisheries management originated in the mid-1980s as part of the general philosophy that the beneficiaries of Government services should meet the cost of those services in accordance with the concept of user pays. Along with the move to implement cost recovery was a recognition that fishing operators were entitled to have a significant input to fisheries management decisions, including those which directly affect management costs. The 1989 Government policy statement *New Directions for Commonwealth Fisheries Management in the 1990s,* and the subsequent legislation which was passed by Parliament in 1991, embodied cost recovery and significantly greater industry involvement in management decisions. Section 6 (e) of the *Fisheries Administration Act 1991* states that one of the objectives that AFMA must pursue is *"achieving government targets in relation to the recovery of the costs of the Authority."*

As part of this new package of new legislation and management arrangements, in 1992, the Industry Commission undertook an inquiry and published a report *Cost Recovery for Managing Fisheries* which outlined the findings in regard to the cost recovery arrangements for Commonwealth managed fisheries. As part of its response to this Report, the then Commonwealth Government announced a review of AFMA's attributable and non-attributable management costs on a fishery-by-fishery basis. The resulting review was conducted by the Department of Primary Industries and Energy (DPIE), AFMA and the Department of Finance (DoF) in consultation with the fishing industry. The review culminated, in 1994, in the publication of the report *A Review of Cost Recovery for Commonwealth Fisheries*. This report outlines a policy and set of principles for implementing cost recovery in Commonwealth fisheries and provides a basis for cost effective and equitable cost recovery into the future. Following its endorsement by Government, this report remains the current Cost Recovery Policy for Commonwealth fisheries.

2. How Costs are Shared

Costs are recovered on a fishery by fishery basis with the Management Advisory Committees (MACs) playing an important role in the review of annual budgets for each fishery. This is an open and transparent process that sees detailed cost information made available to the MACs.

AFMA's costs are defined as attributable or non-attributable and then recoverable or non-recoverable.

a) Attribution

In simple terms, the costs associated with AFMA activities that are necessitated by the presence of a particular user group are considered to be attributable to that group. In practice, an activity is considered to be attributable to a specific group if the response to the question *"Would the non-existence of a particular group eliminate the need for the*

AFMA activity in question?" is *"yes"*. The Cost Recovery Policy identifies which AFMA activities are attributable to a specific user group and which are attributable to the community at large.

The attribution of costs associated with a particular AFMA activity is the first step in assessing cost recoverability.

b) Recoverability

AFMA's costs are then defined as recoverable or non-recoverable. In determining recoverability, the Cost Recovery Policy gives consideration to the following factors:

i) The extent of user group benefit from the activity;

ii) Consistency with Government cost recovery policy in other sectors;

iii) The existence of extenuating socio-economic considerations;

iv) The existence of Government policy which impacts on the cost recoverability for a particular activity; and

v) The cost effectiveness of recovering the costs of any particular activity.

Costs which have been determined as recoverable management costs include the running costs of the MACs, licensing, AFMA's day-to-day fisheries management activities, the cost of maintenance of management plans, logbooks and surveillance, but not enforcement.

In February 1998 AFMA produced Fisheries Administration Paper No. 3 *"Interpreting the Cost Recovery Policy"*. This paper provides guidance on how the costs of certain activities should be attributed and whether or not they are recoverable.

3. How Levies are Calculated

Costs include direct costs charged to each fishery, indirect costs such as licensing, logbooks and compliance, and the fishery's share of overheads. Overheads are allocated proportionally based on each fishery's share of either direct staff numbers or of total direct costs. Further information on how overheads are allocated is contained in AFMA's Fisheries Administration Paper No. 2 *"Overheads"*.

At the end of each financial year industry's share of each fishery's actual costs are compared to the amount of levy collected for that fishery. Any over collection is returned to industry as a reduction in the levy for that fishery in the following year. Any under collection is recovered from industry through an increase in the levy for that fishery in the following year.

The total management levy for each fishery is calculated as the total industry budget for that fishery plus or minus any under or over collection from the previous financial year. The total levy is then divided between the concession holders in the fishery on a basis that is fair and appropriate to the management arrangements in that fishery. The method of dividing the total levy between concession holders is different form one fishery to another. The method is determined by AFMA after receiving advice from the relevant MAC for each fishery.

4. Collection of Levies

Levies are set by Levy Regulations made under the *Fishing Levy Act 1991*. The Levy Regulations state when levy must be paid. If a levy is not paid on time then AFMA will take action to recover the debt. Ultimately AFMA has the power to suspend or cancel a concession if levy is not paid.

Levies collected by AFMA are returned to consolidated revenue and are then appropriated back to AFMA.

5. Issues with Cost Recovery

Overall AFMA believes that the cost recovery of fisheries management costs from industry is working well. There appears to be a reasonable understanding and acceptance by most of industry of AFMA's levies and the basis for setting the levies. Considerable goodwill has been created through the transparency of the levy setting process and the involvement of the MACs in setting the budget for their fisheries and in determining how the total levy for the fishery is to be split between concession holders. The method of setting levies on actual costs incurred to manage specific fisheries encourages a commercial approach by AFMA and cost-effective use of industry funds.

Levies as a percentage of gross value of production (GVP) for a fishery tend to be higher in fisheries with a small GVP, because of the relatively higher costs of managing small fisheries. Although some operators in these small fisheries have queried the size of the levy, the fact that the levy is based on actual costs has the benefit of focussing attention on whether the management arrangements in these fisheries are cost effective and whether efficiencies might be made using other management arrangements. In this regard it is important to understand that AFMA must pursue all it legislative objectives. If the levies in smaller fisheries were subsidised by government or by higher levies in larger fisheries, then the causes of the relatively higher management costs might not be addressed.

AFMA's experience with cost recovery has identified a number of other issues with cost recovery as follows.

a) Fluctuations in Levies

One effect of setting levies based on actual costs in each fishery each year is that levies can vary significantly from year to year. One of the largest contributors to these variations was costs associated with deploying observers at sea. These can be difficult to budget accurately, especially in smaller fisheries. The result was that there were significant differences between actual and budgeted observer costs in some fisheries, which caused large fluctuations in levies in the fishery in the following year. In order to reduce these fluctuations AFMA adopted a policy of, wherever possible, invoicing the operators for observer costs immediately after the completion of the fishing trip instead of recovering observer costs through levies.

Another reason for a temporary increase in levies is a high workload in a fishery caused, for example, by a change in management arrangements or implementation of a statutory management plan. In order to facilitate the introduction of management arrangements the

AFMA Board has occasionally decided to place a limit on the increase in the levybase for a particular fishery.

b) Administration

The actual allocation of staff time and costs to different fisheries and the division of costs between industry and government is time consuming and adds to AFMA's administrative costs. Sometimes staff work on projects that benefit a number of fisheries or move quickly between projects, which makes allocation of costs difficult and can impose some rigidity. However, AFMA believes that the increased transparency and commercial focus of recovering costs on a fishery by fishery basis justifies the extra administrative effort involved in allocating costs.

c) Research Attribution

Every year AFMA sets aside about $1 million of government funds for certain research projects. Further research funding comes from industry through MAC-initiated research funds. AFMA has drafted a paper setting out a method for fairly allocating research costs between industry and government, but it has proved difficult to obtain agreement on an appropriate method for allocating research costs. At the heart of this difficulty is the problem of identifying the beneficiary of the research as in many instance the public as the owner of the resource benefits as well as the industry.

d) High Seas Costs

The expected implementation of the United Nations Fish Stocks Agreement will lead to AFMA licensing Australian vessels to fish on the high seas and to AFMA implementing a number other management measures as part of its obligations under regional fisheries management agreements. A decision has not yet been made on what proportion of the resulting management costs will be recovered from industry. It will be important to maximise benefits to Australia from participation on the high seas and not encourage Australians to register vessels in other jurisdictions and user flags of convenience by setting fees or levies too high.

e) Compliance Costs

The 1994 working group on cost recovery policy struggled to reach agreement on what level of compliance costs should be recovered from industry. An attempt was made to distinguish between surveillance and enforcement activities, but separate costings of these activities are difficult to achieve in practice. It was finally agreed to recover 50% of all compliance costs from industry, with the remaining 50% funded by government. This compromise seems to be working reasonably well.

f) Environment Initiatives

In recent years there has been a significant increase in the number of government environmental initiatives that affect the fishing industry. These include the creation of Marine Parks and the requirement for Bycatch Action Plans for each fishery. AFMA has incurred considerable costs in developing fisheries management responses to these initiatives. There has been some discussion as to how much of the resulting fisheries management costs should be funded by industry and how much by government. The approach AFMA is now taking is that time spent by AFMA staff providing input and responses to new environmental proposals while they are being developed should be funded by government. However, once the requirements are in place then time spent by AFMA in complying with the new requirements should be funded by industry as they then become an essential part of effectively managing the affected fisheries. An overriding problem for AFMA in complying with the environmental initiatives is the absence of additional government funding for this purpose.

g) Small Agency Issues

As a small agency AFMA is disproportionately affected by government administrative and reporting requirements. These requirements vary in cost and importance and include measures such as capturing time box data on AFMA forms, complying with the government on-line policy, responding to Ministerial requests and preparing portfolio budget statements, annual reports and corporate plans. The cost of meeting these requirements increases AFMA's overheads, which are partly recovered from industry. It can be difficult to explain to industry members who are not familiar with the wide range of government accountability requirements why AFMA's overheads are higher than a similar sized small business.

h) Recovery of Government Costs

AFMA's government costs are influenced by external factors such as new environment legislation and the number of illegal foreign fishers. Currently AFMA's government funding is fixed, apart from a small annual indexation increase. Prior to recent changes made by the Department of Finance and Administration, AFMA used to acquit annually in arrears the costs of apprehending and prosecuting illegal foreign fishers. AFMA believes that this acquittal process mirrored the cost recovery policy for industry and was the most appropriate process for funding the services AFMA provides to government.

However this process is somewhat at odds with current government funding approach which requires agencies to manage within a set appropriation. Significant fluctuations in costs present substantial difficulties to a small agency such as AFMA. Fluctuations in costs which may be small by general government standards can be significant for agencies such as AFMA which has a relatively small total budget. As mentioned earlier, AFMA has to comply with a variety of government initiatives. Additionally, there are other fisheries management activities that are jointly funded by industry and government. In both cases AFMA has to absorb additional costs that flow and has no effective means of recovering these costs from government and limited means of obtaining additional government funding.