RED MEAT
ADVISORY COUNCIL

Submission

to the

Productivity Commission

Cost Recovery Inquiry

November 2000

1 INTRODUCTION AND SUMMARY

This Inquiry is important to the Red Meat Industry.

The Australian red meat (beef and sheepmeat) industry, like many of our agricultural industries, operates in a competitive Australian consumer marketplace, and an even more competitive export arena.

Recent Meat and Livestock Australia (MLA) calculations identify total red meat sales of more than $11 billion a year, within Australia and exports, including offal, skins and live exports. Beef products account for near $8 billion. About 65 per cent of beef cattle products are exported. For lamb, some about two-thirds of sales are domestic and one third exports. Most mutton is exported.

The Red Meat Advisory Council is concerned about cost structures in the red meat industry generally, and particularly impacts on exporting and competitiveness of Australian red meat in world markets. Government charges to industry participants form part of the red meat industry cost structure.

Over the last year, RMAC has been communicating with the Federal Minister for Agriculture, Fisheries and Forestry about working with Government on possible reductions in charges to industry for Government inspection and export certification.

To assist these discussions, and in face of increasing competition on world markets and use of non-tariff forms of industry support, RMAC and MLA have commissioned a study of the impact of government on industry competitiveness. This Study is focussing on USA beef and New Zealand lamb. The Study Terms of Reference outline some Australian red meat trading realities.

> "The Australian beef and sheepmeat industries are amongst Australia's foremost exporting industries. … As is typical of commodity markets, customers for beef and sheepmeat products in international markets are extremely sensitive to the prices offered by alternate suppliers. Relatively minor price differences can result in major changes in market share. A potentially significant influence on industry costs, and therefore industry competitiveness, is the impact of government policies, particularly those imposing direct charges on the industry or providing assistance."

The outcomes of this Productivity Commission Cost Recovery Inquiry should provide important insights and, it is hoped, a consistent foundation for further RMAC discussions with Government on charges to industry.

Accordingly, RMAC aims to contribute strongly to this Cost Recovery Inquiry by submitting an analysis that :

- considers the framework of this Inquiry and stakeholder expectations [Section 2]
- develops Principles for review of current practices and for Guidelines [S 3], and
- discusses alignment of these Principles and cost recovery in four agencies [S 4].

Contents

1.1 Key RMAC points and lines of reasoning

From Section 2 : Cost recovery Inquiry – framework

- ***Stakeholders to this Inquiry would reasonably expect this to be a turning-point review for Federal Government cost recovery – a 'fresh look'*** with no cost recovery practice or model prescribed as a baseline [2.1].

- ***RMAC sees five key stages, or parts, to this Inquiry*** [2.1]:

  – Collection and analysis of material on cost recovery practices and impacts

  – Development of Principles for Federal Government Cost Recovery at an early stage for review of cost recovery arrangements and development of Guidelines

  – Objective Review of current agency practices against those Principles with recommendations for change to accord with Principles.

  – Preparation of Guidelines for the future, developing from the Principles, using knowledge and insights gained in the Review stages.

  – The TPA cost recovery element.

- RMAC looks forward to an Inquiry report that consolidates much useful material, in a manner that enables stakeholders to understand current practices, their variations and the reasoning behind these differences, as well as assessed benefits and impacts [2.1.a].

- ***Such a systematic review should be based on Principles aiming to facilitate the advance of various Government policies, including regulatory objectives*** [2.1.b], leading into development of Guidelines that align with major Government policy objectives both broadly and in detail [2.1.c].

- ***Cost recovery by four agencies, all within the AFFA portfolio, are considered specifically in this Submission***: Australian Quarantine Inspection Service (AQIS) Meat Inspection Division; National Residue Survey (NRS); Quota Administration Unit, and the Levies Management Unit [2.2].

- RMAC sees important themes in the National Competition policy, regulatory best practice and Productivity Commissions guides referred to this Inquiry, including:

  – the need to look widely at the benefits and impacts of any regulatory regime,
  – emphasis on government policy directions, and
  – emphasis on reducing regulatory impact on businesses consistent with goals [2.3].

Key RMAC points and lines of reasoning

From Section 3: Developing Principles – for review and guidelines

- ***Determining public and private benefits of government regulatory, service or administrative activity is a key to cost recovery decisions.*** The policy directions of the elected Government are a strong indicator of socio-economic priorities and should set a framework for assessing public benefit [3.1].

- ***Public benefits should not be assessed narrowly.*** The Government policy goals for industry growth, innovation and exports provide benchmarks for distinguishing public from private benefit. Cost recovery mechanisms are one way of putting into practice the sentiments in Government policy statements [3.1.a].

- ***Regulation applied to production, processing and domestic or export sale of food products has clear public benefits, external to commercial businesses*** involved in the food (meat) supply chain. To be logical and fair, and to ensure appropriate market signals, these external benefits should be factored into cost recovery equations [3.1.b].

- Where Government, or Government with industry, decides a regulatory or service activity must occur (or continue) in government, cost recovery calculations should take into account public benefits and likely higher costs under non-competitive arrangements [3.1.c].

- ***Cost impacts should also be assessed broadly (as for public benefits).*** A range of questions should be examined in assessing impacts of recovering regulatory costs in Australian food industries [3.2].

- ***Full cost identification is critical.*** Cost recovery is a separate question to understanding true costs. Knowing full costs, Government and users can assess the premium (or savings) of a service being a monopoly, government venture [3.3].

- Once cost recovery levels are decided, recovery arrangements and their integrity and implementation then become important. A number of issues arise [3.3].

Key RMAC points and lines of reasoning

Cost Recovery Principles: From considerations in Sections 2 and 3, RMAC develops and recommends a set of Principles for use in review of current practices and developing Guidelines [3.4]. These include, in summary:

- ***The policy directions of the Government indicate Australian socio-economic priorities and weighting and should set a framework for assessing public and private benefits.*** Such policies include industry growth, innovation, exports, regional support, the environment, competition.

- ***Most Government regulatory or other activity affecting businesses now occurs only if there is identifiable public benefit***, and such external benefits (externalities) should be identified and factored into cost recovery equations.

- Where it is decided a regulatory or service activity must take place in government or as a monopoly agency, the public benefit calculation should take into account likely higher costs of a monopoly activity.

- ***The impacts of cost recovery should be assessed broadly (as for public benefit).*** Questions for consideration in assessing the impacts of recovering regulatory costs in Australian industries, for example, include:

    - Are the regulatory activities in response to public demand? To what degree do they engender confidence in or returns for businesses, an industry, Government, the public?
    - Could this need be met by a less costly arrangement? Are costs added by government activity giving commensurate benefit? To businesses, to the wider community?
    - If the regulations are addressing market failure, is this caused only by the business sector being regulated and charged?
    - Do additional costs affect industry competitiveness in domestic and export markets? Do competing industries in Australia or overseas have the same costs for services?
    - If the activity is needed for access to overseas markets, would loss of the markets impact only on the businesses paying, or to pay, the charges?
    - How much of the government activity is prescribed by government? Does the activity boost national or international profiles of government, industry, businesses?

- ***Full cost identification is essential***. For full cost identification, all costs should be treated as they would be in a broadly comparable commercial activity.

- ***Whichever cost recovery mechanism is used, charges should be linked closely to the proportion of costs incurred by each user*** (directly and associated overheads).

- ***Where there are divergences from this proportional recovery principle,*** the variations should be openly explainable in terms of support to Government Policy Directions and associated public benefits.

- ***Consultation, accountability and review arrangements*** need to reflect the degree of public benefit attributed to the activity and, within an industry, to cover the range of users and potential users.

Key RMAC points and lines of reasoning

From Section 4: Current arrangements – fit with principles

- ***RMAC considers that 'external benefits' and policy considerations should be factored into cost recovery arrangements for AQIS Meat Inspection*** – as they are for other AQIS activities and in agencies such as Austrade [4.2].

- Arguments presented by RMAC support an in-principle case for decreasing the level of AQIS Meat Inspection cost recovery and for Government funding of a greater part of costs. More detailed analysis may be needed on some points.

- ***It appears that a realistic case for substantial Government coverage of AQIS meat inspection and export certification costs could be established.*** This would offer efficiency incentives to both Government and Industry.

- Consistent with the Government policy direction to encourage innovation, such cost reductions might be transparently linked with enhancing business quality assurance, such as HACCP systems or internal inspector-auditor training [4.2].

- RMAC recognises the essentiality of the services provided by the National Residue Survey, but in reviewing current NRS cost recovery arrangements against the Principles in 3.4 a number of points arise for consideration [4.3].

- RMAC acknowledges that the Levies Management and Quota Administration Units are industry services. The industry is prime beneficiary but there are wider benefits in statistics collection. Any issues with full cost recovery relate to identification of full costs, appropriate allocation and efficient management of the Unit activities [4.4].

From Section 5: Cost recovery guidelines

- The Principles developed early in this Inquiry should be the basis for reviews of current practices and for developing the framework and detail of Guidelines for future cost recovery arrangements by any Government agency.

- ***Design of cost recovery systems should not be so specific and rigid as to themselves increase costs***.

- Most Government regulatory and administrative services have some public benefit as the rationale for the function being in Government. This should be acknowledged by partial cost recovery. ***Shared cost systems should give incentive to both industry and Government to achieve cost-effective service delivery.***

1.2 Red Meat Advisory Council

The Red Meat Advisory Council interfaces with the Federal Government on cross-sector industry issues and policy direction, oversees the meat industry strategic plan, and manages accumulated red meat industry assets (some $40 million).

RMAC was formed in 1998 as part of the red meat industry restructure which included creation of independent industry sector organisations – Meat & Livestock Australia (MLA) for cattle, sheep and goat producers, the Australian Meat Processors Corporation (AMPC) and Livecorp for live animal exporters.

Red Meat Advisory Council Limited is a non-profit company limited by guarantee. RMAC operates within the framework of a Memorandum of Understanding between Peak Councils and the Commonwealth Government which defines the industry organisational structure, and the Deed of Grant transferring industry assets to RMAC

The six national red meat industry Peak Councils are the members of RMAC:

- Cattle Council of Australia
- Sheepmeat Council of Australia
- Australian Lot Feeders Association
- Australian Meat Council
- National Meat Association
- Australian Livestock Exporters Council

Across-industry policy issues progressed by RMAC over 1999 and 2000 include:

- developing an industry policy position on inspection and certification functions along the industry marketing chain, aiming for efficiency gains without compromising integrity
- a comprehensive review of EU Quota arrangements
- consideration of levy collection contestability
- communication with the Minister on export inspection costs and feedgrain imports
- a range of activities relating to GST arrangements and industry impacts.

RMAC maintains regular contact with key agencies at the Federal level, and particularly advises the Minster for Agriculture, Fisheries and Forestry on red meat industry policy and across-sector operational issues.

2 COST RECOVERY INQUIRY – FRAMEWORK

The Red Meat Advisory Council welcomes this Inquiry. A number of the facets of the Inquiry, as set out in the Ministerial Terms of Reference, are important to RMAC in its across-industry policy and issue co-ordination role.

RMAC has a range of expectations of this Inquiry. RMAC's interpretation of the Inquiry Framework and potential outcomes, reading from the Terms of Reference and the Commission's Issue Paper are summarised in sub-sections 2.1 to 2.3.

Parts 3 and 4 of this Submission provide more detailed RMAC analysis on the development of Principles and review of current cost recovery arrangements.

2.1 Inquiry purpose and stages – 'a fresh look'

> This inquiry is principally a general review of cost recovery arrangements across Commonwealth regulatory, administrative and information agencies. *Terms of Reference*

Twelve months have been allowed for conduct of the Inquiry and preparation of the Productivity Commission (PC) report. This timing and the Terms of Reference indicate that a comprehensive review should be anticipated.

➢ **RMAC considers that stakeholders to this Inquiry would reasonably expect :**

- ***That this should be a turning-point review*** for Federal Government cost recovery (with possible flow-on influence on State arrangements).
- ***That established government policies or apparent cost recovery 'best practice' do not form a fixed baseline to the Inquiry***. (The PC commits to "taking a fresh look at current cost recovery arrangements" *IP page 7*).
- That a range of inconsistencies have likely become apparent through reviews and agency practice and ***no one cost recovery model is identified as the ideal, either in concept or implementation***.
- ***That the Inquiry report would include appropriate recommendations for change*** of current cost-recovery practices as well as Guidelines for the future.
- ***That wider Government policy goals will steer many of the considerations in a review such as this,*** because the inquiry is essentially examining part of the 'operational mechanics' of government rather than a policy area in itself.

The Productivity Commission Issues Paper divides the Inquiry Terms of Reference into three parts :

i. a review of existing cost recovery arrangements by ‘regulatory, administrative and information agencies’

ii. development of Cost Recovery Guidelines; and

iii. a National Competition Policy review of the cost recovery arrangements under the *Trade Practices Act (197*4) (TPA).

RMAC is primarily interested in the first two parts and understands that these are necessarily inter-related. At the same time, it appears that the interactive stages of inquiry could be more clearly defined.

RMAC sees five key stages, or parts, to this Inquiry :

1. **Collection and analysis of material** on agency cost recovery practices and impacts.

2. **Development of Principles** for Federal Government Cost Recovery at an early stage as the basis for critical review of existing cost recovery arrangements, and development of Guidelines.

3. **Objective Review of current agency practices** against those Principles with recommendations for change to accord with Principles.

4. **Preparation of Guidelines** for the future, developing from the Principles, using knowledge and insights gained in the Review stages.

5. The TPA cost recovery element.

These stages are discussed on the following sub-sections.

.a. Information on cost recovery arrangements

During the course of this Inquiry, it is anticipated that the Productivity Commission will collect a considerable quantity of information on current cost recovery practices in Commonwealth Government Departments and Agencies.

Sources of material would include written and oral submissions, the questionnaires the PC has forwarded to agencies, and, plus research by the Commission.

The Commission is required by the Terms of Reference (item 3) to report on:

(a) the nature and extent of cost recovery arrangements across Commonwealth Government regulatory, administrative and information agencies, including identification of the activities of those agencies for which cost recovery is undertaken;

(b) factors underlying cost recovery arrangements across Commonwealth Government regulatory, administrative and information agencies;

(c) who benefits from the regulations, administrative activity and information to which cost recovery arrangements are applied; …

(d) the impact on business, particularly small business, consumers and the community of existing cost recovery arrangements, including any anti-competitive effects and incentive effects;

(e) the impact of cost recovery arrangements on regulatory, administrative and information agencies, including incentive effects.

- **On this first stage of the Inquiry process, RMAC is of the view that:**

- ***Submissions from stakeholders and agencies are unlikely to provide sufficient information*** for a proper examination of these questions, nor should it be expected that businesses, individuals (and even agencies) would be able to identify all impacts on business, consumers and the community.
  - To assist the Inquiry process, RMAC has provided as much information and analysis as feasible in Parts 2 and 3.
- ***The Commission's Portfolio and Agency Questionnaires will elicit factual information on costs and revenue and some of the background*** (policy, legal, history) to current cost recovery practices, but appear to focus on where costs are being recovered rather than the spread of Government activities [refer 2.2].
- ***The Productivity Commission will likely need to undertake considerable research, interviewing and analysis*** to obtain real insights on current practices and real impacts on or benefits to stakeholders and agencies.

RMAC looks forward to an Inquiry report that consolidates much useful material in answer to the questions in the Terms of Reference, in a manner that enables stakeholders to understand current practices, their variations and the reasoning behind these differences, as well as assessed benefits and impacts.

.b. Development of Principles then review of current practices

From this information collection and analysis stage the Terms of Reference move quickly to elements of critical review of current arrangements. In particular, the Productivity Commission is asked (in TOR item 3) to report on :

(f) the consistency of cost recovery arrangements with regulatory best practice; and

(g) appropriate guidelines for: application of cost recovery arrangements, extent of cost recovery (full, partial, nil); whether cost recovery activities are necessary and efficient; and for review of cost recovery, plus

(g)- vi implementation strategies, where needed, to improve current arrangements.

> - **RMAC assesses that:**
>
> - ***These requirements, by implication and necessity, call for an objective and critical review of current practices*** against wider Government policy objectives, stated cost recovery goals, and regulatory best practice.
> - ***Such a systematic review should be based on Principles aiming to facilitate the advance of various Government policies,*** including regulatory objectives.
> - ***Such Principles need to be developed at an early stage of this Inquiry***, then tested and refined through the Review. Research for this Submission has not located a current, formal set of Commonwealth cost-recovery principles.
> - Statements on key Government policies and priorities (such as innovation, export, regions, competitiveness) provide essential context to this examination. It would be useful to stakeholders if the Inquiry Report cross-referenced principles and review recommendations for change to such policies.
>
> - **RMAC provides a contribution to development of Principles in Part 3, plus inputs for the review of current practices in Part 4.**

.c. Preparation of Guidelines for the future

The Terms of Reference (item 3g) ask for development of appropriate Guidelines covering, at least:

(i) where cost recovery arrangements should be applied;
(ii) whether cost recovery should be full, partial or nil;
(iii) ensuring that cost-recovered activities are necessary and are provided in the most cost-effective manner;
(iv) the design and operation of cost recovery arrangements, including the treatment of small business;
(v) the review of cost recovery arrangements; and
(vi) where necessary, implementation strategies to improve current arrangements.

> ***RMAC can see these steps leading to preparation of a useful set of Guidelines*** for future cost recovery arrangements, but seeks Guidelines that align with major Government policy objectives both in words and practical application.

2.2 Scope – which agencies, charging and not charging

It is understood that this Inquiry extends to all Commonwealth regulatory, administrative and information agencies, and that the Commission intends to focus on:

- agencies for which regulation, administration or information are predominant activities (whether costs are recovered or not, and whether they are recovered under legislation, regulation or policies), plus as required
- significant regulatory, administrative or information roles within a wide range of other agencies
- such roles in Commonwealth – State entities administering Commonwealth policy
- quasi-regulatory bodies implementing Commonwealth policy or underpinned by Commonwealth legislation (noting the growing importance of self- and co-regulatory arrangements often supported by cost recovery mechanisms).

- **RMAC's interest in this Inquiry relates to the red meat industry, but many points RMAC makes would apply to businesses and industries generally.**

- RMAC is concerned that any cost recovery by regulatory, administrative and information agencies that impacts on the red meat industry be arranged, so far as possible, to support Government policy for industry generally, and the red meat industry specifically, as well as red meat industry development objectives.

- ***Analysis of programs with nil cost recovery is also important, and should provide insights on mechanisms used to achieve Government policy***.

- Cost recovery by four agencies, all within the AFFA portfolio, are considered specifically in this Submission:

  Australian Quarantine Inspection Service (AQIS) Meat Inspection Program

  National Residue Survey (NRA)

  The Quota Administration Unit (QAU), and

  The Levies Management Unit (LMU).

- The red meat (beef and sheepmeat) industry, like many industries, operates in a competitive Australian marketplace, and an even more competitive export arena.

- ***RMAC is concerned with cost structures of the red meat industry overall, and in particular costs impacting on exporting and the competitiveness of Australian red meat in world markets***.

2.3 Approach – guidance on policy priorities

The Inquiry Terms of Reference and the Productivity Commission Issues Paper identify a number of sources of guidance for the Commission in conduct of this Inquiry, particularly elements of National Competition Policy, of regulatory objectives and best practice and the Commission's own Review Guidelines.

- **The COAG Competition Principles Agreement 1995**

CPA Clause 1.(3) provides important guidance for considering public benefit of different regulatory arrangements, or for decision making on options generally:

1.(3) Without limiting the matters that may be taken into account, where this Agreement calls:

- for the benefits of a particular policy or course of action to be balanced against the costs of the policy or course of action; or
- for the merits or appropriateness of a particular policy or course of action to be determined; or
- for an assessment of the most effective means of achieving a policy objective;

the following matters shall, where relevant, be taken into account:

- government legislation and polices relating to ecologically sustainable development;
- social welfare and equity considerations, including community service obligations;
- government legislation and policies relating to matters such as OH&S, industrial relations and access and equity;
- economic and regional development, including employment and investment growth;
- the interests of consumers generally or of a class of consumers;
- the competitiveness of Australian businesses; and
- the efficient allocation of resources.

- **Regulatory Best Practice references and arrangements**

These are contained in documents such as:

COAG *Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-Setting Bodies*

Office of Regulation Review, *Regulation Guidelines* 1998

The ORR Guidelines 1998 note that regulations might be necessary to :

- deal with 'market failure', and
- attain social goals, involving issues such as worker safety, environmental degradation, consumer protection and equity goals.

And that, the main types of 'market failure' occur : □when there is a monopoly and abuse of market power; □if there is insufficient or inadequate information available; when goods or services are 'public goods'; or when there are external costs or benefits (externalities or spillovers).

Regulatory best practice might be summarised as the process of requiring a Regulatory Impact Statement (or equivalent thoughtful analysis) for any regulation or quasi-regulation (including decisions to charge for services). The examination should provide stakeholders and decision-makers with information on :[1]

- the problem or circumstances which give rise to the need for action;
- the desired objective(s);
- the options (regulatory and non-regulatory) that may constitute viable means for achieving the desired objective(s);
- an assessment of the impact (costs and benefits) on consumers, business, government and the community of each option;
- a consultation statement (the process and results of consultation);
- a recommended option; and
- a strategy to implement (including consideration of appropriate enforcement mechanisms) and review the preferred option.

- **The Productivity Commission policy guidelines** (*Productivity Commission Act 199*8 s. 8)

The Commission must have regard for the need:

(a) to improve the overall economic performance of the economy through higher productivity in the public and private sectors in order to achieve higher living standards for all members of the Australian community; and
(b) to reduce regulation of industry (including regulation by the States, Territories and local government) where this is consistent with the social and economic goals of the Commonwealth Government; and
(c) to encourage the development and growth of Australian industries that are efficient in their use of resources, enterprising, innovative and internationally competitive; and
(d) to facilitate adjustment to structural changes in the economy and the avoidance of social and economic hardships arising from those changes; and
(e) to recognise the interests of industries, employees, consumers and the community, likely to be affected by measures proposed by the Commission; and
(f) to increase employment, including in regional areas; and
(g) to promote regional development; and
(h) to recognise the progress made by Australia's trading partners in reducing both tariff and non-tariff barriers; and
(i) to ensure that industry develops in a way that is ecologically sustainable; and
(j) for Australia to meet its international obligations and commitments.

➢ **RMAC sees important themes repeated in these guides,** including:

- ***The need to look widely at the benefits and impacts*** of any regulatory regime, moving beyond direct users, through to consumers, communities, industries, policies, and the Australian economy.
- ***Emphasis on government policy directions:*** economic and regional development, international competitiveness, efficient use of resources, business innovation.
- ***Emphasis on reducing regulatory impact*** on businesses consistent with social and economic goals, and in developing regulatory arrangements in consultation.

[1] Productivity Commission, *Regulation and its Review 1998-1999*

3 DEVELOPING PRINCIPLES – FOR REVIEW AND GUIDELINES

Investigations for this Submission did not locate a current, formal set of Federal cost recovery criteria or principles, although a number of guides have been promulgated.[2]

In reality, there appear to be various sources of understanding or expectation on where in Federal Government cost recovery should be occurring (even if it is not) and how cost recovery should be arranged.

This diversity of approach derives from varying sources of guidance, as illustrated by the following examples:

- The Mortimer Business Program Design Criteria No. 7 states: "*where there is a clear private benefit, programs should adopt a cost recovery regime, with the return put back into the program*".
  - The 1997 report by Mr David Mortimer, *Going for Growth—Business Programs for Investment, Innovation and Export,* included program design. principles that were accepted by the Federal government in its response: *Investing for Growth 1997.* These reports were key references for ANAO 2000 audit of export development and promotion activities.[3]
- The AQIS approach identified in another recent ANAO report: [4]
  - "AQIS considers that its cost-recovery policies are based on principles contained in legal advisings and reflected in a generally accepted culture of cost-recovery by management and staff of the recoverable programs. Notwithstanding this view, the ANAO found that a number of cost-recovery practices have evolved within AQIS, many of which are undocumented."

It is also notable that the ANAO report on export programs found considerable variation among seven major agencies on fees charged, and that only three of these had fee-for-service statements available for clients (although all charged fees).

- ➢ **RMAC considers that such realities confirm the importance of this being a 'fresh start' Inquiry.**
- Cost-recovery principles should not be assumed. They should be developed from the investigations during this Inquiry and from policy guidance.

  RMAC provides a contribution to this process in the following sections:

  3.1 Cost recovery to achieve government objectives
  3.2 Recovering costs – direct and indirect effects
  3.3 Calculating costs,
  3.4 Proposed Cost Recovery Principles.

[2] Key papers include: Department of Finance 1991 *Guidelines for Costing of Government Activities*. Management Advisory Board 1997 *Beyond Bean Counting: Effective Financial Management in the APS - 1998 and Beyond*.
[3] Australian National Audit Office (ANAO) *Coordination of Export Development and Promotion Activities Across Commonwealth Agencies,* Audit Report No. 39 April 2000
[4] ANAO report No. 10 September 2000: *AQIS Cost-Recovery Systems* (summary and full report)

3.1 Cost recovery to achieve government objectives

Cost recovery is a mechanism – a means to a policy end or a set of policy goals. Logically, Governments use decisions to provide certain services, and subsequent decisions to recover costs, or to not charge, as methods of steering industries, business and the community in policy directions.

As identified in the Productivity Commission Issues Paper, charges might be levied:

- to influence demand and resource use (ie. to ration government services or prevent excessive, frivolous or vexatious use of government services)
- to encourage user and agency interaction of services, costs and fees (ie. charges provide incentives to improve the efficiency of government services)
- to provide appropriate signals to marketplace decisionmaking by apportioning costs to users (ie. improving equity in distribution of costs of government services).
- to provide resources for government activities additional to those available from government appropriations (ie. to raise revenue or to substitute for taxation)

More broadly, the Commission identifies that "the rationale for implementing cost recovery is often based on the fact that the activities of regulatory, administrative and information agencies may have both private and public benefits and costs and this may have implications for apportioning costs" *[Issues Paper p 13].*

On public-private benefit, the PC indicates cost recovery might be appropriate when:

- regulatory, administrative and information activities give rise to private benefits,
- or address costs imposed on the community by private firms or individuals.

Where Public Benefits arise from:

Filling information gaps : Activities to enable businesses, investors and consumers to make informed decisions.

Public goods: A good or service which would be generally available to all people and where it is not feasible to exclude anyone from benefiting – so such goods are unlikely to be provided by a free market (eg: national defence, street lights).

***Externalities or spillovers*:** An activity which has benefits or costs to the welfare of others not directly involved, so costs are often shared between public and private beneficiaries (eg. immunisation).

- ➢ **RMAC believes government policy directions are indicators of public benefit**
- Determining public and private benefits of government regulatory, administrative or service activity is a key to cost recovery decisions.
- ***The policy directions of the elected Government are a strong indicator of socio-economic priorities*** and should set a framework for assessing public benefit.
- Within this framework, measures of 'public good', 'externalities' and 'gaps' are important, alongside market signals, efficient resource allocation, and equity.

.a. Industry growth, innovation and exporting as public benefit

Over the last two decades numerous policy statements from various Federal (and State) governments have emphasised the essentiality of economic growth, a global orientation, international competitiveness both in domestic and export markets and business innovation and investment.

The Howard Government's 1997 *Plan for Australian Industry*, *Investing for Growth*, looked forward to 2010 and made policy commitments to encourage innovation, boost investment, improve Australian trade performance, develop information industries, and to introduce Action Agendas to generate momentum for reforms to increase competitiveness, industry by industry. As stated in October 1997.

> The vision for Australian industry
>
> The Government's priority is to build a strong and prosperous Australia in which sustainable economic growth provides secure jobs and rising living standards for all.
>
> … Our policies will expand opportunities for growth of secure jobs, win new markets for exporters, revitalise regional areas, invigorate our industrial base and strengthen families and communities.

The importance of Australian industries both competing against imports and building exports is undisputed, in statements and reports at least:

- On expanding exports: "Each time Australia's growth rate has increased in the past, an increase in the trade deficit has acted as a brake on further growth." *Mortimer Report* [5]

- "Australia's economic performance depends, in large measure, on its success in exporting goods and services. One in five jobs were dependent on these exports which contributed to some 19 per cent of GDP in 1998–99.

  Many factors contribute to export success. They include access to overseas markets; an understanding of the target export markets; competitive products tailored to the demands of markets … access to export finance and insurance [and] export development and promotion.." *ANAO report No. 39 on Export Development , 2000*

Ministerial policy statements on Australian agricultural industries also emphasise industry development, innovation and export competitiveness, as well as stressing the importance of maintaining vibrant rural communities with adequate services to attract investment and skilled people essential to the growth of rural industries.[6]

Statements such as the *Action Plan for Australian Agriculture 1998-2008*, define the role of Governments as to improve social and economic opportunities for all, acting as a catalyst for new developments and innovations and upgrading skills so that people can manage change and respond positively to new circumstances.

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[5] *Going for Growth – Business Programs for Investment, Innovation and Export*, October 1997

[6] Minister for Primary Industries & Energy, National Farmers' Federation - *Action Plan for Australian Agriculture, Actions, roles and responsibilities 1998-2008,* July 1998, to Minister Truss, *Government Committed To Rural Australia*, May 2000.

The regional and national economic benefit of agricultural product supply chains providing value-added product to domestic and export markets is also clear.

The meat industry chain 'multiplier effects' are substantial. For instance, a 1997 research project on contributions of WA agricultural industries to the WA economy, found beef and sheepmeat production to have 'income multipliers' on WA's economy of 5.17 and 3.64 respectively compared to a WA all-industry average of 2.72. [7]

An 'output multiplier' indicates the additional value of associated business generated by each $1 million of direct business activity. In the secondary agricultural sector, the 'meat and meat products' output multiplier at 2.73 was slightly higher than dairy manufacture and flour milling – and all these contribute far more than unprocessed direct exports (wool, grains). The meat processing employment multiplier was 4.78.

- **RMAC considers that public benefits should not be assessed narrowly**

- The Government policy goals for industry growth, innovation, exports, market operation and social development all provide benchmarks for distinguishing public from private benefit.
- Government regulatory, administrative and service activity to support these policy goals is also, at least in part, for the public benefit.
- ***Cost recovery mechanisms are one way of putting into practice the sentiments in Government policy statements*** – to move beyond words to actions.

RMAC is also concerned that relating of cost recovery to policy objectives and potential public benefit is not occurring in a systematic manner across agencies.

Findings in the ANAO report on Export Development programs illustrate a number of the points of made by RMAC above. The ANAO's Table 2.3 estimates direct costs of export development / promotion activities by agencies and the proportion recovered.[8]

	Total annual cost to agency $ m	Amount cost-recovered $ m	Proportion cost-recovered
Austrade	303.7	31.8	10 %
AFFA	4.3	0	0
Dept F Affairs & Trade	1.5	0.1	9 %
Dept Industry S & R.	9.3	0	0

Notable points:

- The AFFA-AQIS Meat Inspection program, has near 100% cost recovery (about $55 million a year) [refer 4.2] and relates directly to export facilitation and market development, but has ***not*** been classified as export development by AFFA.
- Cost-recovery for Austrade export development programs, which facilitate export by individual businesses and industries, is ***ten per cent*** of Government investment.

7 *The Impact of Agricultural Industries on the Western Australian Economy,* N Islam Agriculture Western Australia, P Johnson University of Western Australia, October 1997
8 Australian National Audit Office (ANAO) *Coordination of Export Development and Promotion Activities Across Commonwealth Agencies,* Audit Report No. 39 April 2000. Part of Table 2.3 shown.

.b. A key externality: food safety and consumer confidence

The total social or economic benefits (or costs) to the community of a commercial activity are made up of the private benefits or costs experienced by those directly involved, plus the external social and economic benefits (or costs) not accounted for by the individuals or businesses involved in the activity. [9]

The benefits or costs outside the commercial arrangements are 'externalities'.

> "Where there are positive externalities [external benefits], governments can subsidise an activity, require that an activity be carried out, or create property rights which enable those who generate positive externalities to be compensated. Property rights can also be regulated to enhance 'law and order' or redistribute income." *ORR, 1998*

The wide socio-economic importance of Australian food production and sale into domestic and export markets, is indisputable.

> "The food industry is one of Australia' most important industries. It includes farmers, processors, distributors and retailers. The total value of the industry is estimated at around $57 billion (total of retail sales and exports). Food and fibre primary production contributed 12.5% of production-based GDP in 1994-95 and food and beverages processing amounted to 14.3%.
>
> The food processing industry is Australia's largest manufacturing industry. Export earnings from food products totalled $13.4 billion in 1994-95, representing 20% of Australia's total merchandise export earnings." *Food Regulation Review – Issues Paper* [10]

- ➢ **RMAC assesses that regulation applied to production, processing and domestic or export sale of food products has clear external, public benefits.**
- The government policy direction is to regulate where needed for the wider good.
- The various forms of Government involvement in regulation of food (meat) processing and sale including export, clearly have benefits external to the commercial businesses involved in the meat supply chain.
- ***To be logical and fair, and to ensure appropriate market and competition signals, these external benefits should be factored into cost recovery equations.***

RMAC's assessments are supported by explanation on regulatory approach provided by the then Department of Primary Industries & Energy to the Food Regulation review.

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[9] Office of Regulation Review, *Regulation Guidelines* 1998. Pollution by a factory is an example of an external cost. Immunisation programs have external benefits, beyond the direct benefit to the immunised individual.

[10] *Food: a growth industry*, the final report of the Food Regulation Review, 1998, Chairman Dr William Blair; The Issues Paper was released in September 1997.

DPIE View on Government Intervention in the Food Sector – 1997 [11]

"Government policies in respect of industry growth and development are designed to create the right environment for industries to be vigorous, sustainable and internationally competitive. In the main, this will be achieved through market forces.

"***However, there are economic and social objectives which governments and the community believe should be addressed through government intervention.*** Such intervention can range from the provision of government incentives to co-regulation or a full regulatory approach with appropriate penalties.

"The DPIE view is that regulation should generally be limited to that which is absolutely necessary to meet legitimate policy objectives and that a regulatory approach should only be adopted after other means of intervention have been considered. Such regulation should be imposed with minimum cost to industry.

"DPIE adopts this approach in the administration of a number of regulations that affect the primary production sector of the food industry. These regulations cover a broad range of activities related to the sustainable production and development of primary industries and complement industry initiatives.

"***In relation to food safety, DPIE notes the increasing strength of interest among customers and consumers and it is acknowledged that food safety is a non-negotiable element of food quality that must be met if Australian food products are to avoid being excluded from both domestic and export markets.***

"However, food safety considerations, in themselves, do not justify Government intervention.

"Rather, decisions on the need for government intervention (regulatory or otherwise), in relation to food safety, should be based on: the food safety risk of a particular product; the demands and expectations of consumers; market failure; and trade access.

"The food industry itself has the primary responsibility for the delivery of safe food and consumers will quickly respond by no longer buying products where they feel food safety is compromised.

"Clearly, however, there is a community expectation that government has an important role in working with the Australian food industry to improve its safety performance.

"There are several ways in which government is working, and can work, with industry to address food safety concerns. These can include regulation, the development of codes of practice, the establishment of standards, assistance in training for improved quality assurance and HACCP approaches, consumer education, assistance for research and development and acting as a facilitator on such matters."

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[11] *Food Regulation Review*, Submission from the Commonwealth Department of Primary Industries & Energy, Nov 1997 (emphasis added)

.c. Competition, market signals and industry involvement

Encouraging competition in active marketplaces is another key Government policy objective, formalised in the COAG Competition Principles Agreement of 1995 which arose from recommendations in the 1993 *National Competition Policy Report*.[12]

The expected benefits of competition in providing goods and services have been set out in many papers, and are now well evident in many Australian industries where monopoly organisations previously functioned (eg. telecommunications).

National Competition Policy aims to advantage the Australian community.[13] Benefits expected to arise from increased competition among private and public sector businesses include:[14]

- lower costs for essential services and other input supplies to industries
- better prices to customers
- clearer market signals to support investment and innovation
- higher productivity in industries directly reformed and associated industries
- enhanced competitiveness on local and international markets, and
- the conditions for more sustainable economic and employment growth.

Competition can engender a stronger organisational service culture as well as efficiencies. That competitive markets are significantly different to monopolies (Government or private sector) is recognised in the exclusion from this Inquiry of Government Business Enterprises supplying and charging for services competitively:[15]

> "What is not covered? … commercial arrangements by Government Business Enterprises in contestable markets such as telephony charges by Telstra, workers compensation payments to COMCARE, and payments under Commonwealth insurance schemes such as the Export Finance Insurance Commission (EFIC) (however, commercial activities of regulatory, administrative and information agencies could be under reference and cannot be excluded at this stage)."

➢ **RMAC recognises the advantages of competition, yet it is not always feasible**

- At times Government, or Government with industry, will decide that a regulatory or service activity must occur (or continue) in government, or externally as a monopoly backed by legislation, likely for wider public good reasons [3.1 a, b].
- Cost recovery calculations should therefore take into account likely higher costs under non-competitive arrangements. The difference is attributable to public benefit.
- Industries should also be closely involved in defining extent of services and reasonable costs and charges.

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12 *National Competition Policy*, Report of the Independent Committee of Inquiry 1993, pp 203-205 Chp 9

13 National Competition Council [NCC], *National Competition Policy Second Tranche Assessment*, June 1999, p45. NCP aims to secure increase competition by – extending the reach of the anti-competitive conduct laws in the *Trade Practices Act* to virtually all private and public sector businesses; improving the performance of essential infrastructure; improving performance of government businesses through structural reform, and reviewing and, where appropriate, reforming all laws which restrict competition to ensure restrictions provide a net community benefit.

14 Various reports on competition and microeconomic reform have provided reasoning for review of regulations impacting on competition. Also, E Willett, Executive Director, NCC, *National Competition Policy and the Rural Sector*, March 1999

15 Productivity Commission *Issues Paper* page 11.

3.2 Recovering costs – direct and indirect effects

As identified in the Productivity Commission Issues Paper [*p14*], "the fees and charges set by regulatory, administrative and information agencies may have important economic implications". Among other effects, "the design of some schemes may influence resource use, impose barriers to market entry and constrain competition".

The direct consequences of cost recovery programs are likely to be intentional. As identified in the Productivity Commission Issues Paper *[pages 6, 15]*, charges might be levied to steer and limit use of the Government resource, to provide incentives to improve efficiency, to distribute costs equitably and to raise revenue.

However, at times, cost recovery imperatives and associated arrangements can have unplanned (if foreseeable) consequences even at the mechanistic level.

For instance, the 1996 Nairn Committee report on Australian Quarantine observed:[16]

> "Although supporting the general principle of cost-recovery for quarantine services, the Review Committee believes that the application of this policy should not be taken to the extreme. Observations during the inspection phase of the Review lent weight to the view that quarantine staff were tending to concentrate effort on cost-recovered programs to the detriment of budget-funded activities…the Review Committee received a strong impression that some quarantine activities appeared to be driven more by the ability to charge for services than by the need to meet the objectives of quarantine."

Government regulatory, administrative and service activity in an industry chain of businesses is often complex. Accumulating costs can diminish both public and private benefits. Comments about government inspection in Australian meat industries illustrate the various ways in which a regulatory service and cost recovery can impact on businesses in competitive markets. These comments are indicative of business-government interface issues generally.

> "Plants and operations today will continue to lift their performance in areas such as Food Safety and product quality or go out of business. [AQIS's] Project 2 is a test in these areas. Between Federal, State and Council regulations ... we could improve performance with more understanding and less stand-over regulations. It proves too costly to challenge bureaucracy." *Red meat processor 1998* [17]

> "Now we have company inspectors, our own inspection systems as well as audits by authorities and by customers. Large export plants could still have say 14 AQIS inspectors plus 12 of their own QA and Aus-meat certified people. The value added by all the inspections should be seriously questioned, particularly separate Aus-Meat audits now the HACCP schemes are in place." *Red meat processor 1998*

International competitiveness is a critical issue for Australian meat industries. For this reason, RMAC and MLA have commenced an investigation into government charges and other costs or assistance in major competitor countries (USA, NZ) with the aim of identifying true competitive disadvantages or advantages.

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[16] *Australian Quarantine, a shared responsibility*, Nairn Committee, 1996 p124

[17] Processor comments to the Meat Industry Council, *Regulations Impact Study*, SJ Welsman 1998

> "As is typical of commodity markets, customers for beef and sheepmeat products in international markets are extremely sensitive to the prices offered by alternate suppliers. Relatively minor price differences can result in major changes in market share." *MLA Terms of Reference for Industry Competitiveness Study, 2000*

Reports from meat exporters (from recent studies on pork) provide further insights.

> "Despite the fact that our abattoir is accredited under Project 2 which allows for company inspectors we still have costs of approximately 1.75 cents per kilogram that the North Americans do not have. This is $375,000 per year for our operation." *Ausport submission to Productivity Commission Inquiry 1998* [18]

> "Another competitive disadvantage is the cost of meat inspection which is extraordinarily high in Australia. In North America the cost of meat inspection is borne by the public which should be the case if governments and the community want to enforce hygiene standards…for the benefit of the consumer." *Bunge Meat Industries* [19]

- **RMAC considers that cost impacts should also be assessed broadly**
  - The potential impacts of cost recovery (or not charging) need to be assessed against expected private and public benefits [3.1]. Nowadays most government regulatory activity affecting businesses will have a degree of public benefit.
  - Full recovery places all costs on the immediate user and can influence viability and competitiveness of businesses along the specific supply chain. This may not reflect the external public benefits. Nil recovery spreads the costs to the Australian public.
- **RMAC considers that a range of questions should be examined in assessing impacts of recovering regulatory costs in Australian industries**, including:
  - Is the government activity in part a response to consumer expectations and so engenders public confidence in the industry, the supply system and the government?
  - Could this need be met by a less costly arrangement? Are costs added by government activity giving commensurate benefit? To the business, to the wider community?
  - If the regulations are addressing market failure, what proportion of this is attributable to the business sector being regulated and paying the Government charges?
  - What is the impact of additional costs on industry competitiveness in domestic and export markets? Do competing industries in Australia or overseas experience the same level of costs for services, and are these fully recovered by Governments or not recovered at all (for reasons of public benefit, or trade assistance)?
  - If the activity is needed for access to overseas markets, would loss of the markets impact only on the businesses paying, or to pay, the charges?
  - How much of the government activity is prescribed by government compared to requested by industry? Is the activity carried out to meet international agreements made at diplomatic level? Does the activity boost Government /national profiles?

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[18] Productivity Commission Inquiry, 1998, Report: *Pig and Pigmeat Industries: Safeguard Action Against Imports*.
[19] Bunge Meat Industries, Submission to the Productivity Commission, August 1998. Refer 3.4 on USA processes.

3.3 Calculating costs, handling revenue, accountability

In addition to questions of principle about cost recovery, there are many mechanical aspects to consider. The Commission divides 'costing of an activity' into three steps:

- defining the activity to be costed
- measuring the direct and indirect costs of providing that service; and
- apportioning costs to across sub-activities.

The Commission asks *[Issues Paper pp 19-20]*:

- In what circumstances should both direct (additional costs of providing the service) and indirect costs (overheads) be recovered?
- Under what circumstances should capital costs be recovered (noting possible gold plating in activities not under competitive pressure)?
- What is an appropriate rate of return to charge on equity?
- What other costs should be recovered? For example, insurance costs, warranty costs, consultancy fees, credit control cost or leasing costs?
- How should labour costs be measured? For example, should payroll tax and superannuation charges be included?
- What are the most appropriate methodologies for allocating costs for different activities and circumstances?
- How does the monopoly provision of regulatory, administrative and information activities affect fees and the operation of agencies?

> **RMAC considers full cost identification is critical. Apportioning cost recovery is a separate question to understanding true costs.**
>
> - ***For full cost identification, all costs should be 'counted-in', as they would be for a comparable commercial activity*** (eg. service providers, professional firms, accountancy businesses of varying sizes). Such businesses would have a range of direct cost and overheads including capital, interest on loans and cash holdings, insurance, policy staff etc). Competitive Neutrality principles provide guidance.
> - Without full cost identification, neither Government nor user businesses or industries will have sufficient information to assess whether, overall, the government activity is achieving net socio-economic benefits for Australia.
> - ***Calculation of full costs is also one way Government and users can assess the premium (or savings) to the public of a service being a monopoly, government venture*** without competitive pressures (but with potential for monopoly expenditure patterns and pricing).
> - Where reasonable, cost identification should extend to activities within services (ie. full distribution of direct and overhead costs to a sensible level).
> - Cost identification should not be influenced by issues such as consumer demands, privacy of data, and Government regulatory responsibilities. Where Government policy making costs can be distinguished from planning and policy *within* regulatory and administrative functions these could be excluded.
> - ***Underestimating costs can reduce incentives to consider alternative ways*** both within the function and options such as outsourcing. Or, full costing could show that an activity would not be a viable in a commercial environment.

Where cost-recovery, full or partial, is decided upon, further questions arise about appropriate arrangements (such as flat fees, fees per services, industry levies), channelling of funds, appropriate processes and possible consequences of these.

The Commission asks, for instance:

- Should agencies be able to retain control of some or all of the fees they collect?
- Does cost recovery lead to excessive regulation or inefficient regulation?
- Are the characteristics of client businesses important in setting fees and charges?
- Do the arrangements have different impacts on small and large businesses?
- What effects do cost recovery arrangements have on efficiency and competition?
- How can cost recovery arrangements be designed to minimise unwanted effects?
- Are some parts of industry (eg. large firms) having undue influence on the policy process to the detriment of others?
- What scrutiny should be given to new cost recovery proposals? By whom?
- Where an agency has developed and implemented cost recovery policy have any conflicts of interest arisen? What should be done about any such conflicts?
- How could accountability and transparency of cost recovery arrangements be improved? To whom should cost recovery arrangements be directly accountable?
- How can review and evaluation processes for recovery arrangements be improved? What access and equity considerations should be taken into account when introducing, designing and administering cost recovery arrangements?

> ➢ **RMAC considers decisions on cost recovery should be based on Government policy, public benefit and cost impacts** [3.1, 3.2] **plus data on full costs. Cost recovery arrangements and implementation then become important.**
>
> - ***As a general principle***, whatever the cost recovery mechanism used (flat fees, fee for service, levies) it should be linked closely to the proportion of costs (direct and associated overheads) incurred by each user (so a large user would usually pay more).
> - ***Where there are divergences from this principle, the variations should be openly explainable in terms of Government Policy Directions*** and the associated wider public benefit (consistent with the arguments in section 3.1).
> - ***Such Government Policy Directions could include*:** encouraging new technologies and work practices, encouraging start-up businesses, encouraging competition and efficiency, supporting regional areas, supporting industries and businesses in opening new markets, and regulatory responsiveness and flexibility within a framework.
> - ***Where the government is providing a monopoly, regulation backed service, there is no room for commercial dealing by the agency on prices.*** This could influence, inappropriately, the integrity of regulatory and cost recovery arrangements. Potential conflicts of interest between government role and income raising need to be examined.
> - Similarly, a Government monopoly service provider is not a business and should not automatically retain revenue raised. Where the service is carrying loan costs, revenue should be accounted for against these.
> - ***Conversely, the Government should commit to medium and long term planning and sufficient funding to ensure the monopoly services are appropriately delivered.***
> - ***Consultation, accountability and review*** arrangements need to reflect the degree of public benefit attributed to the activity (wider external consultation where higher public benefit) and, within an industry, to cover the range of users (large, small, urban, rural) and potential users (who would have a view on current costs).

3.4 Proposed Cost Recovery Principles

When it has been decided that an activity should be carried out by Government, determining whether cost recovery is to occur and to what extent, should be a considered rather than simplistic process, taking into account many factors.

Governments in democratic, market economies routinely face the questions of how much regulation? to what end? potential consequences? who is to benefit? who might lose? who pays – one way or the other?

There can be many strategic, political, market, competition and socio-economic reasons for deciding on a Government role and levels of cost recovery.

These reasons can usually be summarised as a Government-Policy-Direction for Public-Benefit. A mix of considerations is demonstrated in this example relevant to Australian meat industries *(from the USDA FSIS website October 2000)* :

Food Safety and Inspection Service
United States Department of Agriculture
Washington, D.C. 20250-3700

Consumer Education and Information
August 1998 (current at October 2000)

INSPECTION AND GRADING: What Are The Differences?

The inspection and grading of meat and poultry are two separate programs within the U.S. Department of Agriculture (USDA). Inspection for wholesomeness is **mandatory** and is paid for out of tax dollars. Grading for quality is **voluntary**, and the service is requested and paid for by meat and poultry producers/processors.

Inspection: American consumers can be confident that the Food Safety and Inspection Service (FSIS), the public health agency in the USDA, ensures that meat and poultry products are safe, wholesome, and correctly labelled and packaged.

Under the Federal Meat Inspection Act and the Poultry Products Inspection Act, FSIS inspects all raw meat and poultry sold in interstate and foreign commerce, including imported products. The Agency monitors meat and poultry products after they leave federally inspected plants. In addition, FSIS monitors state inspection programs, which inspect meat and poultry products sold only within the state … If states choose to end their inspection program or cannot maintain this standard, FSIS must assume responsibility for inspection within that state. … …

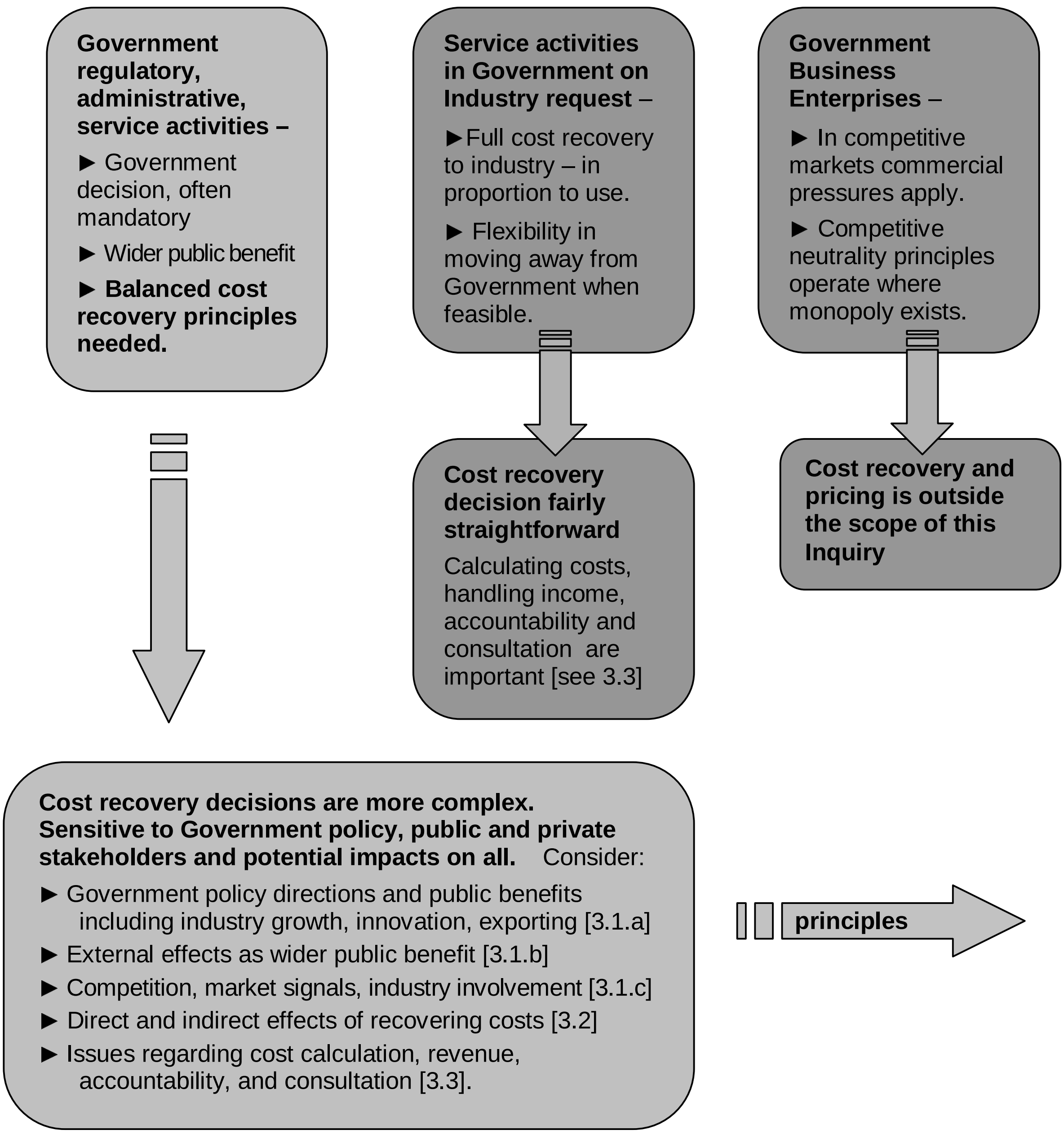
Since the mid-1970's, FSIS has been modernizing inspection to reduce costs and make it more science based. Statistical sampling and scientific tests are important tools for today's inspector.

Voluntary Federal inspection for animals not covered under mandatory inspection (i.e., buffalo, rabbit, reindeer, elk, deer, antelope, ratites) is handled under the Agricultural Marketing Act and gives the Secretary of Agriculture the authority to take whatever steps are necessary to make the product marketable. … *Businesses that request voluntary inspection must pay an hourly fee for the service whereas mandatory inspection is funded by tax dollars.*

In modern public sector theory, government regulatory or administrative activity affecting businesses should be occurring only if there is some identifiable wider public benefit. This is made clear in the Competition Policy Agreement principles and the National Competition Policy review processes and recorded in many statements by Commonwealth and State Government leaders over the 1990s.

So, it would appear that 100% cost recovery of a Government regulatory, administrative or information activity from direct users on the basis of private benefit, would rarely be supportable. The exception would be circumstances where an industry has sought a government role to directly assist the industry alone, because there is no realistic option.

- **RMAC sees three basic categories of Government activity and cost recovery**



- **RMAC recommends the following as a set of Cost Recovery Principles and key questions – for use in review of current practices and deriving Guidelines.**

1 ***The policy directions of the Government indicate Australian socio-economic priorities and weighting.*** The general Government goal is to achieve public benefit.

2 ***Policy directions should set a framework for assessing public and private benefits*** from government regulatory, administrative or service activity. Such policies include industry growth, innovation, exports, regional support, the environment, competition.

3 ***As a theoretical baseline, government regulatory or other activity affecting businesses should be occurring only if there is identifiable public benefit.*** The Government policy direction is to regulate where needed for the wider good.

4 ***External benefits (externalities) should be factored into cost recovery equations***. Regulatory or administrative activity should have identified public benefits. Exceptions likely arise where industry requests Government to carry out a role.

5 ***Where Government, or Government with industry, decide that a regulatory or service activity must occur (or continue) in government or as a monopoly agency***, the public benefit calculation should take into account likely higher costs of a monopoly activity. The difference should be attributable to public benefit.

6 ***The impacts of cost recovery should be assessed broadly (as for public benefit).*** The potential impacts of cost recovery decisions (including to not charge) need to be subtracted from expected private and public benefits.

7 ***A range of questions should be examined in assessing the impacts of recovering regulatory costs in Australian industries***, including (but not only):

- Are the regulatory activities in response to public demand? To what degree do they engender confidence in or returns for businesses, an industry, Government, the public?
- Could this need be met by a less costly arrangement? Are costs added by government activity giving commensurate benefit? To the business, to the wider community?
- If the regulations addressing market failure, is this by the regulated businesses only?
- Do additional costs affect industry competitiveness in domestic and export markets? Do competing industries in Australia or overseas have the same costs for services?
- If the activity is needed for access to overseas markets, would loss of the markets impact only on the businesses paying, or to pay, the charges?
- How much of the government activity is prescribed by government? Does the activity boost national or international profiles of government, industry, businesses?

8 ***Full cost identification is essential***. Cost recovery is a separate question to understanding true costs. For full cost identification, all costs should be treated as they would be in a broadly comparable commercial activity.

9 ***Whichever cost recovery mechanism is used, charges should be linked closely to the proportion of costs incurred by each user*** (directly and associated overheads).

10 ***Where there are divergences from this proportional recovery principle,*** the variations should be openly explainable in terms of support to Government Policy Directions and associated public benefit.

11 ***Consultation, accountability and review arrangements*** need to reflect the degree of public benefit attributed to the activity and, within an industry, to cover the range of users and potential users.

4 CURRENT ARRANGEMENTS – FIT WITH PRINCIPLES

The government-business interface and cost recovery principles proposed by RMAC above should be generally applicable across Australian industries.

RMAC's specific interest, of course, is the Australian red meat industry (beef cattle, sheepmeat and goatmeat production, processing and sale in Australia and exported).

In developing the principles through section 3, RMAC has provided illustrations that particularly relate to the Australian food production sector, and to meat industry regulation, including meat inspection and export. RMAC is concerned to achieve regulatory, administrative and cost recovery arrangements for the red meat industry which support: –

- Government policy directions for industry and for agricultural / regional industries particularly, including innovation and export growth, and
- Red meat industry development objectives.

To this end, current cost recovery arrangements by four agencies are considered in this Submission, from the perspective of apparent the fit with the Principles RMAC recommends [3.4]. The four agencies are all within the AFFA portfolio:

Australian Quarantine Inspection Service (AQIS) Meat Inspection Program

National Residue Survey (NRA)

The Levies Management Unit (LMU), and

The Quota Administration Unit (QAU).

4.1 Agriculture, Fisheries and Forestry, Australia

An understanding of the portfolio Department is important to consideration of cost recovery arrangements subsidiary agencies and units.

During 1998-99, the former Department of Primary Industries and Energy (DPIE) was dissolved and the Department of Agriculture, Fisheries and Forestry - Australia (AFFA) was formed. The organisational changes have been significant but many of the Departmental functions continue from years and decades past. The 1998-99 *AFFA Annual Report* states that AFFA aspires to four organisational characteristics, known as 'AFFA 2000':

- a sharp focus on results and outcomes;
- a strong commitment to planning at all levels throughout the Department;
- pervasive feedback; and
- an openness to innovation.

The 1999 AFFA Planning process identified five Key Result Areas (KRA's) to guide AFFA's strategic direction: Industry Competitiveness, Sustainable Natural Resource Management, Animal, Plant and Fish Health, Food Safety and Related Public Health, Trade Growth and Market Access, and Management Excellence.

In 1999, AFFA issued a new Service Charter directed to all clients. This Charter contains a number of items relating to points raised by RMAC in sections 3, including:

We (AFFA) are committed to [summarised]:

- providing high quality, evidence-based policy advice and support to the federal portfolio Ministers …that take account of the views of other government agencies, industry and environmental organisations and interested members of the public
- *developing effective and efficient legislation, guidelines, programs and measures consistent with the government's broader reform agenda*
- consulting widely with those who may be affected by Federal Government policies…
- providing national export certification services to maintain Australia's access to international markets …, and
- *providing world-class economic and scientific research, analysis and advice to enhance the competitiveness and sustainability of our portfolio industries.*

Specific insights into AFFA activities is provided by a 1998 summary of Key Areas of Regulatory Intervention by then DPIE provided to the Food Regulation Review.

"The key areas where DPIE is involved in a regulatory sense to implement Commonwealth Government policies are listed below. These regulations are designed to address legitimate objectives including those of protecting the natural resource base, meeting international obligations, ensuring access to international markets and correcting for market failure."
[Some points below are abbreviated].

Food Exports. Under the *Export Control Act 1982 …* DPIE - through AQIS - inspects certain prescribed goods to ensure they meet the requirements of importing countries in relation to safety, wholesomeness, accurate product description and, where relevant, animal welfare. These inspection arrangements are designed to fulfil Australia's multilateral and bilateral obligations in respect of food exports.

Food Imports. AQIS inspects imported food for compliance with Australian domestic food standards as set out in the *Australia Food Standards Code.*

Production Levies. Levies are imposed on a range of rural commodities and products under commodity specific legislation**.** DPIE is responsible for the collection and disbursement of levies.

***Residues*.** Under the National Residue Survey (NRS), established by the *National Residue Survey Administration Act* 1992, the NRS monitors chemical residues in 23 of Australia's primary industry commodities. Programs include both domestic and export market segments and are conducted to meet mandatory domestic hygiene requirements and AQIS export certification requirements.

Other regulatory activities: Oversight of Statutory Marketing legislation; Resource Management (Fisheries) and Registration of Agriculture and Veterinary Chemicals.

- **To RMAC, it appears that AFFA should be supportive of cost recovery arrangements (changed if needed) that relate effectively to Government Policy Directions and public benefit assessments.** There is no suggestion that AFFA activity is directed primarily to the private benefit of businesses or individuals.

4.2 AQIS – Meat Inspection program

The Meat Inspection Division (MID), earned \$56 million in 1998-99, over one third of the total \$141 million of income earned by AQIS as a whole.[20]

AQIS separates the MID, covering registration of meat processing and preparation facilities, meat inspection services and export certification, from other activities which are grouped in the Quarantine and Export Certification Divisions.[21]

AQIS Expenditure and Income 1997-98 to 1998-99

	AQIS		Meat Inspection Division	
	1998-99	**1997-98**	**1998-99**	**1997-98**
Total Expenses	\$188.5 m	\$180.2 m	\$65.6m	\$78.8m
Income from non-government sources	\$112.5 m	\$110.3 m	\$54.7m	\$58.6m
Revenue from Government	\$73.8m	\$97.1m	\$11.8m[22]	\$22.5m

In a September 1999 address, then AQIS Executive Director Paul Hickey, outlined the costs of the seven main export certification programs operated by AQIS in comparison to the value of exports certified.[23] It is important to note that, in addition to exports, significant quantities of 'export-inspected' red meat (and other products) are sold to Australian consumers.

Program	**Export trade \$m**	**AQIS costs charged \$m**	**% of exports trade**
Meat exports	3,500	55.2	1.60
Grain exports	5,500	6.7	0.12
Dairy exports	2,300	1.1	0.05
Seafood exports	1,300	4.1	0.31
Live animal exports	500	1.9	0.40
Horticulture exports	750	0.1	0.30
Organic Produce exports	30	0.1	0.30

The Australian National Audit Office recently completed a review of *AQIS Cost Recovery Systems*, concentrating on mechanisms used by AQIS to recover costs.[24]

The ANAO review report provides useful and current data and explanation on the on the various cost recovery arrangements within AQIS. Some understanding of the history and philosophy behind current costs recovery can also be gleaned.

[20] *AFFA Annual Report 1998-99* sets out expenditure and income. Also ANAO Cost Recovery in AQIS 2000.
[21] Here, 'meat' is primarily red meat but also pigmeat and some other larger animals.
[22] It is understood that this figure includes some \$10 million special one-off redundancy payments.
[23] *AQIS Meat Inspection program, Future Directions*, Paul Hickey to RMAC workshop September 1998
[24] ANAO report No. 10 September 2000: *AQIS Cost-Recovery Systems.*

► Features of AQIS and Meat Inspection Division Cost Recovery [25]

- From 1979, AQIS has been required to recover some of the costs of its activities from users, starting at 50%, increasing to 60 % from 1 July 1988 and 100 per cent cost-recovery for recoverable programs from 1 January 1991.
- The government requirement for full cost-recovery is formalised in a 1994 Memorandum of Understanding (MoU) with the Department of Finance requiring AQIS to recover its full costs on a program basis.
- However, AQIS operates some 30 business programs, of which 13 are cost-recoverable (covering 85% of staff costs).
- In 1998-99, AQIS as a whole received $73.8m of government appropriations to fund 'Community Service Obligations' including the Policy and International Division, the Northern Quarantine Program and Meat Inspection redundancy payments.
- Within AQIS some programs are 'not recoverable'. When AQIS states it recovered 103.3% of costs in 1997-98 or 97.8% in 1998-99,[26] these refer to 'recoverable costs'.
- Among the recoverable programs the level of cost recovery is variable.[27] In 1998-99, AQIS recovered 100% or more of attributed costs for: Meat, Grains Exports, Animal Quarantine Stations, and International mail. Recovery near 100%: Post entry Plant Quarantine, Exports Fish & Processed, Exports Dairy. Recovery less than 95%: Live animal exports, Airports, Quarantine Import Clearance, Horticulture exports, Seaports.
- ANAO identified that the Meat program under-recovered its costs over the last six years to 1998-99 by $31.7 million (after government subsidies) or an average of $5.3 million each year. AQIS advised ANAO that this was 'largely a result of an inability to reduce costs due to rigid industrial relations arrangements, and difficulties in addressing the industrial blockages or increasing fees and charges under then Government policies'.

The Australian National Audit Office report examines the mechanisms being used by AQIS to recover costs, on the basis of the AQIS commitment to recover full costs for identified programs. The ANAO report makes recommendations on changes to AQIS arrangements for cost recovery, including (in summary):

- full documentation of cost-recovery policies and guidelines.
- closer recording of staff allocation by program and activity
- more comprehensive reporting to clients, including over and under recovery
- charges to specific clients should align with service costs with variations explained.

The ANAO does not question the policy or philosophy behind decisions to recover 100%, or nil, of some costs, or to operate at below full cost recovery in some areas, and this was likely not part of their brief.

It is important to this Productivity Commission Inquiry that foundation questions be considered. The Principles proposed by RMAC provide a basis for such reviews [3.4]. An initial assessment is carried out in the following section.

[25] These points are part fact, part assessment. The factual details derive mostly from ANAO report No.10 of 2000, with other sources as indicated. Where used, ANAO assessments are cited.
[26] ANAO report, using AQIS data published in Annual Reports to Clients.
[27] ANAO report page 107

.a. Cost recovery principles and AQIS Meat inspection

1) ***AQIS meat inspection and export certification are clearly activities that benefit a broad range of Australian and international stakeholders*** – direct public benefit is substantially wider than businesses exporting or considering export.

2) ***Public benefit is partly attained through AQIS facilitating Government policy directions***, including industry growth, exports, support to agriculture and regions.

- Statements by DPIE, AFFA and AQIS confirm that this government regulatory and service activity occurs because there is public benefit to be gained [3.1.b, 4.1]. Meat inspection and export certification is mandatory. It is not carried out just for the private benefit of meat processing and exporting businesses.

3) ***It is arguably a Government decision***, noting local consumer and international requirements, that export meat inspection be carried out in its current prescribed and monopoly manner. Cost structures appear to reflect public sector culture and the linking of policy with services. Apparent benefits accrue more widely than meat businesses.

4) ***The detailed regulatory activity is in response to a range of demands, some relating to food safety, some to trade access, some to history***. Benefits of Government inspection such as consumer/importer confidence, accrue to the public, the Government at home and internationally, all Australian food industries, plus meat industry businesses.

5) ***Where these regulations address market failure***, the potential for failure exists along the food chain and is not just with the processing and exporting businesses.

6) ***Additional costs do affect meat industry competitiveness in domestic and current and new export markets.*** Some industries in Australia face lower costs (seafood, chicken) and mandatory inspection is government paid for a major competitor, the USA.

7) ***If some overseas markets were not accessible*** as a result of AQIS not providing this service, ramifications would extend far more widely than the meat businesses paying the current cost recovery charges (this is also the case when Australian meat is not competitive in potential new markets).

- **RMAC considers that 'external benefits' and policy considerations should be factored into cost recovery arrangements for AQIS Meat Inspection**
  – as they are for other AQIS activities and in agencies such as Austrade.

- ***The arguments above support an in-principle case for decreasing the level of AQIS Meat Inspection cost recovery*** and for Government funding of a greater proportion of costs. More detailed analysis may be needed on some points.

- ***It appears that a realistic case for substantial Government coverage of AQIS meat inspection and export certification costs could be established***. This would offer efficiency incentives to both Government and Industry.

- ***Consistent with the Government policy direction to encourage innovation***, such cost reductions might be transparently linked with enhancing business quality assurance, such as HACCP systems or internal inspector-auditor training.

4.3 National Residue Survey – NRS

> "The National Residue Survey was commenced in 1961 as a monitoring program for chemical residues in agricultural commodities. It provides an unbiased estimate of the frequency of residues of a range of agricultural and veterinary chemicals, and environmental contaminants in the individual commodities for targeted surveys and extension. The NRS provides assurances to Australia's trading partners and domestic consumers of the low residue status of these commodities. Inclusion of chemical and commodity profiling is based on risk profiling." *Australian Standard for Meat* [28]

NRS is a specialist technical-testing body, part of the Bureau of Resource Sciences within AFFA. Current activity builds on a history of national random chemical testing going back to DDT in the 1960s. NRS Random and Targeted Programs extend across a range of agricultural products – animal and plant.

► **Features of NRS activity from a red meat perspective**

- ***Red meat surveys are the largest NRS activity***. In 1998-99, 6,889 samples were collected from cattle (62,613 tests conducted), and 5,231 samples from sheep (52,998 tests), followed by wheat (3,397 : 47,449), barley (869 : 12,389) pigs (2,208 : 36,366) and poultry (436 : 6,037).[29]
- ***Participation in the National Residue Survey is mandatory under the Australian Standard*** for both domestic and export meat processing plants.
- ***The NRS random testing program in any given year is set in a consultative process involving Cattle and Sheepmeat Councils, processors and AQIS***. The same basic program of statistically random sample collecting and testing carcasses and offal for the agreed range of chemicals is applied to all domestic and export establishments - this constitutes 'participation in the NRS'.
- The NRS team compiles information as reports for the industry, feedback to State authorities in case of identified problems, and to AQIS. NRS underpins AQIS certification that meat supplied to certain countries complies with their specifications.
- In theory, NRS testing should relate directly to risk of chemical levels being dangerous if consumed by humans. In practice, "human health … is rarely an issue with respect to residues since trade associated limits are set at levels far below those required to meet health needs",[30] – including Maximum Residue Limits (MRLs) for chemicals set by the Food Safety Council of Australia through the National Food Authority and Maximum Permitted Concentrations (MPCs) for heavy metals.
- ***For meat sampling and testing, NRS is a monopoly set in place by regulation and NRS tends to follow the most demanding country programs***. At times these are negotiated by AQIS. Within this structure, programs are reviewed annually with the meat industry. NRS out-sources various sub-activities to public or private sector providers. Some NRS activities for other industries are contracted not regulated.

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[28] *Australian Standard for Hygienic Production of Meat for Human Consumption* p 53
[29] National Residue Survey, *Annual Report 1998-99*
[30] National Residue Survey, *Annual Report 1998-99*

NRS receives most of its income from the industries involved as levies, under the *National Residue Survey Administration Act 1992*, the *National Residue Survey (Excise) Levy Act 1998* and the *National Residue Survey (Customs) Levy Act 1998.*[31]

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Operating expenses $m	3.6	5.6	7.4	7.5	7.2	7.1
Revenue from industry $m	2.7	4.3	5.8	6.1	6.1	5.8
Recovery %	75	77	78	81	85	82

NRS recommends to industry levy collection rates to cover NRS costs and to develop reserves to enable rapid response to unforseen survey needs. Excess funds are held on trust for the industry and interested is earned and credited.

In 1998-99, beef cattle producers paid $1,562,000 in levies (32 cents per animal, 26 cents per bobby calf), whereas expenditure was $1,292,000. Beef industry reserves increased to $2,547,000.

Sheep producers paid levies of $1,248,000 in 1998-99 (2% of sales value of adults, 1% of lambs) with expenditure of $900,000, and reserves increasing to $1,142,000.

The Federal Government rationale for full cost recovery by NRS was set out in the Second Reading Speech for the National Residue Survey Administration Bill in 1992 – a Bill to establish more effective and equitable cost recovery for the NRS.

> ‘The Survey was funded wholly by the Commonwealth until 1987 when the scale of testing was increased substantially and 60% cost recovery then became applicable. The recovery was effected by way of fees and charges under the export inspection arrangements. … the Government has decided that, as producer industries are the main beneficiaries of the survey, cost recovery should apply to the fullest extent possible from 1 July 1993. …
>
> The inclusion of a product within the survey is dependent on funding being available, either by a levy or other means. For those products which are required or requested to be included in the survey the levy imposition Acts allow collection of money to be made in an equitable and simple manner. … unless there are compelling reasons to the contrary, no product will be proposed for inclusion in the survey unless the Minister is satisfied that its inclusion accords with the wishes of the relevant industry.”

The NRS 1998-1999 *Annual Report* contains its current statement on Cost Recovery.

> “The basic policy underlying cost recovery for the NRS program is that, within an accounting period, expenses must be equal to revenue received. It is not a function of the NRS Reserve to generate a profit or sustain a loss, or to subsidise the activities of a particular industry or the Government, nor can industry programs be subsidised from approbations. NRS funds are not used to cross-subsidise between participating industries and each industry program is operated as a separate cost-centre.”

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31 This information and data following are from the *NRS Annual Report 1998-99.* In 1998-99 , in addition to Revenues from industry, NRS received $396,000 in Government appropriations for Community Service Obligations (policy advice and legislative management, and participation in international meetings), plus interest of $388,439, and $206,553 from sale of goods and services. AQIS and other agencies provided various resources free of charge (such as sample collection).

***National Residue Survey Activities have public benefits extending more widely than the producers of animal and plant commodities*.**

> "Consumers worldwide are becoming increasingly concerned about the chemical residue status of the food they eat. While recognising that agricultural and veterinary chemicals are needed to produce food efficiently, consumers expect assurances that chemical residues in agricultural products do not impose a health risk.
>
> The NRS results are accepted widely in Australia and overseas as scientifically authoritative. They indicate that the residue status of the food commodities exported from Australia is first class. Residue monitoring is an important part of any strategy to minimise unwanted chemicals in food and underpins Australia's position as a clean food producer." *Second Reading Speech, National Residue Survey Administration Bill 1992*

Extracts from NRS Australian National Program 1999-2000, *Monitoring of Chemical Residues in Farmed Animals, Game, Poultry and Eggs* [p 13] demonstrate the multiple purposes and the many stakeholders and interests involved.

> "The purpose of the NRS is to provide confidence in the overall residue status of Australian agricultural produce for human consumption for both export and Australian domestic markets. … the NRS programs identify potential problem areas, thereby enabling government and industry to implement any necessary preventative quality control and quality assurance measures to minimise risk to consumers and markets. …
>
> Development of NRS programs takes account of many factors, including production ands trade issues. To this end there is close consultation with AQIS, other divisions within AFFA and the NRA … [and] extensive consultation with State/ Territory authorities responsible for agricultural and veterinary public health matters and consultation with industry regarding overseas trade requirements and developments."

➢ **RMAC recognises the essentiality of the services provided by NRS, but in reviewing the Principles in 3.4, a number of points arise.**

- There are substantial 'external benefits' to NRS activity (similar to those for AQIS inspection). These should be acknowledged in structuring cost recovery as well as in Ministerial and NRS statements.
- NRS programs are regulatory. Mandatory programs are part prescribed by regulators, with industry input, and there is provision for Government to instruct the NRS to carry out residue surveys.
- The programs fulfil Government responsibilities and enhance Government profiles nationally to consumers and internationally, as much as they support markets for meat producers (the vast majority of whom produce meat within the high test levels). Publicised red meat industry results also benefits other Australian food industries.
- NRS is a monopoly, regulatory provider and can be expected to carry a higher cost structure than similar private sector services. The positioning of the function in Government is a Government-led decision with public benefit elements.
- Any additional costs are a factor in red meat competitiveness. These points should be taken into account in NRS / industry refinement of cost recovery arrangements.

4.4 Levies Management and Quota Administration

These activities have statutory backing, but are run by Government (AFFA) to service the direct needs of specific industries.

.a. Levy Collection and Distribution

The Levies Management Unit (LMU) processes levies imposed by Commonwealth legislation on a range of rural commodities and products, including systems to gather levies legally payable by commodity producers and associated businesses.[32]

In 1998/99, LMU collected about $438 million in levies, charges and penalties and distributed about $516 million, mainly to 27 statutory authorities (the LMU also distributes levy monies collected by the Taxation Department).

The LMU comprises Canberra based and regional staff who audit collection arrangements. The overall LMU cost to all industries in 1998/99 was approximately $2.3 million, representing 0.45% of levy receipts (an average of $53 per return).[33] Some $64 million in levies were collected for the red meat industry, at a cost of $888,000, slightly over 1 per cent of receipts for cattle, but 2.35% for sheep.

LMU levy charges 1998/99 as a percentage of collections *(LMU Annual report)*

Levy/Charge/Fee	Total Collections ($,000)	Collection Costs ($,000)	Collection Costs as % of Collections
Beef Production Levy (Pre July '98)	4,299		
Cattle Export Charge (Pre July '98)	251		
Livestock Export Charge (Pre July '98)	204		
Livestock Slaughter Levy (Pre July '98)	2,005		
Sub total (pre July '98 livestock)	**6,759**	**71**	**1.05**
Cattle Transaction Levy (incl. Export)	41,377	441	1.07
Livestock Transaction Levy (sheep)	15,990	376	2.35
Goat Transaction Levy	183	16	8.85
National Residue Survey Levies/ Chgs	**7,924**	**129**	**1.63**

With new red meat structural arrangements from 1 July 1998, levies for Australian Meat Processors Corporation and Livecorp Australia became voluntary. Levy and charge rates for the 'pre-1998' items were set to zero. Mandatory Cattle and Livestock Transaction levies continue and provide producer funding to Meat & Livestock Australia.

Industries have been required to pay for the collection of levies and charges since 1989. LMU assesses its charges by industry and by commodity, reflecting the work required to collect, record and distribute the levies.

It is understood that a number of internal operational and efficiency reviews of the AFFA Levy Management functions have been conducted in recent years, and a National Competition Policy review is to be completed by end 2000.

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[32] This information extracted from the Levies Management Unit Annual Report 1998-99

[33] From the LMU report: These collection costs were $0.071 million less than in 1997/98 although some administrative requirements increased in complexity in some cases. Legal costs ($0.084 in 1998-99) are charged retrospectively to particular industries on a costs incurred basis.

LMU continuing priorities for operational improvement are: ensuring completeness of revenue collection and more efficient disbursement; improved industry liaison; anticipating levy issues; improved client service through financial and IT management, and provision of a more highly-skilled and motivated staff.

.b. Quota Administration

The Quota Administration Unit was established within AFFA as part of the red meat industry restructuring in 1998. Quota allocations were previously handled by the Australian Meat & Livestock Corporation, a statutory authority.

AFFA agreed to establish the QAU to manage distribution of European Union and USA Lamb and other import quotas and to provide Certificates of quota authenticity. This agreement was based on Unit funding from the new Australian Meat Processors Corporation until a full cost recovery arrangements were established.

A subsequent *Review of Beef and Sheepmeat Quota Allocation 1999* recommended that QAU costs be recovered fully on a cents per kilogram of quota exports basis. This is being implemented. A recent RMAC study of options identified QUA costs to be about $500,000 a year, and that the function would best continue in government. Points against private management include: modest size and uncertainty of revenues, need for considerable computing power, data privacy issues, and limited potential for savings.

- ➢ **RMAC acknowledges that the LMU and QAU are industry services but they also provide wider benefits.**
- The industry is the prime beneficiary. External benefits include statistics used by Government..
- Any issues with full cost recovery revolve around clear identification of full costs, appropriate allocation and efficient management of the Unit activities.
- These issues should be addressed through formal Industry-Unit-AFFA consultation, planning and management arrangements.

5 COST RECOVERY GUIDELINES

- ➢ **RMAC envisages Principles developed early in this Inquiry providing the basis both for reviewing current arrangements and developing future Guidelines.**
- A set of systematic Principles, such as those developed through Section 3 and proposed in 3.4, should guide both the framework and detail of Guidelines for future cost recovery arrangements by any Government agency.
- Design of cost recovery systems should not be so specific and rigid as to themselves increase costs.
- Most Government regulatory and administrative services have direct or indirect public benefit as the rationale for the function being in Government. Public benefit should be acknowledged by partial (not full) cost recovery from industry. Shared cost systems should also give incentive to both industry and Government, as part payers, to achieve cost-effective service delivery.