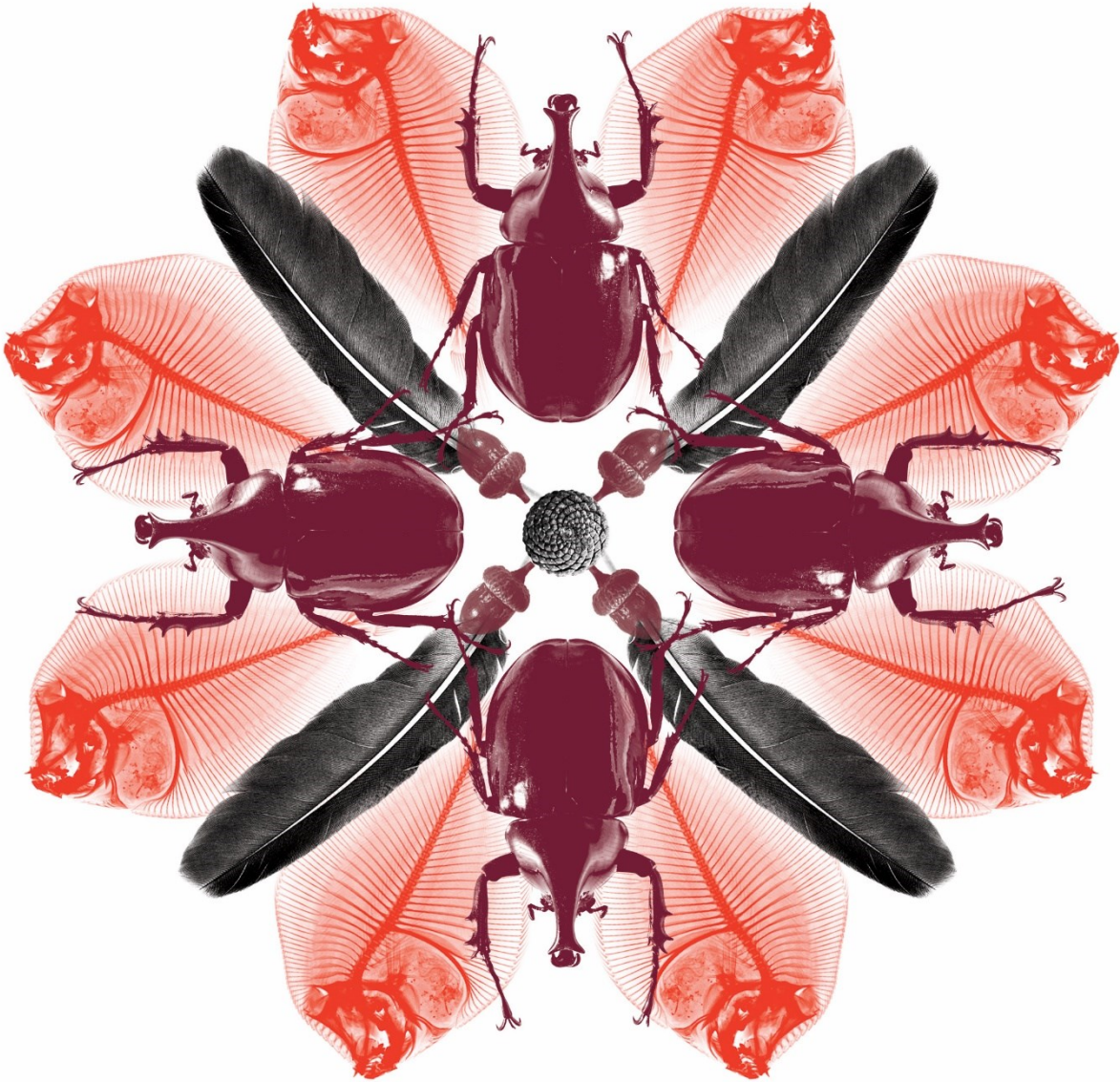


# Regulation Impact Statement Biosecurity and Export Certification Funding



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## Acronyms, abbreviations and definitions

<b>AO</b>	Authorised Officer
<b>Biosecurity activities</b>	Activities related to the management of biosecurity risks associated with people, goods and vessels entering Australia.
<b>Bulk cargo</b>	Loose, unpackaged, non-containerised cargo (such as gas, grains and ores) carried in a ships hold.
<b>Break bulk cargo</b>	Non-containerised cargo shipped as units (such as bundles, pallets, vehicles and drums).
<b>CA</b>	Compliance agreements
<b>Cost recovery fee</b>	Recovers the cost of a good, service or regulation that is provided directly to a specific individual or organisation.
<b>Cost recovery levy</b>	Recovers the costs of goods, services or regulation that are provided to a group of individuals or organisations, rather than a specific individual or organisation.
<b>CRIS</b>	Cost Recovery Implementation Statement
<b>CRGs</b>	Australian Government Cost Recovery Guidelines
<b>EMS</b>	Express mail service
<b>FID</b>	Full import declaration: a declaration for each consignment valued over AU\$1 000 imported into Australia that provides a range of information that is used to assess biosecurity risk.
<b>ICS</b>	Integrated Cargo System (Australian Customs and Border Protection Service).
<b>Import</b>	Biosecurity and imported food activities.
<b>Imported food</b>	Refers to activities under the <i>Imported Food Control Act 1992</i>
<b>PEQ</b>	Post entry quarantine
<b>QAP</b>	Quarantine Approved Premises
<b>RBM</b>	Commonwealth Regulatory Burden Measure: calculates the compliance costs of regulatory proposals using an activity based costing methodology.
<b>SAC</b>	Self assessed clearance: a declaration for imported consignments valued at or below AU\$1 000

## Executive summary

The Department of Agriculture and Water Resources (the department) undertakes a diverse range of activities to protect our agricultural sector from exotic pests and diseases, and support access for Australian farmers and industry into export markets. These services safeguard Australia's \$39 billion agricultural exports and its international reputation as an exporter of high quality agricultural goods.<sup>1</sup> In 2013–14, the Australian agriculture sector contributed around \$51 billion to the nation's economy.<sup>2</sup>

The department currently has 17 cost recovery arrangements for biosecurity, imported food and export certification activities, recovering over \$327 million in 2013–14.<sup>3</sup> Some of these cost recovery arrangements have not kept pace with changes to import and export certification systems and adjustments in the department's operations. The arrangements have been developed in isolation of each other leading to inconsistent approaches to costing similar activities. As a result there are problems relating to the equity, efficiency and sustainability of these cost recovery arrangements.

This Regulation Impact Statement (RIS) analyses three policy options and outlines the proposed redesign of cost recovery arrangements to address these problems. The RIS does not evaluate the need for the Australian Government (government) to provide import or export certification activities. Rather, it considers how to fund the delivery of these activities by:

- articulating the policy problems that need to be addressed (Section 1)
- documenting the processes that have been undertaken in the review and redesign (Section 2)
- evaluating three high-level policy options for the ongoing funding of the department's import activities and export certification (Section 3)
- presenting detailed information on the redesigned cost recovery arrangements for imports and export certification (Sections 4 to 7)
- outlining the consultation that has occurred throughout the redesign process (Section 8)
- recommending the approval of the redesigned cost recovery arrangements for imports and export certification (Section 9)
- describing the implementation activities required, if the redesigned arrangements receive ministerial approval (Section 10).

The redesign is the recommended option because it delivers the greatest net benefit. The redesigned arrangements will recover an average \$340.3 million per annum and deliver a net regulatory burden reduction of \$47.3 million per annum for ten years for those who receive these activities. The activities funded through these redesigned cost recovery arrangements will safeguard Australia's \$39 billion in agricultural exports and protect the Australian agriculture sector's contribution of around \$51 billion to the nation's economy.

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<sup>1</sup> Australian Government Department of Agriculture 2014, *Annual Report 2013–14*, [www.agriculture.gov.au/about/annualreport/2013-14](http://www.agriculture.gov.au/about/annualreport/2013-14), page 1

<sup>2</sup> *Ibid*, page 1

<sup>3</sup> *Ibid*, page 11

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# 1 Policy Problem

This RIS addresses the policy problem of how to ensure that the cost recovery arrangements for imports and export certification activities are efficient, equitable and align with the department's business practices. This RIS does not explore whether the government should be managing import risks or delivering export certification activities. Rather, it examines how to fund the costs associated with these activities.

## 1.1 Context of government action

On 1 July 2014, the revised Australian Government Cost Recovery Guidelines (CRGs) came into effect. The CRGs articulate the government's policy on cost recovery including that, where appropriate, the recipients of specific government activities should be charged some or all of the costs of those activities.<sup>4</sup> Import and export certification services are government activities with a long history of cost recovery, which commenced for export certification in 1979.

The CRGs promote consistent, transparent and accountable charging for government activities and support the proper use of public resources. Cost recovery:

- promotes equity, whereby the recipients of a government activity, rather than the general public, bear its costs
- influences the demand for government activities
- improves the efficiency, productivity and responsiveness of government activities and accountability for those activities
- increases cost consciousness for all stakeholders by raising awareness of how much a government activity costs.

The department has developed a specific set of cost recovery principles (built off the CRGs) to guide the redesign of cost recovery arrangements and the future administration of its cost recovery. These principles require cost recovery arrangements to:

- be consistent with relevant legislation, the government's cost recovery policy and its international obligations
- support the risk based approach to operations and the delivery of efficient services
- recover the full costs of activities and services in line with government policy authority
- ensure all recipients contribute reasonably to the costs of the activities and services they receive
- promote and reward compliant behaviours and encourage the efficient and effective use of government services
- have mechanisms that ensure engagement with stakeholders in a timely and ongoing manner.

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<sup>4</sup> Australian Government Department of Finance 2014, *Resource Management Guide no.304 — Australian Government Cost Recovery Guidelines*, <http://www.finance.gov.au/resource-management/cost-recover/>

### 1.1.1 Independent Reviews

A number of independent reviews of the department's cost recovery arrangements have been undertaken, including:

- the 2008 review of Australia's quarantine and biosecurity arrangements (the Beale review)
- an initial 2011 review of the department's cost recovery arrangements for imports and export certification activities by PricewaterhouseCoopers and Deloitte Access Economics
- further analysis of the department's cost recovery arrangements by Booz & Co in 2013
- Callida Consulting also reviewed cost allocation and the development of cost recovery models in 2014–15.

These reviews have made a number of similar recommendations including simplifying and streamlining cost recovery across all arrangements, applying like charges for like services, supporting the flexible deployment of resources, improving the administration of cost recovery, and the need for long-term investment in infrastructure (including information technology and information services).

## 1.2 Current structure of arrangements, fees and levies

The existing cost recovery frameworks are complex—with seven cost recovery arrangements for imports (Table 1) and 10 export certification cost recovery arrangements (Table 2). There are over 360 different fees and levies across the import and export certification arrangements. These 17 arrangements recovered over \$327 million in the 2013–14 financial year (Figure 1).

**Table 1: Import cost recovery arrangements in scope of this cost recovery redesign**

Cost recovery arrangement	Cost recovery impact statement (CRIS)	Number of fees & levies	Expiry date defined in CRIS
Import Clearance	Import Clearance Programme CRIS 2014-15	63	30 June 2015
Seaports	Seaports Programme CRIS 2014-15	15	30 June 2015
Post Entry Plant Quarantine	DAFF Portfolio CRIS (2008)	23	–
Post Entry Animal Quarantine (Horse)	Horse Import Programme CRIS (2013)	1	30 June 2015
Post Entry Animal Quarantine (Non Horse)	Post Entry Animal Quarantine Programme CRIS (2009)	46	20 June 2011
International Mail	DAFF Portfolio CRIS (2008)	2	–
Airports	DAFF Portfolio CRIS (2008)	16	–
Total	–	166	–



**Table 2: Export certification cost recovery arrangements in scope of this cost recovery redesign**

Export cost recovery arrangement	Cost recovery impact statement (CRIS)	Number of fees & levies	Expiry date defined in CRIS
Meat Export	Meat Export Programme CRIS (2011)	41	30 June 2012
Dairy Export	Dairy Export Programme CRIS (2009)	14	30 June 2011
Seafood & Egg Export	Fish & Egg Export CRIS (2012)	20	30 June 2012
Non-Prescribed Goods Export	Non-Prescribed Goods Export CRIS (2009)	5	30 June 2011
Grain & Seed Exports	Grain & Plant Product CRIS (2012)	18	30 June 2012
Horticulture Exports	Horticulture Export CRIS (2012)	22	30 June 2013
Live Animal Exports	Live Animal Export Programme CRIS (2014–15)	73	30 June 2015
Organic Food Exports	DAFF Portfolio CRIS (2008)	1	–
Meat Quota	CRIS for the Management of Beef, Sheep meat and Goat meat Export Quota (2010)	3	1 May 2015
Dairy Quota	CRIS for Quota Administration Fees for EU & USA Dairy Tariff Rates Quota (2011)	6	August 2016
Total	–	203	–

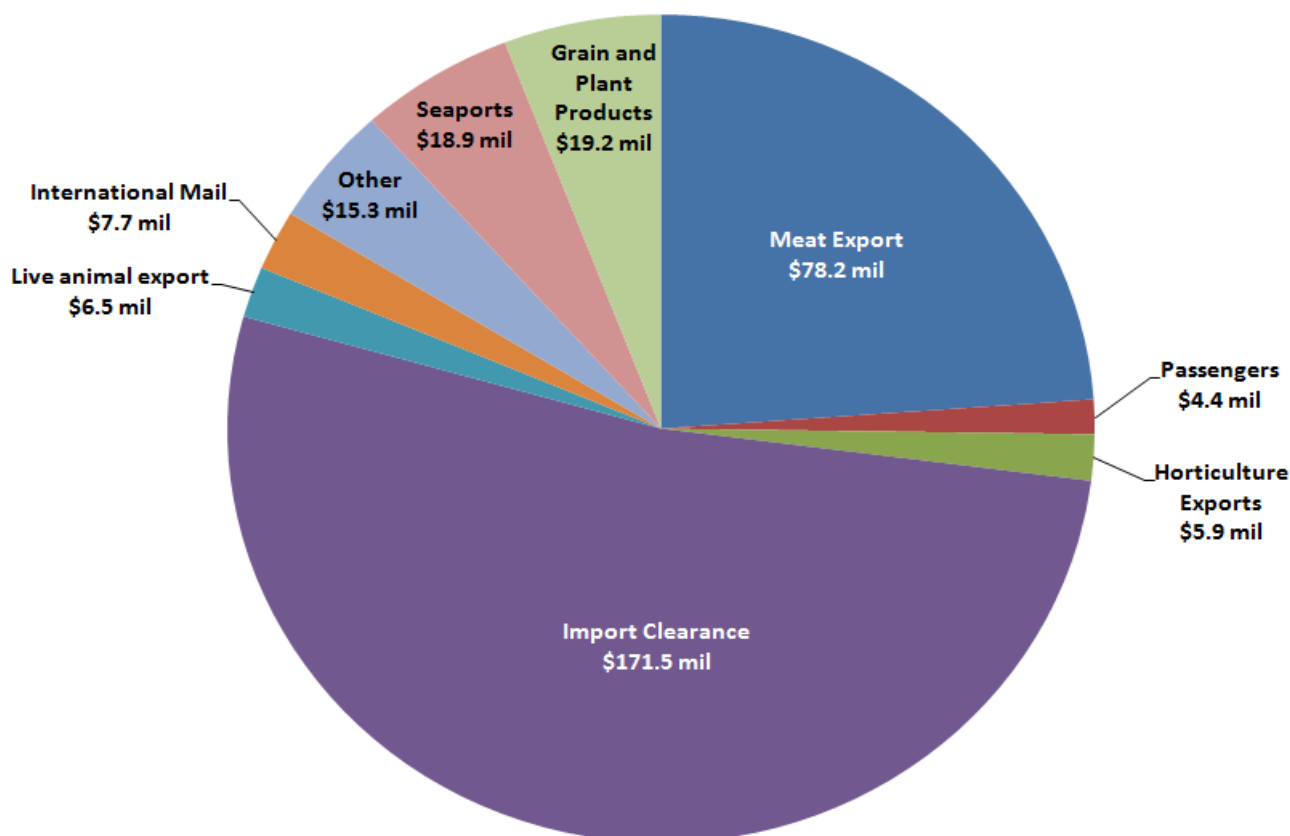


Figure 1: Sources of cost recovered revenue 2013–14<sup>5</sup>

### 1.3 Need for change

The department’s import and export certification costs are recovered from a diverse range of industries and businesses. Fee and levy payers in import cost recovery arrangements include: import agents; courier, transport, logistic and shipping companies; vessel operators; the users of post entry quarantine facilities for animals and plants; international travellers; industry participants with third party arrangements; and Australia Post. In export certification, the fee and levy payers are participants in export supply chains seeking certification to demonstrate compliance with overseas governments’ import requirements. These businesses include abattoirs, grain handlers, other processors, growers and exporters or their agents.

The complexity of current arrangements has led to a number of inconsistencies including:

- fees and levies for like activities (such as inspections and audits) being set at different rates in different arrangements—notwithstanding in some instances there are reasons that drive different pricing, such as different input requirements
- different methodologies for attributing costs in each arrangement (such as the use of fees versus levies and how particular costs are treated, for example travel costs)

These issues are present in both the import and export certification arrangements.

<sup>5</sup> Australian Government Department of Agriculture 2014, *Annual Report 2013–14*, [www.agriculture.gov.au/about/annualreport/2013-14](http://www.agriculture.gov.au/about/annualreport/2013-14), p12.

Existing cost recovery arrangements have been structured based on the department's operational structure, rather than taking a client view of services provided. Over time, this has led to a range of issues driving the need for reform.

### **1.3.1 Fragmented cost recovery arrangements**

The department's cost recovery arrangements have evolved independently of each other. Some arrangements have not kept pace with changes to import and export certification systems and other adjustments in the department's business operations. This has led to different costing methodologies determining cost recovery fees and levies across the department, creating inconsistent, complex and difficult to understand charging structures. As a result, there are currently 17 different arrangements with around 360 separate fees and charges across imports (166 charges—Table 1) and exports (203 charges—Table 2). In 2014–15, around half of the cost recovered revenue for imports (over \$100 million) was collected under four charges: the full import declaration-sea levy, full import declaration-air levy and full and part shipping container levies. A large number of charges recovered very small amounts of revenue. Having around 170 separate fees and levies for imports creates unnecessary complexity and contributes to the regulatory burden for these stakeholders.

Reforms underway across the department in national service delivery and service delivery modernisation are further integrating how the department interacts with clients across import and export sectors. This has emphasised the need for a more consistent and harmonised approach to costing activities and recovering fees and levies for activities provided across the department.

### **1.3.2 Cross-subsidisation**

The delivery of some cost-recovered activities are being subsidised by other activities. The changing nature of trade and the increase in demand for some services has exacerbated this issue. In some cases, what were once minor activities undertaken by the department have grown significantly, requiring considerable resources and reducing capacity in other areas. Funding arrangements have not progressed with these changes so that some clients are not equitably contributing to the costs of services they receive. Examples include:

- The costs associated with managing import related approved arrangements—Compliance Agreements (CA), Quarantine Approved Premises (QAPs), and Food Import Compliance Agreements (FICAs)—are cross-subsidised by importers of Full Import Declaration (FID) consignments. Holders of QAPs and FICAs make a partial contribution to the costs of managing these schemes. Approved arrangements are becoming increasingly common, which is leading to a significant increase in departmental resources required to manage the delivery of the arrangements. Users of approved arrangements should be paying the full cost of managing these schemes. It is inequitable for other importers to continue to cross-subsidise their costs.
- Historically, the container levies covered the cost of the department examining 100 percent of sea containers. The department no longer examines every container, instead it uses risk-based approaches across sea cargo including sea containers, bulk and break bulk. However, these activities across all sea cargo are being funded through the container levy. It is inequitable for container importers to cross subsidise activities related to all sea cargo imports.

### **1.3.3 Supporting efficiency**

Each operational area of the department has developed its own approaches to charging for similar activities such as audits and inspection leading to inconsistencies in how these services are charged. These inconsistencies affect the department's clients that work across different operational areas, as they have to interact with different charging arrangements.

Cost recovery arrangements supporting import activities do not align with the department's move to a risk-based and intelligence-led business model. This risk based (as opposed to a prescribed intervention) approach allows resources to be targeted to higher risk imports. It saves time for industry through more efficient clearance of imported and trusted goods and reduces unnecessary intervention and costs to industry. However, the department's cost recovery arrangements need to be updated to reflect this approach.

#### **1.3.4 Capacity and capability gaps**

Surveillance activities are designed to detect incursions of exotic pests and diseases as soon as possible so that any impacts can be minimised. Import volumes have increased and current surveillance arrangements lack the capacity and capability to consistently evaluate and report on all streams of information in a single, coherent manner at strategic, operational or tactical levels. An incursion could result in the closure of international markets for exports as well as reputational damage, and could significantly impact on trade, export dependent industries and growth in the Australian economy. Using cost recovery to fund increased surveillance activity undertaken at the border could address this gap.

Pre-border compliance and verification activities to monitor the management of risks offshore are currently funded through appropriation and some fees for service. However, the level of funding provided has not allowed these activities to be undertaken sufficiently. The risks that are posed by different commodities and pathways have become more complex with the globalisation of trade, including the integration of multinational commercial parties and increasing volumes. By cost recovering for additional compliance and verification activities, the department will be able to expand these to provide assurance about competent authorities' management of risks offshore, reduce the intervention of compliant goods on arrival and significantly improve risk management of high-risk products.

## 2 The redesign process

### 2.1 Objective of government action

To address the issues outlined in Section 1.3, the government announced the department's redesign of its cost recovery arrangements in the 2015–16 Budget<sup>6</sup>. The objectives of the redesign are to:

- reduce unnecessary regulatory burden on stakeholders
- simplify the cost recovery frameworks to support more efficient, effective and equitable import and export certification systems
- ensure the department's cost recovery arrangements are consistent with the CRGs
- place the department's funding arrangements on a more financially sustainable footing.

Meeting these objectives will deliver benefits for stakeholders, the government and the department.

### 2.2 Stages in the process

The department's process for reviewing and redesigning its import and export certification cost recovery frameworks is being undertaken in a number of stages. This process is consistent with the CRGs.

#### 2.2.1 Policy approval to redesign cost recovery arrangements—May 2014 to May 2015

The department established a dedicated Cost Recovery Taskforce after the government announced a review of import and export certification cost recovery arrangements in the 2014–15 Budget<sup>7</sup>. Consultations through industry consultative committees (ICCs) and analysis of independent reviews of the department's cost recovery arrangements informed the development of policy options. The department also worked closely with the then Australian Customs and Border Protection Service (ACBPS, now the Australian Border Force—ABF) on establishing the Joint Review of Border Fees, Charges and Taxes.

The department released a series of position papers to inform stakeholders of policy options for both the department's cost recovery redesign and the joint review in September 2014. Further consultations were held with ICCs and stakeholder forums occurred in Sydney and Melbourne in October 2014. These consultations evaluated policy positions with stakeholders, including the use of a consistent cost model methodology across all arrangements (Attachment A).

The Office of Best Practice Regulation (OBPR) completed a Preliminary RIS Assessment in October 2014. OBPR advised the department that the proposed cost recovery review was more than a minor proposal and the preparation of a standard form Regulation Impact Statement would be consistent with best practice. The department has complied with OBPR's Preliminary RIS Assessment advice.

A proposal on the redesigned cost recovery arrangements was agreed to by the government as part of the 2015–16 Budget process. This policy approval was supported by an Early Assessment RIS that was assessed by the Office of Best Practice Regulation (OBPR) as providing a sound analysis of the policy options and a good basis for further public consultation. This Final Assessment RIS has taken the information, options and

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<sup>6</sup> Australian Government Department of Agriculture 2015, *Portfolio Budget Statements 2015–16—Budget Related Paper No. 1.1—Agriculture Portfolio*, <http://www.agriculture.gov.au/about/budget>, p 12.

<sup>7</sup> The Commonwealth of Australia 2014, *Budget 2014–15 Budget Paper No. 2, Budget Measures 2014–15*, <http://www.budget.gov.au/2014-15/content/bp2/html/index.htm>, p.7.

analysis presented in the Early Assessment RIS (presented in Sections 1 and 3) and developed this further (Sections 4 to 7) to support the final decision in this policy process, the ministerial approval of the CRISs.

### **2.2.2 Cost recovery model and CRIS process—September 2014 to September 2015**

The department developed detailed cost recovery models in consultation with ICCs. In July 2015, draft CRISs presenting the proposed redesigned fees and levies were released for public consultations. The redesigned fees and levies were developed using a consistent costing methodology (Attachment A). This is the first time that a consistent methodology has been applied across all import and export certification cost recovery arrangements.

Stakeholder feedback sessions occurred in Sydney, Perth, Adelaide, Melbourne, Hobart, Brisbane and Mildura during July and August 2015. Over 320 stakeholders attended these sessions. The department received over 67 formal submissions on the proposed redesign. The consultation process is further discussed in Section 8.

Final CRISs setting out the redesigned fee and levy arrangements were informed by stakeholders' feedback from the consultation process. These CRISs are to be presented to the Minister for Agriculture and Water Resources for approval and to the Minister for Finance for agreement to release in September 2015. The information and analysis presented in this Final RIS was developed during this period. This Final RIS is supporting the Ministers decision to approve and release the CRISs.

### **2.2.3 Implementation—June 2015 to December 2015**

The redesign mainly involves the adjustment in prices and the restructuring of fees and levies, rather than changes to the activities that the department delivers to its clients. Some new charges are being introduced at points where clients are already interacting with the department. Prices will be adjusted within existing billing and receipting systems. The department will continue to inform clients of changes to charging processes ahead of the commencement of redesigned fees and charges and aims to minimise implementation challenges for stakeholders. New charging legislation for import and export certification was passed by the Parliament in June 2015. Subordinate legislation under this and existing legislation will be required to implement the redesigned cost recovery arrangements.

The implementation arrangements that will be progressed if approval is granted are further discussed at Section 8.

### **2.2.4 Ongoing administration of cost recovery arrangements**

The department's business as usual management of cost recovery arrangements involves regular monitoring of and quarterly reporting on cost recovery performance to ICCs. This will continue under the redesigned cost recovery arrangements. The current CRGs place a greater emphasis on regular updates to cost recovery arrangements. The department's cost recovered activities are subject to detailed semi-annual review as part of departmental budgeting processes. This will help to ensure that revenue collected from clients matches the expenditure on the delivery of import and export certification activities.

The government has scheduled the department's Portfolio Charging Review in 2019–20. This will ensure the department meets its obligations under the CRGs to review its charging arrangements every five years. Other initiatives occurring across the department—such as the implementation of the *Biosecurity Act 2015* (the Biosecurity Act) in 2016 and the recently commenced review of export certification legislation—present opportunities in the shorter term to review any issues with the redesigned cost recovery arrangements.

## 3 Policy Options

Three policy options were analysed in the Early Assessment RIS that supported the government’s decision to grant approval to progress the redesign. These high-level options explored how to fund the provision of import and export certification services.

The regulatory cost and savings have been calculated using the Commonwealth Regulatory Burden Measure<sup>8</sup> (RBM). The RBM calculates the compliance costs of regulatory proposals on business, individuals and community organisations using an activity-based costing methodology. A summary of the RBM methodology and the assumptions used in this RIS is at Attachment B.

### Option 1: Status quo

The status quo option would involve no changes to existing cost recovery arrangements across import and export certification. Under this option, the department would continue to cost recover through the 17 existing cost recovery arrangements, using around 360 different fees and levies. The price of fees and levies would continue to be adjusted when required.

### Option 2: Redesigned cost recovery arrangements

The redesign of the import and export certification cost recovery arrangements would involve:

- consolidating the 17 existing import and export cost recovery arrangements into one biosecurity (including imported food) and six export certification arrangements
- changing the price—both increases and decreases—of certain fees and levies
- removing or replacing some fees and levies
- converting some fees into levies
- bringing activities into cost recovery arrangements that have previously been funded from other sources, and to expand and enhance these activities.

### Option 3: Ceasing cost recovery for biosecurity, imported food and export certification

The only ‘non-regulatory’ option in the scope of this RIS would be for the government to cease cost recovering for imports and export certification activities. If cost recovery ceased, the department would require significant additional budget appropriation to continue delivering imports and export certification activities.

## 3.1 Impact analysis of policy options

### 3.1.1 Analysis of Option 1: Status quo

The outcomes of maintaining the status quo would be:

- cost recovery arrangements would remain fragmented and complex
- cost recovery arrangements would be inconsistent with the revised CRGs
- the department’s revenue base would continue to be unsustainable with ongoing over and under recoveries across some cost recovery arrangements

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<sup>8</sup> Office of Best Practice Regulation, *Commonwealth Regulatory Burden Measure*, <https://rbm.obpr.gov.au/>

- stakeholders' requests for a redesign of the cost recovery arrangements to address inconsistencies would not be addressed
- the department's ability to deliver efficiencies in service and business reform through its cost recovery arrangements would be limited

Some stakeholders are in support of maintaining the status quo because they would continue to receive government services at a subsidised rate or at no cost. However, the status quo was not considered a suitable option to recommend to government as it did not address the issues identified in Section 1.3.

#### ***Regulation Burden Measure Costing***

There is no change in regulatory burden under this option, as there would be no change to cost recovery arrangements.

### **3.1.2 Option 2: Redesigned cost recovery arrangements**

The proposed redesign of cost recovery arrangements supports more efficient and effective import and export certification systems. Redesigning the cost recovery arrangements addresses the issues set out in Section 1.3 and achieves the objectives described in Section 2.1.

The government has agreed to progress the redesigned cost recovery arrangements and the department was given approval to develop CRISs for ministerial approval, in line with the CRG process. This option meets government policy for cost recovery and achieves the best policy outcomes for stakeholders, the government and the department.

#### ***Expected economic and distribution impacts on the affected sectors***

Although the redesign is making a large number of changes at once, the majority of the changes are adjustments to prices—some increases, some decreases, consolidation of fees and the removal of a large number of fees rather than significant changes to the way clients and the department interact.

The department recovered \$327 million in 2013-14 for the activities in the scope of the redesign. The redesigned arrangements are projected to recover on average around \$340 million per annum between 2015-16 and 2018-19. This is not a proportionally significant increase in the context of \$39 billion of agricultural exports or the total volume of imports arriving into Australia.

The department commissioned the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) to examine the impact of export certification fees and levies on Australian agricultural exports. ABARES's modelling, analysis and research indicates:

- that full recovery of the department's export certification costs has a small impact on the value of agriculture exports—less than 0.8 per cent for each of the commodities considered.
- the farm-gate impact of exporters passing certification fees and levies costs on to producers have a small impact on the value of exports and on farm-gate receipts.
- key competitor countries for Australia's major export commodities—including New Zealand, the United States, Canada, Chile, Thailand, the Netherlands, Germany, Ireland and Poland—have arrangements in place to recover some or all of the costs of providing export certification services.

The department's actual delivery of activities is where the department has the strongest impact on its clients, rather than the price of the fees and levies. There is a wide range of activities occurring across the department to improve its service delivery to clients. The specific impacts of these changes are beyond the scope of this RIS.

There will be some winners and losers as a result of the redesign but this is not significant enough to cause distributional impacts among sectors. The redesigned fees and levies share the cost burden more proportionally across all users, so that those that use more services pay more. The redesign also ensures that



users of services that have not previously been paying for those services due to being cross-subsidised by others will now contribute. In-depth analysis of these impacts on specific groups of clients is presented in Section 4 for importers, Section 5 for live animal exporters, Section 6 for plant exporters and Section 7 for food exporters.

### ***Regulation Burden Measure Costing***

Implementation of the redesigned arrangements would deliver a reduction of \$47.3 million per annum in regulatory burden over ten years under the Commonwealth Regulatory Burden Measure (RBM). This reduction is driven through time savings associated with the streamlining of fees and levies for importers, with some slight increases for some businesses where cross subsidisation is removed. The details of these costings are discussed in Sections 4 to 7.

### **3.1.3 Option 3: Ceasing cost recovery for biosecurity, imported food and export certification**

The ceasing of cost recovery arrangements would address a number of elements of the policy problem. This includes removing cross subsidisation between fee and levy payers, reducing the complexity of cost recovery arrangements and removing the need to align fees and levies to the department's current business practices. However, this option would be inconsistent with the government's cost recovery policy and the long-standing approach to cost recovering import and export certification services. There are a number of significant disadvantages associated with ceasing cost recovery arrangements and continuing to undertake import and export related activities. The department projects that the delivery of these activities will cost an average of \$340.3 million per annum from 2015-16 to 2018-19. If these activities were not funded through cost recovery, there would be a very significant ongoing impact on the Budget.

Although ceasing cost recovery arrangements and funding these activities through budget funding would be supported by some that are currently paying for these activities, there are a number of reasons that this is not a sound approach;

- it is not appropriate for the broader public to pay for the delivery of import and export certification activities that are provided to a clearly identifiable groups—individuals and organisations that participate in the import or export supply chain
- cost recovery encourages the efficient use of government services by providing a price signal to the department's clients. When individuals or businesses pay for a government activity, they will generally access services in a cost-effective manner. If these activities were appropriation funded, the cost to the government of providing them would likely increase as individuals or business would not receive a price signal that would influence demand for these activities
- cost recovery allows the department to respond to change in demand from its clients. As demand for a cost recovered activity increases, so does the collection of fees and levies to deliver that activity. If only fixed annual appropriation funding was available and industry demand for particular activities increased, the department could not meet this additional demand.

### ***Regulation Burden Measure Costing***

This option leads to a deregulatory outcome of \$164.6 million per annum over ten years under the RBM. This arises from businesses no longer needing to process and payments for an estimated 251 137 invoices, 8 962 423 Integrated Cargo System (ICS) charges and 562 249 Agriculture Import Management System (AIMS) charges.

These figures are average annual volumes projected over the next ten years, based on department data and Bureau of Infrastructure, Transport and Regional Economics (BITRE) projections. The default RBM labour cost of \$65.45 per hour has been used. Invoices have been assumed to take 30 minutes to administratively process, reconcile and finalise payments. ICS and AIMS charges have been assumed to take 15 minutes on average to administratively process, reconcile and allocate each charge.

## 3.2 Policy decision

The government agreed to progress option two and granted policy authority to fully develop the redesign of the department's cost recovery arrangements. Sections 4 to 7 present detailed impact analysis of the redesigned fee and levies. This is based on the department's analysis and stakeholder consultations that have occurred since policy approval of the redesign was granted. This analysis supports the final decision in this policy process and ministerial approval of the CRIS to enable the redesigned fees and levies to be implemented.

## 3.3 RBM Table

Table 3 presents the regulatory burden and cost offset estimates that have been agreed to by OBPR, as required under the Australian Government Guide to Regulation.

**Table 3: Regulatory burden measurement and cost offset estimate table**

Average annual regulatory costs			
Change in costs (\$ million)	Business	Total change in costs	Reference
<b>Policy Option 1—Status quo</b>	Nil	Nil	Section 3.1
<b>Policy Option 2—Redesign</b>	<b>-47.304</b>	<b>-47.304</b>	Section 3.2
<b>Biosecurity</b>	<b>-47.400</b>	<b>-47.400</b>	<b>Section 4</b>
FID Consolidation	-47.400	-47.400	Section 4.2.1
Approved arrangements	+0.010	+0.010	Section 4.2.1
<b>Live animal export</b>	<b>0</b>	<b>0</b>	<b>Section 5</b>
<b>Plant Exports</b>	<b>+ 0.086</b>	<b>+ 0.086</b>	<b>Section 6</b>
Annual registration	+ 0.006	+ 0.006	Section 6.1.2
Authorised Officers	+ 0.080	+ 0.080	Section 6.1.2
<b>Food Exports</b>	<b>0</b>	<b>0</b>	<b>Section 7</b>
<b>Policy Option 3—Cease Cost Recovery</b>	<b>-\$164.066</b>	<b>-\$164.66</b>	<b>Section 3.3</b>
Cost offset (\$ million) for Implementation of Option 2			
–	Business	Total, by source	–
Agency	N/A	N/A	–
Are all new costs offset?	N/A	N/A	–
<b>Total (Change in costs – Cost offset) = -\$47.3 million</b>			

## 4 Impact analysis of the redesigned biosecurity cost recovery arrangement

This section presents the analysis to support the ministerial approval of the Biosecurity CRIS, and the introduction of the legislative instruments that will establish the redesigned import fees and levies. On 20 July 2015, a Consultation draft Biosecurity CRIS was released for stakeholder comment. The redesigned fees and levies put forward in the consultation CRIS were based on departmental analysis and consultations with the relevant ICCs.

The Consultation draft Biosecurity CRIS presented stakeholders with the proposed import fees and levies, a summary comparing the current charging structures to the redesigned structure, and a set of case studies illustrating the redesigned fees and levies from a client's perspective. The issues raised in public submissions following the consultation process were taken into consideration when developing the redesigned fees and levies that are being put forward for ministerial approval.

### 4.1 About the redesigned biosecurity cost recovery arrangement

Import activities undertaken by the department involve assessing and managing the biosecurity and imported food risks arising from people, goods and vessels (sea and aircraft) entering Australia. These activities also include assessing compliance of imported food with relevant food standards and public health and safety requirements.

These essential services, which occur onshore, offshore and at the border, are a major part of the department's day-to-day business. During 2013–14, the department assessed and cleared more than 17 million international passengers, 180 million international mail articles and 17 000 international vessels and aircraft at international airports and seaports around the country. Over 18 000 import permit applications were received and 6 000 animals were processed at post entry quarantine facilities.

The proposed redesign will consolidate import activities into a single cost recovery arrangement. These activities are provided to four key groups: importers, vessel operators, approved arrangement participants and passengers and include:

- *importers*—assessment and management of the biosecurity and imported food risks associated with imported goods and packaging (including air and sea cargo, international mail, food, live animals and plants). This also includes husbandry activities, undertaken by the department, associated with the post entry quarantine of live animals and plants prior to release into Australia
- *approved arrangement participants*—administering arrangements, managing compliance regimes and setting standards for various third party arrangements managed by the department, such as quarantine approved premises, compliance agreements and imported food compliance agreements
- *vessel operators*—assessment and management of the biosecurity risks of sea vessels and aircraft entering Australia. This includes assessments and inspections to manage the risks posed by the vessel itself, contaminants on the vessel, human biosecurity risks, ballast water and biofouling on sea vessels and aircraft disinfection
- *passengers*—assessment and management of risks posed by passengers' accompanied baggage. Activities such as inspection and assessment of baggage are only cost recovered where provided outside of designated international airports or seaports.

There are currently around 170 import fees and levies. The redesigned structure reduces import related fees and charges to around 20 fees and levies. Under the redesigned arrangement, fees have been streamlined

and standardised to ensure that import clients are charged consistently for similar activities. Key elements of the consolidation are the changes to the FID charges (Section 4.2), approved arrangements (Section 4.3), post entry quarantine (PEQ—Section 4.4) and vessel operators (Section 4.5).

### **Regulatory Burden Measure Costing**

This consolidation of import fees and levies is expected to reduce regulatory burden for the department's clients. Generally, it is not possible to cost this using the RBM due to the significant uncertainties in the amount of time that would be saved for clients.

Specific deregulatory outcomes can be estimated for the changes relating to the FID levies (Section 4.2). With the exception of the changes to compliance agreements (Section 4.3), the consolidation will not increase regulatory burden, as the changes are not introducing new charging points.

## **4.2 Changes to FID charges**

There are two categories of cargo that are imported into Australia: consignments valued over \$1000 that require a full import declaration (FID), and consignments valued under \$1 000 or less that require a self-assessed clearance (SAC). The following section provides information on changes affecting importers of goods requiring a FID. At this stage, there is no change to the current cost recovery arrangements for SACs, as this is still under government consideration.

### **4.2.1 Problems with current cost recovery arrangements for FID Consignments**

The recovery of the costs of activities such as surveillance and risk assessment that are undertaken in relation to all consignments valued over \$1 000 is inconsistent. It is inequitable that different types of FID consignments are being charged differently, when there are similar costs associated with the department's activities related to these consignments. Examples include:

- importers of containerised cargo pay the FID levy and a container levy. Importers of bulk cargo (for example fertilisers) and break bulk cargo (for example large mining equipment, machinery and cars) pay only the FID levy. The container levy was implemented when 100 per cent of containers were examined. Under the risk-based approach to intervention, the department no longer examines every container and instead undertakes activities across all types of sea cargo, including containers, bulk and break bulk. Importers of containers should not be paying an additional levy compared to other types of sea cargo.
- A \$10 electronic lodgement fee is currently applied when a consignment is transferred into the Agriculture Import Management System (AIMS). A consignment is only transferred into AIMS in certain circumstances. The electronic lodgement fee funds activities that underpin a range of the department's import activities and systems, not just AIMS. Therefore, these costs should be recovered across all consignments, not just those consignments that are transferred into AIMS.

### **4.2.2 Redesigned FID levies**

It is recommended that the existing air and sea FID levies are redesigned to improve the efficiency and equity of these charges, and reduce cross subsidisation. The key changes recommended for FID importers are that:

- the levy applied to all sea consignments requiring a FID will now absorb the existing container levies
  - the electronic lodgement fee will be incorporated into both the air and sea FIDs
  - these changes will increase the price of a FID—sea to \$42 and the FID—air to \$32.
- The difference in pricing between sea and air consignments is proportionate to the departmental resources required to manage the biosecurity and imported food risks for sea cargo compared to air cargo.

This will simplify the levy structure for sea cargo and distribute the costs of biosecurity and imported food activities undertaken for sea cargo imported into Australia across all sea cargo, not just containers.

### **Regulatory Burden Measure Costing**

Previously, each sea cargo container could have separate charges applied: a sea cargo FID levy; a container levy; an electronic lodgment levy. Under the redesigned FID levy for sea cargo, only one charge will apply per consignment. This will have a reduction in regulatory burden of \$47.3 million per annum under the RBM. This is based on eliminating individual levies applied to 2.8 million containers<sup>9</sup> per annum. It is assumed that a business takes 15 minutes to allocate a transaction and reconcile it with the related consignment to ensure appropriate charges have been incurred. The default RBM labour cost of \$65.45 per hour has been used.

A time saving of 15 minutes per invoice/charge in terms of processing, acquitting and not having to query fees and levies with the department has been assumed. This processing time has been used as an average; while some transactions would take less time to acquit, there are many examples where complex issues have taken an extended period to resolve.

## **4.3 Approved arrangements fees and levies**

Approved arrangements, such as quarantine approved premises (QAPs), compliance agreements (CAs) and food import compliance agreements (FICAs), are entered into between the department and industry participants. These allow businesses to manage their own biosecurity and imported food risks. Currently, approved arrangement operators pay a number of charges:

- holders of FICAs pay a \$1 300 application fee, a \$2 300 annual fee and audit fees of \$45 per 15 minutes.
- holders of QAPs pay a \$1 200 annual fee and assessment application fees of \$90 for the first 30 minutes and \$45 per additional 15 minutes. Out-of-office audit fees of \$90 for the first 30 minutes and \$45 per additional 15 minutes.
- holders of CAs only pay audit fees of \$90 for the first 30 minutes and \$45 per additional 15 minutes.

### **4.3.1 Problems with current charging arrangements**

The existing cost recovery charges for the department's biosecurity and imported food approved arrangements do not recover the full costs of these activities. Funds for approved arrangements are sourced in part from cost recovery imposed on importers, including many importers who do not use approved arrangements. This is not equitable or appropriate under the government's cost recovery guidelines.

### **4.3.2 Redesigned approved arrangement fees and levies**

A new fee and levy structure is proposed for approved arrangement participants to recover the full cost of services they receive. The proposed charges for operators of approved arrangements are as follows:

- An annual levy of \$3 000 will apply to all entities operating approved arrangements. This levy replaces the existing annual fees that recovered some of the cost of providing the approved arrangements for holders of QAPs and FICAs. This new annual approved arrangement levy will apply to each entity holding any number of approved arrangements – so no matter how many arrangements that entity has, they will only pay one charge. For example, if a single entity holds a QAP, a CA, and a FICA, a single annual levy of \$3,000 will apply.

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<sup>9</sup> 2 896 706 containers per annum is based on the annual average volumes of containers that were or are forecasted to be imported into Australia from 2010–11 to 2014–15, with a 5.3% growth in containerised trade has been projected, drawn from the Bureau of Infrastructure, Transport and Regional Economics (BITRE) 'Research Report 138—Containerised and non-containerised trade through Australian ports to 2032–33'.

- There will be a \$180 application lodgement levy for an approved arrangement application received from an applicant who does not currently hold an approved arrangement. This will now be a levy (not a fee) as it will recover the cost of activities that support the approved arrangements system which benefits all clients.
- A standard fee of \$30 per 15 minutes will be applied for all activities performed in-office, for example assessing applications. A standard fee of \$50 per 15 minutes will be applied to all activities performed out-of-office, for example, audits.

These changes will address the cross subsidisation and equity issues being experienced by some stakeholders. It will ensure that all industry participants with approved arrangements contribute appropriately to the costs of managing this scheme.

In addition, standardised fees and levies across all approved arrangements would more closely align this charging structure with the new biosecurity legislative framework. The *Biosecurity Act 2015* creates the opportunity for streamlining and expanding the approved arrangements structure. The department's capacity to implement reforms will be underpinned by a consistent charging structure. The redesign would provide an equitable approach for recovering the costs of any expanded approved arrangements.

Increased costs for some CA holders are not expected to have a significant impact on the uptake of approved arrangements. It is voluntary to participate in these approved arrangements and industry enters these where benefits are accrued, such as savings in time and money. Relative to these benefits, the levies and fees are expected to be a small cost.

#### **Regulatory Burden Measure Costing**

Regulatory burden is expected to increase slightly across all approved arrangement participants. The department projects that there will be 3 214 approved arrangement participants annually—1 031 CA holders, 10 IFCA holders and 2 173 QAP holders. However, the department estimates that it will only charge for 2 499 approved arrangement holders each year due to some entities holding multiple approved arrangements.

Whilst 1 031 CA holders could potentially face an increase in regulatory burden as they will now have to pay the annual levy, there will be 715 less approved arrangements liable for the annual levy due to the levy only being payable once per entity per year, regardless of the number of arrangements. Therefore, there will be a net 316 additional annual levy payments to be processed across all approved arrangements participants when both changes are considered. It is assumed that it takes an average of 30 minutes to process, reconcile and finalise an invoice. The RBM default labour cost of \$65.45 has been used. Based on this, it is estimated that there will be an increase in regulatory burden on businesses of \$10 000 per annum over ten years.

The introduction of a new application levy will be imposed when a proposed industry participant lodges an application with the department. This application lodgement process is an existing process and it will be used to collect the levy as an upfront payment when the application is lodged. There will be no additional regulatory burden, as an existing process will be used.

## 4.4 Post entry quarantine

Currently, importers of animals or plants that must enter the government's post entry quarantine (PEQ) stations face a number of charges:

- All importers pay fees for time spent in the PEQ facility. These fees are generally charged per day.
  - Animals are charged depending on the type and number—for example, horses are charged at \$262 per horse per day, whereas cats and dogs are charged at \$149 per animal per day. In some cases (for example, bees) the quarantine stay is charged per consignment, not per animal.
  - Plants are charged per square metre occupied, per day.
- Importers pay for any additional costs—for example, testing for plant diseases. There are more than 15 different fees that are charged for these activities.
- For some animals, importers are required to pay a booking fee or deposit.

### 4.4.1 Problems with current arrangements

The current PEQ cost recovery arrangements are complex, with over 70 charges. The lack of a levy to recover costs relevant to all PEQ users has led to high daily fees. High daily fees have a significant impact on clients that have consignments that have to stay in PEQ longer than originally scheduled. There is also a large number of fees recovering the costs of similar activities that can be consolidated.

### 4.4.2 Redesigned PEQ arrangements

Key changes affecting importers of animals and plants:

- Under the new charging structure, levies will be imposed on all plants and animals on entering PEQ. These levies will absorb some of the costs that are currently recovered through the daily fees. This will lead to a reduction in the daily fees. The levy will cover the cost of activities provided to all user of PEQ facilities, rather than individual importers of plants and animals.
- For animals, charges will depend on the type and number of animals (or consignments) imported. The levy will cover the system and fixed costs for an animal or consignments scheduled stay in quarantine. If the animal or consignment stays in PEQ longer (because of a health concern or otherwise), the importer will not incur additional levy costs, only daily husbandry fee costs.
- For plants, the levy will be charged each month (or part thereof) per m<sup>2</sup> of plant material. This is because plants are held in post entry quarantine for varying durations (depending on the species and country of origin).
- Importers will continue to be charged a daily fee for husbandry activities. The introduction of the PEQ entry levy will result in a lower daily fee that aligns with the actual cost to the department of providing daily activities relating specifically to the animals or consignment. Due to the lower daily fee, the cost of biosecurity related overstay will be reduced.
- Importers will continue to pay for any additional in-office activities undertaken by departmental staff. The fee for in-office activities has decreased to \$30 per 15 minutes. In the case of testing for plant diseases, the price of tests will be established according to the time taken to perform each test (\$30 per 15 minutes, where undertaken in office), plus the cost of any materials used. Basing the fee on time taken better reflects the actual cost of providing testing services.

#### ***Regulatory Burden Measure Costing***

There will be no change in the regulatory impact because of the new post entry quarantine fees and levies. Clients will continue to have the same interactions with the department, as the redesigned arrangement will

only change how the fees and levies has been constituted and do not change the way the fee or levy is imposed on a client.

## **4.5 Changes to Cost Recovery for Biosecurity Activities on Vessels**

For vessel operators entering Australia, different charges apply depending on vessel size: greater than 25 metres in length or less than 25 metres in length. For vessels greater than 25 metres in length, costs will also vary depending on whether an inspection is required.

The current charges include a pratique fee, which covers some inspection time. Additional inspection fees are charged for longer inspections. Vessels greater than 25 metres in length with a good compliance history that are cleared on the basis of a document inspection only pay a slightly lower pratique fee.

### **4.5.1 Problems with current arrangements**

The current fee structure does not sufficiently recognise vessels with a good compliance history or align with the department's risk-based approach to intervention. The charges for vessels under 25 metres do not reflect the department's cost in delivering these activities, particularly in remote locations.

### **4.5.2 Redesigned charges for vessel operators**

Key changes for vessel operators:

- Under the new fee and levy structure, all vessels will pay a levy on arrival to Australia. The levy will not include inspection time.
- Fees will apply to activities provided to individual clients, such as inspections and document assessments. Therefore clients will pay for the amount of activities they receive.

The revised fee and levy structure will encourage compliance in arriving international vessels 25 metres and over in length through greater differentiation of costs between vessels assessed only on documents and those requiring a physical inspection. This promotes a more efficient use of the department's resources as physical inspections often require significant travel and officer time and therefore are much more costly for the department to provide.

#### ***Regulatory Burden Measure Costing***

There will be no measureable change in the regulatory impact as a result of the new vessel levies. Clients will continue to pay the same number of charges as currently imposed by the department, as the redesigned framework will only change how the charge has been constructed and will not change the way the fee or levy is imposed. In addition, clients with a good compliance history are likely to pay lower charges.



## 5 Live animal export certification cost recovery arrangement

This section presents the analysis to support the ministerial approval of the Live Animal Export CRIS, and the introduction of the legislative instruments that are needed to establish the redesigned fees and levies. On 28 July 2015, a Consultation Live Animal Export CRIS was released for stakeholder comment. The redesigned fees and levies put forward in this CRIS were based on departmental analysis and consultations with the relevant ICCs. Issues raised in public submissions were taken into consideration when developing the redesigned fees and levies that are being put forward for ministerial approval.

### 5.1 Broader reforms to live animal export certification

The redesigned live animal export cost recovery arrangement supports the reforms to the export of livestock, which commenced in 2014–15 and includes the ability to support the introduction of approved arrangements. Under an approved arrangement, a livestock exporter's system for preparing consignments is documented, audited and then approved by the department—as long as it meets the necessary requirements. This then reduces the regulatory burden of seeking approval to export a consignment. An exporter with a history of good compliance under the approved arrangements system will be subject to less intervention from the department, reducing costs for the exporter. Poor performance will result in higher levels of intervention. Over time, assuming good compliance by exporters, the department's costs for regulating livestock exports will reduce, in turn reducing the cost for industry. These reforms are the subject of a separate regulation impact assessment process.

The new charging structure has been designed to encourage take up of the new approved arrangement approach. However, it will still accommodate those businesses transitioning into an approved arrangement as they will not be mandatory for livestock exporters until 2017.

### 5.2 Issues with the current live animal export arrangement

In addition to the need to align the live animal cost recovery arrangement to the broader reforms occurring in the live animal exports programme, there are a number of other issues that need to be addressed in the arrangement. Unlike the cost recovery arrangements for other export commodities, the current live animal export cost recovery arrangement is based solely on fees with no levies in place. This has resulted in much higher fees for the same activities compared with other export arrangements where some of the fixed and system costs of export services (such as programme management and administration, assurance and incident management<sup>10</sup>) are recovered through levies.

The current fees for livestock exporters are also complex, with around 70 different fees based on types of animals, export markets and other variables. The use of the department's consistent costing methodology and the introduction of levies can significantly simplify this arrangement. The arrangement can also be better designed to reduce costs for highly compliant exporters. For example, the current inspection fee for exported livestock provides for a minimum of 11 hours of inspection service. Efficient exporters with their paperwork in order and who are processed more efficiently pay the same rate as less organised exporters who take longer to process. The current fees also do not adequately differentiate between sea and air live animal exports pathways, which have significantly different costs.

### 5.3 Changes to the live animal export cost recovery arrangements

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<sup>10</sup> Incident management refers to minor incidents only.

The redesigned live animal export arrangement will reduce the number of charges to six fees and nine levies. Levies will be introduced into the live animal export cost recovery arrangement to recover the fixed and system costs including programme management and administration, assurance and incident management. Levies imposed on exporters will vary depending on the type of live animal export (livestock, horse, companion animal, reproductive material and other animals) and export pathway (sea or air) as these factors affect the cost of maintaining the department's live animal export arrangement.

The introduction of levies and the simplification of fees will ensure all users make a reasonable contribution to the cost of managing the live animal export arrangement. This will provide a more equitable distribution of costs across all users of the services. It will also provide live animal exporters with more certainty of the costs they will face prior to exporting a consignment.

### **5.3.1 Export license and approved arrangement levies**

Exporters of livestock will be charged a levy of \$600 when they apply to enter into an approved arrangement. An annual levy of \$20 000 will apply to exporters of livestock by sea and an annual levy of \$10 000 will apply to exporters of livestock by air. This reflects the difference in cost to maintain each export pathway. Livestock exporters who export by both air and sea would pay only a single \$20 000 levy.

The levy to apply to enter into an approved arrangement recovers costs incurred by the department to make a preliminary assessment of the application. The annual levy covers the costs of fully assessing an approved arrangement application, developing and maintaining compliance and audit standards and other system costs relating to approved arrangements. In cases where an exporter seeks to vary the arrangement, a variation levy will be charged (\$300 per variation).

Livestock exporters who are not operating under an approved arrangement, will be charged a levy for an exporter license. The relevant levies are \$600 per application and an annual levy of \$25 000 per year.

These levies will replace the current \$500 export license fee, and will be offset by a reduction in the throughput levies currently imposed on livestock exporters.

Livestock exporters will need to enter into an approved arrangement by 1 January 2017.

### **5.3.2 Livestock throughput levies**

The throughput levy will be significantly reduced, from \$6.47 and \$2.57 per head of exported cattle, buffalo and camelids to \$1.21 per head, irrespective of the export market. The throughput rate for exported sheep and goats will also be reduced from \$0.37 and \$0.34 to \$0.31 respectively per head for all export markets. This is a simplification of the current charging model where throughput fees vary depending on importing market and export pathway.

### **5.3.3 Premises charges**

Owners of establishments that are registered for the export of livestock by sea will be charged an annual levy of \$5 000. The previous fee of \$300 was not fully recovering the department's costs of maintaining records for registered premises. These costs were being recovered from exporters through various fees including throughput. The new levy ensures these costs are being fully recovered from the operators of registered premises. This will reduce the financial burden on exporters and ensure that all users of the live animal export arrangement are reasonably contributing to the systems costs.

Premises that are approved for the export of other animals and reproductive material will continue to be charged a fee for service to assess that the premises meets importing country requirements.

### **5.3.4 Certificate charges**

Export permits are a legislative requirement for each consignment (both livestock and non-livestock) and most importing countries also require health certificates attesting that the consignment meets their requirements. The costs of issuing these certificates was previously recovered either as part of the per head fee for livestock (where applicable) or through the time based processing documentation fees for both livestock and non-livestock. As part of the simplification of fees, the department will now charge a per unit price for each export permit or certificate issued, rather than time based fees for issuing the documents.

The rate of charge for an export permit differs between livestock exports and exports of all other live animals and reproductive material, to reflect that livestock exporters are contributing to the fixed and system costs through either an export licence or an approved arrangement.

### **5.3.5 Inspection and audit fees**

All live animal and reproductive material exporters will be subject to standard inspection fees of \$54 per quarter hour and audit fees of \$43 per quarter hour as required. This will replace a range of service and travel fees. Where there is a request for an additional inspection (inspections that are not mandatory for the department to undertake) to take place a higher rate of \$71 will apply. In circumstances where there is a need for a specialist auditor (for example a veterinarian) a higher rate of \$103 per quarter hour will apply.

Specific travel fees for location, methods of travel and types of office travel are being removed. This will simplify charging arrangements and provide more price certainty for live animal exporters.

### **5.3.6 Regulatory Burden Measure Costing**

The redesigned live animal export cost recovery arrangement will not increase regulatory burden. All of the levies are being introduced at charging points where exporters are already paying invoices issued by the department. It is expected that the invoices being issued will be simpler as there are fewer fees. However, it is not possible to accurately quantify this deregulation outcome under the RBM.

## 6 Plant export certification

This section presents the analysis to support the ministerial approval of the Plant Export CRIS, and the introduction of the legislative instruments that are needed to establish the redesigned fees and levies. On 28 July 2015, a Consultation Plant Export CRIS was released for stakeholder comment. The redesigned fees and levies put forward in the final CRIS are based on departmental analysis and consultations with the relevant ICCs. Details of the issues raised in public submissions and other consultations, and the department's response to those issues are discussed in section 8.5.

### 6.1 Change across plant export certification cost recovery

The department is consolidating its cost recovery arrangements for grain and seed, forestry and horticulture exports into a single cost recovery arrangement—plant export. Cost recovery for organic certification will also be incorporated in the new plant export arrangement.

The majority of services provided to exporters of plant products are delivered by the same staff. Consolidating administrative functions will create a more effective management structure. It should allow the department to be more efficient and reduce the cost of delivering these services.

#### 6.1.1 Authorised officers

The costs of the authorised officer programme are currently not recovered from plant exporters. Authorised officers are specially trained individuals who are appointed to perform specific export inspection functions in accordance with Australian export legislation. Costs for the authorised officer programme should be recovered from plant exports clients using this service. This will be consistent with other cost recovery arrangements, where authorised officer programme costs are recovered from clients. The introduction of a price signal will ensure that departmental training resources are most effectively utilised.

#### 6.1.2 Horticulture

The current approach to cost recovering horticulture export certification focuses heavily on large upfront registration levies. This disadvantages businesses that export less frequently or in small volumes, and has led to significant under recoveries for the department.

The proposed redesign will create a better balance between upfront charges and fees for ongoing use of services. This will create a more equitable fee and levy structure where a business that exports more will pay more to cover the services they receive.

#### 6.1.3 Forestry products

The exporters of forestry products are not being charged a volume based-levy under current arrangements. Introducing a volume based levy will ensure that exporters of forestry products make an equitable contribution to the costs of the plant export certification system. Forestry exporters had been exempted from this volume based charges. This exemption ended from 1 July 2015.

#### 6.1.4 Grains and seeds

The redesign will ensure a more sustainable and proportionate contribution by grain and seed exporters to the cost of the plant export certification system. Grain and seed exporters who use the authorised officer programme will also be charged for these activities, in line with all plant exporters.

## 6.2 Redesigned fees and levies for plant exporters

The department received significant feedback on the fees and charges that were proposed in the Consultation CRIS. The proposed charges were redesigned in response to this feedback and the model being recommended for ministerial approval is described below. These fees and levies strike a balance between the various competing interests of different sized exporters and a diverse range of commodities, while at the same time achieving full cost recovery.

The redesigned plant export certification cost recovery arrangement will consist of:

- Three rates for registered establishments, which will reduce costs for many clients. These are grower/exporter establishments (\$600 per annum), simple establishments (\$3 000 per annum) and complex establishments (\$6 000 per annum). The complex registration levy will apply to establishments exporting to protocol markets. Applications for new registered establishments will also incur a one-off \$600 levy.
- Volume levies applied to exported goods will be applied at three rates:
  - the grain and related products rate, starting at 15 cents per tonne in 2015-16, reducing to 11 cents per tonne from 2017-18
  - the non-protocol market rate, starting at 95 cents per tonne in 2015-16, reducing to 65 cents per tonne in 2017-18, and
  - the protocol market rate, starting at \$1.90 per tonne in 2015-16, reducing to \$1.30 in 2017-18.
- Inspection and audit fees, will remain at \$36 per 15 minutes. However, where an exporter could use an approved authorised officer but instead chooses to use a departmental officer, the inspection cost will be \$75 per 15 minutes. If an exporter does not have the option of an approved authorised officer (for example protocol markets) this cost will be \$36 per 15 minutes.
- The cost of export permits and phytosanitary certificates, where delivered electronically, will decrease to \$12 per document. However, there will be an additional levy on phytosanitary certificates of \$38 per document, bringing the total cost to \$50 from 2015–16. The levy will decrease to \$36 in 2017-18, bringing the total cost to \$48 per phytosanitary certificate.
- The introduction of a levy for approving authorised officers (\$750 per annum) will recover the costs of administering the authorised officer programme. Fees for service will also be introduced to recover the costs of assessing applications (\$250), training and assessment (\$1 750 and \$2 000) and approval (\$250). Costs for the authorised officer programme should be recovered from clients using this service. Further, the introduction of a price signal will ensure that departmental training resources are most effectively utilised.

### ***Regulatory Burden Measure Costing***

The expansion of registration charges and the introduction of authorised officer charges will have an impact on regulatory burden under the RBM, as they will require additional invoices to be issued. The other changes are expected to be charged on invoices that are already issued by the department. The expansion of registration charges will see an additional 193 businesses on average per year processing invoices. The introduction of authorised officers will see an average of 2 438 charges per year. These additional 2 631 invoices are assumed to take 30 minutes to process at the default RBM labour cost of \$65.45 an hour. This will have an increase in regulatory burden of \$0.086 million per annum under the RBM.

## 7 Food Export Certification

This section presents the analysis to support the ministerial approval of the Food Export CRIS, and the introduction of the legislative instruments that are needed to establish the redesigned fees and levies. On 28 July 2015, a Consultation Food Export CRIS was released for stakeholder comment. The redesigned fees and levies put forward in this CRIS are based on departmental analysis and consultations with the relevant ICCs. The issues raised in public submissions were taken into consideration when developing the redesigned fees and levies that are being put forward for ministerial approval.

### 7.1 Changes across all food export certification arrangements

There are not significant changes proposed for the food export arrangements. The changes that were made to these arrangements when they were last reviewed implemented structural reforms that are now being reflected across other cost recovery arrangements. Charges for quotas and organic certification are being incorporated into the food export cost recovery arrangements.

#### 7.1.1 Introducing a levy component into export certificate charges

The export certificate charge across all export arrangements will be restructured from a fee to comprise a fee and levy component. The fee component will recover all of the costs of approving and issuing certificates, the activities delivered directly to an individual. The levy component will recover the broader system costs, such as managing the export certification system, assurance and incident management, which benefit the industry as group rather than specific individuals.

#### 7.1.2 Regulation burden measurement costing

Regulatory burden under the RBM will not change with the restructure of the certificate charge. Exporters will continue to pay a single charge. There will not be an increase in regulatory burden, as there will be no additional transactions.

#### 7.1.3 Quota

The department will recover its costs for administering export quotas through certificate charges. This will replace the current charging on the allocation of tonnage. The certificate charges more closely align with the clients' use of departmental resources at the point of shipment. This change has been made to ensure that all clients make a contribution that is proportional to their use of the quota system. It also reflects the consistent approach being used across the department's cost recovery arrangements.

#### ***Regulation burden measurement costing***

Regulatory burden under the RBM will not change with the restructure of the quota charges. Exporters will continue to pay a charge for their quota, but they will be charged at a different charge point. There will not be an increase in regulatory burden, as there will be no additional transactions

### 7.2 Remissions

Since the last review of fees and charges the meat, seafood and egg, and dairy arrangements have accumulated reserves that exceed the department's cost recovery reserve policy which is designed to keep the reserve balance between zero and five percent of annual expenditure. The reserve balance provides opportunity to reduce the amount that the department collects from fee payers towards its operating costs, with the balance being met by a draw down on the reserve. Subject to government approval, the amount collected for annual registration charges, certificate charges and some fees for service can be temporarily reduced.

***Regulation burden measurement costing***

There will be no change in regulatory burden as there will be no change in the volume of charges that an exporter needs to process – it is a price change only.

### **7.3 Non-prescribed goods**

Non prescribed goods currently use only fee for service arrangements. The new cost recovery charges will have both levy and fee components for both electronic and manual certificates.

The fee component recovers all of the costs of approving and issuing certificates. The levy component recovers the costs of managing the export certification, assurance and incident management

***Regulatory burden measurement***

There will be no change in regulatory burden as there will be no change in the volume of charges that an exporter needs to process.

## 8 Consultation

Communication with the department's clients has been an integral part of developing the proposed cost models and prices for fees and levies. Since September 2014, the department has consulted with over 400 organisations and individuals through the import and export ICCs, public engagement sessions, and an open submissions process following the release of the Consultation CRISs (Table 4). The draft CRISs provided the mechanism to garner feedback on the proposals outlined in this RIS. The department is also maintaining a cost recovery email address and an 1800 contact number as other channels for stakeholders to engage directly with the department. This consultation meets best practice by following the principles and processes set out in both the Australian Government Guide to Regulation and the CRGs.

**Table 4: Cost Recovery redesign consultation**

Round	Dates	Description
Round 1 – Public consultation	September 2014	<ul style="list-style-type: none"> <li>Engagement sessions open to all stakeholders in Sydney and Melbourne</li> <li>Initial stakeholder engagement on review</li> <li>General overview and objectives</li> </ul>
Round 2 – ICCs	September 2014 – November 2014	<ul style="list-style-type: none"> <li>Objectives of the redesign</li> <li>Discussion on outline of a new departmental cost model for fees and levies</li> <li>Indicative cost base for biosecurity, imported food and export certification activities</li> <li>A range of position papers were provided for comment (such as overtime, indexation, travel)</li> </ul>
Round 3 – ICCs	December 2014	<ul style="list-style-type: none"> <li>Indicative cost base for biosecurity, imported food and export certification activities</li> <li>New charging points proposed for discussion to help spread costs across all clients</li> <li>Further discussion on position papers and principles on the redesign</li> </ul>
Round 4 – Export ICCs	April 2015	<ul style="list-style-type: none"> <li>Cost modelling methodology</li> <li>Detailed costings of export arrangements</li> <li>Indicative prices</li> <li>Consolidation of horticulture and grain arrangements</li> </ul>
Round 4 – Imports (following Budget announcements)	June 2015	<ul style="list-style-type: none"> <li>Cost modelling methodology</li> <li>Detailed costings</li> <li>Indicative prices</li> </ul>
Round 5 – ICCs	July 2015	<ul style="list-style-type: none"> <li>Draft cost recovery implementation statements provided on all arrangements that detail the proposed fees and levies (provided under confidentiality deeds)</li> <li>Treatment of cost recovery reserves</li> </ul>



Round	Dates	Description
Round 6 – Public consultation	July 2015 – August 2015	<ul style="list-style-type: none"> <li>• Draft cost recovery implementation statements provided on all arrangements for stakeholder comments</li> <li>• Submission process available for stakeholders to provide feedback</li> <li>• Engagement sessions on proposed changes to imports and exports fees and charges open to all stakeholders in Sydney, Melbourne, Perth, Adelaide, Hobart and Brisbane. A horticulture exports session was held in Mildura.</li> </ul>

## 8.1 Biosecurity specific issues raised during consultaion

Overall stakeholders support the majority of the major changes in the biosecurity arrangement, including the consolidation relating to the FID charges. While many of the reforms have broad support from the industry participants, there are some areas where the views of industry differ. For example, rolling up the costs associated with the sea container fee into the cost associated with the FID charge has been supported by most stakeholders, but others have suggested charges could be imposed on break bulk and bulk cargo in addition to a container fee. The department did examine other options to apply a levy to all types of imported cargo, however, there are no other cost effective mechanisms available at this time. A key issue raised on the draft biosecurity CRIS was in relation to the increase in levies for QAPs and CAs. Stakeholders sought clarity about the operation of the new charges and this was provided by the department.

## 8.2 Live animal export consultation

Feedback from live animal exporters has generally been supportive of the new fees and charges—as the costs of the program are decreasing. Livestock exporters would like to see further reductions in the department’s costs in the forward years. They are also concerned about the impact of costs on small livestock exporters. Concerns have been raised by exporters of companion animals (cats and dogs) who will pay higher charges under the proposed arrangements.

## 8.3 Food export certification consultation

### 8.3.1 Food exports

In general there has been support for the food export fees and charges as there are no significant changes to the amount that is proposed to be recovered from these clients.

#### ***Meat***

The meat industry representatives agreed with the new cost structure for health certificates and staff based charges, including fees for inspections, audits and related activities.

Meat industry committee members also supported the proposals to use remittances to avoid over-recovery in future years. However, some members were concerned that the approach set out in the CRIS to use the existing reserve balance to reduce registration prices would result in exporters who had not contributed to the current accumulated reserve receiving an advantage, because their levies for future exports would be reduced, particularly in relation to the 30 percent remission proposed for registered establishments. For example, some industry representatives have stated that the reserve must be remitted to the industry sectors that contributed to the surplus, in the same ratio as they paid.

The department provided further information to explain how the accumulated reserves and remissions would operate in an equitable and appropriate manner, and consistent with whole of government cost recovery guidelines.

#### ***Dairy, Seafood and Eggs, and non-prescribed goods***

Feedback from dairy, seafood and eggs, and non-prescribed goods exporters has been supportive of the proposed remissions that will reduce costs of establishment registration and certificates.

## **8.4 Plant export certification consultation**

The department received a significant amount of feedback on the proposed redesign of the plant export certification fees and levies. Horticulture industry representatives were concerned about the quantum of the increases in some fees, and the new volume based charges. The new charges resolve historical under-recovery in the horticulture export program area. However, industry members also noted that the new throughput charges allowed for significant reductions in registration fees. After discussion, industry members were broadly supportive of the concept, but were concerned that the throughput charges would impact on larger volume exporters in particular.

Both grain and horticulture industry members stated that the costs of the Authorised Officers (AO) program should not be entirely funded through levies as had been originally proposed. Instead, some form of fee for service component was requested in addition to a levy component. This was seen as important in both ensuring that users contributed directly to the costs of the AO program, and at the same time would reduce the levy amount. The department has adjusted the proposed model to introduce a fee for service component for the AO activities in the plant export area.

In consultative meetings with the department, grains industry representatives raised strong concerns that the proposed 20 cent per tonne volume charge was a significant increase over the current 11 cent per tonne charge, especially as other export certification costs also seemed to be rising.

Grain members argued that a doubling of the volume charge was unacceptable, and said the department must find a more equitable way to distribute costs. It was suggested by some grain industry members that a reduction in the tonnage charge could be achieved by increasing the certification charges for phytosanitary certificates. Similar concerns were raised by the grain industry during public consultation.

Other specific issues included the level of service provided by the department for inspection and documentation activities; delays and failures in opening and maintaining access to existing and new markets; and frustration in the delays in the acceptance of authorised officers by overseas countries for plant exports to protocol markets.

Many horticulture stakeholders questioned the new charges for the training and certification of authorised officers—which is currently provided at no additional cost—and was not seen as an incentive to have authorised officers.

The nut sector has also raised concerns about the originally proposed tonnage rate for these exports (\$5 per tonne) arguing for a lower rate. The timber industry has raised concerns about the new tonnage rate, which they do not currently pay.

Public information sessions included some comments that indicated a fundamental opposition to the premise of full cost recovery of export certification activities. These stakeholders argued the economic benefit to the country should enable the department's services to be tax payer funded—if not wholly, at least a significant part.

While stakeholders were more comfortable with fees for service relating to inspection and audit activities, the majority did not see how they were a consumer of related activities the department undertakes for plant

exports, and as such did not believe it was reasonable for them to have to pay for system costs—such as a proportion of export certification systems, IT, HR and finance—that relates to the plant export program.

Stakeholders also wanted to see costs reduced from the plant export program, especially relating to system costs and Canberra-based positions, and more support to be provided for small exporters. Some horticulture industry representatives wanted to see registered establishment charges return to pre-2011 levels (where charges were also heavily subsidised by the government) of around \$500 to \$1 000.

Following the grain and horticulture industry consultative meetings, and the feedback from public submissions, the department revised the plant export charges.

A new tier was introduced for registered establishments, the grower/exporter establishment. There were slight increases in the rates for simple establishments and complex establishments (now \$6 000 per annum). Applications for new registered establishments will also now incur a one-off \$600 levy. Tonnage levies were further reduced which were offset through these changes to the registered establish levies.

Section 6 presents the analysis of the proposed redesigned plant export certification cost recovery arrangements.

## **8.5 Ongoing consultation**

Once the new cost recovery arrangements begin, quarterly reporting of cost recovery performance will continue to be provided to relevant ICCs. This will provide a mechanism for regular engagement and review of cost recovery arrangements, and ensures any unintended consequences or issues can be identified and resolved in a timely manner.

## 9 Recommendations

The department recommends implementing the redesigned cost recovery arrangements for imports, live animal exports, food exports and plant exports. This was presented in section 3 of this RIS as Policy Option 2. The specifics of the redesign are detailed in sections 4 to 7 of the RIS.

The redesign is the recommended option because it delivers the greatest net benefit. The redesigned cost recovery arrangement will ensure the department can continue to deliver activities that:

- safeguard \$39 billion of Australia’s agricultural exports
- protects the Australian agriculture sector’s contribution of around \$51 billion to the nation’s economy<sup>11</sup>
- maintains Australia’s international reputation as an exporter of high quality agricultural goods.<sup>12</sup>
- The delivery of the activities funded through these redesigned arrangements is projected to cost an average of \$340.3 million per annum from 2015-16 to 2018-19. The implementation of the redesigned arrangements would also deliver a net reduction of \$47.3 million per annum in regulatory burden. Therefore, there is a significant benefit associated with implementing the redesign.
- Policy Option 1—the status quo—would cost a similar amount but would not deliver a deregulatory outcome or address the policy problems described in this RIS. Policy Option 3—ceasing cost recovery—would shift the cost of these activities to the general tax payer, rather than the recipients of the activities. Ceasing cost recovery would also remove a number of significant benefits associated with cost recovery, including the price signals that encourage the efficient use of government services and the flexibility in funding that allows the department to respond to changes in demand for its activities. The net benefits arising from Policy Options 1 and 3 are less than Policy Option 2.

In addition, Option 2 is the only option that supports the government’s decision to redesign import and export certification cost recovery arrangements such that they fully recover the cost of the activities and are consistent with the CRGs. Details of the redesign are documented in CRISs to be submitted for ministerial approval. If ministerial approval of the CRISs is granted, the legislative instruments to enact the redesigned fee and levy arrangements will be progressed.

These redesigned arrangements are the basis of extensive consultation and analysis undertaken over an extended period. The proposed arrangements will recover the costs of delivering import and export certification services in an efficient and equitable manner and will improve the department’s financial sustainability. Equity will be addressed by reducing the impacts of fees and levies on the competitiveness of small exporters and reducing cross subsidisation. Financial sustainability will be achieved by matching the cost of providing these services with equivalent funding.

The redesign delivers significant benefits for stakeholders, the government and the department. It meets government policy for cost recovery and addresses the identified policy problems.

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<sup>11</sup> Australian Government Department of Agriculture 2014, *Annual Report 2013–14*, [www.agriculture.gov.au/about/annualreport/2013-14](http://www.agriculture.gov.au/about/annualreport/2013-14), page 1

<sup>12</sup> *Ibid*, page 1

## 10 Implementation Arrangements

The implementation of the redesigned cost recovery arrangements is underway. An Implementation Action Plan for the redesigned cost recovery arrangements is guiding this process. This plan sets out the steps in implementing the redesigned cost recovery arrangements and is grouped into the activity streams:

- Regulatory framework—primary legislation changes to facilitate the redesign were passed by the parliament in July 2015. Subordinate legislation to establish the redesigned fees and levies is currently being drafted and will be finalised once the CRISs have been received ministerial approval.
- Business practices—a range of policy and procedures are being updated to facilitate the redesigned fees and charges
- Systems—the department’s IT systems are being updated to reflect redesigned fees and levies
- People—the department’s instructional material will be updated to align with the redesigned fees and levies
- Clients—communication with the department’s clients about the redesigned fees and levies is ongoing.

Implementation of activities across these streams will allow for the commencement of redesigned fees and levies on 1 November 2015. This implementation plan is being overseen through the department’s internal governance processes.

### 10.1 Implementation Objectives

The department’s objectives in redesigning these cost recovery arrangements is to provide more equitable, streamlined and sustainable arrangements for fully recovering the costs of departmental activities. The new arrangements will support the more efficient delivery of import and export certification activities. The redesign will address inequities, and define fairer fees and charges across the department’s cost recovered activities.

### 10.2 Evaluation

The evaluation of the redesign will occur as part of the department’s business as usual management of cost recovery arrangements. This involves regular monitoring of and reporting on cost recovery performance to stakeholders through ICCs and to the government through budget processes. The department undertakes detailed semi-annual reviews of its cost recovered activities as part of departmental budgeting processes. This will help to ensure that revenue collected from clients matches the expenditure on the delivery of import and export certification activities.

The government has scheduled the department’s Portfolio Charging Review in 2019–20. This significant review of cost recovery arrangements provides an opportunity for a holistic review of the redesign. Other initiatives occurring across the department—such as the implementation of the Biosecurity Act in 2016 and the recently commenced review of export certification legislation—present opportunities in shorter term to review any issues with the redesigned cost recovery frameworks. Consideration is being given to seeking a Productivity Commission to address concerns about cost recovery raised by exporters.

## Attachment A—Cost recovery methodology

The department has applied a consistent methodology to determine the fees and levies in its cost recovery arrangements for both export certification and imports. Determining fees and levies for each cost recovery arrangement is a four-step process:

1. Determine the cost base.
2. Incorporate the cost base into a consistent activity based cost model.
3. Establish charges and forecast volumes.
4. Calculate prices for fees and levies using the cost model and volumes.

The department's new cost recovery model (Figure 1) used in the redesign is consistent with the principles and processes set out in the CRGs. Although the model is new, it is based on previous activity based costing models. These models have been developed and improved over the time the department has undertaken cost recovery.

### Determining the cost base

The department's 2014–15 budget has been used as the starting point for determining the cost base. It is drawn from the department's Financial Management Information System (FMIS) and is made up of three types of costs:

- Direct expenses—these can be traced to the provision of an activity (for example an audit) such as staff salaries and supplier costs associated with the undertaking an audit or issuing a certificate.
- Indirect expenses—these are not easily linked to an activity provided by the department. Indirect expenses include corporate employee salaries and overheads, such as information technology, finance and human resources costs.
- Capital expenses—this includes property and depreciation.
- Indirect expenses are allocated to activities using drivers in the FMIS costing methodology such as the number of full time equivalents (FTE) of staff and technology assets (such as computers). Effort surveys and the use of department cost drivers provides a consistent approach for allocating expenses into the activity based cost recovery model across all of the department's cost recovery arrangements.
- To project the cost base over the next four years, adjustments are applied to capture expected changes to the costs. These are changes that have not yet been captured in the department's FMIS. Reductions in costs will arise from reforms such as service delivery modernisation, while factors such as inflation on supplier expenses and new capital items will increase costs.

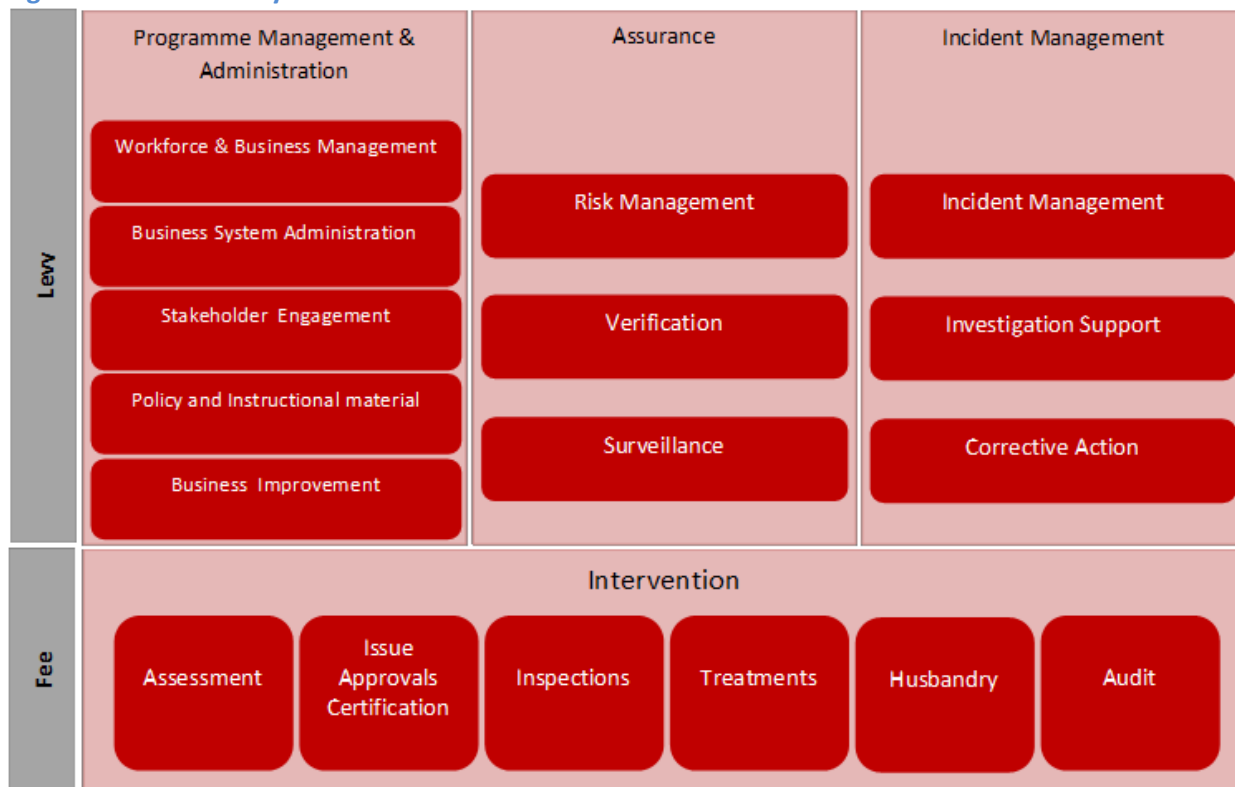
### Activity-based cost model

The department's cost recovery model consists of 17 activities divided into four groups (Figure 2). The activities and groups are based on the department's business service catalogue of activities. The business service catalogue provides consistent descriptions of the department's activities and underpins a range of reforms across the department. The cost model ensures that fees or levies recover similar costs consistently across all import and export cost recovery arrangements.

The four groups of activities in Figure 2 determine how the costs of each activity are recovered. The costs associated with programme management and administration, assurance, and incident management activities

are recovered through levies. Levies recover costs of activities provided to a group of individuals, businesses or organisations. The costs associated with the intervention activities are recovered through fees. A fee applies to those activities provided directly to an individual, business or organisation. This application of fees and levies aligns with the CRGs.

**Figure 2: Cost recovery cost model**



## Volumetric forecasts

The demand for the department’s services drives costs and hence the level of revenue required to recover those costs. The forecast volumes of services, such as certificates issued or premises registered, or volumes of exports, are required to calculate the price of fees and levies. To incorporate volume changes into projected prices, the department maintains a volume forecast model. This uses historical volumes of exports and predicts future market conditions and their likely impact on demand for the department’s activities. The volumetric model:

- uses Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) analysis to forecast the impact of macro-economic drivers on historical volumes
- incorporates industry forecasts and the ABARES commodity forecasts
- projects the effect of change business processes on historical trends, such as changes in regulation, service delivery, organisational structure, and charging structures.

External business information, provided through established industry consultative committees, is also used to improve and validate the volumetric forecasts.

## Cost recovery reserve

The department has revised its cost recovery reserve (previously industry reserve) policy to assist with managing the alignment of revenue and expenses. This has meant changing the policy from maintaining a

balance of between two and ten percent of annual expenditure to a balance of between zero and five percent of annual expenditure. Closer management of the financial performance of arrangements may lead to more frequent adjustments to charges. Subject to government approval, over recoveries may be managed through remittance, refunds or investment initiatives.

A single reserve will be maintained for each cost recovery arrangement.



## Attachment B—Commonwealth Regulatory Burden Measure (RBM) Methodology

The Commonwealth Regulatory Burden Measure calculations for this analysis:

- use the regulatory costs, exclusions and populations set out in the Regulatory Burden Measurement Framework Guidance Note<sup>13</sup>, include the default labour cost of \$65.45
- costs regulatory burdens or savings associated with changes to fees and levies. The regulatory burdens or benefits arising from a service, such as participating in an approved arrangement, are beyond the scope of the RIS
- the status quo option is considered to be a zero cost baseline, as these activities are already occurring and the regulatory burden of this cost recovery already exists.

A key driver of the regulatory burden associated with cost recovery arrangements is the time taken for activities required to pay fees and levies. To calculate the regulatory burden, each calculation has been allocated into one of three time categories:

- 15 minutes: fees and levies that are charged automatically through systems such as ICS and AIMS. These charges are automatically direct debited from a regulated entity's account. Activities associated with these fees and levies include reconciling the charges, allocating the charges onto a regulated entity's clients, and querying discrepancies
- 30 minutes: fees and levies that are not charged on a volume basis, such as an annual registration levy and are charged via invoice. Activities associated with these fees and levies include receiving, processing and paying the invoice, querying discrepancies and reconciling the charges
- One hour: fees and levies that require more complex activities, such as certification fees that are charged on volume and are charged via invoice. Activities associated with paying these fees and levies include receiving, processing and paying the invoice, reconciling the charges, allocating the charges onto a regulated entity's clients, and querying discrepancies.

These three time categories have been discussed externally with stakeholders and internally with areas of the department responsible for invoicing. These discussions have confirmed that these categories are appropriate averages to use for these activities.

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<sup>13</sup> Office of Best Practice Regulation 2014, *Regulatory Burden Measurement Framework Guidance Note*, Department of the Prime Minister and Cabinet, <https://www.dpmc.gov.au/office-best-practice-regulation/publication/regulatory-burden-measurement-framework-guidance-note>