Australian Government
Department of Agriculture

Department of Agriculture Levies Cost Recovery Revalidation Post-consultation Review – May 2014

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INTRODUCTION

The Department of Agriculture has undertaken to review and revalidate the cost recovery methodology for the levies cost recovery arrangement. This paper summarises outcomes from a four week stakeholder consultation period and affirms how the department will allocate its costs, in relation to the administration of levies, in the future.

BACKGROUND

Since the introduction of the activity based costing (ABC) methodology for the administration of levies, the department has received advice and comment from stakeholders and independent reviews regarding the validity of how it allocates costs to levy recipient bodies (LRBs) and individual commodities, and how the department determines estimates and/or costs from year to year. As a result, the department considered three themes that aimed to revalidate the cost allocation methodology in a position paper published in March 2014. These were:

1. The allocation of program management costs to commodities
2. The allocation of commodity costs to LRBs
3. The stability of costs and accuracy of estimates.

A number of options were considered for each of these themes, with the department's preferred position identified for themes one and two. Stakeholders were encouraged to comment on the options discussed or provide alternative models. The options discussed in the paper are summarised in the table below with further detail at daff.gov.au/agriculture-food/levies/publications.

	Theme	Option one (current state)^	Option two	Option three	Option four (if applicable)
1	The allocation of program management costs to commodities	FTE or proportional allocation	Allocation based on three year historical average	Equal share allocation	Revenue based allocation
2	The allocation of commodity costs to levy recipient bodies	Hybrid or equal share with exceptions for certain LRBs	Equal share allocation	Revenue based allocation	N/A
3	The stability of costs and the accuracy of estimates*	Estimates provided twice a year with an EOFY reconciliation	Estimates used as quotes (charging a year in arrears)	Cost recovery model run monthly	Adjust timing of estimates

^Option one was added to theme three after feedback from LRBs that it should be considered in the position paper

* The department's preferred positions (as outlined in the position paper) are highlighted for reference with the exception of theme three.

CONSULTATION

LRBs and IRBs were given four weeks to consider and respond to the options put forward in the position paper. Attachment A lists all LRBs and IRBs that were consulted.

RESPONSES

The department received 24 written submissions: 10 from LRBs, 13 from IRBs and one from other interested parties (see Attachment B). This represents a response rate of 53% for LRBs and 25% from IRBs. The three tables below highlight the summarised preference of respondents within each theme, categorised by highlighting the most popular options.

Theme One: Allocation of program mgmt costs to commodities	FTE allocation	Three year historical average	Equal share	Revenue based	No preference or N/A
LRBs	6	1	-	1	2
IRBs	11	-	-	2	-
Other stakeholders	-	-	-	-	1
TOTAL	**17**	**1**	**-**	**3**	**3**
%	**71%**	**4%**	**-**	**13%**	**13%**

Theme Two: Allocation of commodity costs to levy recipient bodies	Hybrid	Equal share	Revenue based	(N/A)	No preference or N/A
LRBs	2	-	5	-	3
IRBs	2	-	9	-	2
Other stakeholders	-	-	-	-	1
TOTAL	**4**	**-**	**14**	**-**	**6**
%	**17%**	**-**	**58%**	**-**	**25%**

Theme Three: Stability of costs/accuracy of estimates	Twice annual estimates	Estimates as quotes	Monthly modelling	Adjust timing of estimates	No preference or N/A
LRBs	8	2	-	-	-
IRBs	6	2	-	2	3
Other stakeholders	-	-	-	-	1
TOTAL	**14**	**4**	**-**	**2**	**4**
%	**58%**	**17%**	**-**	**8%**	**17%**

ACCEPTED METHODOLOGY

At the close of the consultation period, the view of our industry and levy recipient stakeholders is clear and, for the most part, in accordance with the department's perspective. The preferred position of the department maintains the current FTE approach to allocating program management and moves to a revenue based allocation process for commodity costs that are shared amongst multiple LRBs. Further, it would appear that the issue of unstable or inaccurate estimates and/or costs is an issue for a small number of stakeholders that can be managed with improved communication and not by changes to the cost recovery methodology. Further analysis of each theme is detailed below.

Theme One – Allocation of program management costs to commodities

Theme One: Allocation of program mgmt costs to commodities	FTE allocation	Three year historical average	Equal share	Revenue based	No preference or N/A
LRBs	6	1	-	1	2
IRBs	11	-	-	2	-
Other stakeholders	-	-	-	-	1
TOTAL	**17**	**1**	**-**	**3**	**3**
%	**71%**	**4%**	**-**	**13%**	**13%**

This purpose of this theme was to respond to recommendation two of a review into the cost recovery model by KPMG in February 2013. The current state for program management allocation is that it is allocated on the amount of direct time that is spent administering levies for a particular commodity. The department has summarised this as the FTE approach and holds the position that this is the most appropriate mechanism for allocating program management costs. The reason behind this position is the drivers of almost all other costs that are included in the model are also based on FTE. A number of examples include IT costs, property costs or other indirect staffing and support costs. The department's property costs are allocated to the levies function on workstation, headcount and/or FTE, as are the department's IT infrastructure, security and staff support costs. This option was overwhelmingly supported by IRBs and LRBs alike with a preference rate of 71% with 13% expressing no preference.

One submission suggested that the three-year historical average method (option two) was preferred, stating:

"By using a moving three-year average of direct time, more certainty can be provided to levy recipient bodies regarding the amount being charged. As indicated, the smoothing effect is desirable and is more efficient than the shocks that may be incurred when one-off actions are required for any commodity."

In response to this, the department also considers this option to be viable, and that it would have the effect of flattening costs from year to year. However, this is coupled with a reduction in the impact of industry efficiencies over time and a decreased ability to critically analyse and explain variations from year to year. This, along with a low preference rate of 4%, is the major reason for not adopting this methodology.

Another submission highlighted a preference to allocate program management costs to commodities on the basis of how much revenue they receive (option four), stating:

"It meets the criteria of [equity, ease of application, predictability and transparency]"

The department agrees that the four suggested criteria are important for an appropriate allocation of program management costs but not necessarily with the equal weighting given to each or whether this option actually meets the criteria as suggested. Using revenue as the driver for program management represents a regression in the methodology, away from an ABC and will give rise to efficient industries that collect large amounts of levy subsidising others which are less efficient and/or collect small amounts of levy. While it could be easily applied, the department does not consider it equitable or transparent. The predictability of such an arrangement also depends on the amount of levy that an industry generates in a year. This option was also not very popular with a preference rate of 13%.

Theme Two – Allocation of commodity costs to levy recipient bodies

Theme Two: Allocation of commodity costs to levy recipient bodies	Hybrid	Equal share	Revenue based	(N/A)	No preference or N/A
LRBs	2	-	5	-	3
IRBs	2	-	9	-	2
Other stakeholders	-	-	-	-	1
TOTAL	**4**	**-**	**14**	**-**	**6**
%	**17%**	**-**	**58%**	**-**	**25%**

This theme discusses how the department allocates commodity costs to LRBs in situations where multiple LRBs receive the levy. There are a number of situations where this occurs, especially for levies that have an Animal Health Australia (AHA), Plant Health Australia (PHA) and/or National Residue Survey (NRS) component. The current state involves sharing the revenue for these relevant commodities on a fixed rate basis, based on the anticipated costs from 2012-13. The purpose of this was to ensure that programs that the government encouraged participation in, and which did not receive large portions of the levy, were not disadvantaged greatly by the move to the ABC methodology. The department now proposes to move to a revenue based allocation of costs from commodities to LRBs. This method allows the next stage of cost allocation to be performed with the end user or consumer of the service taken into account. Again, this option was supported by the majority of respondents with 58% stating the department's position was their preference and 25% having no comment.

A number of submissions suggested that a consistent approach should be adopted between themes one and two. The suggestion is that if the department adopts a revenue based allocation for commodity costs to LRBs, then the same position should be held for assigning all costs to commodities. One submission comments:

"One of the reasons noted for the proposed adoption of Theme 2 Option 3 is the following; 'If a LRB has a greater share of revenue, it can be concluded that that LRB is deriving greater benefit from the department and should incur a greater proportion of costs.' If this theory is to be accepted, then it could equally be applied to the individual commodities and therefore would create an acceptable argument for the implementation of a revenue based approach to allocating costs to individual commodities."

The department responds to these comments by highlighting the significant difference between this part of the allocation process and the assignment of costs to commodities as found in theme one. Theme one has a clear driver, staff effort, measured through the timesheet system the department utilises in Phoenix. Under Theme two, however, the splitting of costs to LRBs is not time based at all as the effort collecting the levy has already been expended. The only driver that can be reasonably measured, at this stage, is the consumption of the service, or who receives the benefit of the levy. In this instance, it is the percentage of the levy received that indicates the consumption of the service and therefore can be used to split the costs after they have been allocated to commodities. Since there is no activity to link this part of the allocation, the department is of the opinion that a share of levy received is an appropriate way to allocate these costs between LRBs.

Theme Three – Stability of costs and the accuracy of estimates

Theme Three: Stability of costs/accuracy of estimates	Twice annual estimates	Estimates as quotes	Monthly modelling	Adjust timing of estimates	No preference or N/A
LRBs	8	2	-	-	-
IRBs	6	2	-	2	3
Other stakeholders	-	-	-	-	1
TOTAL	**14**	**4**	**-**	**2**	**4**
%	**58%**	**17%**	**-**	**8%**	**17%**

Theme three attempted to address feedback from some stakeholders about the apparent lack of stability in costs from year to year or the accuracy of estimates throughout the year. The department maintains the integrity of the cost recovery model and asserts that movements in costs are a function of increased or unanticipated activity. That being said, the report proposed a number of options that have the potential to smooth the department's levy administration costs. After presenting these, the majority of feedback that was received indicates overwhelming support for the current state which is to provide estimates twice a year with an end of financial year reconciliation. The department also feels that the current state provides enough recalculations to give a reasonable indication of the end of year costs. In the instances that this was not the case, there is sufficient evidence to explain significant variances.

A number of submissions proposed that treating estimates as quotes (option two) would be the preferable option with one submission suggesting:

"it would provide certainty and increase efficiency in allocating collection costs to the relevant industry parties – and allow us to provide firmer budgets and estimates to our industry members"

Another submission suggested that the department was:

"a high cost service provider and additional estimation process will only add to cost. We believe that there should be a smoothing process, when any budget overruns are taken into account in the following financial year. Certainty is required for budgeting."

Since 2010-11, the department has reduced the cost recovery charges associated with all levy collection, administration and distribution from $6.6 million to approximately $5.9 million in 2012-13, a decrease of $0.7 million. The total costs represented 1.4% of total levies collected in 2012-13. The department expects total cost recovery charges to decrease again in 2013-14 to $5.2 million, which would represent 1.2% of 2012-13 levy collection. The department has demonstrably made significant progress in reducing costs for most industry bodies and is committed to continue this where possible. Unfortunately, sub-optimal industry structures can lessen the impact of cost reductions for those industries and therefore make a legislated levy collection inefficient and costly.

The department believes that the implementation of an 'estimates as quotes' option would be simple and would not require significant changes to the model. However, the majority of LRBs and IRBs have suggested that the variances that occur throughout the year are not the issue, as long as appropriate explanation accompanies these changes. Further, this option would smooth costs within a financial year, but would not solve the underlying problems that some industries face. Delaying reconciliations to the next financial year – the requirement under this option – would risk outdated explanations being offered about current variances and could reduce the ability of industry to respond to the behaviour of levy payers and/or agents. Coupled with a low preference rate of 17%, the department considers this option is not desirable at this time.

Other submissions suggested that a modified estimates period (i.e. providing the initial estimate closer to the beginning of the financial year) would be preferable because it would allow up-to-date activity detail to form part of the estimate. These respondents did note, however, that the timing of estimates was not a particularly important issue to them, but would support any adjustment that would solidify estimates. That said, only 8% of respondents saw this option as preferential.

Noting the preference of respondents (58% preferred and 17% having no preference or comment) to maintain the status quo, but that increased communication is initiated in times of change, the department is comfortable not implementing any particular cost stability or improved estimate mechanisms over and above the current process. Instead, greater oversight will be made over the performance against estimates in order to anticipate variances and inform industry as soon as possible.

CONCLUSION

The Department of Agriculture is committed to administering levies in a cost-effective, equitable and transparent manner. Further, we are enthused with the continual improvement that is being demonstrated in the evolution of the cost recovery model, as is represented by the broad support for the positions outlined above. With further industry engagement, we look forward to continued and sustained improvement in the levies cost recovery arrangement.

ATTACHMENT A – STAKEHOLDERS CONSULTED

Levy Recipient Bodies

- Animal Health Australia
- Australian Egg Corporation Limited
- Australian Meat Processor Corp
- Australian Pork Limited
- Australian Wool Innovation
- Cotton RDC
- Dairy Australia
- Fisheries RDC
- Forest and Wood Products Australia
- Grains RDC
- Grape and Wine RDC
- Horticulture Australia Limited
- Livecorp
- Meat and Livestock Australia
- National Residue Survey
- Plant Health Australia
- Rural Industries RDC
- Sugar Research Australia
- Wine Australia Corporation

Industry Representative Bodies

- Almond Board of Australia
- Apple & Pear Australia
- Australian Banana Growers Council
- Australian Buffalo Industry Council
- Australian Cane Farmers Association
- Australian Cashmere Growers Ass’n
- Australian Chicken Meat Federation
- Australian Dairy Farmers
- Australian Forest Growers
- Australian Forest Products Association
- Australian Ginger Growers Association
- Australian Honey Bee Industry Council
- Australian Livestock Exporters' Council
- Australian Lot Feeders Association
- Australian Lychee Growers Association
- Australian Macadamia Society
- Australian Mango Industry Association
- Australian Meat Industry Council
- Australian Mushroom Growers Ass’n
- Australian Nashi Growers Association
- Australian Prawn Farmers Association
- Australian Olive Association
- Australian Sugar Milling Council
- Australian Table Grape Association
- AUSVEG
- Avocados Australia Limited
- Cane Growers Australia
- Cattle Council of Australia
- Cherry Growers Australia
- Chestnuts Australia
- Citrus Australia
- Cotton Australia
- Custard Apples Australia
- Deer Industry Association of Australia
- Dried Fruits Australia
- Emu Industry Federation of Australia
- Goat Industry Council of Australia
- Grain Producers Australia
- Growcom
- Kangaroo Industry Ass’n of Australia
- Nursery and Garden Industry Australia
- Onions Australia
- Papaya Australia
- Passionfruit Australia
- Persimmons Australia
- Raspberries and Blackberries Australia
- Ricegrowers’ Association of Australia
- Sheepmeat Council of Australia
- Strawberries Australia
- Summerfruit Australia
- Turf Producers Australia Limited
- Wine Grape Growers Australia
- Winemakers Federation of Australia
- Wool Producers Australia
- National Farmers’ Federation

ATTACHMENT B – WRITTEN RESPONSES RECEIVED FROM:

Levy Recipient Bodies

- Animal Health Australia
- Australian Egg Corporation Limited
- Cotton RDC
- Dairy Australia
- Forest and Wood Products Australia
- Grape and Wine RDC
- Plant Health Australia
- Rural Industries RDC
- Sugar Research Australia
- Wine Australia Corporation

Industry Representative Bodies

- Almond Board of Australia
- Australian Banana Growers Council
- Australian Chicken Meat Federation
- Australian Dairy Farmers
- Australian Forest Products Association
- Australian Honey Bee Industry Council
- Australian Mushroom Growers Ass'n
- AUSVEG
- Avocados Australia Limited
- Cherry Growers Australia
- Grain Producers Australia
- Growcom
- Nursery and Garden Industry Australia
- Winemakers Federation of Australia

Other Interested Parties

- National Farmers' Federation