Department of Agriculture, Fisheries and Forestry

DAFF Levies Cost Recovery Model Review

February 2013
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Third Parties acknowledge that they are not a party to the contract dated 24 September 2012 whereby KPMG has been engaged by DAFF to undertake a review of the DAFF Levies Cost Recovery Model and to report its findings to DAFF. Our engagement was neither planned nor conducted in contemplation of the purposes for which Third Parties have requested the DAFF Levies Cost Recovery Model Review report.

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Executive Summary

The Department of Agriculture, Fisheries and Forestry (DAFF) has been collecting agricultural levies on behalf of industry for many decades. Levy revenue collected from primary producers by DAFF is forwarded to Levy Recipient Bodies (LRBs) to utilise in activities designed to support and enhance that industry, for example research and development and/or marketing initiatives. DAFF levies recover the costs of their operations ie. levy collection activities, from the LRBs which utilise their services.

Over the past two years, DAFF levies has undertaken a broad reform program resulting from findings obtained through a number of feedback mechanisms, for example external reviews conducted (ie. Australian National Audit Office, KPMG and Ernst Young) and through stakeholder feedback. Based on these findings, DAFF identified three key focus areas for reform, which included transitioning to a risk based compliance strategy, reviewing the cost recovery framework and upgrading their IT system. These focus areas were aimed at improving the availability and quality of data, increasing the transparency of levies activities and cost recovery fees and charges.

DAFF reviewed the DAFF levies cost recovery arrangements in 2011, as part of the broader reform program, concluding that there were a number of possible improvements. If implemented, these changes would further align the model with cost recovery requirements, better practice as well as allocating their costs on a more equitable basis.

Previous model

The previous cost recovery model meant that industries which raised a significant level of levy revenue paid the most for DAFF levies services. In addition, the previous cost model used by DAFF had very limited ability to interrogate data in order to understand how to better manage costs and activities undertaken by DAFF.

The benefit of this arrangement was that industries collecting more levy revenue often had a greater capacity to pay for the service of DAFF. In addition, the costs were quite stable and LRBs could generally build them into their business planning and budget processes.

The change to a new model

With the impending change, DAFF entered into consultation processes with industry (in May 2011) providing a description of how the model was changing ie. to an activity based costing approach, potential impacts on fees and charges and the likely changes. However, with the benefit of hindsight, this process should have occurred earlier and have been more intensive where the Department predicted material impacts. In response to this, DAFF has made a concerted effort to engage with industry, further explaining the model and the cost impacts. They have also engaged with a number of industry bodies to identify how to curb future costs eg. through increasing levy payer compliance levels and raising awareness of more efficient ways of transacting with DAFF (ie. payment and lodgement of returns electronically).

Benefits of the new model

The new cost recovery model does have a number of benefits that the previous model did not. It recovers DAFF levies costs based on activity undertaken by DAFF staff, that is, if more time is spent processing manual returns for a particular levy, then the industry body will be charged for this. This is a more transparent method of recovering costs based on use of resources and reduces the risk of cross-subsidisation ie. one party charged for the costs of another party.

The new cost model also provides an opportunity to analyse data and for DAFF to manage activity undertaken by DAFF levies staff in a more cost effective manner. DAFF have already commenced changing the focus of staff, where possible moving from low value activities to those that provide more value to industry.

DAFF have also made a concerted effort to reduce the overall costs it must pass onto industry to collect their levies, this will remain an ongoing focus.

Government requirements

It must be noted that as an Australian Government entity, DAFF is required to adhere to a number of policies, including the Australian Government Cost Recovery Guidelines (CRGs)[1]. KPMG notes that the current cost recovery model is aligned to these requirements to a much greater extent than the previous model. This is primarily achieved as there is a strong cause and effect relationship between the level of activity of the DAFF levies function and the fee-for-service charges to LRBs.

Additionally, DAFF must comply with a number of transparency and accountability requirements including debt recovery processes. While there is management discretion to cease pursuit of low value debt, there are debt recovery requirements that must be undertaken.

Program management cost allocation

KPMG recommends that the allocation method of "Program Management" costs is further analysed and considered to identify more representative cost drivers for these indirect costs. KPMG notes that it is difficult to identify clear, improved alternatives for all these costs and that the current approach is not unreasonable. Costs associated with the other two major cost pools, being "Returns and Receipts" and "Direct Commodity Actions", are allocated by activity and this is appropriate.

Where possible, DAFF has quarantined direct costs to the appropriate cost pools. A continued focus on monitoring of activities directly linked to commodities will improve the balance between the allocation of direct and indirect costs.

Transparency of cost model

The cost recovery model utilises a series of Microsoft Excel worksheets – the workbook is large and complex, and could be further streamlined to aid its transparency. Improvements in this regard would assist in managing the model as well as explaining the model's workings to industry stakeholders and in other consultation processes. This report outlines specific actions that can be taken to address this improvement recommendation.

Allocation of DAFF levies costs to multiple LRBs

In the later stages of the current cost allocation process, where there is more than one LRB receiving levy revenue, costs are allocated to LRBs based on either:

- an equal share allocation; or
- a pre-determined allocation percentage (ie. a capped percentage) as circumstances require.

Stakeholders indicated that the current approach of sharing the costs equally, where there are multiple LRBs involved, requires review. The issue that arises is that those that collect a lower

[1] The CRG's are administered by the Department of Finance and Deregulation and must be adhered to by all Australian Government entities.

level of revenue are still charged the same amount. This results in a disproportionate allocation of costs between some LRBs. For example, this may occur when revenue is collected on a flat membership basis and/or when there are legacy arrangements that involve very low levels of revenue (compared to the DAFF levies fees and charges).

For these exceptions, it may be appropriate to allocate costs using a different basis as long as there is sufficient analysis and a well controlled approval process. KPMG suggests additional analysis is undertaken utilising a pre-determined benchmark or range to identify cases to consider varying the allocation method. This approach, along with approval from a senior executive in DAFF, allows overall fairness and equity in this final allocation process.

Incorporating an exceptions based approach will need to be consistent with the Government's Cost Recovery Guidelines and may require DAFF to consult with the Department of Finance and Deregulation.

It is important to note that this approach does not take away from the improvements made in moving to an activity-based model (ie. the cost allocation method adopted in the first stage of the cost recovery model). This final allocation of costs between different LRBs, most often working in the same industry, does not alter the underlying cost being recovered (which is based on the levies collected from particular commodities), rather it is a method for dividing the costs incurred between parties. This is a 'substance over form' approach utilising professional judgement, analysis and approval controls rather than following a single rule based approach which results in disproportionate recovery of costs.

Summary

There have been a number of improvements to the DAFF levies cost recovery model, improving alignment to better practice. KPMG has made recommendations above (and more in the body of this report) to further improve the model.

While DAFF has recognised that their consultation process and timing in notifying industry bodies of the change in fees and charges could have been more effective, ongoing communication with industry bodies is occurring and stakeholders acknowledged this.

At the heart of the issues that have arisen with stakeholders is the dilemma that in an effort to redistribute a defined pool of costs on a more equitable and defensible basis, there will be some stakeholders that are positively impacted and some that are negatively impacted ie. those that will be charged more.

DAFF have indicated that they are keen to continue to improve the DAFF levies cost recovery model and their business processes as well as to continue to contain costs. They have demonstrated their focus and intention to engage with industry in a meaningful and productive way and will continue to do this.

1 Cost Recovery Model - Independent Review

Scope: *Complete an independent review of the model used by DAFF levies to collect and allocate levies and associated costs.*

The high-level process diagram provided below (figure one) represents the DAFF levies cost recovery model. The section that follows provides a high-level description of the model's operations from the financial year budget to the derivation of LRB fees and charges.

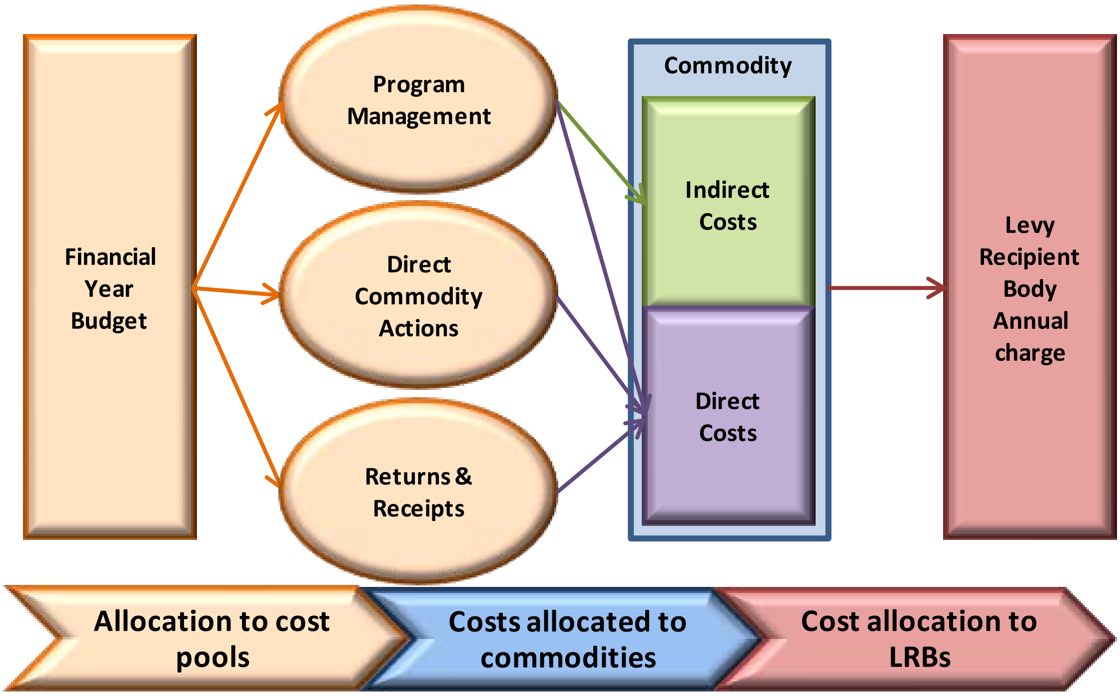

Figure One: High-level overview of current DAFF levies Cost Recovery Model

Allocation to cost pools

Allocation of costs to respective cost pools requires the finance team to obtain the financial year budget, including corporate overheads, which represents the total budget to be recovered from the LRBs. Additionally, appropriated Government Funding is then offset against the budgeted expenses, as required under the Australian Government's Cost Recovery Guidelines (CRGs), in order to calculate the net financial year budget (total budgeted expenses less the appropriated funds) used as a key input into the model.

Following the derivation of the budget, allocation percentages are calculated to attribute this budget between three cost pools - Returns and Receipts, Direct Commodity Actions (ie. the audit and compliance program and other monitoring activities) and Program Management (eg. financial management, depreciation and amortisation on property plant and equipment, software purchases, etc). These allocation percentages are based on activities conducted in the previous year. DAFF obtains the historic activity data from the DAFF levies system which contains time recorded against various levies activities, with the exception of the Strategic and Operational compliance programs. The Strategic and Operational compliance program data is re-forecasted for the current financial year and included in calculations for cost allocation.

Costs allocated to commodities

Direct Cost Allocation

A direct cost typically refers to costs (ie. labour or materials) incurred in completing a specific activity. In terms of the DAFF levies cost recovery model, an example of a direct cost relates to the time taken in processing a manual return (ie. labour direct cost). The direct attribution of a cost to a specific activity and fee for service is highly defensible, as there is a direct correlation between the activity and the cost incurred.

The model directly attributes staff effort (based on the activities information recorded in the levies system) to the relevant commodity. This ensures that costs are directly attributed to the commodity for which DAFF staff conducted the respective activities.

Where possible, management has quarantined directly attributable costs (for example, travel expenses incurred in conducting the compliance program) to the appropriate cost pools. This is positive as there is a direct link between the cost incurred and the fees and charges passed onto the LRB.

Indirect Cost Allocation

Indirect costs (ie. Program Management costs) are the costs incurred in managing the DAFF levies program. These costs are not directly attributable to a specific commodity, as there is no intrinsic link between the cost incurred and the related commodity.

Where *all* commodities and LRBs benefit from the provision of services, it is reasonable that all LRBs should incur a portion of the cost.

The current model attributes the program management costs by calculating an allocation percentage (ie. total direct cost per commodity divided by the total direct cost pools) and multiplying this to the program management cost pool. As such, this cost pool is apportioned to each commodity.

As a result of the recent changes, DAFF are able to derive data which can be analysed to further improve cost recovery processes. A key benefit identified relates to the ability of DAFF to analyse their indirect cost pool and where direct linkages to commodities or LRBs are identified these cost can be re-categorised as direct costs. As noted above, direct cost allocation are less subjective and highly defensible.

The total cost, per commodity, equates to the aggregation of the total direct and indirect costs. The attribution of indirect costs is considered in more detail in section 2.2 of this report.

Cost allocation to LRBs

The final cost recovery model output shows the attribution of each commodity cost to LRBs. This attribution is a hybrid method predominantly based on an equal share apportionment, with the consideration of an alternative allocation percentage for specifically identified bodies. For this second method, commodity costs are attributed based on a capped percentage, for three known bodies, and the remaining costs are divided between the relevant bodies on an equal share basis.

The defensibility and equity of equal share apportionment and the pre-determined allocation percentage approaches are evaluated in the following section.

2 Specific Criteria for Review

Scope: *Review the model against the Department of Finance and Deregulation Cost Recovery Guidelines and broader accounting practices to determine:*

- *The appropriateness of the DAFF levies model;*
- *The advantages and disadvantages of the activity based driver versus a revenue only driver; and*
- *The appropriateness of the split of costs between levy recipient bodies (i.e. equal share distribution).*

2.1 The appropriateness of the DAFF levies cost recovery model

Review against Cost Recovery Guidelines

KPMG reviewed the DAFF levies cost recovery model against requirements outlined in the CRGs. Overall, DAFF levies' cost recovery processes, including the model, are appropriate and predominantly align to the mandated requirements under the CRGs. There are minor areas that the Department can focus on to further align the cost recovery practices with the CRGs.

Based on the analysis, the DAFF levies cost model aligns with 10 out of the 14 core principles. For the remaining four principles, the model and processes can be improved to increase alignment with the CRGs principles. The key areas where DAFF can focus efforts to achieve greater compliance include:

- Core Principle 1 requires ***efficient cost recovery arrangements*** and based on KPMG's review, the current model (a series of Excel worksheets) is large and unnecessarily complex in some areas (ie. the model reviewed by KPMG includes data and scenario analysis which are redundant / no longer used by DAFF levies). While it is noted that work has commenced to hold raw data in a separate workbook and incorporate some good practice elements into the model, DAFF should consider refining the cost recovery model to remove sections no longer required / used, improving the robustness of the model, from a good practice perspective. The following section on better practices provides additional specific suggestions to address this issue.
- A core requirement of the cost recovery guidelines relates to ***effective cost recovery arrangements, which will not unduly stifle competition or industry innovation*** (Core Principle 2). Through consultation with DAFF and Levy Recipient Bodies, it was identified that the effectiveness of some of DAFF levies operations could be enhanced. However, these improvements must be considered in conjunction with the Department's obligations under the *Financial Management and Accountability Act (1997)*.

  As previously stated, DAFF has the ability to interrogate data from the model that was not previously available. As such, the analysis of this data allows the Department to evaluate the cost effectiveness of their processes and implement improvements. For example, considerable work has been undertaken in regards to the Nil Returns program.

  The analysis of data to streamline processes will be a continued focus for DAFF levies.
- It is the responsibility of DAFF to undertake sufficient ***stakeholder consultations*** (Core Principle 10). Through KPMG's review, it was noted that the Department and industry stakeholders have a strong working relationship. However, in some cases information was not provided in a timely manner and did not contain specific details pertaining to impacts

for each body. The lack of specific details about the impact on fees and charges affected their ability to plan / incorporate the impacts into their budgets.

- ***Cost Recovery Impact Statements*** (CRIS) describes the purpose and processes for implementing cost recovery arrangements. A core element of the CRIS is stakeholder consultations to ensure transparency of the arrangements. DAFF should consider establishing a CRIS, specific to the DAFF levies, to ensure information pertaining to the cost recovery methodology is publicly available and to enhance alignment with the Core Principles of the CRGs (Core Principle 11).

Review against Best Practice: Spreadsheet Modelling Standards

As part of assessing the appropriateness of the model, it was compared to Better Practice guidance, *"Best Practice: Spreadsheet Modelling Standards"*[2].

Alignment with Better Practice Guidelines can assist in increasing the robustness and defensibility of the DAFF levies cost recovery model, while minimising the risk of error and inaccuracies. The suggested refinements seek to improve the model's transparency without a significant time or cost burden to DAFF. The identified refinements are as follows:

- Incorporating ***Error and Alert Checks*** into the model to ensure that all costs have been attributed and raw data used as an input into the model is complete and accurate.

  It is noted that DAFF has included validation checks into the model, ensuring, for example, the raw data (contained in a separate workbook) matches to the costs contained in the model.

- Reducing the need for ***manual data entry and copying of formulae*** is recommended, as there is an inherent risk of error associated with manual intervention. Therefore, ensuring formulas are utilised and the worksheets are locked will significantly reduce the need for manual intervention.

  DAFF has commenced reducing the amount of manual data entry, in particular the copied data and mapping has recently been reviewed from an accuracy and completeness perspective.

- ***Assumptions*** should be defined and classified in a central repository in the model, reducing the risk of inadvertently changing or omitting assumptions from the model's calculations.

- The model should be supported by ***explanatory documents*** detailing the purpose of the model and potential impacts of changing parameters within the model. Additionally, instructions should be drafted to ensure users develop a sound understanding of the model's operations, particularly from a business continuity perspective.

- Maintaining ***Sheet Type Consistency*** (ie. styles, positions, data entry points etc) will ensure user efficiency and effectiveness, and will aid in reducing the overall complexity of the model.

It is noted that the identified refinements above do not constitute an exhaustive list of all good practice requirements, moreover, it represents the areas of highest priority, based on our high-level review.

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[2] Spreadsheet Standards Review Board, Best Practice Spreadsheet Modelling Standards, version 6.1, August 2010.

2.2 The advantages and disadvantages of the activity based driver versus a revenue only driver

The DAFF levies cost recovery model, depicted in section 1, consists of a two staged cost allocation approach. The first stage (represented in the blue shaded element of figure 2 below) demonstrates the allocation of costs from the budgeted expenditure to cost pools and to commodities, based on activities information recorded in levies system.

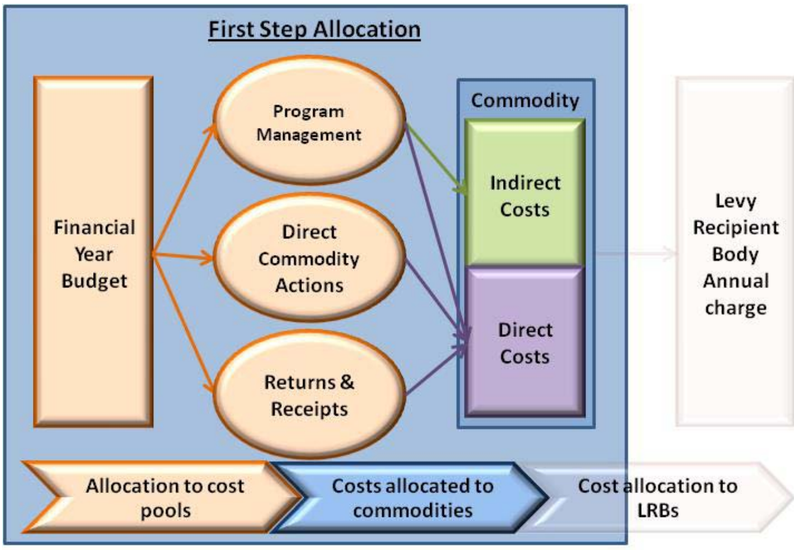

Figure 2: High-level overview, highlighting first step cost allocation

The most recent cost recovery model, reviewed as part of this engagement, utilises levies system data to attribute costs to commodities (ie. activity based cost driver). This attribution is based on the total time of activities spent on each commodity, as detailed in DAFF's levies system.

The following points provide a summary of the advantages and disadvantages, when comparing the different cost drivers:

Advantages

Activity based driver:

- Allocating direct costs based on activities undertaken by staff (utilising timesheet data collected) is a highly defensible cost allocation method as it directly apportions costs to the activities undertaken by staff administering the DAFF levies program. Additionally, DAFF has recently implemented two Quality Assurance (QA) processes. The first QA process involves the review of staff time allocations against expectations and prior time recordings, and undertaking cost versus benefit analysis (ie. staff spending too much time on certain processes which potentially deliver minimal benefits). Whereas, the second process involves conducting spot checks of activities information recorded by regional compliance staff to ensure the allocation of time across multiple commodities is correct. These processes will improve the overall quality of the data in the model.
- When considering the CRGs, activity based drivers are deemed the most appropriate drivers, as the costs are directly linked to the user. Therefore, this means that there is a greater level of compliance with the CRGs.

Revenue based driver:

- Revenue based drivers consider a Levy Recipient's capacity to pay[3], as the costs fluctuate in-line with the revenue collected.
- Costs were quite stable, under this approach, and industry bodies could generally build them into their business planning and budget processes.

Disadvantages

Activity based driver:

- In the current model staff activity is the sole cost driver incorporated in the DAFF levies model, which may not appropriately represent the incurrence or fluctuation of all costs. For example, indirect costs may not necessarily be influenced by the amount of time an individual spends on processing activities. Therefore, using a cost driver, other than FTE time allocation, may result in a more defensible outcome. The benefit of identifying other cost drivers will diminish should DAFF continue to re-categorise indirect costs ie. create a smaller pool of indirect costs.
- Activity based drivers alone do not consider a body's capacity to pay. As noted within the CRGs' key principles, there is a requirement to consider the cost recovery methodology pertaining to whether the enforcement of a levy unnecessarily stifles competition or industry innovation (ie. efficiency, effectiveness and economy perspectives).

Revenue based driver:

- The use of a revenue cost driver does not take into consideration the activities involved with providing services for particular commodities or industries. Therefore, the use of a revenue driver distributes costs solely based on revenue, not as a proportion of activities conducted (ie. no intrinsic link between the cost incurred in the provision of services and the fees and charges imposed to LRBs).
- Revenue based drivers may not incentivise industries to identify efficiencies in levy payer behaviours or the setup of the industry levy structure (ie. moving from manual returns to electronic forms, reducing the number of collection points where practical, etc) as incorporating changes will not see a correlating decrease in charges; contrary to an activity based driver.

Summary

The use of activity-based data to allocate direct costs is one of the most appropriate methods to incorporate in the cost recovery model. In addition, the use of activities information recorded in the levies system is an effective mechanism in which to attribute direct labour costs to commodities / LRBs.

However, the allocation of costs using one cost driver for indirect costs ie. Program Management costs, may not deliver the most representative and defensible outcome. DAFF should undertake detailed analysis to determine if a more appropriate cost driver for program management costs is available, however, should DAFF continue to re-classify indirect costs the impact of identifying additional cost drivers will diminish. Additionally, aligned with the cost

[3] For the purposes of this report 'capacity to pay' is a term used when considering the level of revenue received by LRB. That is, those that receive a greater level of levy revenue have a greater capacity to pay as compared to those LRBs that receive limited levy revenue.

recovery guidelines, the Department should consider the LRBs capacity to pay when enforcing fees and charges.

Consideration of the overall costs of implementing the solution and maintaining it will need to be taken into account.

Recommendations:

1 Support and guidance should be provided to all DAFF levies staff to further increase the accuracy and consistency of time recording, in conjunction with the two QA processes undertaken. Ensuring the accuracy of activities information recorded in the levies system by supporting and training staff is an active preventative control and should minimise the need to manually change data following QA (manual intervention impacts the integrity of the data). The QA processes of reviewing time allocations of DAFF levies and regional compliance staff is a detective control and business processes have been developed to ensure this control is effective.

2 DAFF should conduct a review of indirect costs ie. costs not directly related to a specific commodity activity but are necessarily incurred in managing the DAFF levies program. This review will focus on analysing available data to establish whether an alternative cost driver could be incorporated to allocate indirect costs. The alternative driver should demonstrate the correlation of an activity / process and the incurrence of the indirect cost (ie. a more representative driver compared to the current FTE time allocation driver). Where an alternative driver is not available, DAFF should use the current approach (this analysis process should be documented, including a note explaining the rationale for the use of the default driver).

2.3 The appropriateness of the split of costs between levy recipient bodies (ie. equal share distribution)

The second stage cost allocation (represented in blue shading, figure 3 below) relates to the allocation of costs from the commodities to respective LRBs.

In the current model, the Department attributes costs to LRBs in the following way:

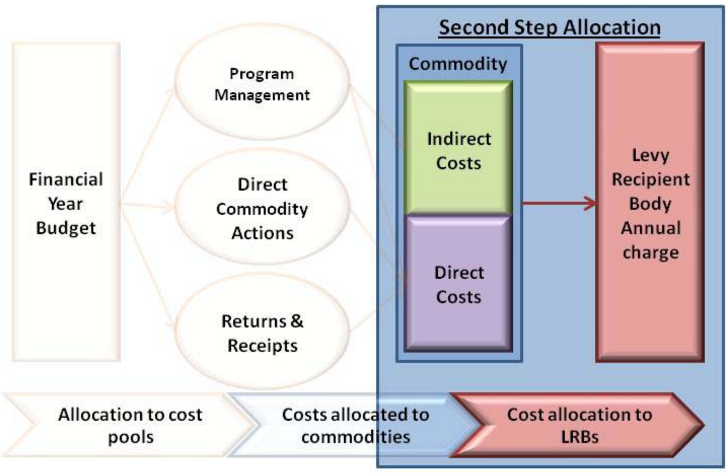

Figure 3: High-level overview, highlighting second step cost allocation

- ***Equal share allocation*** is the predominant method built into the model, which operates on the premise that each body utilising the services provided by DAFF levies should pay a respective charge (ie. user pay system). For example, the calculated costs for a commodity are evenly split between LRBs (ie. if there are four LRBs sharing in the provision of services for one commodity, each will be charged 25% of the associated cost). Theoretically, the method demonstrates that the cost of collecting revenue for a commodity is the same for the respective LRBs, irrespective of the revenue or 'benefit' derived by each body.
- The ***pre-determined allocation percentage*** is used on an exception basis. This method charges costs to an excepted body at a specific percentage of the total commodity cost and then re-distributes the remaining costs to other LRBs, using the equal share method (described above). For example, where there are four LRBs sharing in the provision of services for one commodity, the excepted party will be charged the pre-determined percentage of costs relating to the provision of services for a specific commodity. The remaining costs are allocated to other LRBs using the equal share method (described above).

Based on our analysis, the Equal Share allocation method is relatively simple to implement and does not discriminate against any of the LRBs (ie. all pay an equal percentage of respective commodity costs). A key downside to this approach is the lack of consideration of capacity to pay (the context of capacity to pay, for the purposes of this report, is defined in the footnote on page six). For example, some LRBs are paying a disproportionately higher charge compared to the levies revenue obtained. This may occur where revenue is collected on a flat membership basis and/or where there are legacy levy arrangements in place (ie. current policy setting), which involve the collection of very low levels of revenue (compared to DAFF levies fees and charges).

Recommendation

3 For this final stage of cost allocation, DAFF should consider reviewing the equal share allocation method (ie. the default method) for those LRBs, identified by the Department, who receive a disproportionate allocation. Noting that the relationship is between DAFF and LRBs, with an indirect impact at the industry level.

KPMG suggests the Department establish an appropriate benchmark or range to periodically evaluate whether an LRB is disproportionately affected. Once this metric is established, DAFF levies should undertake additional analysis to identify cases for varying the allocation method (ie. use an agreed allocation percentage where the occurrence of a disproportionate allocation is found). The implementation of this approach, following the endorsement of senior executive in DAFF, provides a mechanism to ensure overall fairness and equity in the final stage of the cost allocation process.

Incorporating an exceptions based approach will need to be consistent with the Government's Cost Recovery Guidelines and may require DAFF to consult with the Department of Finance and Deregulation.

It is important to note that this approach does not take away from the improvements made in moving to an activity-based model (the cost allocation method adopted in the first stage of the cost recovery model). This final allocation of costs between different LRBs, most often working in the same industry, does not alter the underlying cost being recovered (which is based on the levies collected from particular commodities), it is a method for dividing the costs incurred in a fair and equitable manner. This is a 'substance over form' approach utilising professional judgement, analysis and approval controls rather than following a single rule based approach which results in disproportionate recovery of costs.

3 Stakeholder Consultation

Scope*: Hold consultations with levy recipient and industry bodies to seek feedback on the model and recent processes.*

KPMG consulted with seven Levy Recipient Bodies ranging from those who were favourably, unfavourably and relatively unaffected by the changes to the cost recovery model. The purpose of this section is to provide an overview of the common themes prevailing from the consultations. Specific recommendations as a result of these consultations have been reflected in the recommendations contained in section two of this report.

- **Program management –** while there has been a considerable focus on communications from DAFF to stakeholders, particularly regarding the provision of information on how bodies can actively reduce costs (ie. reducing the use of manual returns etc), it was noted that the timing of the communications surrounding the changes to the model, and respective fees and charges, was too late for stakeholders to incorporate these impacts into the current year budget process. Additionally, the information provided was not tailored (ie. did not provide specific information of the impacts on bodies) and was generic. These two issues did not allow sufficient time for stakeholders to evaluate the impact on their businesses and take appropriate steps in their budget cycles to incorporate these changes.

- **Transparency –** stakeholders agree that the use of activity based cost drivers was a reasonable premise on which to refine the model. However, it was noted that the transparency of the model is impacted due to its size and perceived complexity. Additionally, a number of stakeholders noted that there appeared to be no consideration of a LRB's capacity to pay, particularly with the adoption of the second stage equal share apportionment method.

- **Return on investment –** a common theme identified related to the cost effectiveness of some of DAFF levies' operations. Stakeholders noted that some processes appeared to consume a substantial amount of time with limited benefit. This return on investment concern has been considered in detail in the previous section, as the effectiveness of cost recovery arrangements is a core consideration of the Cost Recovery Guidelines (section 2.1 above).

  Stakeholders recognise that DAFF has been proactive in identifying process improvements (ie. establishing a Nil Return program) which seek to reduce the overall costs of DAFF levies services.

- **Legislative changes –** legacy issues relating to legislation, specifically the number of levy payers and collection points result in an increase of costs for some industries in the revised model. Resolving these issues ie. structure of the industry, is extremely difficult. In some cases legislative changes may assist certain industries; however, this is often a long and resource intensive process. DAFF are working closely with industry bodies that are considering imposing a levy to consider the overall cost-benefit of the levy for that industry. Without thorough analysis and consideration, DAFF levies and industry body may be locked into fees and charges that provide little overall benefit to producers.

4 Summary of Recommendations

There have been a number of improvements to the DAFF levies cost recovery model, including enhancing alignment to better practice principles. KPMG has made recommendations above (more detail provided in the body of this report) to further improve the model and DAFF levies operations. The following table below summaries the key recommendations resulting from KPMG's review.

Recommendations
Alignment Cost Recovery Guidelines (refer Section 2.1) This review established that DAFF levies' current cost recovery model predominantly aligns to the requirements set out in the Australian Government's Cost Recovery Guidelines. However, there were four core principles identified where it is recommended DAFF should focus effort to enhance alignment with these guidelines, including: • refining the cost recovery model to remove sections no longer required / used to improve the robustness of the model • enhancing the effectiveness of some of DAFF levies operations, which is a focus as DAFF has a greater ability to interrogate data from the model that was not previously available (these improvements must be considered in conjunction with the Department's obligations under the *Financial Management and Accountability Act* (*1997*) • ensuring stakeholder consultations provide specific detail regarding the impacts of changes on LRBs and these specific details should be provided such that LRBs have the time to incorporate the impacts into the respective financial year budgets, and • consideration should be given to establishing a Cost Recovery Impact Statement, specific for DAFF levies, to ensure information pertaining to the cost recovery methodology is publicly available.
Review against Best Practice: Spreadsheet Modelling Standards (refer Section 2.1) Minor changes to the model have been identified which, if implemented, will improve the robustness and defensibility of DAFF levies cost recovery model. These changes include: • incorporating error and alert checks • minimising manual data entry and copying of formulae • clearly defining assumptions in a central repository • ensuring suitable documentation is available to support the users of the model, and • ensuring sheet type consistency is maintained. DAFF has commenced incorporating some of these best practice principles into the model.

Recommendations
Recommendation 1: Accuracy of time recording Support and guidance should be provided to all DAFF levies staff to further increase the accuracy and consistency of time recording. This support should be provided in conjunction with the two quality assurance processes DAFF has introduced which review the appropriateness of time allocations of DAFF levies and regional compliance staff.
Recommendation 2: Indirect cost drivers DAFF should conduct a review of indirect costs and analyse available data to establish whether a alternative cost drivers could be incorporated to allocate indirect costs to commodities (ie. consider whether a more appropriate driver is available, as opposed to the current FTE time allocation driver). With the availability of data, DAFF has been able to identify directly attributable costs, reducing the overall size of the indirect cost pools. A continued focus of the defensible re-categorisation of costs will help to reduce the need to consider alternative cost drivers.
Recommendation 3: Equal share allocation For the model's final stage of cost allocation, DAFF should consider reviewing the equal share allocation for those LRBs, identified by the Department, who receive a disproportionate allocation. KPMG suggests the Department establish an appropriate benchmark or range to periodically evaluate whether an LRB is disproportionately affected. Where a disproportionate allocation is identified by DAFF levies, additional analysis should be undertaken to identify cases for varying the allocation method (ie. use an agreed allocation percentage where the occurrence of a disproportionate allocation is found). The implementation of this approach should be endorsed by DAFF senior executives. Incorporating an exceptions based approach will need to be consistent with the Government's Cost Recovery Guidelines and may require DAFF to consult with the Department of Finance and Deregulation.