

Review of PIRSA's
Cost Recovery Policy
and practices,
including their
application to the
Fisheries and
Aquaculture
Industries
Primary Industries and
Regions SA

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Executive Summary

Primary Industries and Regions SA (PIRSA) engaged Deloitte Access Economics to review its *Cost Recovery Policy* and its application. The review comprises an analysis of:

- Consistency between PIRSA's *Cost Recovery Policy* and the Australian Government's Cost Recovery Guidelines
- Cost recovery in the fisheries and aquaculture industries for consistency with PIRSA's *Cost Recovery Policy*
- Other cost recovery approaches in other jurisdictions, and the relative advantages and disadvantages of those and PIRSA's existing approach.

This review occurred in consultation with PIRSA, and examined documents relating to PIRSA's application of cost recovery and its Microsoft Excel cost recovery models used to calculate fees and charges. This review has not assessed the efficiency of PIRSA's costs and instead focuses on the process used to determine cost recovery charges.

Consistency of PIRSA's *Cost Recovery Policy* with the Australian Government Cost Recovery Guidelines

This component of the report considers PIRSA's Cost Recovery Policy for consistency with the Australian Government's Cost Recovery Guidelines as opposed to PIRSA's approach to cost recovery, which is discussed separately. The principles noted in PIRSA's *Cost Recovery Policy* are broadly consistent with the principles and requirements in the Australian Government's Cost Recovery Guidelines (a summary of which can be found at Appendix B). For example, both documents have principles relating to stakeholder engagement, the clear legal authority to charge and periodic review of cost recovery arrangements.

However, there are a few principles and requirements in the Australian Government's Cost Recovery Guidelines that are not reflected in PIRSA's *Cost Recovery Policy*. PIRSA's *Cost Recovery Policy* does not have an explicit principle for transparency and accountability, which is one of the Australian Government's principles. Transparency and accountability is an important component of cost recovery and PIRSA should update its *Cost Recovery Policy* to include a distinct principle (or principles) relating to transparency and accountability.

There are other differences between the two documents, relating to how cost-recovered charges should be set. The following requirements in the Australian Government's Cost Recovery Guidelines are not reflected in PIRSA's *Cost Recovery Policy*:

- That charges be simple, clear and easy to understand
- Include only efficient costs
- Avoid volatility.

PIRSA should also consider including guidance about these requirements in its *Cost Recovery Policy*.

In practice, PIRSA's approach to cost recovery in fisheries and aquaculture does promote some of these principles and requirements noted above (e.g. transparency) even though they are not included as explicit principles or requirements in its *Cost Recovery Policy*.

Recommendation 1: Update PIRSA's Cost Recovery Policy

PIRSA should consider updating its *Cost Recovery Policy* to:

- Include a principle (or principles) relating to transparency and accountability. The principle(s) should provide guidance regarding documents that PIRSA should maintain and provide publicly, and practices that PIRSA could adopt to achieve transparency and accountability such as reporting on performance
- Consider principles regarding how cost-recovery charges are set, including that charges be simple, clear and easy to understand, include only efficient costs and avoid volatility.

PIRSA's application of cost recovery in the fisheries industry

PIRSA's approach in calculating licence fees appears to reasonably allocate costs between fisheries at a high-level. PIRSA's approach to allocating costs has become more accurate since our 2009 review of its cost recovery arrangements, as it now uses data from the time-recording software TimeWise instead of a survey of employees to determine the amount of costs to allocate between activities.

PIRSA's application of cost recovery in the fisheries industry is consistent with its *Cost Recovery Policy*, noting that there are some principles and requirements in the Australian Government's Cost Recovery Guidelines that are not reflected in PIRSA's *Cost Recovery Policy*. PIRSA's approach places the greatest weight on economic efficiency, which is the primary objective of cost recovery. PIRSA's cost recovery approach is largely transparent and accountable, but could be improved by publicly providing documents that explain how PIRSA recovers costs from fisheries and information regarding the services it will provide, the cost of those services and the performance of cost recovery.

The review also included the inputs to the Microsoft Excel model used to calculate licence fees. The inputs are consistent with best practice, for example:

- Costs are forward-looking to reflect the year that the costs are incurred, which promotes economic efficiency
- Inflation and weighted average cost of capital inputs are consistent with South Australian Department of Treasury and Finance guidance
- Wage rates are updated during the year to reflect the annual indexation allowed for in the enterprise bargaining agreement.

Recommendation 2: Increase transparency and accountability by providing key documentation online and reporting against performance publicly

PIRSA could increase the transparency and accountability of its fisheries cost recovery approach by:

- Publicly providing detailed information relating to cost recovery online such as the services PIRSA will provide, the cost of those services and the percentage of costs to recover
- Publicly detailing the cost recovery process and how it calculates fees and providing this information on its website
- Publicly reporting performance measures that indicate its success against delivering the services and milestones provided to industry.

PIRSA's application of cost recovery in the aquaculture industry

PIRSA has a similar approach to cost recovery in aquaculture as it does in fisheries, which has been designed under the same *Cost Recovery Policy*. The review similarly identified that PIRSA's application of cost recovery in the aquaculture industry is broadly consistent with its *Cost Recovery Policy*.

PIRSA does not charge full cost recovery in aquaculture as there are indirect (corporate) costs which are not recovered from aquaculture licence holders. PIRSA has noted that it does not recover these costs due to the capacity of licence holders to pay. Policy decisions to move away from full cost recovery (and therefore allocate costs to the South Australian Government) are consistent with Principle 2 of PIRSA's *Cost Recovery Policy*; however, it is best practice to be transparent and provide information regarding these decisions.

Recommendations regarding the transparency and accountability of PIRSA's cost recovery approach in fisheries (Recommendation 2) also apply in aquaculture given documentation about the services to be provided or its approach to cost recovery are not provided publicly for stakeholders to view and PIRSA does not report on the performance of cost recovery.

Recommendation 3: PIRSA adopt the transparency and accountability measures in Recommendation 2 for the aquaculture industry and report on South Australian Government decisions to move away from full cost recovery

PIRSA could increase transparency and accountability by implementing similar transparency and accountability measures discussed in Recommendation 2.

PIRSA could also increase transparency regarding policy decisions made by the South Australian Government to move away from full cost recovery by reporting those decisions and noting their consistency with its *Cost Recovery Policy*.

Review of cost recovery approaches in other jurisdictions

The approach to cost recovery is different in each jurisdiction. Two jurisdictions have recently updated their cost recovery approaches (Western Australia and Victoria) and three jurisdictions (Queensland, New South Wales and the Commonwealth) are currently in the process of reviewing their approaches.

The jurisdictions that have recently updated their cost recovery arrangements have taken two different approaches. Western Australia has changed its cost recovery fee and it is now set as a proportion of gross value of production (GVP) to promote simplicity, reducing administrative burden for the Western Australian Government and industry, and improving equity, as those with a greater GVP pay larger licence fees. Western Australia's approach does however reduce the certainty of the amount of costs it will recover and is more likely to result in cross subsidies between fisheries. Conversely, Victoria forecasts its services in advance and sets charges for a period of four years, indexing the charges annually within those four years. Victoria's approach reduces administrative burden and also promotes principles of certainty for industry.

PIRSA's approach to cost recovery creates a significant administrative burden on PIRSA through annually negotiating management plans, recording time and resetting charges. This administrative burden increases the overall cost of the cost recovery approach, which is ultimately recovered from industry. Charges are also reset each year, which reduces cross subsidies but leads to volatile charges which can create issues for some fisheries in undertaking business planning and budgeting.

PIRSA's approach could be improved by reducing administrative burden, which would in turn increase the simplicity of its approach to cost recovery and reducing the volatility of charges to promote certainty.

Recommendation 4: PIRSA consider an approach to cost recovery that reduces administrative burden and increases certainty to industry

Reducing the administrative burden will promote simplicity in the cost recovery process and reduce the cost of administrating cost recovery. Further, avoiding volatility in charges will benefit industry by providing certainty which promotes a more stable investment environment.

1 Introduction

Primary Industries and Regions SA (PIRSA) engaged Deloitte Access Economics to review its cost recovery practices in the fisheries and aquaculture industries.

1.1 Context to this review

PIRSA is responsible for managing South Australia's fisheries and aquaculture resources in accordance with the *Fisheries Management Act 2007 (SA)* (the Act). As these resources are of a finite nature, the principle of ecologically sustainable development is paramount. PIRSA, along with similar departments in other jurisdictions, is required to regulate the activities of commercial and recreational participants in order to protect the biodiversity and long-term sustainability of fisheries and aquaculture resources.

The Act allows for the creation of regulations which control commercial and recreational fishing activities, for which PIRSA is responsible for enforcing. This enforcement task is wide ranging, and the question as to how the costs incurred will be recouped is an important matter.

In 2014, PIRSA released an updated set of cost recovery principles in a document titled *PIRSA's Cost Recovery Policy*. Given cost recovery principles are high-level in nature, the application of these principles can vary significantly depending on interpretation. Accordingly, PIRSA has engaged Deloitte Access Economics to review its current cost recovery practices.

1.2 2009 Review of PIRSA's cost recovery practices

In 2009, PIRSA engaged Deloitte Touche Tohmatsu¹ to review its fisheries cost recovery practices (the 2009 Review). This report is an update to the 2009 Review. The scope of the 2009 Review was limited to fisheries, whereas this report also considers aquaculture. The 2009 Review included:

- Review of the cost recovery principles for commercial fisheries against the cost recovery principles and best practice outlined in the Productivity Commission's 2001 report *Cost Recovery by Government Agencies*
- Review of the cost recovery model used by PIRSA against best practice cost recovery
- Review of the level of cost recovery for recreational fishing (including charter boat fishing)
- Developing options to increase cost recovery in the recreational fishing sector
- Advice on the potential role of the Fisheries Council in cost recovery.

¹ The Partners of Deloitte Touche Tohmatsu own Deloitte Access Economics.

The 2009 Review made six recommendations regarding PIRSA's cost recovery practices and its Microsoft Excel-based cost recovery models. A summary of the findings and recommendations of the 2009 Review is in Appendix A.

1.3 Scope of this report

The scope of this report is similar to the 2009 Review. The key differences between the two reviews are that this report considers:

- PIRSA's cost recovery practices in the aquaculture industry as well as fisheries
- Whether the TimeWise system used by PIRSA to record and report on time spent by employees on industry is sufficient for activity-based cost recovery
- Approaches to cost recovery in other jurisdictions and by other regulators
- The advantages and disadvantages of alternative options to activity-based cost recovery.

1.4 Methodology

The methodology used in this report is consistent with the methodology used in the 2009 Review. The key difference between the two reviews is that industry was not consulted as part of this report. The methodology applied is as follows:

- Review of PIRSA's cost recovery practices including:
 - Consultation with PIRSA to develop a detailed understanding of how it allocates costs between groups within an industry
 - Review of PIRSA's Microsoft Excel-based cost recovery models, with particular attention to the logic of cost allocations and the financial inputs within the model. It is important to note that this review is not an audit or verification of the accuracy or completeness of the spreadsheet model or completeness of the inputs into the model.
- Desktop review of alternative approaches for recovering costs by considering the approaches applied by other fisheries and aquaculture regulators
- Discussions with fisheries regulators in other jurisdictions to confirm their application of cost recovery.

2 PIRSA's Cost Recovery Policy

To recover the cost of its activities in regulating the fisheries and aquaculture industries, PIRSA imposes charges on industry. PIRSA has a policy for setting these charges, PIRSA's *Cost Recovery Policy*, which contains a set of guiding principles – which is common practice by governments in Australia. For example, the Government of Victoria and the Australian Government both have cost recovery guidelines for its agencies to refer to when considering and setting cost recovery charges.

PIRSA's *Cost Recovery Policy* is used for both fisheries and aquaculture cost recovery purposes and a *Cost Recovery Working Group* has been set up within PIRSA to ensure that the application of PIRSA's *Cost Recovery Policy* is consistent between industries.

This chapter reviews PIRSA's *Cost Recovery Policy* against the Australian Government's Cost Recovery Guidelines developed in 2014 for consistency between the two documents. Particular attention is paid to the principles and requirements articulated in each document and the differences in principles and requirements.

2.1 2009 review of PIRSA's Cost Recovery Policy

PIRSA engaged Deloitte to review the principles in PIRSA's *Cost Recovery Policy* for consistency with the Productivity Commission's best practice principles identified in its report *Cost Recovery by Government Agencies* in 2009.²

Deloitte's review identified that PIRSA's principles were broadly consistent with the Productivity Commission's principles aside from two recommendations regarding:

- PIRSA providing or collecting information for public good reasons, the spillovers it may create or other government policy objectives and community service obligations
- Whether to fund these activities from general taxation.

Some principles in the 2009 Cost Recovery Policy have not been included in the 2014 *Cost Recovery Policy*, which is discussed below.

2.2 2014 Cost Recovery Policy

PIRSA updated its *Cost Recovery Policy* in 2014, 5 years after releasing its previous cost recovery policy. The Australian Government's Cost Recovery Guidelines, which PIRSA's *Cost Recovery Policy* makes reference to, was also updated in 2014, prior to PIRSA updating its *Cost Recovery Policy*.

² Information regarding the Productivity Commission's review, including its report can be found at: <http://www.pc.gov.au/inquiries/completed/cost-recovery>

2.2.1 2014 and 2009 PIRSA Cost Recovery Policies

As PIRSA's *Cost Recovery Policy* was updated in 2014, it is appropriate to compare the principles in relation to the 2009 document to understand what has changed since previous recommendations were made to PIRSA. As displayed in Table 2.1, the principles and supporting text in PIRSA's *Cost Recovery Policy* largely align to its 2009 *Cost Recovery Policy*, although there are some differences between the principles.

Table 2.1: Comparison of principles in PIRSA's 2009 and 2014 Cost Recovery Policy

2009 Principles	2014 Principles
General principles	
All cost recovery arrangements have clear legal authority	<ul style="list-style-type: none"> • Principle 4: Legal authority for cost recovery
An objective to raise revenue is not in itself sufficient justification to implement cost recovery arrangements	<ul style="list-style-type: none"> • Principle 1: When cost recovery is appropriate • Principle 2: When cost recovery is not appropriate
Cost recoveries of activities exclude those undertaken for the Government (such as high level policy development, and Ministerial or Parliamentary services)	<ul style="list-style-type: none"> • Principle 5: Costs related to provision of product or services
All cost recovery arrangements have adequate mechanisms in place to promote meaningful consultation with stakeholders	<ul style="list-style-type: none"> • Principle 10: Engagement
Cost recovery is only implemented where it is cost effective for Government to collect costs; consistent with policy objectives; and will not unduly stifle competition and industry innovation.	<ul style="list-style-type: none"> • Principle 2: When cost recovery is not appropriate
Costing principles	
Cost recovery arrangements apply to specific activities, products or services	<ul style="list-style-type: none"> • Principle 6: Cost recovery on an activity basis
Cost estimates are based on the attribution of actual costs unless inefficiency can be demonstrated through benchmarking	<ul style="list-style-type: none"> • Principle 3: Full cost recovery • Benchmarking and efficiency is not mentioned
Costing methodologies are transparent	No distinct principle
Pricing principles	
Cost recovery charges are linked as closely as possible to the costs of those activities, products or services	<ul style="list-style-type: none"> • Principle 3: Full cost recovery • Principle 6: Cost recovery on an activity basis
The administrative costs of regulation are recovered, so that the price of each regulatory product incorporates the cost of efficient regulation	<ul style="list-style-type: none"> • Principle 3: Full cost recovery
Cost recovery is applied so as to recover the full amount of attributed costs of the product or service	<ul style="list-style-type: none"> • Principle 3: Full cost recovery

Firstly, the recommendation made in Deloitte's 2009 review regarding PIRSA funding activities that possess public good characteristics and spillover benefits from general taxation (Recommendation 1 in Appendix A) has not been applied as a distinct principle. However, it is mentioned in PIRSA's 2014 *Cost Recovery Policy* under Principle 5 – *Costs related to provision of product or services*:

“The cost of services to government such as advice to Ministers and criminal prosecution costs or Freedom of Information costs should not be considered in cost recovery. These services to government include (but are not necessarily limited to) parliamentary briefings, cabinet submissions, ministerial briefings and fundamental development and review of government policies – including regulatory and information services. Whereas business services and records management costs should be included.”

While the guiding text noted above under PIRSA's Principle 5 notes that some of PIRSA's activities should not be recovered from industry, it does not specifically note that some activities might have spillover benefits that should be considered in setting the cost base to recover from industry or stipulate all of those activities. It should also be noted that Principle 8 – *Cost Recovery Guidelines* notes that the Productivity Commission's guidelines provides a 'robust policy framework from which PIRSA can operate' which does cover this element of Deloitte's recommendation in 2009.

While the principles in PIRSA's 2014 *Cost Recovery Policy* broadly align to the 2009 Principles (as seen in Table 2.1), some of the principles do not entirely align. For example, one of PIRSA's 2009 principles was that cost estimates be based on the attribution of actual costs unless inefficiency can be demonstrated through benchmarking. This principle broadly aligns to Principle 3 of its 2014 *Cost Recovery Policy* but the 2014 *Cost Recovery Policy* does not discuss the efficiency of costs to be included in PIRSA's cost recovery charges or benchmarking PIRSA's costs.

In 2009, PIRSA also had a principle that costing methods be transparent. While in practice PIRSA appears to follow this principle (as discussed in Chapters 3 and 4), there is not a distinct principle in its 2014 *Cost Recovery Policy* that can be matched to this principle.

2.2.2 Consistency with the Australian Government's Cost Recovery Guidelines

The Australian Government Cost Recovery Guidelines contain a set of principles that assist Commonwealth Government agencies in making decisions regarding whether to recover the cost of certain activities, and if so, how to recover those costs. Similar to the Productivity Commission's policy framework, the Australian Government Cost Recovery Guidelines apply to a broad range of activities undertaken in numerous industries. Given this, it would be reasonable to expect differences between the PIRSA and Australian Government Cost Recovery Policies (and principles) as PIRSA focuses on numerous industries (e.g. fisheries, aquaculture, biosecurity) that have similar characteristics. A summary of the principles and requirements in the Australian Government Cost Recovery Guidelines can be found at Appendix B.

PIRSA's *Cost Recovery Policy* contains principles which relate to principles and requirements in the Australian Government Cost Recovery Guidelines as seen in Table 2.2.

Table 2.2: Comparison of the principles in PIRSA’s Cost Recovery Policy and Australian Government Cost Recovery Guidelines

Principles and Requirements in Australian Government’s Cost Recovery Guidelines	PIRSA 2014 Cost Recovery Policy
Principles	
Efficiency and effectiveness	Principle 1 – When to apply cost recovery Principle 2 – When cost recovery is not appropriate Principle 5 – Costs related to provision of product or service
Transparency and accountability	No distinct principle
Stakeholder engagement	Principle 7 – Key stages of cost recovery Principle 10 – Engagement
Requirements	
Australian Government policy approval to recover	Principle 9 – Compliance with South Australian Government approval requirements
Statutory authority to charge	Principle 4 – Legal authority for cost recovery
Alignment of expenses and revenue	Principle 3 – Cost reflective pricing
Up-to-date, publicly available documentation and reporting	No distinct principle
Portfolio charging review	Principle 7 – Key stages of cost recovery Principle 11 – Monitor and review

Note: Principle 8 from PIRSA’s *Cost Recovery Policy* has been excluded because it refers directly to the Productivity Commission’s Cost Recovery report, which has a separate set of recommendations that can relate to all of the principles and requirements in the Australian Government’s Cost Recovery Guidelines.

There are certain Australian Government principles and requirements which are not distinctly reflected in PIRSA’s *Cost Recovery Policy*, and vice versa. However, PIRSA’s cost recovery principles are supported by additional guiding text that does address some of the principles and requirements in the Australian Government’s Cost Recovery Guidelines and also makes reference the Australian Government’s Cost Recovery Guidelines and the Productivity Commission’s report on cost recovery.

The consistency between PIRSA’ Cost Recovery Policy and the Australian Government’s Cost Recovery Guidelines is detailed below.

2.2.2.2 Consistency with principles in the Australian Government’s Cost Recovery Guidelines

Efficiency and effectiveness

Principles 1 and 2 in PIRSA’s *Cost Recovery Policy* identify that efficiency is the guiding factor when choosing when to cost recover. That is, full cost recovery should be pursued unless it is not appropriate (benefits outweigh the costs) to signal the cost of regulatory activities to those who give rise to the need for those activities.

While Principles 1 and 2 of PIRSA's *Cost Recovery Policy* are reflected in the Australian Government Cost Recovery Guideline's principle of efficiency and effectiveness, it is noted that the Australian Government principle also focuses on the efficiency of the government's provision of services, and ensuring that there are appropriate performance (quality and quantity) reporting measures in place, which are not reflected in PIRSA's *Cost Recovery Policy*.

Transparency and accountability

Transparency and accountability is a principle in the Australian Government Cost Recovery Guidelines which is not reflected explicitly in the PIRSA *Cost Recovery Policy*. Although transparency and accountability are not distinct principles, or mentioned within the guiding text that supports PIRSA's principles, one of the purposes of PIRSA's *Cost Recovery Policy* is to:

"provide a framework for consistent, transparent and accountable assessment of appropriate cost recovery arrangements for PIRSA goods and services"

In practice, PIRSA also undertakes a number of activities that promote transparency and accountability such as providing industry with relevant documentation regarding services, costs and cost recovery. Further, Principle 10 ensures that relevant stakeholders are engaged, although it provides no guidance on the information that should be available to stakeholders and the public to ensure transparency and accountability.

Stakeholder engagement

As highlighted above, stakeholder engagement is reflected in Principle 10 of PIRSA's *Cost Recovery Policy*, as well as Principle 7 which relates to the key stages of cost recovery and recognises engagement as a key element of every process including review, design and implementation. However, the PIRSA *Cost Recovery Policy* does not make any reference to the form of consultation required, and therefore it is uncertain whether the consultation principles in PIRSA's *Cost Recovery Policy* follow the principle of stakeholder engagement in the Australian Government Cost Recovery Guidelines.

A summary of the consistency of PIRSA's *Cost Recovery Policy* with the principles outlined in the Australian Government's Cost Recovery Guidelines is in Table 2.3.

Table 2.3: Consistency with the principles in the Australian Cost Recovery Guidelines

Australian Government Cost Recovery Guideline principle	Consistent?	Note
Efficiency and effectiveness	Partially	<ul style="list-style-type: none"> Principles 1 and 2 are consistent. PIRSA’s Cost Recovery Policy does not discuss performance reporting measures. No distinct principle.
Transparency and accountability	✗	<ul style="list-style-type: none"> The Cost Recovery Policy does mention transparency and accountability as one of its overarching objectives.
Stakeholder engagement	✓	<ul style="list-style-type: none"> Principle 10 is consistent, although PIRSA’s Cost Recovery Policy does not mention how stakeholders should be engaged.

2.2.2.3 Consistency with requirements in the Australian Government Cost Recovery Guidelines

This section discusses a set of requirements that Australian Government agencies must follow in setting cost recovery charges. There are five requirements in the Australian Government Cost Recovery Guidelines, which are considered to some degree within PIRSA’s principles.

- Australian Government policy approval to cost recover:** This requirement states that Australian Government agencies have policy approval from the Australian Government. This is consistent with PIRSA’s Principle 9, which states that PIRSA must “*document and gain approval for cost recovery arrangements in a manner consistent with South Australian Government legislative and policy requirements*”
- Statutory authority to charge:** This requirement states that all cost recovery charges must have a statutory basis and be underpinned by legislation or legislative instrument. Principle 4 of PIRSA’ *Cost Recovery Policy* requires that PIRSA have a clear legal authority to impose cost recovery charges
- Alignment of expenses and revenue:** This requirement contains a set of criteria that agencies must consider in order to satisfy this requirement. The criteria and PIRSA’s consistency with the criteria is as follows:
 - Clear and easy to understand: This criterion is not mentioned in PIRSA’s *Cost Recovery Policy*
 - Closely linked with the specific activity: Principles 3 and 6 of PIRSA’s *Cost Recovery Policy* note that charges should reflect the actual costs of providing the product or service and be based on an activity basis
 - Set to recover the full efficient costs of the specific activity: The supporting text in Principle 1 of PIRSA’s *Cost Recovery Policy* states that full cost recovery should be the aim although PIRSA’s *Cost Recovery Policy* does not mention efficient costs

- Efficient to determine, collect and enforce: Principle 2 of PIRSA's *Cost Recovery Policy* states that cost recovery should not be applied where it is not cost effective to do so
- Set to avoid volatility, while still being flexible enough to allow for changes based on fluctuations in demand or cost: This criterion is not mentioned in PIRSA's *Cost Recovery Policy*

It is noted that the Australian Government Cost Recovery Guidelines also state that ideally charges be reset each year. This can often be at odds with avoiding volatility because, depending on the cost recovery approach, resetting cost recovery charges each year can lead to volatility.

In sum, PIRSA's *Cost Recovery Policy* broadly aligns to this requirement, although it does not discuss that cost recovery charges should be clear and easy to understand, include only efficient costs and avoid volatility.

- **Up-to-date, publicly available documentation and reporting:** This requirement relates to the availability of up-to-date information and public reporting, which in practice is satisfied by the development and release of a cost recovery impact statement, and publishing financial statements containing data relating to actual cost recovery expenses and revenue. There is no specific principle in PIRSA's *Cost Recovery Policy* which aligns to this requirement; nor is there a principle which relates to transparency generally.
- **Portfolio charging review:** This Australian Government requirement states that agencies should periodically review charging activities. This requirement is clearly reflected in PIRSA's *Cost Recovery Policy* under Principle 11, which also mentions PIRSA's Cost Recovery Working Group which reviews its cost recovery policy every three years, with costs monitored on an annual basis.

A summary of the consistency of PIRSA's Cost Recovery Policy with the Requirements in the Australian Cost Recovery Guidelines is in Table 2.4.

Table 2.4: Consistency with the requirements in the Australian Cost Recovery Guidelines

Australian Government Cost Recovery Guidelines requirement	Consistent?	Note
Australian Government policy approval to cost recover	✓	Principle 9
Statutory authority to charge	✓	Principle 4
Alignment of expenses and revenue	Partially	Principles 2, 3 and 6. PIRSA's Cost Recovery Policy does not discuss that charges should be clear and easy to understand, include only efficient costs and avoid volatility.
Up-to-date, publicly available documentation and reporting	✗	There is no explicit principle in PIRSA's Cost Recovery Policy which aligns to this requirement.
Portfolio charging review	✓	Principle 11

2.3 Summary

PIRSA's *Cost Recovery Policy* sets out numerous principles to consider when considering and setting cost recovery charges. The principles broadly align to the Australian Government's Cost Recovery Guidelines, although there are some differences and instances where part of a principle is excluded. These differences are:

- There are no explicit principles in PIRSA's Cost Recovery Policy relating to the principle of transparency and accountability and public reporting of documentation in the Australian Government Cost Recovery Guidelines
- One principle and one requirement in Australian Government Cost Recovery Guidelines are only partially considered in PIRSA's Cost Recovery Policy:
 - PIRSA's *Cost Recovery Policy* contains principles which discuss the Australian Government's principle of efficiency and effectiveness; however, it does not include consideration of performance reporting measures
 - PIRSA's *Cost Recovery Policy* has numerous principles relating to the Australian Government's requirement that agencies align expenses and revenues. However, in setting cost recovery charges to do so, PIRSA's *Cost Recovery Policy* does not state that charges should be clear and easy to understand, include only efficient costs and avoid volatility.

These principles and requirements are an important part of cost recovery and are considered in other cost recovery guidance documents such as the Victorian Government's Cost Recovery Guidelines. PIRSA should consider including these principles and requirements as part of its *Cost Recovery Policy*.

Recommendation 1: Update PIRSA's Cost Recovery Policy

PIRSA should consider updating its Cost Recovery Policy to:

- Include a principle (or principles) relating to transparency and accountability. The principle(s) should provide guidance regarding documents that PIRSA should maintain and provide publicly, and practices that PIRSA could adopt to achieve transparency and accountability such as reporting on performance
- Consider principles regarding how cost-recovery charges are set, including that charges be simple, clear and easy to understand, include only efficient costs and avoid volatility.

3 Commercial fisheries cost recovery

This Chapter considers PIRSA's application of its *Cost Recovery Policy* to commercial fisheries, including a review of the cost recovery approach that PIRSA undertakes during the financial year and the inputs to its Microsoft Excel cost recovery model that calculates the charges. Chapter 2 provides a policy review of PIRSA's *Cost Recovery Policy* for consistency with the Australian Government's Cost Recovery Guidelines; this Chapter considers PIRSA's application of its *Cost Recovery Policy* in commercial fisheries.

3.1 Overview of PIRSA's approach to cost recovery

PIRSA undertakes numerous activities within the South Australian commercial fisheries industry to ensure that the fisheries resources are managed in a sustainable manner. To avoid the resource being depleted, PIRSA undertakes activities to manage the resource such as research, monitoring and compliance (management activities). To ensure PIRSA's management activities considers the views of stakeholders including the views of industry, PIRSA consults with industry about the types and amount of activities it will undertake before undertaking those management activities. PIRSA's process comprises:

- Development of management priorities for each fishery (e.g. tuna, rock lobster)
- Consultation on priorities and programs for the coming year
- Development of draft work program and services to be undertaken to address the priorities identified
- Consultation on the draft work programs
- Review of costs associated with delivering the prior year work program in order to establish setting of fees, licences and other charges to recover costs.

PIRSA undertakes this process each year and charges different licence fees to fisheries to reflect the amount of resources utilised by PIRSA for the management of each fishery. PIRSA uses a timesheet program called TimeWise to record time spent by its employees on each fishery and activity. The data from TimeWise is then used to allocate costs between activities. Capital costs (such as boats) are allocated based on the basis of which activity or fishery (or fisheries) utilises the capital expenditure.

Staff time (and the cost of staff) is one of PIRSA's most significant cost drivers and comprises approximately 50% of its costs (excluding employee-related overheads such as accommodation). Allocating staff time – and the costs that are driven by the number of employees such as accommodation and oncosts – is an important factor in the overall quantum of licence fees for fisheries. A review of TimeWise's suitability for activity-based costing, and the controls used by PIRSA to monitor its use, can be found at Appendix C.

PIRSA also charges fees-for-service which are generally for services which are charged to industry for information services where the service has no clear public good or spillover benefit to the rest of the fisheries industry (e.g. licence renewal). These fees-for-service are

charged directly to those who request the service, which follows cost recovery best practice as the costs of providing these charges are removed from the cost base used to calculate licence fees. The licence fees are charged as a single fee for each fishery and recover the cost associated with activities that have spillover benefits (to the rest of the fishery) and also public good characteristics. Two examples of this include research and monitoring and compliance. Both activities are recovered through licence fees and possess characteristics that make it difficult to charge a fee-for-service for individual fishers due to the difficulty quantifying benefits at the individual fisher level.

3.2 Alignment of PIRSA's approach to cost recovery in the commercial fisheries industry with its Cost Recovery Policy

PIRSA's cost recovery approach comprises a process which is undertaken over approximately 6 months and includes various consultations and reviews of the services that it provides to the commercial fisheries industries.

PIRSA's approach is broadly consistent with the principles in PIRSA's *Cost Recovery Policy*, in particular:

- PIRSA's charges reflect Principles 1, 2, 3, 5, 6 and 9 as the charges:
 - Comprise a set of fee-for-service charges and fees calculated using activity-based costing where some activities are grouped to ensure administrative simplicity for PIRSA and fisheries
 - Closely reflect PIRSA's costs, including indirect costs but excluding the cost of services which should not be cost recovered such as some broader government policy work and providing advice to Ministers
 - Are reset each year to reflect new cost allocations and minimise some fisheries subsidising other fisheries
 - Comprise forward-looking estimates of costs and regulatory effort, which sends the most appropriate signals regarding the cost of regulatory activities
 - Comply with South Australian Government reporting and annual adjustment as the Department of Treasury and Finance requires
- PIRSA consults with industry throughout the cost recovery process (Principle 10):
 - PIRSA engages with industry multiple times to assist in determining the services that it should be providing in any given year. It also provides a number of objectives, performance indicators and costs associated with completing those services
 - PIRSA also offers industry the opportunity to go through a presentation detailing the approach to cost recovery and its calculations of charges, including how costs are allocated
- PIRSA has a clearly legal authority to undertake its activities and charge industry (Principle 4) and the activities PIRSA undertake appear to be legitimate activities that are consulted on and agreed on with industry

- PIRSA's approach appears consistent with Principles 7 and 8 of its *Cost Recovery Policy* as it follows the process of assessing cost recovery using the Productivity Commission's report on cost recovery as a guide throughout the process
- PIRSA engages in monitoring and reviewing fishery cost recovery charges (Principle 11) and also has a Cost Recovery Working Group established within PIRSA to review cost recovery arrangements and ensure PIRSA remains consistent with its *Cost Recovery Policy*.

PIRSA's approach might be improved by increasing the transparency and accountability of its approach, as discussed below.

Transparency and accountability

Transparency and accountability is a key part of any cost recovery process. Transparency and accountability includes informing industry about the cost recovery approach, how charges are calculated, the services being provided to industry and report against completion of any objectives or services.

Currently, PIRSA provides documents to fisheries that cover the following information in a financial year for each activity:

- The total cost of services
- PIRSA's charge out rates for different activities
- The management objectives for each fishery
- Program initiatives to be completed by PIRSA
- Anticipated outcomes, including performance indicators.

PIRSA uses this information to discuss the services that will be provided to fisheries and to agree on the program for that financial year. This information is provided to the bodies that represent groups of fishers (as determined by the fishers) within a fishery and not directly to each fisher for administrative simplicity. PIRSA also maintains other documents regarding its cost recovery activities such as presentations about how cost recovered charges are calculated and the types of activities which are cost recovered.

To increase transparency, PIRSA might consider providing some of these documents on its website so that its activities, costs and approach to calculating charges can be scrutinised by the broader public. Examples include the management plans of fisheries, including costs, and a document explaining how PIRSA calculates its charges. PIRSA currently shows stakeholders in the fisheries industry a presentation regarding how charges are calculated and supporting documentation upon request but does not provide any detailed information online.

PIRSA should also consider reporting publicly against the objectives and milestones (performance indicators) noted in the management plans for each fishery. This would also increase transparency and accountability, particularly with respect to the performance of PIRSA, which is a key component of transparency.

3.3 Review of PIRSA's cost recovery approach in the commercial fisheries industry

3.3.1 Allocation methodology

PIRSA's method for allocating costs is similar to the method employed when Deloitte reviewed PIRSA's cost recovery practices in 2009. The key change from 2009 is that PIRSA uses a timesheet program, TimeWise, to record hours spent by its staff and allocate costs. Previously, a survey of the amount of time PIRSA's staff spent on various activities was used to complete this task. PIRSA's staff are required to complete a timesheet each week and allocate hours to each fishery (e.g. tuna, rock lobster, abalone) and the tasks undertaken within each fishery (e.g. licensing, compliance).

PIRSA has employed a Microsoft Excel model (Fisheries cost recovery model) in order to allocate the costs of management and provision of services to particular fisheries. This allocation derives a total cost for each fishery, which is then used to set the cost recovery charges.

The Fisheries cost recovery model uses two main categories in order to allocate costs: the particular activity undertaken, and the individual sector to which that activity relates.

1. **Activities** – the Fisheries cost recovery model endeavours to capture the time and costs attributable to each activity undertaken by PIRSA to regulate and manage aquaculture.
2. **Industries** – there are a number of different fisheries which together form the commercial fisheries industry in South Australia, such as lobster, abalone and tuna. The Fisheries cost recovery model attempts to allocate the time and costs of regulating each sector to that particular sector.

The cost allocation process is based on the data PIRSA's employees enter into the Timewise system. TimeWise allows employees to specify the fishery they were working on (tuna, abalone, etc.) and the activity. The use of TimeWise data to record employee time and allocate costs in the Fisheries cost recovery model is an improvement from PIRSA's previous practice. Prior to TimeWise, PIRSA used a survey of its employees to determine the amount of costs to recover from industry and allocation of costs between fisheries. TimeWise data allows PIRSA to more accurately capture this data and provide a more accurate cost allocation methodology for use in activity-based costing.

3.3.2 Review of inputs and calculations

This section discusses the appropriateness of the inputs to the Fisheries cost recovery model. Our review confirmed that the majority of inputs in the Fisheries cost recovery model, and the calculations, are consistent with the fisheries cost recovery approach. This section discusses some of the key inputs to the Fisheries cost recovery model.

3.3.2.1 Operational days per year

In the 2009 Review, Deloitte stated that it considered the number of operational days assumed in the Fisheries cost recovery model (200 days per FTE) was too low and that this

number should be revised. It is noted that PIRSA has not amended this assumption and is using 200 days per FTE in its Fisheries cost recovery model.

PIRSA provided the breakdown of days per FTE as seen in Table 3.1.

Table 3.1: PIRSA’s calculation of 200 days per FTE

	Days	Cumulative total
Days in a year	365	
52 weekends	(104)	261
Public Holidays	(10)	251
Annual Leave	(20)	231
Sick Leave	(12)	219
Training and administration	(19)	200

Source: PIRSA

The average number of sick days per year across the economy is reported to be between 8 and 10 days per year depending on whether the worker is a manual labourer (higher number of days per year) and whether the employee is employed in the private (lower number of sick days per year) or public sector (higher number of sick days per year). PIRSA’s assumption is marginally higher than the economy-wide average but appropriate.

The calculation of 200 days per FTE also accounts for days (or parts of days) where staff undertake training and administrative duties. It is important to note that there are numerous FTEs employed at PIRSA to undertake primarily regulatory activities, meaning that if the commercial fisheries industry did not exist, these FTE may not be employed by PIRSA. In this context, it is appropriate that the cost of that training and administrative be recovered from industry. Similarly, administrative tasks should be recovered if they would not otherwise be required if the fisheries industry did not exist.

PIRSA’s Fisheries cost recovery model does include these costs in the cost recovery charges to industry. Accounting for these administrative and training days in the operational days per FTE increases the hourly rate applied to each activity, meaning that the cost of administrative and training activities is being recovered through the hourly rate (i.e. the same cost base is being recovered through a smaller number of days per FTE). Removing administrative and training days from the number of days per FTE would reduce the hourly rate and PIRSA would be required to increase the number of days (by approximately 19 days per FTE) it forecasts to spend in each fishery to recover those costs. Recovering administrative and training costs by reducing the number of operational days per FTE to 200 is a simple way to complete this calculation as specifically allocating the cost of training and administrative activities to each fishery (by including additional days in the annual forecast of the number of hours to be spent by each FTE in each fishery) would be much more difficult to accurately estimate.

PIRSA’s approach reduces the administrative burden of accounting for administrative and training costs. A more sophisticated approach is not likely to substantially increase the benefits to fisheries (e.g. by reducing cross subsidies) except where significant administrative or training activities are specific to a single or small number of fisheries. Where this is the case PIRSA should seek to recover those costs only from the relevant fishery/fisheries.

3.3.2.2 Capital costs

Capital costs are recovered through two separate charges:

- Return *of* capital, captured through annual depreciation charges for capital assets
- Return *on* capital, captured as a percentage charge on the carrying value of the capital assets.

PIRSA calculates the return *on* capital using a weighted average cost of capital (WACC) of 6%. The WACC is multiplied by the value of each asset to calculate the return on capital.

The value of each asset being used in the calculation is the weighted depreciated value that would be captured on a balance sheet; that is, the purchase price of the asset minus depreciation calculated using an estimated useful life. PIRSA uses the weighted depreciated value as a proxy for the estimated fair value of each value as it does not revalue its assets each year and its only other option would be to use the purchase price as a proxy for the fair value of each asset. This approach is consistent with the approaches taken in guidance provided in other jurisdictions, such as the Victorian Government Cost Recovery Guidelines.

3.3.2.3 Allocation and inclusion of operating expenditure and capital costs

Expenses are recorded through an electronic system and input into the Fisheries cost recovery model. PIRSA excludes some items which are not cost recoverable, such as licence fees (such as fee-for-service) or that would lead to double counting. These expenses are allocated to each activity (e.g. licensing, compliance) by the proportion of FTE in each activity. PIRSA also uses a timesheet system (TimeWise) to allocate the cost of its FTE to each activity. Using this data allows PIRSA to accurately determine the amount of FTE being utilised by each activity and therefore accurately calculate the hourly rates.

Capital costs are similarly allocated between activities. Some capital costs can clearly be allocated to a single task. For instance, there are numerous vessels and vehicles that PIRSA uses to ensure compliance. The capital costs associated with these is allocated 100% to compliance. Some of the capital costs cannot be attributed to certain industries and are allocated accordingly. PIRSA has a large vessel which monitors off-shore (ocean) compliance but the vessel is too large to check compliance of fisheries in rivers. PIRSA therefore allocates 100% of the capital cost to off-shore fisheries. The allocation process is undertaken by PIRSA employees.

3.4 Summary

PIRSA's approach to cost recovery in the commercial fisheries industry is consistent with its *Cost Recovery Policy* and the inputs to its Fisheries cost recovery model and cost allocation methodology appear reasonable. The focus of PIRSA's approach is on economic efficiency, which is the primary objective of cost recovery. PIRSA achieves economic efficiency by accurately allocating costs between its activities and fisheries, including all direct and indirect (including capital) costs, separating fees-for-service and licence fees and resetting fees annually to align with cost and therefore reducing cross subsidies between fisheries. PIRSA's cost recovery approach also includes a stakeholder engagement process that allows fisheries to have input into the services being provided and provides detail regarding the cost of those services.

PIRSA's approach to cost recovery is largely transparent but might be improved by providing more information publicly. Examples of information that PIRSA could provide include the management plans, including the cost and milestones, an explanation of how cost recovery charged are calculated and reporting publicly regarding the performance of cost recovery.

Recommendation 2: Increase transparency and accountability by providing key documentation online and reporting against performance publicly

PIRSA could increase the transparency and accountability of its fisheries cost recovery approach by:

- Publicly providing detailed information relating to cost recovery online such as the services PIRSA will provide, the cost of those services and the percentage of costs to recover
- Publicly detailing the cost recovery process and how it calculates fees and provide this information on its website
- Publicly reporting performance measures that indicate its success against delivering against the services and milestones provided to industry.

4 Aquaculture cost recovery

This section discusses the application of PIRSA's *Cost Recovery Policy* to the aquaculture industry in South Australia, including a review of the inputs in the model used to calculate the licence fees. The discussion in this Chapter is similar to Chapter 3; however, the difference being this Chapter applies to the aquaculture industry as opposed to the fisheries industry. Commercial fishing is generally the fishing of wild fish in the ocean while aquaculture relates to fish being grown and harvested in defined farms.

4.1 Alignment of PIRSA's approach to cost recovery in the aquaculture industry with its Cost Recovery Policy

PIRSA's approach to cost recovery in aquaculture is broadly similar to the approach applied in fisheries (Chapter 3). This is not surprising given the similarities between commercial fisheries and aquaculture and because PIRSA applies the same *Cost Recovery Policy* in making decisions regarding both fisheries and aquaculture.

Instead of repeating those consistencies, this section draws out the differences in the two cost recovery approaches and considers whether those differences are consistent with the cost recovery principles in PIRSA's *Cost Recovery Policy*.

The key difference is that PIRSA does not charge all costs to the aquaculture industry. This means PIRSA is departing from full cost recovery (as outlined in Principle 1), but is however, promoting equity, which is mentioned in the guiding text of Principle 2. This is further discussed below.

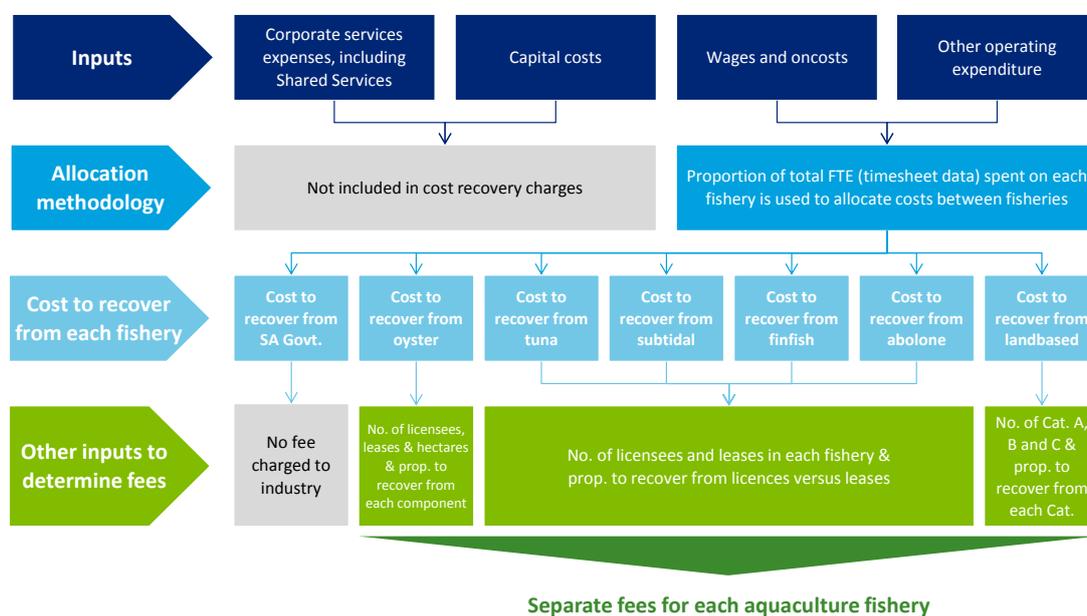
4.2 Review of the Aquaculture cost recovery model

4.2.1 Allocation methodology

Similar to commercial fisheries, PIRSA has a Microsoft Excel model (Aquaculture cost recovery model) to allocate the costs of management and provision of services to particular sectors within the aquaculture industry. This allocation derives a total cost for each sector, which is then used to set the price of licences, leases and other fees for individual sectors.

The allocation methodology used in the aquaculture industry is summarised in Figure 4.1.

Figure 4.1: PIRSA's allocation methodology in its Aquaculture cost recovery model



Source: Aquaculture cost recovery model

Unlike the Fisheries cost recovery model, the Aquaculture cost recovery model does not allocate costs to activities in order to calculate an hourly rate (for each activity) that is then used to estimate costs. The Aquaculture cost recovery model is simpler and instead allocates all costs (excluding corporate services expenses) directly to industries based on the proportion of FTE spent on that industry during the year (based on timesheet data). This gives the total cost to recover from each fishery (including the Government of South Australia).

Once the total cost to recover from each industry is determined, the fees for each licence and related component must be calculated. As seen in Figure 4.1, different fisheries are charged different types of fees, as follows:

- **Licence fees:** Paid to PIRSA for the right to undertake certain activities at a lease site
- **Lease fees:** Paid to PIRSA for exclusive use of an area of water for aquaculture purposes
- **Hectare fees:** Paid to PIRSA for each hectare of fishery operated by each fisher
- **Category fees:** Paid to PIRSA depending on the risk of the landbased activity. Category A is low risk, Category B medium risk and Category C high risk.

The majority of fisheries (tuna, subtidal (mussel), finfish and abalone) pay only a licence and lease fee. Oyster fisheries pay a hectare fee in addition to a licence and lease fee. Landbased fishers pay Category fees, which are a fixed fee depending on the risk of the fishery (high, medium, low).

PIRSA uses assumptions regarding the proportion of costs to recover from these different fees. For instance, for tuna, PIRSA must determine the proportion of costs to recover from licence fees and lease fees. The proportion to recover through the fixed (licence fee) versus the variable (lease fees) is negotiated in consultation with industry.

PIRSA then divides the total cost allocated to licences by the number of tuna licences and the total cost to recover from leases by the number of leases available to tuna fishers to determine the licence and lease fees for tuna.

4.2.2 Review of inputs and calculations

Below, some of the key inputs and calculations to the Aquaculture cost recovery model are discussed. There are some similar inputs and calculations between the model which are not discussed again here such as the use of 200 operational days per FTE and the use of TimeWise data to allocate employee-related costs and overheads.

4.2.2.1 Allocation to public and private players

The Timewise model uses the time recorded by employees to allocate costs associated with employment to each activity, and the sector to which that activity relates. The relevant costs related to employment include salary, superannuation, payroll tax, long service leave, workers' compensation and non-salary amounts including fringe benefits tax, overtime, board sitting fees and mileage.

The Timewise data distinguishes between the sector and activity on which time was spent. However, not all costs are directly attributed to the sector which incurred it – in some cases, there is a division in costs allocated between the private and public sector. For example, the South Australian Government and aquaculture licence holders equally share the cost of biosecurity and surveillance. This division is relevant for the setting of licence, lease and hectare fees attributable to each sector.

It is not evident from PIRSA's *Cost Recovery Policy* how these proportions are determined, although it is mentioned that some activities should not be cost recovered. Information provided by PIRSA shows that the division is based on an analysis of which group gives the rise to regulation and who benefits from each activity. This analysis is reviewed and reconsidered by PIRSA's internal Cost Recovery Working Group. This is consistent with the Australian Government Cost Recovery Guidelines, which state that the person who should be charged is the ultimate beneficiary of the service, or the person who creates the need for that service.

4.2.2.2 Allocation of corporate overheads

Principle 1 of PIRSA's *Cost Recovery Policy* notes that all costs, including indirect costs such as corporate costs and other overheads, should be recovered. This principle is reflected in the allocation of direct costs relating to operation, which are attributed to each industry.

PIRSA's *Cost Recovery Policy* notes that overhead or corporate costs should be recovered, provided they can be 'reasonably attributed to the provision of the product or service'. Corporate services are not charged to industries as part of PIRSA's model; nor are asset or shared services costs. This equates to approximately \$327,000, or 13.5% of the total cost base to be recovered.

The Productivity Commission guidelines suggest that capital and overhead costs should be recovered where they are incurred because the activity is undertaken.³ Similarly, the

³ Ibid p.160

Australian Government Cost Recovery Guidelines suggest that indirect costs should be recovered.⁴ PIRSA has stated that it does not charge these costs (corporate services and capital costs) to the aquaculture industry because the impact of including the expenditure on licence holders might be significant. Government policy decisions to move from full cost recovery are consistent with PIRSA's Cost Recovery Policy.

4.3 Summary

PIRSA's approach to cost recovery in the aquaculture industry is consistent with its *Cost Recovery Policy*. The approach is similar to the approach in fisheries, which is not surprising given that both approaches have been developed using the same *Cost Recovery Policy*. One of the key differences between its approach in fisheries and aquaculture is that PIRSA does not recover the full cost of regulatory activities, noting the capacity of the industry to pay full cost recovery.

PIRSA's approach includes significant consultation with the aquaculture industry which engages on issues such as the services PIRSA will provide and the amount of costs to be recovered from fixed and variable fee components.

Similarly to PIRSA's approach in fisheries, PIRSA approach is largely transparent but might be improved by providing more documents regarding its approach to cost recovery in aquaculture, its services and the performance of cost recovery. PIRSA could also increase transparency by publicly noting the reason for departing from full cost recovery.

Recommendation 3: PIRSA adopt the transparency and accountability measures in Recommendation 2 for the aquaculture industry and report on South Australian Government decisions to move away from full cost recovery

PIRSA could increase transparency and accountability by implementing similar transparency and accountability measures discussed in Recommendation 2.

PIRSA could also increase transparency about policy decisions made by the South Australian Government to move away from full cost recovery by reporting those decisions and noting their consistency with its Cost Recovery Policy.

⁴ Ibid p.40

5 Commercial fisheries cost recovery in other jurisdictions

Government agencies use various cost recovery approaches and models in order to recover regulatory costs. The variations in approach reflect decisions regarding the weight placed on certain cost recovery principles such as equity, full cost recovery and simplicity. These principles are applied in determining how to allocate costs, the costs that should be recovered, and how and from whom to recover costs.

The primary purpose of this section is to present and analyse the various options available to recover the costs incurred by PIRSA in regulating the fisheries and aquaculture industries. In broad terms, the cost recovery method can vary in two ways:

- The charging structure:
 - Whether the charge is a fee (a direct charge for a service provided to a user) or levy (a form of tax imposed on a broader group or industry)
 - If the charge is a levy, on what basis the levy is calculated (a percentage of revenue, value, etc.).
- The method in which charges are adjusted over time, which considers:
 - The treatment of under or over recovery of costs
 - The length of period over which charges are set
 - Adjusting charges within that period.

This chapter summarises various approaches currently used by other government regulators in the fisheries and aquaculture industries.

5.1 Comparison of commercial fisheries cost recovery

5.1.1 Australian Fisheries Management Authority

The Australian Fisheries Management Authority (AFMA) is a Commonwealth Government agency that monitors and manages commercial fishing within Commonwealth jurisdictions. The key activities of AFMA include research, industry monitoring and management and regulatory enforcement (compliance).

In Commonwealth jurisdictions, commercial fisheries must purchase and hold a commercial fishing concession (a licence). The concession is provided at a cost to industry to enable AFMA to recover the management costs directly attributable to managing commercial fisheries in Commonwealth jurisdictions.

AFMA recovers these costs using a levy. The levy is formulated using a forward-looking budget ('cost recoverable budget') estimate which is calculated for each fishery. The

estimate of the forward-looking budget includes considering the costs (FTE, overheads, etc.) AFMA employs in each fishery in the previous financial year and estimating how those costs might change over the next financial year. Within a given fishery, a proportionate amount is paid by each fisher based on their beneficial interest in the fishery, which considers factors such as their allowable catch or number of permits held.

In addition, AFMA collects a research levy on behalf of the Fisheries Research and Development Corporation (FRDC). This levy is calculated as 0.25% of each fishery's average gross value of production (GVP) over the previous three years. GVP is the value of production when sold (i.e. volume multiplied by sales price).

AFMA also collects a small proportion of its budget through fee-for-service arrangements. These fees primarily relate to activities that benefit a single operator such as transferring or renewing a licence and account for approximately 4% of AFMA's revenue.⁵

The total amount collected from the fishing industry each year comprises fees-for-service, the research levy and the cost recoverable budget, plus or minus the amount that was under or over recovered in the previous financial year. This is the means by which AFMA manages under or over cost recovery in the administration of levies, although it can create volatility in costs for the affected fisheries, particularly in situations where large over or under cost recovery occurs.

A summary of AFMA's licence fee to industry is noted in Table 5.1.

Table 5.1: Summary of AFMA's approach to commercial fisheries cost recovery

Variable	Australian Fisheries Management Authority
Charging structure	
Fee / levy	Levy (primarily)
Fixed / variable	Fixed
Basis for calculating the fee / levy	Forward budgeted cost recovery
Adjustment in charges over time	
Treatment of under and over recovery of costs	<ul style="list-style-type: none"> • Over recovery: Deducted from AFMA's budgeted cost recovery in the next financial year • Under recovery: Added to AFMA's budgeted cost recovery in the next financial year
Length of period	Annual
Method for adjusting charges during the period	N/A

5.1.2 New South Wales

The New South Wales Department of Primary Industries (DPI) was established in July 2004 and is a division within the NSW Department of Industry, Skills and Regional Development.

⁵ AFMA, *Cost Recovery Impact Statement*, <http://www.afma.gov.au/wp-content/uploads/2014/04/AFMA-Cost-Recovery-Impact-Statement-20101.pdf> p 17

One of its primary responsibilities is to develop and manage sustainable fisheries within the jurisdiction.

DPI currently has a partial cost recovery system comprising a combination of fee-for-service and levy charges; however these arrangements do not cover the full costs of compliance, management, science and administration for any NSW commercial fishery. DPI and the Ministerial Fisheries Advisory Council (MFAC) are currently in the process of drafting a new cost recovery policy.

The charges commercial fishers pay depends in part on whether their fishery is a 'Share Management Fishery' or a 'Restricted Fishery'. This is a system created by the Fisheries Management Act 1994 (NSW). Fishers in a Share Management Fishery hold a more secure right than those available under a Restricted Fishery, as their shares are automatically renewed, and termination of a fishery would entitle the shareholder to compensation. Fisheries under a Restricted Fishery may be terminated, without compensation, by revoking its declaration under regulations.

Commercial fishers who operate within NSW are required to hold a valid Commercial Fishing Licence. Commercial fishers may also hold one or more commercial fishing boat licences if using a vessel. Fee-for-service charges are paid for licence applications, renewals and transfers. Fees-for-service are also charged for various other transactions in order to recover costs. For example, registration or transfers of entitlements are subject to fixed fees.

For shareholders in a 'general' Share Management Fishery (i.e. not Lobster or Abalone), an annual fee is charged comprising of a management charge and a community contribution. The management charge consists of a flat fee per fishing business, plus an additional charge based on the number of share classes in which the fishing business holds shares. The community contribution is a periodic contribution for the right to access the fishery, determined with approval of Treasury, and is payable with respect to each fishing business held by a shareholder. All funds received from the management fee are retained within the Commercial Fishing Trust Fund, while the community contribution is retained by the State. Funds in the Commercial Fishing Trust Fund are used to assist in the costs associated with fisheries management, research and administration.

The Abalone and Lobster fisheries are also Share Management Fisheries, but fishing is managed through a Total Allowable Commercial Catch (quota management) system. Shareholders are required to pay a management charge which is designed to recover the efficient cost of management services attributable to the fishery as set out within the management plan, as well as any community contribution payable with respect to each Fishing Business held. The management charge for each fishery is determined annually through a forward planning budget process, and includes provision for relevant fisheries management, compliance and research operational and staffing costs. A range of 'efficiency' and other discounts are applied to the budget to determine the total industry contribution, with DPI funding the remainder.

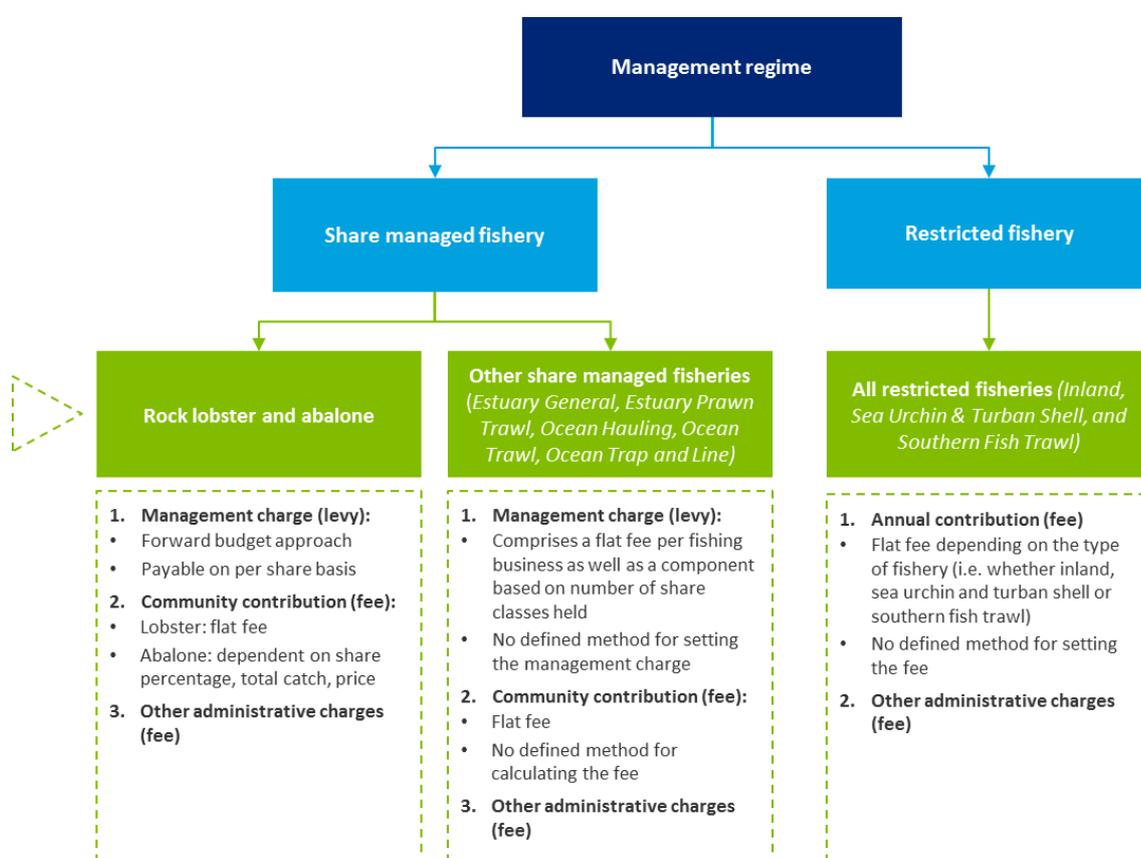
The industry contribution is then charged to industry (Abalone or Lobster shareholders) based on the number of shares held. The number of shares held determines both the quota allocated and the annual invoicing charges. Any under-spending on specific budget items is generally returned through reduced fees the following year.

Fishers who participate in a restricted fishery are required to pay a management fee ('annual contribution') to contribute towards certain costs, and are not required to pay an annual community contribution charge to access the fishery. Fishing business owners are also required to pay a research levy which assists in funding the FRDC.

Most fees and charges are adjusted annually in line with CPI, with the exception of the community contribution, which can only be modified with Treasury approval.

NSW's fisheries cost recovery arrangements are summarised in Figure 5.1.

Figure 5.1: NSW DPI's fisheries cost recovery arrangements



Source: NSW DPI

It should be noted that the Commercial Fisheries Business Adjustment Program, an initiative of DPI, is currently developing ways to link shares to catch or fishing effort for the share management fisheries (excluding rock lobster and abalone). It is intended that this change, which would modify how fisheries are charged, will provide greater certainty for fishers and more sustainable fisheries.⁶

Table 5.2 summarises DPI's approach to recovering fees from commercial fisheries.

⁶ Department of Primary Industries, *Commercial Fisheries Business Adjustment Program*, <http://www.dpi.nsw.gov.au/fisheries/commercial/reform>

Table 5.2: Summary of The NSW Department of Primary Industries' approach to cost recovery

Variable	NSW Department of Primary Industries
Charging structure	
Fee / levy	Fees and levies
Fixed / variable	Fixed and variable
Basis for calculating the fee / levy	Conditions set in the relevant management plan.
Adjustment in charges over time	
Treatment of under and over recovery of costs	<ul style="list-style-type: none"> • Over recovery: Costs recovered in excess of the total cost are offset in following years' budget • Under recovery: No action
Length of period	Annual
Method for adjusting charges during the period	N/A

5.1.3 Victoria

The Department of Economic Development, Jobs, Transport and Resources (DEDJTR) administers the overall compliance, management and research services for the Victorian commercial fisheries industry (including aquaculture), in accordance with the *Fisheries Act 1995*, *Fisheries Regulations 2009* and the *Fisheries (Fees, Royalties and Levies) Regulations 2008*.

Like other jurisdictions, Victoria has a set of fee-for-service charges that recover the cost of administrative tasks that benefit a single fisher (e.g. licence renewal) and a licence fee that recovers the cost of compliance, monitoring and managing Victoria's fisheries. The licence fee is a levy and has undergone significant revisions in the last 12 months, with a more transparent, forward-looking approach to cost recovery introduced on 1 April 2014. This new approach is being phased in over three years with ongoing industry consultation and a number of concessions to assist small operators during the three-year transition.

Presently, the three levies charged to the Victorian fisheries industry are as follows:

- **Fisheries Services levy:** recovers the provision of research, management, compliance and administration. The Fisheries (Fees, Royalties and Levies) and Fisheries Amendment Regulations 2014 identify the breakdown of the levy according to each service provided
- **FRDC levy:** goes towards the institution's research and development activities for the sustainability and development of fisheries and aquaculture. The levy for the FRDC is equivalent to 0.25% of the GVP of each fishery
- **Grants levy:** provided to the Seafood Industry Victoria (SIV), a not for profit, non-government organisation representing Victoria's seafood industry, and is subject to 'automatic adjustment' to ensure the revenue from the levy is in real terms each year.

The Fisheries Services levy is the primary levy of concern as it recovers the cost of activities most similar to PIRSA's licence fee (e.g. monitoring, compliance, research). The Fisheries Services levy has undergone substantial change. Previously, the Fisheries Services levy was calculated using activity-based costing that retrospectively charged levies to the industry after the costs had been incurred. Costs were allocated to each fishery based on a survey regarding the amount of time spent on each fishery. The former model was introduced in April 2004.

The *Commercial Wild Catch Fisheries and Aquaculture Cost Recovery Review* conducted in 2012 found several limitations in the model and its general operation. The key limitations DEDJTR identified were:

- Limited incentives to drive cost savings or service improvements with a model that charges after costs are incurred
- Limited industry participation in model development
- Poor systems for recording actual costs incurred
- Certain fisheries being subject to levy volatility.

It was also noted that the system imposed a significant administrative burden on DEDJTR, and there were difficulties in completing timesheets and calculating the appropriate allocations of cost to each fishery. Following this review, the Victorian Government developed the new approach to cost recovery that is presently being trialed. The new approach is based on interaction with industry in order to establish the most beneficial service offering and affordable cost structure. It forecasts regulatory and oversight services required and the associated costs of these services, and then derives the appropriate levies for the forthcoming licensing years.

The Victorian Government will review the composition of the regulatory and oversight services delivered and the coinciding levies annually for the first two years of the first three year period. Adjustments to the levies will then occur every four years after the initial three-year period. CPI adjustments will be made annually via the revision of the fee unit quantum, which imposes a lesser administrative burden in updating the regulations. Fishery specific forums were and will be held in each review period to ensure each industry stakeholder has input into the process, which can ultimately result in industry co-designed service delivery that is more cost effective and easier to manage.

The forward budget estimates the costs of the services which are predicted to be delivered. It also estimates the allocation of overheads to specific industries by utilising a method which estimates the average level of overheads per employee (at different salary levels), and then assigns those amounts to industries and activities based on the FTE required for that industry.

The actual value of the levy is derived from the forward budget and a division between licence holders and quota allocations. The Victorian Government has used a beneficiary-pays principle in order to allocate the proportions of costs which should be paid by licence holders, and the proportion which should be paid per quota allocation. The division may vary between industries depending on the numbers of licence holders and quotas, and the level of services offered.

A unique aspect of the Victorian model is the treatment of over- and under-recovery. As opposed to those jurisdictions which make no adjustments for over- or under-recovery, or those which reevaluate their levies yearly in order to make the required adjustments, DEDJTR uses a specific provision in the new regulations. This provision allows for a waiver of the payment of a certain number of prescribed fee units to refund to industry the value of services which were not provided to them. At present, this waiver may only be used if the level of any one or more of those services provided in the prior year was “at least 25% less than the level of that service on which the levy imposed in the prior licensing year was based”. However, given the introductory period of the new system, it is noted that the Victorian Government reset all levies instead of using the waiver provision. The purpose of this provision is to avoid the requirement to update the regulations every year, while still providing a fair level of services for which industries have already paid. Under-recovery of expenses will be absorbed by the Victorian Government.

The cost recovery process includes performance metrics for each service within compliance, management, research and administration. DEDJTR will report its performance against these metrics every quarter publicly for transparency. Aquaculture licenses follow the same charging structure, with the exclusion of the Grants Levy. These levies are incorporated into a singular levy charge that is multiplied by the number of licenses that each fishery holds.

A summary of Victoria’s fisheries services levy is in Table 5.3.

Table 5.3: Victoria’s Cost recovery approach

Variable	Department of Economic Development, Jobs Transport and Resources
Charging structure	
Fee / levy	Levy
Fixed / variable	Fixed
Basis for calculating the fee / levy	Projected high-level costing model that estimates the costs per licence.
Adjustment in charges over time	
Treatment of under and over recovery of costs	<ul style="list-style-type: none"> • Over recovery: May be returned to industry via use of waiver provision • Under recovery: No action
Length of period	Reviewed annually for first two years and then every four years after initial three year period.
Method for adjusting charges during the period	Adjusted yearly to account for CPI.

5.1.4 Western Australia

The Department of Fisheries Western Australia (DFWA) is responsible for managing Western Australia’s fish and aquatic resources. It assists the Minister for Fisheries in administering the relevant fisheries and aquaculture legislation (primarily the *Fish*

Resources Management Act 1994, amongst others). This includes directing the relevant management schemes as well as conducting research and coordinating marine safety services.

The Western Australian Government introduced a new cost recovery policy in June 2010. Each commercial fishery is required to pay an annual access levy which is based on a fixed percentage of GVP. Commercial fisheries pay 5.75% of the average of their GVP over the last three financial years, with 0.5% being provided to the Western Australian Fishing Industry Council (WAFIC) for industry representation and 0.25% provided to FRDC for research purposes. The remainder of the levy paid to DFWA may only be used for the purposes set out in the Fisheries Research and Development Account.

DFWA noted that there were some issues with its previous approach to cost recovery. Many fisheries were charged an amount that did not reflect full cost recovery while two industries (abalone for example) were charged an amount that was close to full cost recovery. Imposing fees on fisheries from which DFWA did not fully recover costs was seen as administratively difficult given the effort required to calculate and consult on those charges. Further, costs recovered from each fishery were tied to that industry. For example, costs collected as revenue from the abalone industry could only be used to fund DFWA's activities in the abalone industry.

As part of the reforms, aquaculture licence holders are charged an access fee based on a dollar per hectare basis. The access fee is based on the use of 'marine environmental resources'.⁷

In addition to the access levy, commercial fisheries are also subject to a range of administrative fees which are incurred on a per-use basis and calculated using activity-based costing. For example, fees may be charged to renew or register a licence or lease.

The combination of these access levies and fees is not a full cost recovery system. However, the revenue received is similar to that under the previous system. Pre-2010, only those in 'major' fisheries were charged fees based on full cost recovery, while those in 'minor' fisheries paid fees based on a percentage of GVP in their fishery. Both major and minor fisheries also contributed an amount proportionate to each fishery's share of GVP to the Development of Better Interests Fund (DBIF) annually. The new system treats all fisheries in an equal manner.

Table 5.4 summarises Western Australia's fisheries levy.

⁷ http://www.fish.wa.gov.au/Documents/ministerial_policy_guidelines/fmpg021.pdf

Table 5.4: Summary of Department of Fishery Western Australia's cost recovery approach

Variable	Department of Fisheries Western Australia
Charging structure	
Fee / levy	Levy (access fee) and fee (administration costs)
Fixed / variable	Fixed: 5.75% of GVP
Basis for calculating the fee / levy	GVP
Adjustment in charges over time	
Treatment of under and over recovery of costs	There is no treatment of over or under cost recovery.
Length of period	Annual
Method for adjusting charges during the period	N/A

5.2 Summary of cost recovery arrangements in other jurisdictions

The approach taken to cost recovery by different jurisdictions is wide ranging. Two jurisdictions (Victoria and Western Australia) have recently reviewed their cost recovery arrangements while the other two jurisdictions (AFMA and NSW) are currently in the process of reviewing their cost recovery arrangements.

Of the two jurisdictions that have not recently reviewed their cost recovery approaches (AFMA and NSW), their approaches to cost recovery are, at a high-level, similar to PIRSA. The three approaches use activity-based costing to determine licence fees which are reset each year to reflect new costs and information regarding cost allocations.

On the other hand, the two jurisdictions that have recently reviewed their cost recovery arrangements have made some changes that are not used in other jurisdictions. For example, Western Australia has used a levy-based approach to calculate licence fees. This is because the level of cost recovery on some fisheries was low and using a simple and broad-based approach was an administratively simple way to increase the level of cost recovery paid by all fisheries. A levy based on production is also more equitable than fixed fee arrangements as those with a greater earning capacity are charged a greater fee. This approach also reduces administrative burden on Western Australia and is simple for the fisheries industry to understand. Western Australia's approach has the drawback of increased (relative to setting licence fees) volatility in the revenue it will collect in any given year and greater cross-subsidisation between fisheries.

Another example is Victoria's cost recovery process which now sets fisheries management plans (i.e. the services provided to industry) over a 4-year period. It should be noted that South Australia has commenced transitioning some fisheries to longer period management plans but no other jurisdiction considered in this report has. This approach allows Victoria to reduce the amount of administrative burden involved in the cost recovery process. Victoria has also implemented a provision that allows it to return costs recovered from industry if there is a decrease in the level of service provision and has also commenced

publicly reporting the services it will provide and outcomes (including performance metrics) against those services.

The difference between Western Australia and Victoria's approaches is likely explained by the maturity of cost recovery in each jurisdiction. Western Australia had a high level of cost recovery from some fisheries while others were charged relatively small licence fees. Implementing a broad-based levy as a proportion of GVP was seen as a way to shift some of the burden from a handful of regulated fisheries to all regulated fisheries.

5.3 Comparison with PIRSA's existing approach

In commercial fisheries, PIRSA estimates the costs it will incur by multiplying a forecast of the number of hours it expects to spend undertaking activities in each industry (forward looking) by an hourly rate calculated using last year's costs (backward looking).

PIRSA calculates the cost to allocate to each fishery (through the hourly rates) by allocating the costs to each activity using timesheet data from its employees. PIRSA recovers these costs through separate charges for each fishery, which are reset each year.

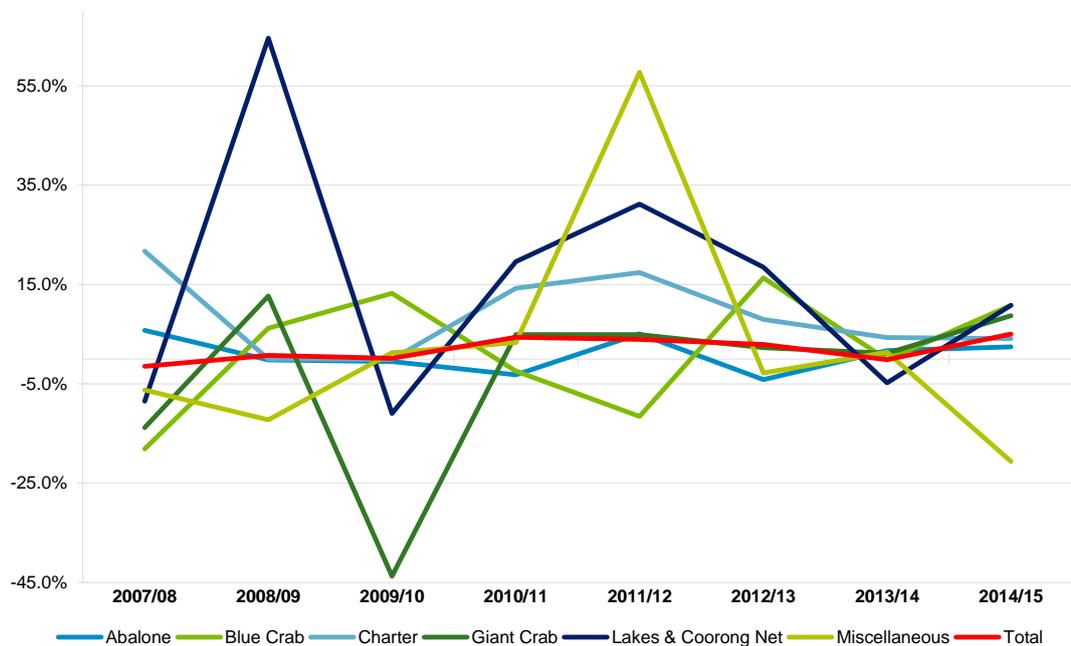
There are numerous advantages of PIRSA's existing approach, which have been discussed in this report. Those advantages include:

- Cost reflective charges
- Economic efficiency
- The ability to report detailed information (transparency)
- Certainty regarding the costs PIRSA will recover each year.

However, there are also some disadvantages of PIRSA's current approach:

- **Simplicity:** PIRSA's cost recovery approach is complex and may present barriers to fisheries in understanding the objectives of cost recovery and how to respond to price signals
- **Cost to administer:** the cost of administering PIRSA's cost recovery approach is high. The current process is an annual process, which takes a number of months to administer
- **Volatility:** Currently, the licence fees being charged to industry can vary each year as seen in Chart 5.1. This can pose issues for fisheries looking to undertake business planning exercises and can be a barrier to investment.

Chart 5.1: Sample of annual change in revenue collected from each fishery versus total revenue (commercial fisheries)



Source: PIRSA

Note: Volatility in revenue often translates into volatility into cost recovery charges due to the number of licences and quotas being relatively stable over time.

It appears that PIRSA's approach represents a trade-off between different cost recovery principles. It is consistent with principles of full cost recovery and economic efficiency, which is sound as one of the key objectives of cost recovery is to promote economic efficiency. However, economic efficiency is being traded off with principles of simplicity (including the cost to implement) and avoiding volatility.

While revising fees annually aims to be the most cost reflective measure, it does not (in this case) provide certainty to those in the industry, who are not able to clearly associate the fees paid with the costs incurred in the present year and it is complex and costly to administer. Although certainty is not mentioned in PIRSA's Cost Recovery Policy, or a specific recommendation in the Productivity Commission's cost recovery report, it is an important matter to consider in setting cost recovery charges. Certainty provides the benefit of allowing industry to undertake appropriate business planning and provides for a conducive environment for investment. Setting fees for longer periods (with annual indexation) would increase the degree of certainty for industry. It is also noted that it would reduce the amount of time required by PIRSA to administer the fisheries cost recovery program, which may lead to lower regulatory costs over time.

Recommendation 4: PIRSA consider an approach to cost recovery that reduces administrative burden and increases certainty to industry

Reducing the administrative burden will promote simplicity in the cost recovery process and reduce the cost of administering cost recovery. Further, avoiding volatility in charges will benefit industry by providing certainty which promotes a more stable investment environment.

Appendix A – 2009 review of PIRSA's cost recovery policy

Appendix A provides background to the 2009 Review, including recommendations and PIRSA's response to those recommendations.

The 2009 Review found that PIRSA's cost recovery principles are broadly consistent with those outlined by the Productivity Commission in 2001. The Productivity Commission outlined additional recommendations regarding the treatment of public goods and the positive benefits that flow to other policy areas.

The 2009 Review made six recommendations:

- **Recommendation 1:** Develop a complete picture of regulatory activities to manage fisheries and define and allocate the costs of these activities between groups of beneficiaries
- **Recommendation 2:** Review South Australian Research and Development Institute's fisheries research costs, incorporating a review of the efficiency and allocation of research costs between beneficiaries. Subsequent reviews should be completed on a regular basis (between 3 and 5 years) and the results publicised to increase transparency and ensure regulatory costs are efficient
- **Recommendation 3:** Review how capital costs are calculated in the Excel-based cost recovery model and reconsider the assumption regarding the number of operational days per FTE assumed in the model
- **Recommendation 4:** Refine and prepare guidance for the Excel-based cost recovery model to ensure the longevity of the cost recovery model
- **Recommendation 5:** Develop a new recreational fishing strategy or update the 2001-2005 strategy in order to inform whether there are any gaps in existing recreational regulatory activities, or whether resources are being allocated appropriately. Identify whether the required activities can be met through existing budget allocations prior to considering additional cost effective recovery mechanisms
- **Recommendation 6:** That the Council consider adopting the four proposed roles in the cost recovery process and clearly communicate these to the fishing community and the Government.

Appendix B – Australian Government Cost Recovery Guidelines

The Australian Cost Recovery Guidelines contain three broad principles and five requirements. The principles relate to the ideas which should underpin cost recovery, while the requirements relate to the processes that should be undertaken by an agency in applying cost recovery.

The principles are:

- **Efficiency and effectiveness:** Relates to government agencies using resources appropriately (least cost, meet quantity and quality targets) to achieve government policy objectives.
It also relates to ensuring that the level of complexity in an agency's approach to cost recovery is balanced with the cost of implementing and administering that approach, and understanding that the cost of administering the cost recovery regime should be proportional to the revenue collected
- **Transparency and accountability:** Relates to government being open about its cost recovery approach, including documenting key information, allowing the public to access documents and publicly reporting on the performance of cost recovery on an ongoing basis. This includes defining clear roles and responsibilities for all stakeholders to engage with agencies during the cost recovery process and publishing a relatively well detailed description of the costing model to allow various stakeholders to review the activity
- **Stakeholder engagement:** Relates to the importance of government consulting with stakeholders throughout the cost recovery process in order to result in a well-developed and well-implemented design. This includes both initial consultation as well as ongoing engagement. Government agencies should use the consultation principles contained in the Australian Guide to Regulation to assist with these engagement strategies.

The related requirements published as part of the guidelines are associated with the actual activities an agency should undertake, and sit under the principles above. The requirements are:

- **Australian Government policy approval to cost recover:** Ministers and entities are required to obtain approval from the Australian Government when introducing a new cost recovery model or recovered activity, or making significant changes to existing models or recovered activities, as well as for any legislative amendments
- **Statutory authority to charge:** Cost recovery charges must comply with the various requirements relating to the ability of Government entities to impose charges, including enacting the necessary legislation and other legislative instruments

- **Alignment of expenses and revenue:** There must be an alignment between the expenditure involved in providing a particular activity and the income generated through charges for it. There are a number of specific suggestions for the alignment of expenses of revenue
- **Up-to-date, publicly available documentation and reporting:** The guidelines require the publication of a cost recovery implementation statement (CRIS) for cost-recovered activities, which provides an overview of the cost recovery methodology to be implemented as well as provision for stakeholder engagement and review. The guidelines also require reporting of expenses and revenue in financial statements
- **Portfolio charging review:** Review of charging activities must occur at least every five years, and include analysis of performance as well as the range and extent of activities cost recovered. This information is collected from each entity to report to the responsible Minister and Finance Minister.

Appendix C – TimeWise suitability assessment

Scope and Approach

PIRSA uses TimeWise to allow staff to record time spent on various activities completed each day, including regulatory activities undertaken for the fisheries and aquaculture industries.

As part of this review, PIRSA requested that an evaluation of TimeWise's suitability for activity-based costing in cost recovery be undertaken. The assessment of the system comprised:

- Discussions with PIRSA on how staff use TimeWise as well as obtaining a list of the codes used to 'charge' time against
- Gained an understanding of the reports generated by TimeWise and how those are used to determine licence fees
- Considered controls within the timesheet process and TimeWise to assist Fisheries and Aquaculture to determine whether:
 - Employee time is being allocated to the correct codes
 - The amount of time charged to each code is reflective of the time spent on the tasks
 - The number of codes available to PIRSA employees is sufficient for its purpose.

Findings and Recommendations

Through document analysis and discussions with relevant staff with knowledge of the use of TimeWise for activity based costing, we identified the controls relevant to the process as well as a number of areas where the controls could be enhanced. The following table details the results of our analysis:

Control Identified	Comments	Recommendation
Fishery and Aquaculture employees have appropriate guidance and receive training on the appropriate use of TimeWise to record their time for the purposes of cost recovery.	No formal documentation exists to support employees in correctly allocating their time; however, all new employees receive TimeWise training on commencement of their employment at PIRSA.	All employees should be reminded of the importance of timely and accurate timesheet completion within the TimeWise system. A documented standard operating procedure could assist staff in understanding their ongoing requirements for accurately and completely recording time.

Control Identified	Comments	Recommendation
Time charged to codes is monitored to ensure PIRSA will meet its agreed targets.	The total hours to be incurred for the various activities within a particular program for Fisheries and Aquaculture is set at the beginning of each year, however there is no reporting mechanism in place to compare outcomes against expected targets.	Generate a monthly report for program managers to review to ensure time being charged is tracking toward expected budgets for the financial year.
Timesheets are completed and reviewed by relevant line managers in a timely manner to check for accuracy.	Review of the "Manager Reminder Report" for the period of 28/06/2014 to 06/02/2015 identified 48 instances (concerning 28 employees) of incomplete timesheets. Additionally, 35 completed timesheets had not been reviewed by the appropriate manager (involving 12 managers). 34 of these incomplete or unapproved timesheets related to periods dating earlier than January 2015.	To ensure time is recorded accurately, timesheets should be completed and submitted by employees in a timely manner. Additionally, managers should ensure they review timesheets regularly to confirm appropriateness of time recorded. If employees and managers do not respond to reminders to submit/approve timesheets, notifications of non-compliance should be sent to Human Resources for appropriate action.
Line managers' span of control is appropriately limited to ensure accountability is maintained.	On review of the Fisheries and Aquaculture delegate table and organisational charts it was noted that the span of control for employees assigned to managers within fisheries and aquaculture was not unrealistic and that managers would be able to accurately review employee timesheets without requiring excessive effort.	N/A
Sufficient codes are available for staff to charge time to allow the appropriate transparency, without being excessive	Comparison of a list of available codes in TimeWise and a report of employee hours charged against codes found that all codes are being utilised.	N/A

Implementation of the above recommendations in addition to regular, increased scrutiny placed on time recording by relevant managers should improve the accuracy of time

recorded within TimeWise, and enhance the system's suitability for the purposes of activity based cost recovery.

Limitation of our work

General use restriction

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