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# 9 RESOURCING AND STAFFING

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## 9.1 Introduction

Resourcing, staffing and management issues all impact on the Commonwealth's biosecurity effectiveness. Commissioner Callinan raised significant concerns about these issues in his report on the equine influenza outbreak, in particular on cost recovery for horse importation, AQIS's management structure and staff rotation and training. Many submissions expressed similar views.

The Panel's earlier recommendations will only be effective if the National Biosecurity Authority is adequately resourced and able to adopt a risk-return approach to allocating its resources. Cost recovery arrangements cannot be an excuse for this not occurring. A risk-return approach also requires sufficient senior management capacity to ensure the Authority is able to look beyond its day-to-day workload to comprehend its strategic direction. The management structure should provide clear national priorities, standards and operating directions and allow for tactical allocation of resources at a regional level.

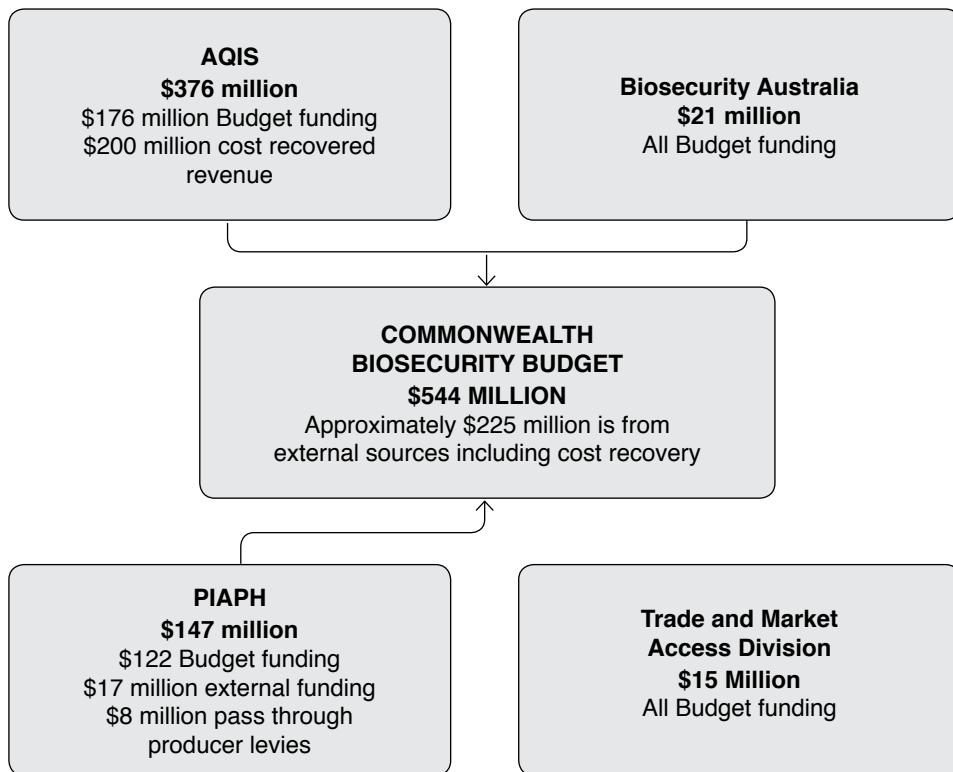
## 9.2 Current arrangements

### 9.2.1 Commonwealth funding arrangements

In 2007-08, the budget for the Commonwealth's biosecurity activities was approximately \$544 million. Revenue was generated through a combination of taxpayer funding from Budget appropriations and cost recovery from users of import clearance and export inspection and certification systems. Division of this revenue across AQIS, Biosecurity Australia and PIAPH is summarised in Figure 9.

The Government also invests in additional biosecurity-related activities. For example, in 2007-08 around \$15 million was allocated for market access activities managed by the Trade and Market Access Division of the Department of Agriculture, Fisheries and Forestry. Market access activities include the cost of officers located overseas, technical market access negotiations, bilateral, regional and multilateral trade negotiations, international agricultural cooperation, and capacity building. This funding is also shown in Figure 9 and is additional to the \$544 million total.

**Figure 9 Commonwealth biosecurity budget for 2007-08**



### 9.2.2 The use and justification of cost recovery

Governments provide a range of services to the community, from defence, law and order, support for the disadvantaged and the elderly and investment in infrastructure, to the provision of regulatory frameworks which support community health and safety and protect the environment. In most cases, Commonwealth activity is funded directly from the Budget—that is, by taxpayers—as it is not possible or appropriate to charge individuals or businesses directly for the government activity. However, where there are ‘private good’ characteristics associated with a government activity, it may be appropriate to recover these costs from users or beneficiaries (Productivity Commission 2001).

The principle that those who create the need for regulation should bear its costs is well established. Cost recovery achieves this by charging businesses and consumers directly for the government-provided products that they consume. This has both efficiency and equity dimensions.

‘Because cost recovery can be used to make firms and consumers pay more directly for the products they receive from the government, it can be used as a tool for improving economic efficiency and equity.’  
(Productivity Commission 2001, p. 11)

In efficiency terms, cost recovery ensures that consumers of a product being regulated face what is referred to as its ‘full social cost’. This enables consumers to make informed decisions about whether to consume more or less of the product in comparison with other products which may have lower biosecurity risks and hence lower associated regulatory expenditure.

Efficiency considerations also mean that exporters must consider the costs of meeting biosecurity regulations imposed by importing countries, some of which are incurred in Australia. These costs may influence exporters to decide which export markets they should target. They also provide a motivation for those paying the relevant fees (such as customs agents, shippers or exporters) to probe the basis of cost recovery determinations and advocate more efficient ways of reducing costs and risks.

In equity terms, cost recovery means that those Australians who use or consume high risk, high regulatory cost imports, do not ask their fellow citizens to pay. Equally, it means that Australian exporters who earn income from overseas markets because of regulatory services provided by the Australian government are not asking Australian taxpayers to fund the health and biosecurity protection of the citizens of other countries.

### **9.2.3 AQIS’s use of cost recovery**

Cost recovery was first introduced for AQIS in 1979 although it did not come into full effect until the early 1990s. At that stage, the Commonwealth’s role was largely export related, as quarantine functions were handled by the states. When quarantine activities began to be transferred back to the Commonwealth in the mid 1990s, cost recovery was extended to cover import activities as well.

The introduction of cost recovery for export certification drove significantly greater efficiency and accountability for the way in which regulatory functions were delivered. Full cost recovery for export functions continued through until 2001, when the Government decided on a 40 per cent Budget contribution, a subsidy that is due to lapse on 30 June 2009.

AQIS’s cost recovery arrangements are managed on a program-by-program basis, in consultation with the relevant Industry Consultative Committee. AQIS cost recovery guidelines assist with these processes and are based on the broader *Australian Government Cost Recovery Guidelines* (Department of Finance and Administration 2005). The AQIS Guidelines specify that direct and indirect costs

should be taken into account in determining fees and charges. They also set out the principles for setting fees and charges, which include:

- equity, with no cross-subsidisation between user groups;
- efficiency in revenue collection;
- price stability, seeking to minimise the number and level of price variations; and
- transparency including providing information at a level of detail agreed with business representatives.

Managers are required to document the model used to calculate fees, including matching revenue to major types of activity and/or client groups. A Cost Recovery Impact Statement must be developed prior to fees being set or changed.

The split of Budget versus cost recovered revenue for AQIS programs in 2007-08 is shown in Table 4.

<b>TABLE 4 Budget versus cost recovered revenue for AQIS programs – 2007-08</b>				
<b>Program</b>	<b>Budget revenue (\$000)</b>	<b>Cost recovered (\$000)</b>	<b>Total revenue (\$000)</b>	<b>% cost recovered</b>
<b>Airports*</b>	77,920	1,890	79,810	2
<b>Northern Australia Quarantine Strategy</b>	12,924	1,690	14,614	12
<b>International mail</b>	18,445	3,655	22,100	17
<b>Seaports</b>	1,503	12,222	13,725	89
<b>Import clearance</b>	649	112,213	112,862	99
<b>Animal quarantine stations</b>	367	4,504	4,871	92
<b>Post-arrival plant quarantine</b>	1,488	854	2,342	36
<b>Horticultural exports</b>	2,541	3,706	6,247	59
<b>Grain exports</b>	3,619	5,247	8,866	59
<b>Live animal exports</b>	2,140	3,033	5,173	59
<b>Meat inspection</b>	29,497	43,660	73,157	60
<b>Organic food exports</b>	63	80	143	56
<b>Dairy exports</b>	737	1,079	1,816	59
<b>Fish exports</b>	2,169	3,206	5,375	60
<b>Technical standards</b>	3,341	0	3,341	0
<b>Other</b>	18,614	3,109	21,723	14
<b>TOTAL</b>	<b>176,017</b>	<b>200,148</b>	<b>376,165</b>	<b>53</b>

\* See Section 9.2.4 Passenger Movement Charge for offsetting revenue

#### **9.2.4 The Passenger Movement Charge**

The Passenger Movement Charge is levied under the *Passenger Movement Charge Act 1978*. The charge, previously called the Departure Tax, is levied on passengers leaving Australia for an overseas destination and is collected by airlines and shipping companies as part of their ticketing arrangements.

When introduced, this charge was, at least in part, to offset the costs of customs, immigration and quarantine processing at Australia's borders. However, the revenue is not hypothecated and over time the linkage to border processing has diminished to the point where in 2000, the Australian National Audit Office stated that the charge was no longer solely linked to cost recovery of these functions (Australian National Audit Office 2000-01b). Having said that, a functional linkage was reiterated in the Second Reading Speech for the *Passenger Movement Charge Amendment Bill* in 2001, which saw the charge increased to \$38.

'The purpose of this bill is to amend the Passenger Movement Charge Act 1978 (as amended) to increase the rate of the Passenger Movement Charge (the charge) by \$8, to \$38, with effect from 1 July 2001. The increase was announced by the Treasurer in the 2001-02 budget and will fund increased passenger processing costs as part of Australia's response to the threat of the introduction of foot and mouth disease.' (HR Hansard 2001)

Based on passenger numbers and a charge of \$38 per outgoing passenger, the Passenger Movement Charge would have generated approximately \$430 million in 2007-08. This revenue is not included in Table 5 above and it should be noted that there are many non-quarantine costs associated with passenger movements at international airports including customs and security.

#### **9.2.5 Current management structures**

Biosecurity Australia, PIAPH and the Trade and Market Access Division have vertically integrated management structures with lines of responsibility extending from executive managers (or the Chief Executive in the case of Biosecurity Australia) down through to general managers (or branch heads) and then on to specific program managers.

AQIS is a much larger organisation with over 3,000 full-time staff working across Australia. It employs a 'matrix management' structure, sharing responsibility between national programs and regions. Under this management model, policies, standards and work instructions are set nationally and applied regionally.

Executive managers are responsible to the AQIS Executive Director for the overall direction of programs. National branch managers report to the executive managers. The branch manager's role is to ensure that biosecurity programs give effect to government policies and strategies within approved budgets and cost recovery arrangements. AQIS regions are responsible for services in accordance with business plans and budgets determined through the AQIS corporate management framework. Regional managers have responsibility for ensuring that work practices are in line with national policies, standard operating procedures and work instructions.

### **9.3 Current debates and views in submissions**

A number of matters were raised with the Panel in relation to Commonwealth resourcing mechanisms, particularly the impact of cost recovery and resourcing levels. The Panel has dealt with these two issues separately. Management and staffing issues were also raised with the Panel, including management structures and the staff rotation policy that exists within AQIS regional offices. Commissioner Callinan commented on all of these issues in his report on the equine influenza outbreak.

#### **9.3.1 Cost recovery and implications for managing risk**

The principle of cost recovery was generally supported in submissions. For example, the Quarantine and Exports Advisory Council confirmed the general principle that those who create a need for regulation should contribute to its costs.

‘For quarantine risk, this usually means that those parties responsible for creating the risk (usually those associated with imports), should meet the majority of the cost where this can be cost-effectively achieved. Similarly, for exports and market access, Australian parties have responsibility for ensuring that risk to international customers (and customer regions/countries) is effectively mitigated at the cost of the risk-creator.’  
(Quarantine and Exports Advisory Council submission, p. 27)

However, the Panel was told that cost recovery constrains AQIS's ability—both at a program management level and a regional operational level—to redirect resources to manage risks. Concerns about avoiding cross-subsidisation, reinforced by business pressure and audits conducted by the Australian National Audit Office, appear to have led AQIS into a program-centric mode. Programs are tightly defined in terms of the activities that form the basis of a particular set of fees, rather than encouraging efficient and responsive management from a whole-of-organisation perspective. The Quarantine and Exports Advisory Council also drew attention to this issue.

‘AQIS’s capacity to reallocate resources flexibly across programs to address areas of emerging risk is limited. For example, if it were determined that the balance of risks required that resources were to be shifted from Import Clearance to International Mail, the current funding and cost recovery arrangements would make this very difficult to achieve.’ (Quarantine and Exports Advisory Council submission, p. 28)

The way in which fees are determined, and the extent to which AQIS responds to those most sensitive to fee increases, is said to have discouraged investments in training and information technology.

Additionally, cost recovery can be a disincentive for collection of data to support risk management. As an example, the Panel was advised that when an item of biosecurity concern is intercepted at the border, the importer is given the option of having the pest or disease diagnosed and/or treated appropriately or having the item destroyed or re-exported. As discussed in Chapter 7, importers are most likely to choose the least cost option, which in many cases is treatment without diagnosis. As a result, knowledge about risks and risk pathways does not increase.

Some submissions argued that diagnosis is in the public interest and, in view of the lack of private incentives to have a pest or disease diagnosed, should be funded by government.

The administrative burden of managing cost recovery was also criticised. Cost recovery models are developed at the program level and fees are negotiated with Industry Consultative Committees. Over time, fees have become more complex and narrow—not just in terms of being program specific, but within programs as well. For example, there are now 59 different fees associated with import clearance, 23 for the care of plants in a quarantine station and 31 associated with animals in a quarantine station. Some import fees are shown in Table 5 to illustrate the complexity.

Commissioner Callinan’s view was that fees for horse importation were too low and did not meet the full cost of the regulatory function. He made a number of recommendations about what should be covered by fees, including the full cost of documentation, adequate staffing levels, capital costs and audit activities. He also suggested that a contingency factor should be built into the fee structure. Until a new fee structure could be developed, Commissioner Callinan recommended a fee of not less than \$165 per day for thoroughbred stallions and not less than \$65 per day for other horses (Callinan 2008). This compares with the current fee of \$34 per day per horse.

Aside from these specifics, Commissioner Callinan also noted a tendency within AQIS to regard its work as service delivery to clients, rather than a regulatory

<b>Table 5 Examples of AQIS fees</b>	
<b>Service</b>	<b>Fee</b>
Electronic lodgement of an entry on an AQIS entry management system	For each entry - \$7
Manual lodgement of an entry on an AQIS management system	For each entry, in addition to the appropriate assessment fee: (a) if a self-assessed clearance declaration has been lodged on the Integrated Cargo System - \$20 (b) if a full import declaration has been lodged on the Integrated Cargo System - \$12
Assessing an entry not subject to a compliance agreement	For each entry: (a) based only on the information in the entry - \$30; and (b) if the officer requires additional information - an additional \$30
Assessing an entry subject to a compliance agreement	For each entry: (a) if the goods are of quarantine concern - \$6; or (b) if the goods are of both quarantine and imported food concern - \$30
Care and maintenance of a plant at a quarantine station	
(a) a plant grown from imported seed	For each square metre, or part of a square metre, of space occupied by the plant at the quarantine station - \$4 per day
For holding any of the following animals in quarantine:	
(a) ruminant animals, including cattle	(a) for up to 25 such animals in a consignment - \$40 a day for each animal
(b) equine animals	(a) in the intake period for an animal – nil (b) in the official quarantine period for up to 25 such animals in a consignment - \$34 a day for each animal

function required to manage the risk associated with importing horses. His view was that this perception contributed to fees being lower than actually required to deliver an effective regulatory function.

‘I was also influenced by a tendency ... on the part of AQIS to treat some of its work at the quarantine stations as ‘service delivery’ to ‘clients’, rather than as work and resources provided as a necessary facet of quarantine. As a consequence, I formed the impression that AQIS’s costings and charges should be more than they were, and that, if they were, biosecurity and quarantine to prevent another outbreak of equine influenza would be improved.’ (Callinan 2008, p. 328)

The Panel also noted the confusion over AQIS’s role as regulator versus service provider, or somewhere between the two. The Productivity Commission termed this phenomenon ‘user pays, user says’ in its report into cost recovery by Government agencies (Productivity Commission 2001). The Panel has not been provided with information to suggest that the regulatory function is being compromised as a result of a ‘user says’ tendency, but it is clear that it has led to tension in the relationship between AQIS and importers and exporters—especially during detailed negotiations over costs—and a tendency for AQIS to defer much needed expenditure on information technology systems and research.

Cost recovery can ensure that revenue keeps pace with increasing workloads, in contrast with some Budget funding. For example, the extended Increased Quarantine Intervention funding has been static at \$67.7 million over the three years 2006-07 to 2008-09, a period in which air passenger arrivals are forecast to increase by 19 per cent (passenger numbers supplied by AQIS). A consequence is that the cost recovered Import Clearance Program’s resources have kept pace with growth, while the Airports Program (which is largely Budget funded) has increasing difficulty in meeting its government determined intervention and effectiveness targets.

The Ernst & Young *Review of Quarantine and Border Security Strategies and Policies* made specific comment on budget sustainability (Ernst & Young 2007). It found that in 2005-06, the Airports, Northern Australia Quarantine Strategy and Detector Dog programs were in a ‘negative net position’, that is their expenditure was greater than revenue. By contrast, the Australian Customs Service and the Department of Immigration and Citizenship have sensibly negotiated Budget funding to be indexed to growth in passenger numbers. The Tourism and Transport Forum noted this difference in its submission and suggested that:

‘AQIS funding should be subject to a funding formula (like that applied to the Australian Customs Service) that provides increases in funding in line with the growing number of passengers coming through airports and number of airports serviced.’ (Tourism and Transport Forum submission, p. 4)

### 9.3.2 Management and staffing

#### Management structures

AQIS's management structure was commented upon in a number of submissions to the Panel, some advocating that arrangements remain, others that they should change. Commissioner Callinan was in no doubt, concluding that the current structure was dysfunctional.

‘Having heard the evidence and having examined in detail the management structure of AQIS in the course of the Inquiry, I can only respond that it would be difficult to imagine a more complex and dysfunctional structure so far as it relates to horse importation than the one under which the failure occurred.’ (Callinan 2008, p. 315)

Commissioner Callinan stated that the matrix management structure had contributed to the equine influenza outbreak by blurring responsibility and accountability.

‘... I have heard and seen enough to have reached a strong conviction that matrix management in the form in which it has come to be practiced in AQIS (not by design) has contributed to many inefficiencies and played its part in the ultimate failure of AQIS in relation to horse importation. It has done so by blurring lines of responsibility, and therefore accountability, in ways I need not repeat here.’ (Callinan 2008, p. 322)

Commissioner Callinan's comments on horse imports were echoed in a number of submissions to the Panel as having wider applicability.

A former Executive Director of AQIS, Ms Meryl Stanton, had a different view. She argued that the size of the organisation and complexity of the task made some form of matrix management unavoidable.

‘In a more complex and fast moving world, there is now little option for large private or public sector organisations but to implement some form of matrix management, with lines of responsibility and authority across as well as down the organisation.’ (Meryl Stanton submission, p. 2)

#### Lack of Senior Executive Service staff

The Panel received evidence that there is an inadequate number of Senior Executive Staff within both AQIS and Biosecurity Australia. In Biosecurity Australia, the equine influenza outbreak resulted in numerous senior staff being removed from their normal duties for extended periods to give evidence to the Equine Influenza Inquiry and now to implement the recommendations arising from that Inquiry process. As a result they have been unable to progress regular duties including managing and finalising Import Risk Analyses.

The Panel was advised that in the case of AQIS, a lack of Senior Executive Service officers has inhibited critical decision making. Table 6 shows that, as at 30 June 2007, AQIS had a considerably higher ratio of staff to Senior Executive Service officers than several comparable Commonwealth agencies, for example, the Australian Customs Service. As a specific example, the Australian Customs Service has a division comprising four branches (each managed by a Senior Executive Service officer) that is responsible for the clearance of passengers and their goods across the border. AQIS has a single program managed by one Senior Executive Service officer. Customs also has areas dedicated to strategic development, intelligence gathering, risk analysis and risk targeting. AQIS operates without those structures, although a Quarantine Systems Division was established following the equine influenza outbreak.

<b>Organisation</b>		<b>Number</b>
AQIS	SES staff	15
	Total staff	3,276
	Average staff per SES	218
Australian Customs Service	SES staff	47
	Total staff	5,730
	Average staff per SES	122
Department of Immigration and Citizenship	SES staff	95
	Total staff	6,425
	Average staff per SES	68
Whole of Australian Public Service	SES staff	2,509
	Total staff	143,525
	Average staff per SES	57

Source: AQIS and Australian Public Service Commission 2007

### **Staff rotation and use of contractors**

A number of submissions were critical of the AQIS staff rotation policy, in particular its implications for job knowledge and risk management. Under current arrangements, rotation periods can be as short as four months, although they are normally two or three years. Some AQIS officers suggested that the policy should be offered on a voluntary basis, while others suggested that the rotation program should be dismantled. For example:

‘Consideration should be given to the dismantling of the formalised staff rotation system operated in NSW (and other Regions) ... A massive amount of effort is put into orientation and training of rotated staff. By virtue of the size of this activity in NSW it is inevitable there are staff placed in positions that they simply have no interest and/or talent for.

Consideration of should be given to filling positions based on merit, being assessed against skills and training relevant to the position.’  
(Greg Hankins submission, p. 1)

The Northern Territory Department of Primary Industries, Fisheries and Mines argued that under the policy, staff did not receive appropriate training and were unable to develop expertise in any field.

‘The current AQIS policy of rotating staff to different positions every few years does not allow staff to become experts in a field and receive appropriate training.’ (Northern Territory Government submission, p. 3)

The Community and Public Sector Union also noted the negative effect of the policy.

‘... a compulsory staff rotation policy has contributed to increased biosecurity risk, organisational risk, reduced operational efficiency, a weakening of standards in field operations, and a loss of expertise.’  
(Community and Public Sector Union submission, p. 6)

The Union raised a further concern about the use of contractors within AQIS, arguing that biosecurity functions should operate solely under the governance structure of the Australian Public Service.

‘Labour hire and contractor arrangements also devolve employer responsibility for professional development and training; outsource accountability of service delivery outcomes; public liability; and potentially offload employer OH&S responsibilities to other parties.’  
(Community and Public Sector Union submission, p. 3)

## **9.4 Panel’s consideration**

### **9.4.1 Resourcing in aggregate and across the continuum**

As described earlier in this Report the increasing volume and range of international trade, growth in tourism, intensification of agriculture and changing climatic patterns mean that the task of managing the biosecurity system is becoming more challenging. The Panel’s view is that Australia’s best chance of maintaining its favourable pest and disease status is to take a managed risk approach across the whole continuum, and to increase the overall pre-, border and post-border effort.

To do this, the National Biosecurity Authority will need additional resources. A proper costing will need to be prepared. However, the Panel’s estimate is that an increase, building over time to an amount in the order of \$260 million per

annum, will be required—shared between businesses, through cost recovery, and the public through the Commonwealth Budget, including the Passenger Movement Charge. This figure is equivalent to nearly 50 per cent of current Commonwealth outlays. In addition, the Panel is recommending a remediation investment of approximately \$225 million over a number of years to upgrade information technology and business systems for the National Biosecurity Authority. This investment is discussed in more detail below.

Without these additional resources, the National Biosecurity Authority will not be able to deliver the **One Biosecurity: a working partnership** model envisaged by the Panel. While some efficiency will arise from amalgamating Biosecurity Australia, AQIS and PIAPH and adopting a risk-return approach, it is impossible to escape the conclusion that the agencies are significantly under-resourced, putting Australia's economy, people and environment at significant risk. Without an overdue catch-up, the adoption of a risk management approach will be seriously constrained by a lack of intelligence on risks and pathways, and a limited capacity, in systems and people, to analyse the information that is available. In turn, Australia would then be forced to rely on border interventions rather than keeping risks offshore as far as possible through pre-border activities. The post-border monitoring and surveillance effort would also remain variable, putting at risk Australia's ability to respond quickly to possible pest and disease incursions and diminishing its ability to meet export market information requirements.

The consequences of continuing to under-resource the biosecurity system could be severe. For example, as discussed in Chapter 7, a 2002 Productivity Commission study found that a 'short' foot and mouth disease outbreak would result in a Gross Domestic Product loss of \$2-3 billion. This figure would rise to between \$8 billion and \$13 billion for a 12 month outbreak, demonstrating the significant value of being able to detect, contain and eradicate an outbreak quickly (Productivity Commission 2002).

As mentioned in Chapter 1, an economic assessment found that the net present value of the potential cost of red imported fire ant in Australia over a thirty year period was approximately \$8.9 billion. Using an eradication cost of \$120 million, the study found that for each \$1 spent on eradication the benefit would be \$25 in avoided damage costs (Kompas and Che 2001). Prevention of arrival, or very early detection and eradication, are likely to be less expensive and would produce even higher benefit-to-cost ratios.

In the case of the equine influenza outbreak, the Commonwealth alone has already spent more than \$342 million dealing with the outbreak itself and providing financial assistance to affected individuals and businesses. There have also been considerable costs to the states and to businesses or individuals

arising from their inability to move horses and the virtual cessation of the horse racing industry in a number of states for several weeks.

These types of costs, and the real prospect of reducing their likelihood of occurring by building a more effective **One Biosecurity: a working partnership** system, provide a compelling case for the additional outlays and cost recoveries the Panel is recommending. The following sections amplify the Panel's recommendations as they affect the components of the biosecurity continuum.

### **Pre-border**

The Panel recommends that investment in pre-border activities needs to be increased to allow for more of Australia's biosecurity risk to be kept offshore. As discussed in Chapter 7, the Panel's view is that investment in pre-border activities can reduce the pressure on mitigating risks at the border. The major areas for investment include:

- strategic intelligence activities that underpin a risk-return approach;
- building biosecurity capacity in neighbouring countries to reduce the risk of pest and disease incursions;
- increasing the use of offshore audit activities as well as pre-departure risk management systems for incoming passengers;
- improving and broadening Biosecurity Import Risk Analysis capacity by engaging staff with environmental, aquatic and economic skills and investing in strategic research;
- reducing the backlog of uncompleted Import Risk Analyses and developing initial capacity within the Authority to implement the proponent-based Biosecurity Import Risk Analysis process proposed by the Panel (see Chapter 5); and
- enhancing Australia's participation in international standard setting bodies and improving capacity to provide scientific and technical policy advice to support trade and market access negotiations.

Of the additional \$260 million, the Panel's view is that approximately 25 per cent should be allocated to pre-border efforts, some of which (such as increased offshore audit activities) may be cost recovered from businesses.

### **Border**

As discussed in Chapter 7, the Panel's recommendation is that a risk-return approach should be adopted at the border in place of the mandated intervention targets that currently exist. This would mean, for example, less effort screening low risk pathways such as air canisters. However, even under a risk-return

approach, overall resourcing levels at the border are currently inadequate. Additional investment will be needed in the following areas:

- implementing new screening processes at airports that use sophisticated risk profiling—noting that more use of infringement notices (see Chapter 8) may help to reduce biosecurity offences at the border in the medium term;
- selectively examining cargo within shipping containers, as opposed to inspecting just the outside of the container itself;
- wider use of detector dogs at airports, seaports and mail centres in the interests of efficiency and effectiveness;
- diagnosing pests and diseases identified at the border (Chapter 7);
- improving audit activities at the border, for example, targeted checking of consignments against documentation, verifying import permit documentation and increasing audits for quarantine approved premises and companies operating under compliance agreements; and
- implementing the enhanced Commonwealth role in relation to ballast water and biofouling discussed in Chapter 2.

The Panel's assessment is that approximately 20 per cent of the additional \$260 million expenditure should be allocated to border activities.

Based on existing cost recovery to budget funded ratios, approximately half the additional pre-border and border investment would be cost recoverable. For the border component, the additional Budget contribution would approximate 5 per cent of the expected Passenger Movement Charge revenue in 2008-09.

### **Post-border**

As discussed earlier in this Report, the Panel recognises that a zero risk biosecurity regime is neither desirable nor possible. Australia cannot afford to search every passenger or every container of cargo arriving in the country, nor can it prevent the arrival of disease or vectors on air currents. Consequently, it is inevitable that there will be pest and disease incursions. A strong coordinated post-border capability minimises the chances of those pests and disease becoming established.

The Panel's view is that considerable improvements can be made in post-border activities. It has recommended an extended legislative reach for the Commonwealth (Chapter 2) and more post-border investment by the Commonwealth to strengthen Australia's biosecurity system overall (Chapters 2 and 7). The Panel's assessment is that this will require approximately 50 per cent of the additional \$260 million.

Over half of this post-border investment should be allocated to the monitoring and surveillance program for national priority exotic pests and diseases. This program, discussed in Chapters 2 and 7, would cover terrestrial and aquatic systems, from a production and an environmental perspective, and would include:

- an expanded Northern Australia Quarantine Strategy (noting that this also has pre-border and border elements to it);
- more comprehensive port surveillance;
- a regime for investigating suspected post-border detections of pests and diseases in imports;
- continuation of the National Sentinel Hive Program until a more comprehensive program is developed based on an assessment of risks;
- strategic surveillance to strengthen and support Australia's export market access claims and to inform Biosecurity Import Risk Analyses; and
- monitoring and surveillance for national priority marine pests and diseases associated with ballast water.

The remaining post-border funding would be used to develop the risk-based traceability scheme referred to in Chapter 2, support post-border communication and awareness activities, invest in addressing peri-urban biosecurity issues and to enhance Australia's emergency preparedness and response arrangements, including activities such as:

- building the National Biosecurity Authority's capacity to provide national leadership and coordination in emergency response situations—for human, animal and plant health, including terrestrial and aquatic pests and diseases;
- harmonising and improving pest and disease databases and emergency management information systems;
- improving capabilities in epidemiology and pest and disease modelling; and
- developing diagnostic protocols for all national priority exotic pests and diseases.

It is vital that the states do not see the Commonwealth's additional post-border investment as an opportunity to step back from their own biosecurity obligations. Post-border work has traditionally been a state responsibility. For example, the states allocate significant resources, in terms of staffing, infrastructure and program funding, to pest and disease prevention, surveillance, preparedness, incursion response and biosecurity management. It is estimated that in 2007-08, Queensland, South Australia, Victoria, the Northern Territory and the Australian Capital Territory spent over \$145 million on these activities (information sought by the Panel was not provided by the other states). This contribution is essential. During consultations with the Panel, states generally recognised the necessity of their continued involvement, several explicitly so.

The Panel's post-border recommendations will only strengthen the biosecurity system if state governments continue their post-border efforts. To ensure that this occurs, the Panel recommends that the Commonwealth's additional post-border investment be tied to an agreement with the states on appropriate matching commitments. In the Panel's view it would be preferable that the states increase their investment to match the Commonwealth to a significant extent.

### **Investments across the continuum**

In Chapter 7, the Panel discussed ways of overcoming biosecurity skills shortages. Its recommendations included developing a general biosecurity course to be incorporated into relevant curricula and ensuring that staff of the National Biosecurity Authority are appropriately trained. The Panel also noted options such as support for cadetships and studies in areas of identified skills shortage—such as taxonomy, nematology, epidemiology and marine biology. The Panel's assessment is that of the recommended \$260 million in additional funding, approximately 5 per cent should be allocated to skills development each year. At least 75 per cent of this should be spent on the training needs of the Authority to ensure that its staff has the skills needed to adopt the sophisticated risk-return and systems-based approaches recommended by the Panel.

The Panel's assessment is that there has been a substantial underinvestment in information technology systems for biosecurity at the Commonwealth level. AQIS has lagged significantly behind other border agencies, notably the Australian Customs Service, at considerable cost to the Australian economy and some risk to biosecurity. As discussed in Chapter 7, a significant investment in information technology systems will be needed as an integral component of the risk-return approach proposed by the Panel.

A comprehensive redevelopment of existing information technology systems will be a major undertaking. The Australian Customs Service spent in the order of \$205 million on its Cargo Management Re-engineering project, including the development and implementation of the Integrated Cargo System and the electronic gateway. These costs were incurred between 1999, when the project commenced, and 2006, when the imports version of the Integrated Cargo System was implemented.

The Customs project was arguably narrower in scope than the system the Panel believes is necessary for the National Biosecurity Authority. The Panel considers that at a minimum, an equivalent level of resourcing—or around \$225 million in 2008 dollars—should be appropriated for the redevelopment of information technology and business systems. The project would need to be properly costed following a formal design and consultation process and expenditure would occur over a number of years.

Although these system improvements should ultimately be funded through cost recovery mechanisms (which should cover depreciation costs, for example), the Panel recommends that the project should be funded from the Budget as a one-off remediation contribution, in addition to the \$260 million of recurrent expenditure, to rectify past underinvestment and ensure that immediate progress is made.

Beyond the resources mentioned above, Budget funding will be required for:

- the Inspector General of Biosecurity and a small supporting unit within the Department of Agriculture, Fisheries and Forestry, with an appropriate travel and consultancy budget;
- establishing the National Biosecurity Authority;
- supporting drafting of the new Biosecurity Act; and
- the additional resources required by both the Administrative Appeals Tribunal and National Biosecurity Authority as a result of the introduction of merits review for a limited range of decisions taken by the Authority.

#### **Recommendations**

- 73 The Commonwealth should increase its biosecurity investment by an amount in the order of \$260 million per annum, subject to a full costing by departments, to meet the recommendations of this report. A significant part of this increase in resources should be funded through cost recovery and an adjustment to the Passenger Movement Charge.
- 74 The Commonwealth's additional post-border investment should be tied to an agreement with the states and territories on appropriate matching commitments (see also Recommendation 3).
- 75 Recognising past underinvestment, an additional \$225 million should be appropriated through the Commonwealth Budget over a number of years for investment in information technology and business systems for biosecurity. Future cost recovery arrangements should be adjusted to cover depreciation and replacement of that infrastructure.

### **9.4.2 Cost recovery and Budget funding**

The Panel has considered the important question of which functions are appropriate for cost recovery and which should be funded by taxpayers at large. It supports the principle that those who create the need for regulation should bear its costs and notes the efficiency and equity benefits that can be achieved through cost recovery.

However, these benefits need to be weighed up against the cost of implementing cost recovery and whether cost recovery maintains the incentives for appropriate behaviour by businesses (import and export) and travellers. The *Australian Government Cost Recovery Guidelines* acknowledge that cost recovery may not be warranted where it is not cost effective and that adopting a very precise approach to charging can be administratively costly.

Over time, AQIS has implemented cost recovery in an increasingly narrow and program-centric way. Concern about subsidisation across programs, vigorously pursued by Industry Consultative Committees, has resulted in cost recovery charges often being finely disaggregated and directly linked to support of particular programs and organisation units. Such finely disaggregated charges increase the administrative costs of collection as a proportion of revenue raised. Linking them to particular programs and activities has made it difficult for AQIS to allocate resources flexibly from a risk and business management perspective.

More importantly, in the process of negotiating charges, AQIS appears to have excluded, or not considered, the full cost of its regulatory functions, including related and necessary investments in systems development, staff training and verification. It is not clear that charges associated with provision and replacement of capital, including an allowance for the opportunity cost of capital items such as buildings and plant, have been comprehensive. These charges should follow normal commercial practices. Excluding these costs is not consistent with the guidelines but might be a response to concerns expressed by less profitable sectors facing cost recovered regulation. Encouragingly, most business representatives the Panel met said they had never objected to reasonable charges and had at times urged charges appropriate to providing both the biosecurity needed, and advantages which would flow from better, more user friendly systems (for example, electronic import permit processing).

Overall the Panel has found, as did Commissioner Callinan, that current AQIS cost recovery conflicts with the policy objective of managing biosecurity risks.

There are three options:

- changing the mix between cost recovery and Budget funding to increase the Budget resources for functions that are currently underfunded;
- adopting an alternative cost recovery mechanism, such as a tax-based charge spread over a larger base with less precise accounting requirements and a consequential increase in expenditure flexibility; or

- changing the way that cost recovery is administered, for example, aggregating charging structures with the objective of simplifying administration and providing greater flexibility.

The Panel found no general case for replacing the existing cost recovery regime with general taxpayer funding. This would lose the efficiency advantages and equity gains from cost recovery arrangements.

The Panel concurs with the Productivity Commission’s finding that even imperfect cost recovery arrangements may still improve economic efficiency overall relative to higher general taxation (Productivity Commission 2001). Accordingly, the Panel’s view is that moving away from cost recovery in a significant way would represent a step backwards in efficiency terms and would fail to acknowledge the private benefits that arise from import clearance and export certification activities.

Moving to a tax-based cost recovery system could reduce transaction costs and provide a greater capacity to manage functions on a risk-return basis. However, such an approach would inevitably dilute efficiency signals, for the regulator as well as the importer and exporter. In addition, tax-based cost recovery carries with it a risk that over time, gaps will emerge between costs and revenue, possibly resulting in over-recovery of costs. Equally, unless hypothecation is tightly ensured, gaps can emerge between revenue collected, and the revenue allocated to the regulator via appropriations to provide the regulatory function.

Therefore the Panel’s recommendation is that fee-based cost recovery should be retained as the principal mechanism. There is, however, a need to change the way that cost recovery is administered, particularly if the Panel’s earlier recommendations regarding a risk-return approach are to be implemented effectively.

As a first step, charges for ‘like’ activities should be aggregated across programs with the number of charges significantly reduced. This sort of arrangement is provided for in the *Australian Government Cost Recovery Guidelines* based on efficiency and effectiveness (Department of Finance and Administration 2005). Reducing the number of charges will simplify the administration of cost recovery and allow the Authority to make internal resourcing decisions that maximise the long run risk-return payoff and deliver efficiencies in the longer-term (for example, from the ability to manage regional staff more flexibly across programs).

As a second step, charging levels need to be set at a level that provides a properly funded regulatory function, including:

- long-term and strategic investment in infrastructure, including information technology and information systems to support a risk-return approach;
- appropriate staffing levels and resources for training; and
- the cost of audit activities.

Business groups should continue to be involved in examining the Authority's costs, proposing efficiencies and comparing revenue with expenditure. However, while consultation is important, the ultimate responsibility of the Authority should be to present a cost recovery package to the portfolio Minister that will properly fund the regulatory function as outlined above. This will inevitably mean some difficult discussions about longer-term needs versus short-term fixes. Complaints from some business sectors can be expected. However, the Authority and the Minister should support the principles enunciated above for the long term good of the overall biosecurity system.

#### **Recommendations**

- 76 Programs that currently use cost recovery should continue in this mode but charges for like activities should be aggregated, leading to a significant reduction in the number of individual charges.
- 77 In developing cost recovery arrangements, the National Biosecurity Authority should consult with business groups, but have the ultimate responsibility of recommending to the responsible Minister a cost recovery package that will support the provision of an effective and efficient regulatory function including:
- a adequate and long-term investment in infrastructure, including information technology and information services;
  - b appropriate funding for staff and training;
  - c the costs of auditing pre-border and border biosecurity certification; and
  - d the cost of diagnosing a proportion of interceptions to inform a risk-return approach to activities.

In addition, the Panel recommends that an external review of costs and revenue should be conducted on a periodic basis (every five years would be appropriate), with the reports to be provided to business groups and the Authority. The external review should examine the efficiency of cost recovery, whether appropriate aggregation of charges is occurring, and whether unnecessary constraints are being placed on the use of revenue from a risk-return perspective.

### Recommendation

- 78 Cost recovery by the National Biosecurity Authority should be subject to periodic external review to ensure that:
- a cost recovery reflects efficient costs and provides appropriate efficiency signals to the Authority;
  - b the cost recovery structure provides appropriate price signals for business performance;
  - c there is no long-term over-recovery; and
  - d costs are being aggregated wherever possible and that unnecessary constraints are not being placed on the use of revenue from a risk-return perspective.

A separate issue for the export programs is the Government's current 40 per cent subsidy of the cost of delivering the regulatory function. This subsidy, which is due to expire at the end of June 2009, does not align with the *Australian Government Cost Recovery Guidelines*, which state that partial cost recovery is generally not appropriate. The circumstances in which partial cost recovery may be acceptable include:

- where cost recovery is being 'phased in' for new arrangements; or
- where an agency adjusts charges for particular groups of clients in order to meet Australian Government endorsed community service obligations or for explicit policy purposes.

The policy objectives of the 40 per cent subsidy, which was introduced in 2001, are unclear, and are unlikely to qualify against the community service obligation criteria outlined above. The Panel's recommendation is that the subsidy should be allowed to lapse as scheduled at the end of June 2009, although this would require an early decision and announcement by the Government to allow businesses to prepare for the additional costs as well as for the necessary consultation on revised fee structures.

As a corollary, the Panel recommends that this move should be linked with greater use of co-regulatory arrangements, such as compliance agreements, to reduce the cost of the regulatory service wherever possible. This would only be feasible where agreed between business groups, the National Biosecurity Authority and international trading partners.

In addition, the Commonwealth should enhance efforts to defend Australia's export systems and gain additional market access, including through biosecurity-related technical market access and multilateral, regional and bilateral negotiations. These functions should be funded from the Commonwealth Budget rather than via cost recovery mechanisms. The Panel's view is that

this role is not one for the National Biosecurity Authority, but should be conducted within the Department of Agriculture, Fisheries and Forestry with technical advice and assistance provided by the National Biosecurity Authority as needed (see Chapter 3).

#### **Recommendations**

- 79 Export certification functions should return to 100 per cent cost recovery as scheduled at the beginning of July 2009, noting that this would require an early decision and announcement by the Government to allow businesses to prepare for the additional costs as well as for the necessary consultation on revised fee structures.
- 80 The Government should enhance Budget funding for activities which support biosecurity-related technical market access for Australian exporters.

### **9.4.3 Linking Budget funding to demand**

As mentioned above, one of the advantages of cost recovery is that there is a direct link between revenue and the increasing demand for the regulatory service. This relationship does not necessarily exist for Budget funded programs. For example, as also mentioned above, the Budget funded Airports Program has moved into ‘a negative net position’—that is, expenditure exceeds revenue—a position that is predicted to continue (Ernst & Young 2007).

Removal of mandated intervention targets and adoption of a risk-return approach would go part way to enabling biosecurity protection to be maintained within existing resources. However, it is clear that a static funding base is not sustainable, given increasing passenger numbers, greater numbers of passengers from higher risk countries and increasing cost items such as employee salaries and rent. In the future, revenue needs to be linked more closely to growth in demand, for example, via a Workload Growth Agreement as currently exists for the Australian Customs Service. Linkages could be made directly with growth/changes in passenger numbers, or through more sophisticated mechanisms such as growth in demand from countries with higher biosecurity risks. Either way, this linkage would align the program more closely with the cost recovery arrangements applied to other programs, and would address the budget sustainability issues that have already arisen and will only intensify in future.

As recommended above (Recommendation 73) a possible source for these increased funds could be the Passenger Movement Charge levied under the *Passenger Movement Charge Act 1978*. This charge, which moves in sympathy with passenger movements, would in any case provide a close to perfect revenue hedge to the Budget for changing expenditures arising from a Workload Growth Agreement.

### Recommendations

- 81 Funding for the Airports Program should be adjusted in future on the basis of a Workload Growth Agreement established between the National Biosecurity Authority and the Department of Finance and Deregulation that links passenger numbers with Budget appropriations.
- 82 The Workload Growth Agreement should reflect a risk-return strategy for managing intervention rates and make appropriate allowances for productivity.

#### 9.4.4 Management structures and staffing

The establishment of the National Biosecurity Authority provides an opportunity to re-evaluate the management arrangements most suitable for managing biosecurity risks. In the Panel's view, consideration should be given to a more functionally-based management system, rather than the current matrix approach. Under that arrangement, principles and policies would be set nationally for adoption by operational staff, including ensuring that staff are provided with adequate training and support, and overseeing the development of compliance and accreditation systems.

The regional arms of the organisation would be managed by a regional director who would be a Senior Executive Service staff member with sufficient experience and knowledge of the organisation from a central perspective. The regional director would have responsibility for the tactical allocation of resources to activities to achieve functional priorities and outcomes. As far as possible, the management services of the Authority would be centralised, including human resources and payroll services.

The Panel discovered that the current organisation with the Department was more akin to a series of stovepipes, with limited communication and collaboration. The senior management within the newly established Authority will have a critical role in developing a common corporate culture and a sense of unity and purpose throughout the organisation.

As discussed in Section 9.3.2, the current regional rotation policy within AQIS was highly criticised by a number of people. While there are obvious advantages to be gained through staff rotation, such as the avoidance of regulatory capture and the career development of staff, there are also disadvantages in terms of the loss of expertise, administrative expense and additional training and supervisory burdens for the organisation. The Panel found that the existing rotation policy was overly rigid and that in some cases, the rotation periods had been too short. The Panel observed that staff rotations were not always based on improving

the capability and effectiveness of individual staff members. Instead they were sometimes influenced by industrial considerations, such as a perception of ‘equitable’ access to overtime or shift loadings, which are issues that should be dealt with through other mechanisms. The management of the Authority will need to develop a carefully thought through policy on staff rotation. In the Panel’s view, this policy should address more than just regional staff rotation, and be expanded to include the issue of rotating staff between policy and operational roles.

The biosecurity risk management approach advocated by the Panel in previous chapters will require a strong capacity for strategic thinking within the Authority. In addition, the Authority will need the ability to respond to significant biosecurity events without sacrificing its day-to-day responsibilities. The Panel’s view is that the current Senior Executive Service staffing levels within AQIS and Biosecurity Australia are lower than required and that additional resources should be allocated to increase these numbers. In deciding the appropriate staffing levels, consideration should be given to the management load of comparable front-line biosecurity agencies such as the Australian Customs Service. In terms of Biosecurity Import Risk Analysis capability, the Authority will require senior staffing levels that allow the organisation to continue with its important workload in the face of biosecurity events such as equine influenza or the current World Trade Organization dispute over apples from New Zealand.

The Panel also noted the views put forward on the use of contractors within various programs of AQIS. The Panel considered that on balance the use of contractors improves the flexibility of the organisation and provides access to skills that it may not be able to obtain otherwise. The Panel also recognised that a contracted workforce also poses challenges to the organisation in terms of training and motivation. The Authority must take proactive steps to ensure contracted workers are in tune with the objectives of the organisation.

#### **Recommendations**

- 83 In developing the detailed budget for biosecurity functions, the Government should recognise the need for a significant enhancement in senior management capacity in the National Biosecurity Authority.
- 84 The National Biosecurity Authority should review staff training and rotation practices to ensure that they provide an optimum balance between development of broadly skilled officers, the deepening of expertise through experience in a role and the avoidance of regulatory failure through officers developing inappropriately close relationships with the clients they are servicing.