

COST RECOVERY IMPACT STATEMENT AMENDMENT TO FEES FOR THE POST ENTRY PLANT QUARANTINE PROGRAM

PURPOSE OF COST RECOVERY IMPACT STATEMENT

This proposal involves the amendment of the current fees structure for the Post Entry Plant Quarantine (PEPQ) Program. This Cost Recovery Impact Statement (CRIS) highlights the rationale for the amendments to these fees and demonstrates their compliance with the government's cost recovery policy. To effect the fee changes, amendments will be required to the *Quarantine Service Fees Determinations 2005*.

INITIAL POLICY REVIEW

Organisational Objectives

The Australian Quarantine and Inspection Service (AQIS) is one of the business units within the Australian Government Department of Agriculture, Fisheries and Forestry (the Department). The Department is responsible for a wide range of issues including:

- Quarantine, export inspection and certification and food safety standards activities, which are essential for maintaining Australia's highly favourable animal and plant health status, and are also important parts of the international regulations governing the trade between nations.

The role of the Department is to assist the Government to achieve its policy objectives and administer legislation in these areas by contributing to the following Outcome identified in the Department's Business Plan 2005-2006:

- Australian agricultural, fisheries, food and forestry industries that are based on sustainable management of and access to markets; are protected from diseases and are underpinned by scientific advice and economic research.

AQIS is an Output Group of the Department and contributes to the achievement of the Department's Outcome by meeting its Output Objective which is:

- To protect Australia's animal, plant and human health status and maintain market access through the delivery of quarantine and export services.

In meeting this Objective, AQIS undertakes a range of activities including the maintaining of Australia's quarantine integrity through appropriate border control arrangements for international passengers, cargo, mail, aircraft and other vessels entering Australia and through post entry plant and animal quarantine arrangements.

The performance information relevant to the provision of effective quarantine services is the:

- Quarantine intervention levels at the border
- Quarantine risk effectiveness at the border - interceptions (%)
- Level of awareness of AQIS quarantine services.

The importation of new plant varieties and propagative material poses a high risk of introducing exotic pests and diseases into Australia. The PEPQ Program, through providing plant containment facilities and disease screening is the primary system to ensure imported plant material is free of pests and diseases of quarantine concern. The Program operates and maintains the Australian Government's plant quarantine stations at Eastern Creek (Sydney) and Knoxfield (Melbourne).

Should Cost Recovery be Introduced?

Since 1993, AQIS has operated in a cost recovery environment in accordance with the government's current cost recovery policy and guidelines. The current cost recovery arrangements for the PEPQ Program are assessed and designed with respect to the government's current cost recovery policy and are in line with the Australian Government Cost Recovery Guidelines.

The major rationale for developing and implementing cost recovery is the 'beneficiary pays' principle which is based on the principle that the users of government products or services, or those individuals or groups who have created the need for regulation, should pay cost recovery charges.

Beneficiaries of the PEPQ Program related activities include commercial nurseries, horticultural and agricultural companies, scientific and research organisations, hobbyists and individual members of the public.

In accordance with government policy, the costs of the services provided by the PEPQ Program are met by:

- An on-going Government appropriation (of \$1 million); and
- Cost recovery.

The Government appropriation is provided for the specific purpose of reducing the direct cost of importing high risk plant material to importers, thereby reducing the incentive to smuggle. The incentive to smuggle arises from the comparatively high cost of maintaining such plants in mandatory post entry quarantine for periods up to three years. Justification for the continuing subsidy flows from the very high cost of mounting an eradication campaign for introduced exotic pests, the considerable extra costs for pest screening and certification, and potential trade impact from lost markets.

The current cost recovery arrangements for services provided by the PEPQ Program fall into the broad category recognised in the Australian Government Cost Recovery Guidelines as fee for service.

The PEPQ Program is seeking to realign fees that are currently being charged, to more closely reflect the costs of providing these services. Significant cost modelling analysis has been undertaken by the PEPQ Program and AQIS Finance in an effort to calculate the precise costs of providing these services to industry.

Mechanisms, including consultation, for monitoring ongoing efficiency and effectiveness of cost recovery arrangements

Regular consultation with the plant import industry on cost recovery and other matters occurs through the Post Entry Plant Industry Consultative Committee (PEPICC). The PEPICC is the principal advisory forum for AQIS and the plant importing industry to consult on all issues arising from the management of Australia's post entry plant quarantine strategy.

Membership of PEPICC comprises of representatives from key industry sectors including:

- State government plant quarantine facilities
- Fruit improvement programs/associations
- Private quarantine nurseries
- Botanic gardens
- AQIS representatives
- Biosecurity Australia
- Quarantine and Export Advisory Council (QEAC)
- Plant Health Australia.

Face to face meetings of the PEPICC are conducted biannually. This consultation provides a process for monitoring of fees charged on an on-going basis and provides information on the changing dynamics of the industry that may need consideration in the review of fees and charging structures.

Details regarding the results of consultations with stakeholders are provided in this document under the section – Outcomes of Consultation with Stakeholders.

Future Cost Recovery Review Arrangements

Fees and charges are reviewed on a regular basis as part of the routine governance of AQIS. The financial position of the PEPQ Program is reported to, and discussed at all PEPICC meetings as a standing agenda item. In addition to this, the PEPQ Program will continue to monitor its performance against budget on a monthly basis and report on its financial position through established governance processes such as the AQIS Leadership and Governance Committee (ALGC). Changes to the fees and charges must be consistent with the Australian Government Cost Recovery Guidelines.

In accordance with the government's cost recovery policy any future amendments to existing cost recovery arrangements will be documented in a CRIS.

DESIGN AND IMPLEMENTATION

Who should pay cost recovery charges?

In accordance with the 'beneficiary pays' principle which is based on the principle that the users of government products or services, or those individuals or groups who have

created the need for regulation, should pay cost recovery charges. Accordingly, the PEPQ Program's clients are required to cover the associated costs.

In the PEPQ Program, these clients may include:

- Commercial nurseries
- Horticultural/agricultural companies
- Scientific and research organizations
- Hobbyists and individual members of the public.

The cost recovery arrangements for the provision of PEPQ Program services consist of:

- The provision of routine care and maintenance of plants;
- The diagnostic analysis of high risk plant material; and
- Time spent completing horticultural activities (eg re-potting of plants, hand pollination, grafting, budding, etc) and the visual inspection of plants for disease symptoms.

Should cost recovery charges be imposed using fees or levies?

This proposal is an adjustment to fees that are already imposed under the 'beneficiary pays' principle. Both the current fee structure and the proposed fee structure require the individual or business that seeks to benefit from the service to pay directly for the service, rather than levying across an industry group.

The Australian Government Cost Recovery Guidelines outlines the types of regulatory activities. The PEPQ Program undertakes approval processes which fall into the regulatory activity of registrations and approvals. For registrations and approvals other clients will not be able to free ride on an approval of the first applicant, charging is consistent with policy goals and charging is efficient and cost effective allowing for cost recovery.

As cost recovery is appropriate for all the PEPQ Program's regulatory activities the charges are based on fees that are efficient, cost effective and consistent with the policy objectives of the agency.

What are the legal requirements for the imposition of charges?

Section 86E of the *Quarantine Act 1908* provides that the Minister may determine fees in respect of specified services provided under the Act. The current fees are set out in the *Quarantine Service Fees Determinations 2005*.

Copies of the above can be found on the AQIS website at www.aqis.gov.au

Which issues should the proposed legislation address?

It is proposed to amend the *Quarantine Service Fees Determinations 2005* to:

- reflect the new fee structure as set out in Table 1; and
- Introduce a new category for prunus species (or other 'high risk' category plants that may be accredited by the New Zealand Ministry of Agriculture and Forestry

(NZ MAF) in future) for export to New Zealand in the 'normal' full cost fee category...

So that the PEPQ Program will be able to recover its costs.

The existing and proposed PEPQ fees structure is provided in Table 1.

Which Costs should the charges include?

AQIS seeks to meet the commitment to recover the PEPQ Program's direct and indirect costs associated with the provision of post entry plant quarantine services in a manner that is fair and equitable across the various sectors of the industry.

Direct costs include:

- Staffing costs, which can be broken into two components:
 - o salaries and wages rates of staff expressed in annual, fortnightly, daily and hourly terms; and
 - o Other staffing on-costs such as allowances, shift/penalty payments, overtime, annual and long service leave, separation payments and superannuation costs.
- Accommodation costs, including rent, repairs and maintenance, cleaning and utility charges;
- Costs such as minor stores, communications, office machines, stationery, telephonic communications, advertising and insurance;
- Travel costs;
- The costs of materials and services such as stores, computer services and services obtained on a contract basis;
- Provisions for bad and doubtful debts and Fringe Benefits Tax; and
- Capitalisation costs, including depreciation on plant and equipment.

Indirect costs form part of general user group costs and are not easily attributed to particular activities. Indirect costs include:

- an appropriate allocation of indirect costs (or overheads), including executive, financial, personnel, registry, library and audit services, internal audit fees and other corporate costs;
- Technical and Operational costs such as Plant Programs Executive, training and public awareness.

The operation of a Plant Quarantine Station has three distinct functions, each of which has specific cost elements. These are:

- The routine care and maintenance of plants (regardless of their risk)
- The diagnostic analysis of high risk plant material (the disease testing or plant pathology). These costs directly relate to the cost of undertaking each specific test and include:
 - test kits
 - laboratory consumables used in the test
 - Time resources to complete the test.
- Any other services relating to the management of plants in quarantine including:
 - re-potting

- hand pollination
- supervision – for activities conducted by importers
- grafting, budding
- Visual inspection of plants for disease symptoms.

Additionally the PEPQ Program has a significant debt in the Income Equalisation Reserve (IER). The IER is used to manage cost recovery outcomes for the program between years. The AQIS policy on the use of industry liability accounts states that where there is an under recovery at the end of the financial year it should initially be met from any existing revenue rebate or industry initiative balances, where agreed with industry. Where these balances are not available or exhausted, as was the case with the PEPQ Program, the deficit should then be met from any funds available in the IER. The transfer is reflected as an increase in 'other revenue' for the program.

However, if the IER is exhausted before the deficit is fully extinguished, the deficit remains with the program and is recognised as an 'accumulated deficit', along with any other losses carried forward from prior years for the program. The program is expected to recover these losses in future years, before being able to transfer funds to its IER again.

The PEPQ Program has an accumulated deficit of \$286,000 which has accumulated over the last three years primarily due to reduced activity levels, increased operating costs and the delay in implementing revised fees scheduled for implementation in October 2003 and not implemented until 1 March 2004.

How should the charges be structured?

Fees and charges for the use of services provided by the PEPQ Program are structured so as to encourage the most efficient use of resources by clients of the program. The revenue generated through the existing fees structure equates to approximately 28% of the PEPQ Program's expenditure budget. The remainder of the expenditure budget is offset through the allocation of the \$1 million Government appropriation. The appropriation, together with the revenue generated through fees, is intended to cover the direct and indirect costs to the PEPQ Program.

The 2005/2006 expenditure budget was \$2,293,000 against total revenue of \$2,182,000, leaving an operating deficit of \$110,000. In addition, the program recorded an accumulated operating deficit of \$176,000 from the 2004/2005 financial year. The budget projection for 2005/2006 will result in an accumulated deficit of \$286,000 at 30 June 2006.

Even though the budget includes the government appropriation and other corporate funding, the current fees structure will not generate the revenue required to achieve full cost recovery and recover the current deficit.

From analysis of revenue returns since 1 March 2004, the PEPQ Program has no capacity to increase the projected sale of goods and services trading revenue without a significant increase in patronage of the stations for 'medium' risk (up to 90 days in PEPQ) plants. This is unlikely due to insufficient available space at the Knoxfield and Eastern Creek plant quarantine stations to accommodate a significant increase in medium risk plants.

The PEPQ Program must implement a fee structure that will recover costs as well as the deficit over a two year period for implementation expected in August 2006. Cost modelling was undertaken by AQIS Finance to establish fees that would recover the costs specific to delivering services for each commodity as well as taking into account the deficit that needed to be recovered over a two year period. See Tables 2 & 3.

The PEPQ Program's fees and charges are structured on a fee for service basis under the following categories:

- Care and maintenance based on space (square metre) occupied
- Diagnostic testing (set cost per test)
- Fee for Service (time based)

The range of fee rates applicable to the provision of program services is outlined below:

a) Care and maintenance

The PEPQ Program is proposing to apply an increase of \$1.43 per square metre to the 'normal rate' and 'subsidised high risk rate' for care and maintenance charges. A 'normal rate' charge of \$4.00 per square metre and a 'subsidised high risk rate' of \$2.65 per square metre will recover cost of services and recover the PEPQ Program's accumulated deficit over two years.

The revised care and maintenance charge has been determined on the basis of:

- The projected expenditure budget,
- projected activity levels (ie expected space that will be utilised by imports) for 2006/07 and 2007/08, and
- Total space occupied by imports in 2004/05.

b) Diagnostic testing

The PEPQ Program is proposing to apply an increase of \$20.00 per diagnostic test. This will recover cost of services and recover the PEPQ Program's accumulated deficit over two years.

The revised diagnostic charges have been determined on the basis of:

- The projected expenditure budget,
- Projected activity levels (ie number of tests to be performed) for 2006/07 and 2007/08, and
- Total number of tests performed in 2004/05.

c) Fee for Service

The current FFS charges for the PEPQ Program will remain unchanged as these fees are still appropriate and reflect the cost of providing the time-based activities (eg re-potting, grafting) conducted at the plant quarantine facilities.

The proposed fee structure will generate the revenue required to meet the projected expenditure for 2006/07, recover the accumulated deficit and generate a surplus by 30 June 2008. The new fee structure is consistent with the Government's cost recovery policy.

In addition to the proposed increase to the care and maintenance and diagnostic charges; it is also proposed that the *Quarantine Service Fees Determinations 2005* be amended to

exempt *Prunus* spp. (stonefruit) plants nominated for export to New Zealand from benefiting from the Australian government appropriation. The Australian government appropriation is applied specifically to provide a disincentive to smuggle high risk plant genetic material into Australia. The reduced fee should benefit Australian industry by only applying to genetic material that will remain in Australia.

In November 2001, the New Zealand Ministry of Agriculture and Forestry (NZ MAF) requested formal discussions with AQIS regarding the possibility of accrediting AQIS plant quarantine facilities for the purpose of holding propagation material intended for re-export to New Zealand. In response AQIS advised that a bilateral quarantine agreement would be entered into to enable *Prunus* spp. for export to New Zealand to undergo post entry quarantine in Australia. AQIS also advised NZ MAF that the agreement would be subject to agreement on costing, availability of space and NZ Standards for disease screening and testing.

In response NZ MAF has completed a review of their requirements for Prunus, completed an evaluation of the AQIS post entry quarantine facilities, and provided a schedule of tests that would be required to be conducted for the propagation material to meet NZ import health standards.

It is proposed that the 'subsidised high risk rate' for care and maintenance (currently \$1.23 per square metre) that applies to *Prunus* spp. not be applied to plant material intended for direct export to New Zealand, and that the 'normal rate' (full cost fee) for care and maintenance (currently \$2.57 per square metre) be applied.

There are no provisions (exemptions) under the *Quarantine Service Fees Determinations 2005* that would allow the 'normal rate' care and maintenance charge that applies to plants that remain in quarantine for three months or less (\$2.57) to be charged for *Prunus* spp. that are identified as for export to New Zealand.

An amendment to the *Quarantine Service Fees Determinations 2005* would be required to place Prunus species (or other 'high risk' category plants that may be accredited by MAF in future) for export to New Zealand in the 'normal rate' full cost fee category. Note that the fees outlined above are based on current Fees Determination and would have to increase as per the proposed fee structure in Table 1.

Based on previous and projected activity levels there will be limited 'free' space available in the AQIS facilities for prunus material for re-export to New Zealand. Preliminary estimates for 2006/07 indicate that there would only be space available for approximately 20 cultivars for export to New Zealand. This equates to 13 square metres initially, increasing to 28 square metres after four months (approximately) with the introduction of indicator plants. The anticipated revenue generated from these imports is between \$10,000 to \$18,000. This revenue has not been included in the revenue estimates provided elsewhere in this document as it is of a 'minor' amount and will have little impact on the overall financial position of the PEPQ Program. It is also recognised that the revenue will not be generated if there is no space available at the AQIS facility for the plant material.

Table 1. Current and proposed fee structure

SUB-CATEGORY	DESCRIPTION	UNIT	CURRENT FEE (\$)	PROPOSED FEE (\$)	QUARANTINE FEES DETERMINATION Required action
Care / maintenance	M ² per day – normal rate	M ²	2.57	4.00	Amend (Item 33 (c))
Care / maintenance	M ² per day – subsidised high risk rate	M ²	1.23	2.65	Amend (Items 33 (a) (b))
FFS	Inspection/FFS – In office	¼ hour	35.50	35.50	No change (Item 8)
Testing	Microscopic examination	Test	60.00	80.00	Amend (Item 34 (a))
Testing	Fungal Identification	Test	100.00	120.00	Amend (Item 34 (c))
Testing	Bacterial Identification	Test	150.00	170.00	Amend (Item 34 (d))
Testing	Nematode Identification	Test	125.00	145.00	Amend (Item 34 (e))
Testing	Serological (1 test)	Test	100.00	120.00	Amend (Item 34 (f))
Testing	Serological (2 – 5 tests)	Test	90.00	110.00	Amend (Item 34 (f))
Testing	Serological (6 – 10 tests)	Test	75.00	95.00	Amend (Item 34 (f))
Testing	Serological (11+ tests)	Test	60.00	80.00	Amend (Item 34 (f))
Testing	Molecular	Test	145.00	165.00	Amend (Item 34 (g))
Testing	Electron Microscopy	Test	100.00	120.00	Amend (Item 34 (b))
Testing	Herbaceous Indicator	Test	70.00	90.00	Amend (Item 34 (j))
Testing	Woody Indicator	Test	150.00	170.00	Amend (Item 34 (k))
Testing	Shoot tip culture	Test	1,250.00	1,270.00	Amend (Item 34 (l))
Testing	Double Stranded RNA Analysis	Test	745.00	765.00	Amend (Item 34 (h))
Intensive Care	Virus Elimination	Test	2,500.00	2,520.00	Amend (Item 34 (m))
Testing	Other biochemical testing	Test	150.00	170.00	Amend (Item 34 (i))
Testing	Testing at non-AQIS facility	Test	amount charged per test by the facility	amount charged per test by the facility	No change (Item 35 (a))
Testing	Testing at non-AQIS facility - handling	Test	10.00 plus any amount required for postage	10.00 plus any amount required for postage	No change (Items 35 (b) (c))

How should costs be calculated and allocated?

The AQIS Fees and Charges Policy states that programs should endeavour to fully recover their costs in the year they are incurred. Full cost recovery in one year is however weighed against the necessity for price stability and, in practice, it is unlikely to be possible to achieve full cost recovery in one year. Fees and charges are also set at a level to avoid sustained over or under recoveries in future years. Cost recovery outcomes are fully detailed in the AQIS Report to Clients, which is produced annually and is available on the AQIS website.

The AQIS Report to Clients provides the following information to clients:

- Current year results
- Accumulated results taking into consideration prior years; and
- Details of any funds held in industry liability accounts.

The charge for the routine care and maintenance of plants is calculated to recover the direct and indirect costs (or overheads) of providing post entry plant quarantine services and facilities.

The 'normal rate' for care and maintenance applies to any plant, plant part, or seed that is not categorised as high risk. This fee applies to each square metre (or part thereof) of nursery floor or bench space occupied by the plants/seeds for each day they remain in quarantine. The fee incorporates all consumables and costs associated with the care and maintenance of the plants/seeds (eg electricity, water, potting medium, pots, insecticides and fertilisers, etc), but does not include specific tasks performed by AQIS officers (eg budding and grafting, re-potting, hand pollination, etc).

The 'subsidised high risk rate' for care and maintenance applies to all plants, plant parts, or seeds that are categorised as high quarantine risk. High risk plant materials are those that have the potential to carry significant exotic diseases, and therefore require a greater period of quarantine surveillance and additional diagnostic disease screening/testing. The 'subsidised high risk rate' is less than the 'normal rate' as it includes an off-set from the Government appropriation. The government appropriation is targeted at reducing the incentive to illegally import high risk plant material due to the additional quarantine costs that would apply to such material. This fee applies to each square metre (or part thereof) of nursery floor or bench space occupied by the plants/seeds for each day they remain in quarantine. The fee incorporates all costs associated with the care and maintenance of the plants/seeds (eg electricity, water, potting medium, pots, insecticides and fertilisers, etc), but does not include specific tasks performed by AQIS officers (eg budding and grafting, re-potting, hand pollination, etc).

The charge for the diagnostic analysis of plants is calculated to recover the costs incurred by the PEPQ Program to undertake and conduct the specified diagnostic test.

The Fee for Service (FFS) charge is calculated to recover the costs associated with performing time based activities such as repotting, hand pollination, grafting and budding, and the visual inspection of plants for disease symptoms.

To recover an accumulated deficit of \$286,000 and establish an Income Equalisation Reserve (IER) of 5% of budget in forward years, a single fee increase of \$1.43 per square

metre plus a \$20 per diagnostic test is proposed. A 2005/2006 to 2007/2008 PEPQ Cost Model (Tables 2 and 3) show the projection if the new fees are implemented on 1 July 2006. This projection would result in the accumulated deficit being recovered and a surplus of \$79,274 by the end of 2007/2008.

Table 2. Cost model showing projections to end of 2007/2008 with one fee increase. The cost model assumes the new fees are implemented on 1 July 2006.

PEPQ Program Results Based on Fee Review - 2005/2006 to 2007/2008		
	Budget	Program Proposed Fees with one fee increase to care and maintenance
Total Revenue	6,427,835	6,991,006
Total Expenditure	6,637,645	6,735,732
Surplus / (Deficit)	(209,810)	255,274
IER balance / (accum deficit)	(385,810)	79,274
2005/2006		
	Original Budget	Program Proposed Fees
Total Revenue	2,089,908	2,089,180
Total Expenditure	2,158,906	2,226,000
Surplus / (Deficit)	(68,999)	(136,820)
IER balance / (accum deficit)	(244,999)	(312,820)
2006/2007		
	Original Budget	Program Proposed Fees
Total Revenue	2,168,964	2,450,913
Total Expenditure	2,212,135	2,242,631
Surplus / (Deficit)	(43,171)	208,282
IER balance / (accum deficit)	(288,169)	(104,538)
2007/2008		
	Original Budget	Program Proposed Fees
Total Revenue	2,168,964	2,450,913
Total Expenditure	2,266,604	2,267,101
Surplus / (Deficit)	(97,640)	183,812
IER balance / (accum deficit)	(385,810)	79,274

Outcomes of Consultation with Stakeholders

The AQIS Business Unit has been consulted and provided cost models to the program.

The PEPQ Program's financial position has been discussed at the 5 October 2005 and 15 March 2006 meetings of the Post Entry Plant Quarantine Industry Consultative Committee (PEPICC). A paper providing details of the proposed budget strategy for the program was presented at the March 2006 meeting. The proposed budget strategy was also circulated to those Industry members that did not attend the 15 March 2006 meeting.

Industry members of PEPICC are not happy with the proposed increases but accept the need for the proposed increases to ensure that the PEPQ Program remains financially viable.

The proposal for AQIS to provide post-entry quarantine services for prunus (stone fruit) plant material intended for export to New Zealand has been a regular agenda item at PEPICC. There is support for the proposal providing material imported for release within Australia has priority.

The PEPQ program will notify its clients of the revised fees and charges through the established process by issuing an Industry Advice Notice and by updating the 'Fee and Charging Guidelines' on the internet.

I certify that this Cost Recovery Impact Statement applies the Commonwealth Cost Recovery Guidelines

Peter Yuile
Executive Director
AQIS

Date:.....



Cost Recovery Impact Statement Amendment of Fees for the Post Entry Animal Quarantine Program

Purpose of Cost Recovery Impact Statement

This proposal involves the amendment of the current fee structure for the Post Entry Animal Quarantine (PEAQ) Program. The CRIS highlights the rationale for the amendment to the fees structure. To effect these fee changes, amendments will be required to the Quarantine Service Fees Determination 2001.

Initial Policy Review

Organisational objectives

The Australian Government Department of Agriculture, Fisheries and Forestry (the Department) is responsible for a wide range of outputs including:

- Quarantine, export inspection and certification based on monitoring of food safety standards, which are essential for the maintenance of Australia's highly favourable animal and plant health status, and support Australia's position in global trade.

The role of the Department is to assist the Government to achieve its policy objectives and administer legislation in these areas by contributing to the following Outcome identified in the Department's Portfolio Budget Statements 2004-05:

- Australian agricultural, fisheries, food and forestry industries that are based on sustainable management of and access to natural resources, are more competitive, self-reliant and innovative, have increased access to markets, are protected from diseases and are underpinned by scientific advice and economic research.

The Australian Quarantine and Inspection Service (AQIS) is an Output Group of the Department. AQIS contributes to the achievement of the Department's Outcome by meeting the following Output objective:

- To protect Australia's animal, plant and human health status and maintain market access through the delivery of quarantine and export services.

AQIS provides the following performance information for the provision of effective quarantine services:

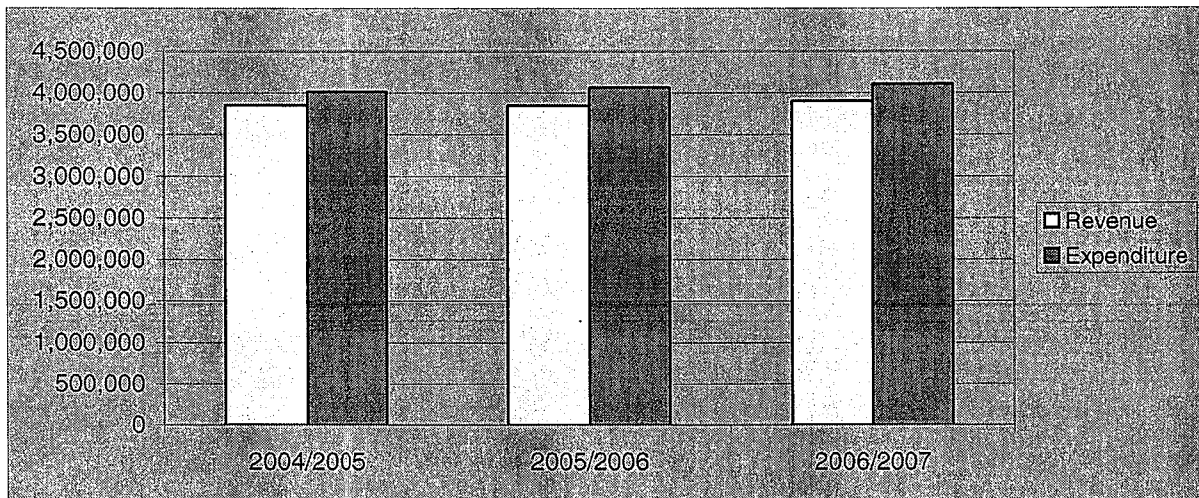
- Quarantine intervention levels at the border
- Quarantine risk effectiveness at the border
- Level of awareness of AQIS quarantine services

AQIS has a vital role in implementing and administering strict quarantine controls at Australia's borders to minimise the risk of exotic pests and disease incursions. With support from industry and

the community, AQIS responds to potential quarantine threats to maintain Australia's animal, plant and human health status and protect Australia's agricultural industries.

The Post Entry Animal Quarantine Program's primary function is to provide and maintain secure housing appropriate for each imported animal that requires post arrival quarantine. The Program currently provides quarantine station services for importers of dogs, cats, hatching eggs, live birds, bees, horses and ruminants. The length of time each animal spends in quarantine depends on the species and in some cases, on the country of origin. In 2004-05 the Program has budgeted revenue of approximately \$3.9 million, \$3.4 million of which is cost-recovered. The program also receives an anti-smuggling subsidy of \$0.295 million per year. Total expenditure is expected to slightly exceed \$4 million. The slight deficit can be offset by funds in the income equalisation reserve account. The Program has determined that there is a requirement to increase and realign fees to ensure full cost recovery in future years.

In 2002/03 and 2003/04 PEAQ experienced a budget deficit. Current projections indicate that a deficit will also occur in the 2004/05 financial year and forward year projections indicate that this trend is likely to continue (Chart 1).



Should cost recovery be introduced?

AQIS has operated in a cost recovery environment since 1993, as stipulated in a Memorandum of Understanding (MOU) between AQIS and the Department of Finance and Administration. In addition to the MOU, the Commonwealth Cost Recovery Guidelines for Information and Regulatory Agencies now provide a sound framework for cost recovery practices. The major rationale for developing and implementing cost recovery is the 'beneficiary pays' principle, which is based on the principle that those who benefit from the provision of a product should pay for it, thereby decreasing the burden on those who do not benefit.

Mechanisms, including consultation for monitoring ongoing efficiency and effectiveness

To ensure transparency in the financial status of PEAQ, cost recovery outcomes and other matters are reported monthly to the AQIS Finance and Audit Committee (FAC) and quarterly to the Quarantine and Exports Advisory Council (QEAC).

Cost recovery outcomes are also fully detailed in the *AQIS Report to Clients*, which is produced annually and is available on the AQIS website. The *AQIS Report to Clients* provides the following information to clients:

- Current year results;
- Accumulated results taking into consideration prior years; and
- Details of any funds held in industry liability accounts.

The program consults with key industry representative organisations and importer groups on matters which may affect them and their stakeholders. For the purpose of this CRIS the program has consulted with the Pet Industry Association of Australia (PIAA), the Torrens Island Avian Quarantine Station Consultative Committee (TIAQSCC) and the Australian Alpaca Association (AAA).

Future cost recovery review arrangements

The impact of the fee increases will be closely monitored on an ongoing basis and reported to QEAC, AQIS FAC and the TIAQSCC. If it becomes evident that there is likely to be a gap between revenue and expenditure of ten percent or greater due to a change in cost recovery levels, PEAQ will develop a strategy to either recoup the under recovery or return an over recovery to industry.

In addition PEAQ, in consultation with AQIS Finance, proposes to review fees on a three yearly basis. AQIS-wide cost recovery arrangements will also be reviewed in accordance with the Commonwealth's cost recovery policy schedule of reviews.

Design and Implementation

Who should pay cost recovery charges?

As mentioned previously, in accordance with the user-pays principle applicable to the current cost recovery arrangements for the provision of quarantine services, clients who receive the service are required to pay the associated costs. In the case of the Post Entry Animal Quarantine Program, the following clients pay for the Program's services:

- Individuals, businesses or transport companies importing
 - Dogs
 - Cats
 - Horses
 - Ruminants
 - Ornamental Fish
 - Pigeons
 - Fertile eggs
 - Laboratory animals (rats/mice etc)
 - Reproductive material (semen/embryos)

Should cost recovery charges be imposed using fees or levies?

These fees are imposed under the user-pays principle. In this way, the individual or business that is the recipient of the benefit of the service provided by the Program directly pays for the service rather than levying charges across an industry sector or the industry as a whole.

What are the legal requirements for the imposition of charges?

Section 86E of the *Quarantine Act 1908* provides that the Minister may determine fees in respect of specified services provided under the Act. The following types of fees are provided for under this section:

- Fees in connection with specified examinations or services carried out or provided under the Act;
- Fees in connection with the issue by quarantine officers of specified certificates under the Act;

- Fees in connection with the maintenance of the management and maintenance of animals at a quarantine station in Australia or Cocos Island or at an approved place under section 46A of the Act;
- Fees in connection with the giving of approval by a Director of Quarantine;
- Fees connected with the giving of permissions and permits under the Act; and
- Fees connected with entering into compliance agreements.

The specific fees for the Program are set out in the Quarantine Services Fees Determination 2001.

Which costs should the charges include?

AQIS seeks to meet the commitment to recover direct (such as salaries, rental and maintenance costs) and indirect costs (such as program overhead costs) associated with providing quarantine services in a manner which is fair and equitable across the various sectors of the industry. The fees will include the direct and indirect costs associated with the detention, maintenance and movement of animals undertaking a period of post arrival quarantine at an AQIS quarantine station.

There are three main items of expenditure estimated for the three years 2004/05 to 2006/07 at the stations: staffing, rent and property maintenance. Staffing costs comprise 44% of the program expenditure budget with rent comprising 12% and property maintenance costs comprising 19%. Overheads have been considered and attributed to these items where possible.

Staffing

Staffing costs are directly associated with the level of quarantine activity expected in each year. Each station manager will allocate full-time equivalent staff sufficient to deliver the service required for each animal species and taking into consideration factors such as the DAFF Certified Agreement and OH&S concerns. Overall the trend is for an increasing number of animals being imported into the country with a 7% growth in cat and dog imports over the previous three years. Staffing numbers at the stations have not varied significantly over this time despite an increasing number of animals being imported. However staffing costs have increased, mainly as a result of salary increases in accordance with the Department's Certified Agreement. The average number of cats and dogs per full-time equivalent staff member has increased from 177 to 218 per annum during that time which demonstrates efficiencies being made in the management of the animals. Staffing costs for the Program have been allocated against each category of animal based on a percentage of the number of staff required to manage that particular category.

Rent

Since the commercialisation of rents for the stations by the Department of Finance in 1999/00, lease costs for the stations have increased by \$306,000. The Program was provided with a rental subsidy which gradually decreased from \$301,000 in 99/00, to zero in the 2003/04 financial year. The Program has been required to fund the full cost of leasing the four stations since 2003/04. An exception to the increased lease costs is Torrens Island Quarantine Station. The property is leased from the South Australian Government at a rate of one dollar per year.

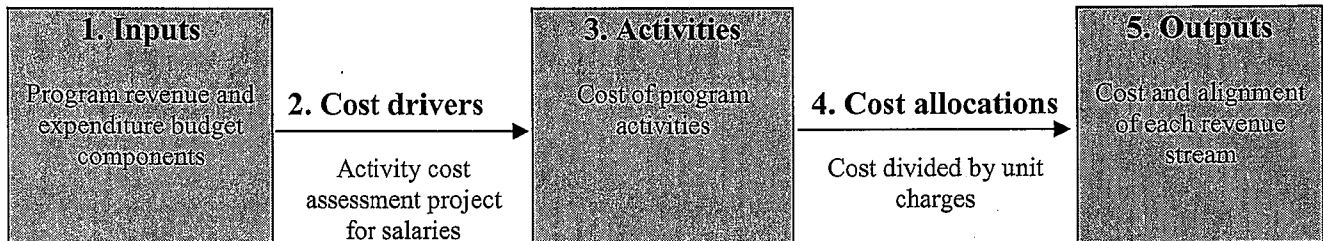
Property Maintenance

PEAQ is obliged to maintain the buildings on each station to a standard as specified in each lease. Financial resources are therefore required to meet any obligations contained within these agreements. Despite preventive maintenance programs property maintenance costs at the stations have increased over the previous three years due to a combination of the age of the stations and their regular use. Property costs have increased from \$766,000 in 2002/03 to over \$950,000 in 2004/05. Maintenance costs are particularly high at the Torrens Island Quarantine Station and the avian facility in Spotswood due to the technical nature of the facilities and high cost of associated

machinery. The high maintenance costs at Torrens Island are offset by the very low rent charged at that facility. Both facilities also attract a portion of the anti smuggling subsidy to further offset these costs.

How should costs be calculated, allocated and structured?

The PEAQ cost model utilises three forward year budgets 2004/05, 2005/06 and 2006/07 as the base, consistent with the cost alignment process being undertaken for all cost recovered programs. The cost model is comprised of five primary stages:



The cost model has been developed to measure the cost of revenue streams. The data from these revenue streams was used to determine the effectiveness of the current fee structure of PEAQ.

The outcome of the cost modelling process is provided at Appendix 1 and proposed fees are provided at Appendix 2. There are four species groups that have been considered in the modelling. Each species of animal is considered a revenue stream and the suitability of the current fee for service is assessed. An analysis of the cost modelling is outlined below:

Bees

Post entry quarantine services for bees are provided at the Eastern Creek Quarantine Station. The maintenance of bees during post arrival quarantine is contracted to the NSW Department of Primary Industries at a cost of \$23,000 per annum regardless of the number of importers using the facility.

The cost model indicates that bees will over-recover by \$40,551 over three years based on an average of 1.5 consignments per year. However bee imports are unpredictable with some years attracting no imports and other years attracting up to three imports, as was the case in 2004/05. The over-recovery for this species will allow for any shortfall in revenue if imports do not occur. As the budgeted over-recovery with this species is minor, no change to the current fee structure is proposed.

Avian

Avian imports is comprised of two distinct service fees:

1. live birds: daily fee of \$400; and
2. birds eggs: daily fee of \$420.

The cost model indicates that across three years the current fees regime will over recover for live birds by \$2,426 and under recover for birds eggs by \$47,458.

In addition a policy change for fertile eggs has reduced the number of days in quarantine per consignment by 21 days. This will allow nine consignments into the avian facility over a three-year period instead of seven consignments. The number of chargeable days per year will decrease by 20 days.

To address the under-recovery it is recommended that fees for birds eggs increase from \$420 to \$472 per day. The Torrens Island Animal Quarantine Station Consultative Committee has agreed with the proposed fee increase.

Cats and dogs

The majority of consignments (98%) imported into AQIS quarantine stations are cats and/or dogs. The majority of the costs of this Program are therefore borne by the importers of cats and dogs. Cats and dogs currently have a daily fee for service rate for the first animal and a reduced fee for additional animals in a consignment. However, the costs associated with multiple animals in a consignment are only reduced when animals share accommodation. It is therefore proposed that only animals from the same consignment that share a kennel/cage receive the reduced rate.

If the current fee structure is maintained cats and dogs will under-recover by \$614,075 over three years. It is therefore proposed to increase the daily fee by \$1.55, from \$12 to \$13.55.

Pregnant cats/dogs that give birth during quarantine

The number of whelping bitches and cats that have kittens in quarantine is very low with approximately two occurrences per year. The importer generally supervises their animal during this time and AQIS supervision is only required if this does not occur. The current revenue received for pregnant cats/dogs that give birth during quarantine aligns with the estimated costs of providing this service over the next three years.

Conveyance of cats/dogs to the quarantine station

AQIS transports cats and dogs from the airport to the quarantine station. The fee for conveyance to a quarantine station has a normal business and an after-hours rate. The fee of \$95 during normal business hours is charged per consignment and covers the time required to transport and process the animal. The current fee structure will adequately recover the costs over the next three years.

Ruminants

Currently, the first 25 ruminants in a consignment attract a fee of \$34 per day with each additional animal in excess of 25 attracting a fee of \$3 per day with all care and maintenance provided by the importer.

Since the cessation of live cattle imports from the USA and Canada in 2003 due to an outbreak of BSE, alpacas are the main importation. The complexity and cost nature of alpaca imports has resulted in imports of these species being infrequent and unpredictable. Future imports of these animals have been estimated on a best-case scenario using previous history of five consignments over three years, with an average of 300 alpacas per consignment.

If the current fee structure is maintained, ruminants will under-recover by \$22,384 over a three-year period. It is therefore proposed to increase the daily rate for the first 25 animals from \$34 to \$40 and the fee for additional ruminants by from \$3 to \$4.

Horses

Horses comprise 1% of the total number of consignments imported into quarantine stations and AQIS is currently recovering the costs of providing these services. No changes to these fees are therefore proposed.

Overtime

Overtime costs to the program are minimal as the majority of the Program's work is conducted during business hours. The current shiftwork and overtime fees stated in the Determination are complex for clients to understand and for AQIS to administer. It is proposed to standardise these fees across all quarantine programs within AQIS and to introduce a format that is clear, concise and

consistent in application. Shiftwork fees will be deleted, with the current overtime rates amended slightly. This will have minimal impact on the program.

What have been the outcomes of industry consultation?

There is full support for the fee increases from the Pet Industry Association of Australia (PIAA), the Torrens Island Avian Quarantine Station Consultative Committee (TIAQSCC). The Alpaca Association of Australia (AAA) advised that they did not agree to the level of increase due to low utilisation of this facility by their members. However AQIS maintains that the revenue that will be received from this revenue category (which includes other animal species such as cattle) aligns with the costs of providing this service to clients.

**APPENDIX 1 - Post Entry Animal Quarantine Program Fees
Model 2004/05 to 2006/07**

	Expenditure	Revenue with Current Fees	Revenue with Proposed Fees
Revenue:			
Dogs/Cats	9,197,205	8,583,130	9,451,857
Horses	1,020,538	1,027,806	1,020,538
Live Birds	509,220	511,676	521,550
Bird Eggs	776,374	728,916	787,650
Bees	62,949	103,500	75,300
Ruminants/Camelid	282,307	259,922	284,197
Overtime	26,084	19,705	19,705
Other	300,923	300,923	309,320
	12,175,600	11,535,578	12,470,116
Expenditure:			
Total	12,175,600	12,175,600	12,175,600
Surplus/(Deficit)	0	(640,022)	294,516
IER Balance/ (Deficit)	35,000	(605,022)	329,516
Maximum IER	401,650	401,650	401,650

“IER” refers to the Income Equalisation Reserve account. The principle purpose of this account is to enable AQIS and industry to overcome unforeseen downturns in the recovery of expenditure with industry over a period of years. It is designed to reduce the need for constant changes to fees/charging levels to accommodate unforeseen and often uncontrollable circumstances. The maximum allowable in this account is equal to ten percent of the overall expenditure for the program.

1/2(15min unit c'tinuous)		
Overtime - double time and a half - non-continuous	\$222.00	\$192.00
Vet OT- time and a half - continuous 1/4 hour	\$10.60	\$10.00
Vet OT- time and a half -non continuous min.	\$183.00	\$120.00
Vet OT- double time -continuous 1/4 hour	\$14.10	\$13.00
Vet OT- double time -non continuous minimum	\$226.00	\$156.00
Vet OT- double time and a half - continuous 1/4 hr	\$18.00	\$16.00
Vet OT- double time and a half - non cont. min	\$282.00	\$192.00