

Regulatory Impact Statement

Proposed revised fees made pursuant to the

*Meat Industry Act 1993*

February 2016

This Regulatory Impact Statement has been prepared to fulfil the requirements of the *Subordinate Legislation Act 1994* and to facilitate public consultation on the proposed revisions to PrimeSafe licence fees for the meat, seafood and poultry industries including meat transport vehicle licences.

The Victorian Government seeks to ensure that proposed regulations are well‐targeted, effective and appropriate, and impose the lowest possible burden on Victorian businesses, individuals and the community. A key function of the Regulatory Impact Statement process is to provide members of the public with the opportunity to comment on proposed legislative instruments before they are finalised. Such public input can provide valuable information and perspectives, and thus improve the overall quality of the legislative instruments. A copy of the proposed fee schedules is provided as an attachment to this Regulatory Impact Statement.

Public comments and submissions are invited on the proposed fee schedules and the information provided in this Regulatory Impact Statement.

All submissions must be in writing and be received no later than 5.00pm on Thursday 24 March 2016.

Email: [risfeedback@primesafe.vic.gov.au](mailto:risfeedback@primesafe.vic.gov.au)

Post: PrimeSafe, PO Box 2057, South Melbourne, VIC, 3205.

All submissions will be treated as public documents unless confidentiality is requested.

This Regulatory Impact Statement was prepared for PrimeSafe by Jaguar Consulting Pty Ltd.

# Summary

This Regulatory Impact Statement (RIS) discusses a limited range of proposed changes to the fees currently charged by PrimeSafe to fund its regulatory role of assuring the safety of meat, seafood and poultry in Victoria. Section 45(2) of the *Meat Industry Act 1993* authorises PrimeSafe to “*fix and charge fees for the carrying out of its functions or the provision of its services or the services of inspectors*”, while the *Seafood Industry Act 2003* provides a similar authorisation. A RIS is being prepared in respect of these fees for the first time, since 2011 amendments to the *Subordinate Legislation Act 1994* have brought a range of legislative instruments within the scope of the RIS process that were previously excluded.

Section 63 of the *Meat Industry Act 1993* requires PrimeSafe to be self-funding and authorises the Minister to direct, if necessary, that the fees it charges be increased to a level sufficient to ensure that this outcome is achieved. PrimeSafe’s fees have thus consistently been set at full cost recovery levels since its inception as a regulatory authority. PrimeSafe charges two types of fees: annual licence fees, payable by all regulated entities and licence application fees, which are “one off” fees, paid on lodgement of an initial application for licensing. The licence application fee is set at 50% of the annual licence fee and has been set at this level as the process requirements followed prior to initial licence issue impose significant costs on PrimeSafe, particularly via the need to conduct a pre-licensing inspection of all premises.

PrimeSafe’s budget for 2016-17 has been set at $2.5 million, representing a rise of $0.5 million, or 25% on its 2014-15 budget. This increase in regulatory costs reflects a broadening of its functions in response to the most recent Ministerial Statement of Expectations. This Statement highlights a requirement that PrimeSafe should assist businesses to understand their obligations under the relevant regulatory instruments, in order to facilitate voluntary compliance. In addition, PrimeSafe is asked to improve communication and provide a higher level of assistance to businesses in understanding their regulatory requirements. A specific requirement in this regard is to establish a pre-application advice service for businesses intending to enter the industry and thus become licensed by PrimeSafe. Where specific advice is provided, a new fee of $250 per hour (ex GST) is proposed to be implemented.

In addition to increasing total fee revenue by an amount sufficient to defray these increased regulatory costs, some rebalancing of the fees is also proposed. No major review of licence categories and fees has been undertaken since PrimeSafe was established in 2003, despite significant changes in both the industries it regulates and the way in which it acts to ensure regulatory compliance.

PrimeSafe’s fees have historically been set having regard to both cost recovery and “beneficiary pays” considerations. The result of the inclusion of the latter concept is that larger businesses – which receive more substantial benefits from the existence of a high-quality regulatory regime (e.g. through greater market access) have generally paid significantly higher fees, relative to the regulatory costs that they impose, than have smaller businesses. As a result, cost recovery levels for different licence types have differed widely, in large part because some sectors are dominated by larger businesses while others comprise mostly smaller concerns. PrimeSafe’s Board believes that it is now necessary to achieve an improved matching between regulatory costs and fees across different groups of licensees.

The third element of the proposed fee changes is a streamlining of the output-based fee categories established within the major licence types of abattoirs, further meat processing facilities and poultry processing facilities. This proposed change responds to the restructuring that has occurred within the meat industry since the current licence categories and fees were established in 1993 and the consequent fact that some of the current licence categories contain either no licensees or a very small number of licensees.

Four options for the future PrimeSafe fee structure have been considered. All would necessarily increase total revenue to a level sufficient to meet budgeted future regulatory costs. However, they differ in terms of their approach to the objective of rebalancing fees to achieve greater equity across licence categories. The four options are:

* Option 1 which would retain the existing fee structure, simply adopting a 25% increase in all fees in order to ensure that full cost recovery is maintained in light of the larger 2016-17 budget;
* Option 2 which would make limited changes to the existing fee structure, increasing cost recovery in key areas in which it is particularly low at present and revising output related fee categories;
* Option 3 which would ensure a close correlation between regulatory costs and fee revenues is incurred at the level of individual licence types; and

* Option 4 which is similar to Option 2 but also involves adopting a more risk-based approach to regulatory inspections, with consequent cost reductions.

Option 2 is the preferred option. The Board believes that it is necessary to move to better balance regulatory costs and revenues at the level of individual licence types. Unlike Option 1, Option 2 makes significant progress in this direction. PrimeSafe believes that further moves toward balancing costs and revenues for individual licence types should be taken in the medium term. However, three factors militate against moving immediately toward this outcome as proposed under Options 3 and 4. These are:

* The substantial immediate fee increases that would be faced by some groups of licensees, particularly in the small business sector;
* The fact that the cost data currently available to PrimeSafe is insufficiently detailed and of inadequate quality to provide a high level of assurance that the resulting fees would be appropriate; and
* The need to consider and potentially implement over time moves toward the adoption of risk-based approaches to inspections and potentially some other regulatory functions, as envisaged in the Ministerial Statement of Expectations, and the consequent inappropriateness of adopting major fee changes in advance of the significant changes to cost structures that may result.

Table 1 sets out the proposed fees to be adopted under Option 2 and compares these with the current fees. As shown below, the key changes that would occur under this option are:

* Creation of a new fee of $250 per hour (ex GST) for the provision of business-specific advice to prospective licensees;
* Provision of an additional $0.5 million in revenue to PrimeSafe, which will fund additional surveillance, advice and information activities;
* Partial consolidation of the throughput categories that determine licence fees payable for abattoirs, poultry processing facilities and further meat processing facilities;
* Real fee increases largely in the range of 15% to 40% for many categories of licence in the abattoir, poultry and further meat processing sectors, with larger increases in some isolated cases; and
* Creation of two new licence categories for larger meat transport vehicles and one new licence category for retail butcher shops that manufacture smallgoods, with significant fee increases for licensees moving into these categories.

Fees in other meat and seafood processing licence categories would not be increased in real terms. Rather, they would be indexed using the rate specified by the Treasurer. In 2015-16, this rate was 2.75%, however, the rate for 2016-17 is yet to be announced.

**Table 1: Summary of current and proposed licence fees**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Abattoir (Domestic)** | **Current** | **Proposed** | | |
| **Annual Throughput** | **2015-16**  **$** | **Annual Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 8,000 units | 1,356 | Up to 15,000 units | 1,864 | 37.5% |
| 8,001 to 15,000 units | 1,814 | 2.75% |
| 15,001 to 100,000 units | 3,241 | 15,001 to 200,000 units | 3,330 | 2.75% |
| 100,001 to 200,000 units | 4,866 | -31.6% |
| 200,001 to 400,000 units | 6,486 | 200,001 to 500,000 units | 6,664 | 2.75% / -17.8%[[1]](#footnote-1) |
| Over 400,000 units | 8,107 | Over 500,000 units | 9,728[[2]](#footnote-2) | 20.0% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Abattoir (Export)** | **Current** | **Proposed** | | |
| **Annual Throughput** | **2015-16**  **$** | **Annual Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 8,000 units | 1,356 | Up to 15,000 units | 1,850 | 36.4% |
| 8,001 to 15,000 units | 1,566 | 18.1% |
| 15,001 to 100,000 units | 1,566 | 15,001 to 200,000 units | 1,850 | 18.1% |
| 100,001 to 200,000 units | 1,566 | 18.1% |
| 200,001 to 400,000 units | 1,566 | 200,001 to 500,000 units | 1,850 | 18.1% |
| Over 400,000 units | 1,566 | Over 500,000 units | 1,850 | 18.1% |
| **Poultry Processing Facilities** | **Current** | **Proposed** | | |
| **Annual Throughput** | **2015-16**  **$** | **Annual Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 2,500 units | 377 | Up to 50,000 units | 1,766 | 368.4% |
| 2,501 to 50,000 units | 820 | 115.4% |
| 50,001 to 250,000 units | 1,719 | 50,001 to 500,000 units | 2,413 | 40.4% |
| 250,001 to 1,000,000 units | 2,348 | 50,001 to 500,000 units | 2,413 / 3,697[[3]](#footnote-3) | 2.75% / 57.5% |
| 1,000,001 to 2,500,000 units | 3,598 | 500,001 to 2,500,000 units | 3,967 | 2.75% |
| 2,500,001 to 5,000,000 units | 6,173 | 2,500,001 to 5,000,000 units | 6,343 | 2.75% |
| Over 5,000,000 units | 11,118 | Over 5,000,000 units | 11,424 | 2.75% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Further Meat Processing Facilities** [[4]](#footnote-4) | **Current** | **Proposed** | | |
| **Annual Throughput** | **2015-16**  **$** | **Annual Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 250 tonnes | 624 | Up to 250 tonnes | 641 | 2.75% |
| 251 to 500 tonnes | 722 | 251 to 500 tonnes | 742 | 2.75% |
| 501 to 1,500 tonnes | 1,085 | 501 to 2,500 tonnes | 1,488 | 37.1% |
| 1,501 to 2,500 tonnes | 1,448 | 2.75% |
| 2,501 to 5,000 tonnes | 1,814 | 2,501 to 5,000 tonnes | 2,235 | 23.2% |
| Over 5,001 tonnes | 2,175 | Over 5,001 tonnes | 2,719 | 25.0% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Retail Butcher Shops** | **Current** | **Proposed** | | |
| **Activity** | **2015-16**  **$** | **Activity** | **2016-17**  **$** | **Increase**  **%** |
| Meat and/or poultry only | 266 | Meat and/or poultry only | 320 | 20.3% |
| Meat/poultry and smallgoods | 266 | Meat/poultry and smallgoods | 320 | 20.3% |
|  |  | **Activity** | **2017-18**  **$** | **Increase**  **%** |
|  |  | Meat/poultry and smallgoods | 650 | 144.4%[[5]](#footnote-5) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Other Meat** | **Current** | **Proposed \*** | | |
|  | **2015-16**  **$** |  | **2016-17**  **$** | **Increase**  **%** |
| Prime tallow processing | 3,053 | Prime tallow processing | TBD | TBD |
| Game meat | 821 | Game meat | TBD | TBD |
| Inedible rendering | 2,287 | Inedible rendering | TBD | TBD |
| Pet meat processing plant | 2,175 | Pet meat processing plant | TBD | TBD |
| Pet food establishments |  | Pet food establishments | TBD | TBD |
| Up to 50 tonnes | 266 | Up to 50 tonnes | TBD | TBD |
| 51 to 150 tonnes | 902 | 51 to 150 tonnes | TBD | TBD |
| Over 150 tonnes | 1,814 | Over 150 tonnes | TBD | TBD |

Note:

* \* For all fees listed as ‘To Be Determined’ (TBD), the existing fees payable by these licensees will be indexed from 1 July 2017 in line with the rate published by the Treasurer.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Meat Transport Vehicles** | **Current** | **Proposed** | | |
| **Vehicle Type** | **2015-16**  **$** | **Vehicle Type** | **2016-17**  **$** | **Increase**  **%** |
| All vehicle types | 114 | Commercial van | 128 | 12.3% |
|  |  | Truck/Trailer under 4.5 tonnes GVM | 195 | 71.1% |
|  |  | Truck/Trailer over 4.5 tonnes GVM | 247 | 116.7% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Pre-Licensing Advice** | **Current** | **Proposed** | | |
|  | **2015-16**  **$** |  | **2016-17**  **$** | **Increase**  **%** |
| Not available | Not applicable | All licence types | 250 per hour (ex GST) | Not applicable |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Seafood Retailer** | **Current** | **Proposed \*** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Not applicable | 615 | Not applicable | TBD | TBD |

Note:

* \* For all fees listed as ‘To Be Determined’ (TBD), the existing fees payable by these licensees will be indexed from 1 July 2017 in line with the rate published by the Treasurer.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Seafood Wholesaler Category A #** | **Current** | **Proposed \*** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 200 tonnes | 820 | Up to 200 tonnes | TBD | TBD |
| 201 to 400 tonnes | 1,232 | 201 to 400 tonnes | TBD | TBD |
| 401 to 1,000 tonnes | 2,868 | 401 to 1,000 tonnes | TBD | TBD |
| 1,001 to 2,000 tonnes | 6,151 | 1,001 to 2,000 tonnes | TBD | TBD |
| Over 2,000 tonnes | 8,199 | Over 2,000 tonnes | TBD | TBD |
| **Seafood Wholesaler Category B #** | **Current** | **Proposed \*** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 75 tonnes | 820 | Up to 75 tonnes | TBD | TBD |
| 76 to 150 tonnes | 1,232 | 76 to 150 tonnes | TBD | TBD |
| 151 to 350 tonnes | 2,868 | 151 to 350 tonnes | TBD | TBD |
| 351 to 700 tonnes | 6,151 | 351 to 700 tonnes | TBD | TBD |
| Over 700 tonnes | 8,199 | Over 700 tonnes | TBD | TBD |

Note:

* \* For all fees listed as ‘To Be Determined’ (TBD), the existing fees payable by these licensees will be indexed from 1 July 2017 in line with the rate published by the Treasurer.
* # Seafood processing facilities supervised by the Department of Agriculture (DA) where the DA accepts responsibility for all products placed on the domestic market will be required to pay a licence fee in accordance with the fee schedule up to a maximum fee of $1,850. This fee cap would replace the existing fee cap of $1,566 applicable to these facilities.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Seafood Processor Category A #** | **Current** | **Proposed \*** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 150 tonnes | 820 | Up to 150 tonnes | TBD | TBD |
| 151 to 300 tonnes | 1,232 | 151 to 300 tonnes | TBD | TBD |
| 301 to 750 tonnes | 2,868 | 301 to 750 tonnes | TBD | TBD |
| 751 to 1,500 tonnes | 6,151 | 751 to 1,500 tonnes | TBD | TBD |
| Over 1,500 tonnes | 8,199 | Over 1,500 tonnes | TBD | TBD |
| **Seafood Processor Category B #** | **Current** | **Proposed \*** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 50 tonnes | 820 | Up to 50 tonnes | TBD | TBD |
| 51 to 100 tonnes | 1,232 | 51 to 100 tonnes | TBD | TBD |
| 101 to 250 tonnes | 2,868 | 101 to 250 tonnes | TBD | TBD |
| 251 to 500 tonnes | 6,151 | 251 to 500 tonnes | TBD | TBD |
| Over 500 tonnes | 8,199 | Over 500 tonnes | TBD | TBD |

Note:

* \* For all fees listed as ‘To Be Determined’ (TBD), the existing fees payable by these licensees will be indexed from 1 July 2017 in line with the rate published by the Treasurer.
* # Seafood processing facilities supervised by the Department of Agriculture (DA) where the DA accepts responsibility for all products placed on the domestic market will be required to pay a licence fee in accordance with the fee schedule up to a maximum fee of $1,850.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Seafood Further Processor Category A #** | **Current** | **Proposed \*** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 50 tonnes | 820 | Up to 50 tonnes | TBD | TBD |
| 51 to 100 tonnes | 1,232 | 51 to 100 tonnes | TBD | TBD |
| 101 to 250 tonnes | 2,868 | 101 to 250 tonnes | TBD | TBD |
| 251 to 500 tonnes | 6,151 | 251 to 500 tonnes | TBD | TBD |
| Over 500 tonnes | 8,199 | Over 500 tonnes | TBD | TBD |
| **Seafood Further Processor Category B #** | **Current** | **Proposed \*** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 25 tonnes | 820 | Up to 25 tonnes | TBD | TBD |
| 26 to 50 tonnes | 1,232 | 26 to 50 tonnes | TBD | TBD |
| 51 to 100 tonnes | 2,868 | 51 to 100 tonnes | TBD | TBD |
| 101 to 200 tonnes | 6,151 | 101 to 200 tonnes | TBD | TBD |
| Over 200 tonnes | 8,199 | Over 200 tonnes | TBD | TBD |
| Note:   * \* For all fees listed as ‘To Be Determined’ (TBD), the existing fees payable by these licensees will be indexed from 1 July 2017 in line with the rate published by the Treasurer. * # Seafood processing facilities supervised by the Department of Agriculture (DA) where the DA accepts responsibility for all products placed on the domestic market will be required to pay a licence fee in accordance with the fee schedule up to a maximum fee of $1,850. | | | | |

PrimeSafe will also undertake significant work over the next two to three years aimed at improving its understanding of the costs incurred by it in undertaking a range of specific regulatory activities in relation to a range of different licence categories. This will be done in the context of broader reviews of its inspection and surveillance programs and will form an important element of these reviews. As a result, there is likely to be a significant reorientation of PrimeSafe’s inspection activities driven in large part by an increase in the use of risk assessments as the basis for directing this activity.

A more disaggregated analysis of the activities which make up the “CEO/Administration” cost category will be undertaken, to provide data to support consideration of different allocations of elements of this cost category, in preference to the current approach which simply distributes this cost equally across all licensees. This reflects the view that, while there are significant fixed costs associated with the regulatory function, not all items currently included in the CEO/Administration category are likely to fall within this category. This process will be facilitated by the adoption of a new integrated licensee database, which is currently being sourced.

Given the significant changes to PrimeSafe’s operations likely to arise as a result of the above-mentioned reviews, as well as the need to consider the impact of the fee changes currently proposed, PrimeSafe will undertake a substantive reconsideration of its fee structure within three years. This will occur in the context of broader reviews of PrimeSafe’s inspection and enforcement activities, with the reviews incorporating substantial stakeholder engagement. Significant changes to inspection practices are considered likely, as are consequent changes to the fee structure.

**Stakeholder questions**

Stakeholders are invited to provide any relevant feedback on the proposed fees and/or the issues raised in this RIS. PrimeSafe particularly welcomes responses to the following key questions:

1. Do you believe that the proposed fee structure is appropriate, having regard to the need to generate additional revenue to support PrimeSafe’s expanded functions and the need to minimise cross-subsidies between groups of licensees?
2. If not, which alternative option to you believe is superior, and why?  Are there any fee options that have not been considered in this RIS that you believe should be considered?
3. Do you support PrimeSafe’s proposal to move to eliminate the remaining cross-subsidies implicit in the fee structure in the medium term, following a review of its inspection program and development of improved cost allocation data?

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# Introduction

This Regulatory Impact Statement (RIS) discusses a limited range of proposed changes to the fees currently charged by PrimeSafe in connection with the carrying out of its functions in respect of the assurance of the safety of meat, seafood and poultry in Victoria.

PrimeSafe was established on 1 July 2003 under the Seafood Safety Act 2003and the Meat Industry Act 1993. It took over the functions of the*former Victorian Meat Authority with respect to food safety in relation to red meat* and poultry, as well as taking responsibility for seafood safety. PrimeSafe is also responsible for the regulatory management of pet food.

The functions of PrimeSafe are prescribed under Section 44 of the Meat Industry Act 1993 and include responsibility for standards in respect of meat, poultry and game produced for consumption and sale within Victoria, standards for the construction and hygiene of plant and equipment involved in meat processing, ensuring that appropriately qualified persons are authorised as inspectors, licensing of meat processing facilities, approving quality assurance programs, protecting public health and carrying out the functions conferred upon it by the Seafood Safety Act 2003.

Section 45(2) of the *Meat Industry Act 1993* authorises PrimeSafe to “*fix and charge fees for the carrying out of its functions or the provision of its services or the services of inspectors*”[[6]](#footnote-6). The *Meat Industry Act 1993* does not specify the processes by which the relevant fees are to be established. However, as a result of amendments to the *Subordinate Legislation Act 1994* made in 2011[[7]](#footnote-7), the setting of these fees (including any modifications to pre-existing fees) are now subject to the RIS process.

# Background

The fees set by PrimeSafe under the authority of the *Meat Industry Act 1993* (the Act) constitute a one-off licence application fee, payable on initial application to become licensed, and an annual licence fee, payable by all licensees. Licence fees vary by licence type and within some licence types, vary according to the output level of the business. Licence application fees are set at 50% of the annual licence fee payable. Licence fees are paid by all entities regulated by PrimeSafe.

The fees have consistently been set at levels that ensure that total revenue fully recovers the regulatory costs incurred by PrimeSafe. This reflects the fact that Section 63 of the Act requires PrimeSafe to be self-funding[[8]](#footnote-8), as well as the fact that the Department of Treasury and Finance Cost Recovery Guidelines embody a general presumption in favour of regulatory fees being set at levels that recover the costs incurred by the regulator.

Full cost recovery based fee setting is economically efficient, in that it ensures that the full costs of the products of an industry are reflected in their prices, thus avoiding price-based distortions to consumption and production decisions. It is also equitable, in that it avoids the need for taxpayers generally to subsidise the regulation of individual industries. These principles also imply that fees and costs should generally be closely aligned for particular groups of regulated entities – for example, for holders of different types of licences. This avoids cross-subsidies between groups that are widely considered to be unfair and which also tend to distort consumer decisions by affecting the relative prices of different goods. However, practical considerations such as the need to avoid undue complexity in fee setting require some departure from this principle, while other policy objectives, including ensuring that fees do not create disincentives to entry to the industry by exceeding the capacity to pay of small processors, may also need to be weighed in considering this issue.

Fees set by PrimeSafe are not subject to the provisions of the *Monetary Units Act 2004* and are therefore not automatically updated in line with changes in the Consumer Price Index. However, the PrimeSafe Board typically adjusts the fees annually in line with the percentage rate specified by the Treasurer pursuant to Section 5 of the *Monetary Units Act 2004*. The proposed changes to the existing fees, which are the subject of this RIS, include indexation of all fees in accordance with this process. However, four substantive changes are also proposed. These are:

* Introduction of a new fee of $250 per hour (ex GST) for the provision of detailed, business-specific advice to prospective licensees;
* An increase in total fee revenue of 25% to fund an increased range of regulatory activities to be undertaken by PrimeSafe;
* A rebalancing of fees to improve the degree of alignment between fee revenue and regulatory costs at the level of individual licence types; and
* A streamlining of output-based fee categories for the major licence types of abattoirs, further meat processing facilities and poultry processing facilities.

# Nature and extent of the problem

## **Overview**

The problem required to be addressed through revisions to the existing PrimeSafe fee structure is essentially threefold. First, the cost of fulfilling PrimeSafe’s regulatory role is expected to increase significantly in 2016-17 and thereafter, largely as a result of an expansion in the range of functions it will be required to perform. Second, there is a need to rebalance the fee structure to achieve a closer correspondence between fees paid and costs incurred at the level of individual licence categories. Third, there is a need to streamline the output-based fee categories used in respect of several licence types to respond to changes in industry structure that have occurred in recent years. These issues are discussed in turn below.

## **Achieving full cost recovery in the medium-term**

Section 63 of the *Meat Industry Act 1993* requires PrimeSafe to be self-funding. This implies that any increase in the costs the organisation incurs in carrying out its regulatory functions must be recovered through increases in the fees charged to licensed entities. While PrimeSafe’s budget has been stable in recent years, it will be required to carry out a number of additional activities, commencing in 2016-17, as a result of the content of the most recent Ministerial Statement of Expectations, communicated to it on 17 December 2015. This statement highlights a requirement that PrimeSafe should help businesses to understand their obligations under the relevant regulatory instruments, in order to facilitate voluntary compliance. In addition, PrimeSafe is asked to improve communication and provide a higher level of assistance to businesses in understanding their regulatory requirements.

A specific requirement in this regard is to establish a pre-application consultation process for businesses intending to enter the industry and thus become licensed by PrimeSafe. While such advice is potentially something that could be provided by the private sector, a substantial and continuing gap in the market has been identified, with many businesses seeking advice on these issues and being prepared to pay for it, but few, if any, competent providers being available. In this context, the Minister for Agriculture has requested that PrimeSafe make such advice available directly. Given PrimeSafe’s funding model, this will necessarily occur on a fee for service basis.

Enabling these additional functions to be carried out effectively will require the allocation of additional resources to two of the three key PrimeSafe activity areas: information and support, and compliance and enforcement.

***Information and Support***

The following additional activities will be carried out from early 2016-17, pursuant to the Statement of Expectations, and fall within the information and support function:

* Provision of pre-operational support to prospective licensees;
* Development of new guidelines (i.e. PrimeNotes);
* Participation in risk assessment activities within PrimeSafe and other state and national regulatory authorities;
* Assistance with more complex general queries;
* Attendance and representation at food safety meetings and seminars at the state and national levels;
* Assistance with auditor consistency management;
* Conduct workshops and forums; and
* Assistance to registered training organisations (RTOs) and third party auditing bodies with training requirements.

***Compliance and Enforcement***

In addition, increased resources will need to be allocated to the compliance and enforcement function.

These resources will be used to:

* Provide assistance to licensees in interpreting and complying with relevant Australian and Victorian Standards; and
* Enable a more extensive program of surveillance activities to be undertaken.

The proposed increase in surveillance activities has two main components. Firstly, it is proposed to reintroduce a number of surveillance programs that were previously undertaken by PrimeSafe but which were discontinued in recent years due to the lack of sufficient resources. This includes, in particular, surveillance in the wildcatch sector and additional surveillance of animal welfare issues is proposed. The additional wildcatch surveillance has been adopted in response to the results of a 2013-14 seafood industry risk assessment, which identified increasing risks to the safety of wildcatch due to more widespread incidence of algal blooms, which contain bio-toxins that can contaminate fish and other seafood. In relation to animal welfare, while the number of complaints received is low (at five per annum over the past two years) these have been high profile cases which have garnered substantial media attention. The significant public interest in these issues led PrimeSafe to the view that additional resources should be targeted to this area to more effectively ensure that the relevant standards are being systematically met.

PrimeSafe’s actual expenditures in 2013-14 and 2014-15 were $2.0 million. However, its budgeted expenditure for 2016-17, including allowance for the costs of carrying out the additional functions identified above, is approximately 25% higher at $2.5 million. Table 5.1, below summarises PrimeSafe’s expected regulatory costs for 2016-17.

**Table 5.1: PrimeSafe cost breakdown (2016-17)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cost category** | **CEO & Administration**  **($)** | **Compliance & Enforcement**  **($)** | **Information & Support**  **($)** | **Total**  **($)** |
| Staff salaries and on-costs | 689,717 | 494,588 | 237,689 | 1,421,994 |
| Operating costs | 42,569 | 99,328 | 0 | 141,897 |
| Board costs | 75,543 | 75,543 | 30,217 | 181,304 |
| Administration | 45,048 | 45,048 | 18,019 | 108,115 |
| Communications | 12,835 | 12,835 | 5,134 | 30,804 |
| Computer costs | 34,333 | 34,333 | 13,733 | 82,400 |
| Depreciation | 35,417 | 35,417 | 14,167 | 85,000 |
| Industry and government liaison | 9,442 | 9,442 | 3,777 | 22,600 |
| Insurance | 12,917 | 12,917 | 5,167 | 31,000 |
| Legal & compliance | 44,204 | 44,204 | 17,682 | 106,090 |
| Rent & outgoings | 62,500 | 62,500 | 25,000 | 150,000 |
| Professional fees | 54,167 | 54,167 | 21,667 | 130,000 |
| External audit fees | 5,579 | 5,579 | 2,232 | 13,390 |
| Bad/doubtful debts | 417 | 417 | 167 | 1,000 |
| **Totals** | **1,124,688** | **986,318** | **394,651** | **2,505,657** |

Notes:

1. Staff salaries are based on 12 staff members, of whom five are dedicated to the CEO/administration function, five are dedicated to the compliance and enforcement function and two are dedicated to the information and support function. Salaries and overheads figures are based on the actual salaries paid to the staff members in question.
2. The operating costs have been allocated 70% to the compliance and enforcement function and 30% to the CEO/administration function. This judgement reflects the fact that motor vehicle and travel expenses predominate in this cost category and field officers are the major users of these resources.
3. The remaining cost categories have been allocated according to headcount: i.e. 5/12ths to CEO/administration, 5/12ths to compliance and enforcement and 2/12ths to information and support.

**Benchmarking PrimeSafe’s costs**

PrimeSafe’s operating costs have been broadly constant in real terms since its establishment over a decade ago. Its operating costs of $1.45 million in 2004-05[[9]](#footnote-9) are equal to $1.87 million in 2015 terms[[10]](#footnote-10). Thus, its 2014-15 operating costs of $2.0 million represents an increase of only 8.5% over the period, a very modest increase that reflects in significant part the expansion in the regulated industries that has occurred over the period and the wider range of regulatory activities that PrimeSafe has been required to undertake.

While PrimeSafe’s total regulatory costs are expected to increase by 25% in 2016-17, these costs remain proportionate, in relation to the nature and extent of the risks which it regulates and in comparison to the regulatory costs incurred by its equivalent organisations in other Australian states and territories.

The essential regulatory function performed by PrimeSafe is to minimise food borne illness in the Victorian population acquired through consumption of meat, poultry or seafood. In addition, the organisation has a role in ensuring animal welfare during the slaughter process. The risk of food borne illness is substantial, as indicated by estimates suggesting that around four million cases of food borne gastroenteritis occur annually Australia wide, equivalent to around one million cases in Victoria[[11]](#footnote-11). A 2004 estimate puts the cost of this illness at around $1.25 billion nationally, or more than $300 million in Victoria. While these estimates relate to all sources of food borne illness, meat, seafood and poultry constitute important sources of risk within this broader context. Thus, PrimeSafe’s budget of $2.5 million for 2016-17 represents less than 1% of this current cost of food borne illness. Considered alternatively, PrimeSafe’s budget of $2.5 million is equal to around $0.43 per annum for each of Victoria’s 5.8 million population.

It can also be noted that PrimeSafe currently licenses 7,156 entities (December 2015). The $2.5 million annual cost is therefore equivalent to an average regulatory cost of approximately $350 per regulated entity.

A further benchmarking of the cost of food safety regulation in Victoria can be obtained by comparing these costs with those incurred in other states and territories. This comparison is rendered complex by the different institutional arrangements in place in the various jurisdictions. Victoria appears to be unique in having a specific regulator responsible for meat, poultry and seafood. Conversely, where regulatory responsibility for different elements of food safety in Victoria is split between two independent regulators (PrimeSafe and Dairy Food Safety Victoria) as well as the Department of Health and Human Services, a single regulator (the New South Wales Food Authority) fulfils all of these functions in New South Wales. Another difference is that Victoria’s regulatory system makes substantial use of third party (i.e. non-government) auditors, unlike most other states and territories. Given these qualifications, the comparisons set out in Table 5.2 below can only be considered to be indicative in nature.

**Table 5.2: Comparison of expenditures on food safety regulators (2013-14)**

|  |  |
| --- | --- |
| **State** | **Budget** |
| Victoria (PrimeSafe & DFSV) | $7.5 million |
| New South Wales (NSW Food Authority) | $23.6 million |
| Queensland (Safe Food Queensland) | $6.5 million |
| Western Australia (Department of Health) | $2.5 million |

Sources: Annual Reports (Various)

**Nature, level and focus of PrimeSafe regulatory activity**

As shown in Table 5.1, PrimeSafe’s costs have been allocated between its three main areas of activity, respectively CEO/administration, compliance and enforcement, and information and support. The following briefly describes the main activities undertaken in each area.

***CEO/Administration***

The CEO/Administration function embraces a wide range of activities. Fundamentally, it involves setting the policy direction of the organisation, developing and approving its work program and maintaining supervision of outcomes. As an example, PrimeSafe developed a new Risk Management Policy and guidelines during 2014-15. In addition, this function includes a range of functions relating to PrimeSafe’s regulatory responsibilities that fall outside the compliance and enforcement, and information and support areas. For example, in 2014-15, PrimeSafe:

* Published advice and conducted industry forums on the management of listeria. This has enhanced consistency across the industry sectors and assisted businesses to strengthen their quality assurance programs to keep this serious risk to public health out of their facilities, reducing risks and enhancing consumer confidence; and
* PrimeSafe also published a guide for the production of dry aged beef, in consultation from industry specialists, health authorities and food safety regulators across Australia. This highlighted the inherent food safety risks of this method of production and provided information to assist processors to achieve safe outcomes.

***Compliance and enforcement***

The major activity falling under this heading is that of inspections of licensed premises. PrimeSafe carried out a total of 1,082 inspections during 2013-14. This is equal to approximately one inspection per nine licensees. Inspections are carried out in a number of different contexts and for differing purposes. Table 5.3 provides a detailed breakdown of PrimeSafe inspection activity for 2013-14. The four largest categories of inspection collectively account for almost 80% of this total. They are as follows:

* Sulphur dioxide: 424, or 39.2% of inspections were undertaken in retail butcher shops to check for evidence of the use of sulphur dioxide in meat other than sausage meat. SO2 is regarded as a contaminant in meet, with no allowable level being set in the Australia New Zealand Food Standards Code. It is of concern to consumers both because a proportion of the population is sensitive to SO2 and manifests negative health consequences if exposed to it[[12]](#footnote-12) and because SO2 can be used to restore the appearance of freshness to meat, thus potentially deceiving the consumer. These inspections are conducted randomly, with about 40% of licensed retail butcher shops being inspected for SO2 annually. Compliance levels are now high, with only one use of SO2 being detected in 2014-15;
* Pre-licensing: This is the next largest category accounting for 172 inspections or 15.9% of the total. As the name indicates, PrimeSafe is required to inspect all new licensees before they can be licensed and commence operations. The purpose of this inspection is to ensure that their facility and processes are able to systematically process meat (including poultry, seafood and game) that is safe for human consumption.
* Complaints: The third largest category accounting for 144 inspections or 13.3% of the total is that of inspections carried out in response to consumer complaints. 100 of these inspections relate to retail butcher shops and seafood processing facilities, reflecting the fact that these are the primary points of interaction between the industry and public.
* Animal welfare: 112 animal welfare inspections or 10.4% of the total are conducted annually. PrimeSafe conducts unannounced inspections of all licensed abattoirs, pet meat processing facilities handling live animals and poultry processing facilities on a biannual basis to ensure compliance with the Australian Standards for animal welfare.

**Table 5.3: Breakdown of PrimeSafe inspection activity (2013-14)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Inspection/Audits (2013/14)** | **Pre-Licence** | **Complaints** | **Critical CAR** | **Animal Welfare** | **Licence Cancellation** | **SO2** | **Repeat CAR** | **Audits** | **Tier 1** | **Total** | **% of Inspections Conducted** |
| Abattoir (Export) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0% |
| Abattoir (Domestic) | 1 | 4 | 1 | 44 | 1 | 0 | 2 | 0 | 10 | 63 | 5.8% |
| Poultry Processing | 2 | 4 | 1 | 42 | 2 | 0 | 1 | 0 | 0 | 52 | 4.8% |
| Further Meat Processing | 20 | 20 | 6 | 0 | 10 | 20 | 12 | 0 | 0 | 88 | 8.1% |
| Retail Butcher Shop | 120 | 80 | 25 | 0 | 26 | 400 | 20 | 0 | 0 | 671 | 62.0% |
| Prime Tallow | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0% |
| Game Meat | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0% |
| Inedible Rendering | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0% |
| Pet Meat Processing | 1 | 4 | 1 | 26 | 1 | 0 | 1 | 0 | 0 | 34 | 3.1% |
| Pet Food Establishment | 6 | 2 | 1 | 0 | 6 | 0 | 4 | 0 | 0 | 19 | 1.8% |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Meat Transport Vehicle (see note) | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Seafood Wholesaler | 4 | 4 | 1 | 0 | 4 | 0 | 1 | 0 | 0 | 14 | 1.3% |
| Seafood Processor | 4 | 4 | 1 | 0 | 4 | 0 | 1 | 0 | 0 | 14 | 1.3% |
| Seafood Further Processor | 2 | 2 | 1 | 0 | 4 | 0 | 1 | 0 | 0 | 10 | 0.9% |
| Total | 10 | 10 | 3 | 0 | 12 | 0 | 3 | 0 | 0 | 38 | 3.5% |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Seafood Retailer | 4 | 20 | 4 | 0 | 4 | 4 | 8 | 0 | 0 | 44 | 4.1% |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Wildcatch | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 45 | 0 | 51 | 4.7% |
| Aquaculture | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 20 | 22 | 2.0% |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total | 172 | 144 | 42 | 112 | 62 | 424 | 51 | 45 | 30 | 1082 | 100.0% |
|  | 15.9% | 13.3% | 3.9% | 10.4% | 5.7% | 39.2% | 4.7% | 4.2% | 2.8% | 100.0% |  |

Source: PrimeSafe

Notes:

1. Specific inspection data in relation to meat transport vehicles is not available. However, PrimeSafe’s most recent annual report indicates that 23 complaints were received in relation to meat transport vehicles in each of 2013-14 and 2014-15. PrimeSafe’s usual response to complaints is to undertake an unannounced inspection. Thus, inspections would have been undertaken in most of these cases. A total of 19 of these 46 complaints, or 41.3% were substantiated, thus requiring follow-up action to be taken (PrimeSafe *Annual Report 2014-15*, p 17).
2. The number of complaints in relation to meat transport vehicles recorded in 2013-14 and 2014-15 represents a significant reduction in the numbers recorded in previous years, with 81 complaints having been made in 2012-13, 73 in 2011-12 and 52 in 2010-11[[13]](#footnote-13).

Inspection activity is driven by statutory requirements (pre-licensing and animal welfare), by the need to be responsive to stakeholders and address issues of potential concern raised (complaints[[14]](#footnote-14)) and by PrimeSafe’s own judgements as to key areas of risk (e.g. SO2).

***Information Provision***

PrimeSafe provides a range of information and support in response to queries from licensees. Data for July to October 2015 showed that around 50% of these queries dealt with licensing related matters, while the next most common queries related to high-risk processing (9.5%), animal welfare/slaughtering (6.6%) and construction and maintenance related matters (5.2%). As previously noted, a new fee is expected to be introduced from 2016-17 for responding to detailed and specific pre-licensing queries. However, these existing categories of more general queries will continue to be funded from general licence fee revenue, thus ensuring there is no disincentive for licensees seeking expert advice from PrimeSafe and, in turn, facilitating a high level of compliance with regulatory requirements.

## **Addressing cross-subsidies between licence categories**

PrimeSafe is, as noted above, empowered under the *Meat Industry Act 1993* to set fees independently, with very limited powers of Ministerial direction being established. A consequence of this is that fee setting has historically been undertaken in a highly consultative context, with a clear emphasis being placed on ensuring that the fees are set at the minimum levels feasible and that they are widely acceptable across the various regulated industry sectors.

While fees have necessarily been set at levels consistent with the achievement of full cost recovery in the aggregate, individual fees have not simply been set with regard to this high level full cost recovery objective. Rather, significant consideration has also been given to notions of the ability to pay of the various industry participants. In practice, this has meant that regulated entities that operate on a larger scale have paid significantly higher fees than smaller businesses, notwithstanding that the costs of regulating them may not, in all cases, be substantially higher. This weighting of ability to pay considerations is visible in two ways:

* Licence categories in which small scale processors predominate have generally had low fees set (e.g. retail butcher shops, meat inspectors, meat transport vehicles); and
* In licence categories in which small, medium and large scale processors co-exist (e.g. abattoirs and poultry processing facilities), stratified fee structures, which levy progressively larger fees on processors who operate at a larger scale, have been adopted.

As a result of this approach, operators with licence types in which larger scale entities predominate have collectively paid fees that significantly exceed the regulatory costs that they impose, while those whose licence type is dominated by smaller scale businesses have collectively paid fees that fall short of full cost recovery.

The extent of this problem of a mismatch between regulatory costs and licence fees is demonstrated in Table 5.3. The table includes estimates of the average regulatory cost per licensee incurred by PrimeSafe for each category of licence. To calculate this average cost figure, the total cost figure presented above, of $2.5 million[[15]](#footnote-15), has been broken down according by licence type. In undertaking this breakdown, the following methodology has been adopted:

* CEO/administration costs are divided by the total number of licensees to obtain a single average cost per licensee;
* The compliance and enforcement cost has been divided by the total number of inspections conducted to obtain an average cost per inspection. The number of inspections conducted within each licence type is then multiplied by this average cost to obtain the total compliance and enforcement cost for each licence type; and
* The cost of information and support is divided by the number of queries received to obtain an average cost per query. This is multiplied by the number of queries received in respect of each licence type to obtain the total information and support cost for that licence type.

The above represents the best available methodology given the nature and extent of the management information currently available to PrimeSafe. However, the results it yields are necessarily imprecise. In particular, it is clear that the cost of individual inspections varies widely, with some taking substantially longer to complete than others. In licence categories dominated by larger premises (e.g. abattoirs, poultry processing facilities), the average cost of an inspection is likely to be significantly greater than in those dominated by smaller processors (e.g. retail butcher shops, seafood retailers). A similar observation can be made in relation to the actual costs of addressing different types of information requests. Most importantly, because it is not currently possible to provide a breakdown of the activities conducted under the largest cost category (CEO/Administration), these costs have been distributed equally across all licensees. A more detailed disaggregation of these costs could potentially provide the basis for them to be allocated differently across licence categories.

Given these factors, the extent of some of the cross-subsidies identified below is necessarily uncertain. PrimeSafe is working to improve the availability of more detailed and accurate information to better inform future fee setting, however, the current fee changes are necessarily based on the best currently available data.

Table 5.3 summarises the results of these calculations and provides a comparison of current PrimeSafe fees and average regulatory costs per licence. Note that, where a wide range of fees is indicated in the “current fee” column, this relates to licence types in which fees are set according to the output levels of the licensee. In each case the average fee paid by licensees in that category in 2014-15 is noted.

**Table 5.3: Costs by licence type and average cost per licensee**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Licence Type** | **Total Cost (est. 2016-17)**  **$** | **Number of Licences** | **Cost per licensee (2016-17)**  **$** | **Current Fee[[16]](#footnote-16)**  **$** |
| ***Meat industry*** | | | | |
| Abattoir (export) | 14,105 | 21 | 671.65 | 1,356 - 1,566 *(Ave 1,335)* |
| Abattoir (domestic) | 70,190 | 19 | 3,694.22 | 1,356 - 8,107 *(Ave 5,728)* |
| Poultry Processing | 61,506 | 21 | 2,928.87 | 377 - 11,118 (Ave 4,104) |
| Further Meat Processing | 199,272 | 353 | 564.51 | 624 - 2,175 *(Ave 911)* |
| Retail Butcher Shop | 962,514 | 957 | 1,005.76 | 266 |
| Prime Tallow | 668 | 3 | 222.55 | 3,053 |
| Game Meat | 157 | 1 | 157.17 | 821 |
| Inedible Rendering | 2,003 | 9 | 222.55 | 2,287 |
| Pet Meat Processing | 37,901 | 14 | 2,707.23 | 2,175 |
| Pet Food Establishment | 44,951 | 56 | 802.70 | 266 - 1,814 *(Ave 742)* |
| Meat Inspectors | 27,504 | 175 | 157.17 | 10 |
| Meat Transport Vehicle | 775,619 | 4,935 | 157.17 | 114 |
| ***Seafood industry*** | | | | |
| Seafood Processing | 84,554 | 148 | 571.31 | 820 - 8,109 *(Ave 1,889)* |
| Seafood Retailer | 116,365 | 208 | 559.45 | 615 |
| Wildcatch | 85,303 | 217 | 393.10 | 555 |
| Aquaculture | 23.041 | 19 | 1,212.67 | 465 |
| **Total** | **2,505,654** | **7,156** | **350.15** |  |

Notwithstanding the limitations of the available cost data, as noted above, Table 5.3 indicates that there are significant differences in cost recovery levels between licence categories. PrimeSafe’s Board has determined that, in future fee setting, full cost recovery principles should be given greater weight at the level of individually regulated entities and sub-sectors. This implies that the extent of the cross subsidies arising out of the adoption of the ability to pay principle should be reduced over time, consistent with the Victorian Government’s Cost Recovery Guidelines[[17]](#footnote-17).

While there is a clear need to move to better align fees and costs within and between licence categories, there are also significant arguments in favour of making these changes progressively. Firstly, consideration must continue to be given to competing considerations that have been weighed to date, notably that of whether further moves to align fees and costs between and within licence categories appears to be giving rise to concerns regarding ability to pay. Of note in this context is the inter-dependencies that exist between businesses in licence categories. For example, larger abattoirs and meat processors have historically been willing to pay relatively higher fees that, in effect, cross-subsidise retail butcher shops in large part because of concern that any reduction in retail butcher shop numbers due to the imposition of significantly higher fees could have negative impacts on their own businesses.

Secondly, there is a need to continue to improve and refine PrimeSafe’s modelling of its costs, and in particular, the allocation of costs between and within different licence categories. This is likely to include developing improved modelling of inspection activity, which distinguishes between different types of inspections that require significantly different time inputs to complete and developing a more disaggregated allocation of the CEO/Administration costs – which collectively comprise the majority of total PrimeSafe costs – across the licence categories.

Thirdly, in line with regulatory best practice and as reflected in the previous Ministerial Statement of Expectations, PrimeSafe is progressively moving toward a more risk-based approach to carrying out its regulatory functions[[18]](#footnote-18). Changes in practice resulting from this will necessarily lead to changes in the allocation of resources between licence types and therefore, to cost allocation.

## **Streamlining output-based fee categories**

A second issue of concern in relation to the current fee structure is that the stratification of abattoirs, further meat processing facilities and poultry processing facilities into six or seven different output-level categories can increasingly be seen as unduly complex and difficult to justify, given the fact that most of the regulated businesses in each sector fall within only a few of these output level categories. This is demonstrated in Tables 5.4 to 5.6, below, which highlight the number of businesses in each output level category. Table 5.4 shows that the current output-based fee categories for domestic abattoirs split 19 licensed businesses into six different fee categories. Table 5.6 similarly shows that 19 poultry processing facilities are distributed across a total of seven different output categories. This structure is considered to be unduly complex and is likely to yield unnecessary administrative costs in implementing the licence fee regime.

In respect of domestic abattoirs, Table 5.4 shows that one of the existing categories has no licensed businesses within it, while another has only one licensed business. The remaining four categories contain four or five businesses each.

**Table 5.4: Distribution of businesses by output-level category – Domestic abattoirs**

|  |  |  |
| --- | --- | --- |
| **Throughput Category** | **Number of Businesses** | **% of Total** |
| Up to 8,000 units | 4 | 10.0% |
| 8,001 to 15,000 units | 0 | 0.0% |
| 15,001 to 100,000 units | 5 | 12.5% |
| 100,001 to 200,000 units | 1 | 2.5% |
| 200,001 to 400,000 units | 4 | 10.0% |
| Over 400,001 units | 5 | 12.5% |
| Department of Agriculture (export) | 21 | 52.5% |
| **Total** | **40** | **100.0%** |

Table 5.5 shows that small businesses predominate in the further meat processing sector. Almost half of all regulated businesses in this sector fall into the lowest throughput category, while more than three quarters of the sector falls into the lowest three of the six output categories currently adopted. Notably, this sector is essentially domestically oriented, with less than 10% of businesses being exporters, and thus subject to Department of Agriculture oversight, compared with more than 50% of abattoirs.

**Table 5.5: Distribution of businesses by output-level category – Further meat processing facilities**

|  |  |  |
| --- | --- | --- |
| **Throughput Category** | **Number of Businesses** | **% of Total** |
| Up to 250 tonnes | 172 | 49.3% |
| 251 to 500 tonnes | 57 | 16.3% |
| 501 to 1,500 tonnes | 38 | 10.9% |
| 1,501 to 2,500 tonnes | 13 | 3.7% |
| 2,501 to 5,000 tonnes | 16 | 4.6% |
| Over 5,000 tonnes | 20 | 5.7% |
| Department of Agriculture (export) | 33 | 9.5% |
| **Total** | **349** | **100.0%** |

Table 5.6 shows that the poultry processing sector is split between small producers and large producers, with 31.6% of businesses processing less than 50,000 units, while the remaining 68.4% of businesses each process at least 250,000 units. Two of the current throughput categories have no regulated businesses lying within them, while a third category contains only two businesses.

**Table 5.6: Distribution of businesses by output-level category: Poultry processing facilities**

|  |  |  |
| --- | --- | --- |
| **Throughput Category** | **Number of Businesses** | **% of Total** |
| Up to 2,500 units | 0 | 0% |
| 2,501 to 50,000 units | 6 | 31.6% |
| 50,001 to 250,000 units | 0 | 0% |
| 250,001 to 1,000,000 units | 3 | 15.8% |
| 1,000,001 to 2,500,000 units | 2 | 10.5% |
| 2,500,001 to 5,000,000 units | 3 | 15.8% |
| Over 5,000,000 units | 5 | 26.3% |
| **Total** | **19** | **100.0%** |

# Objectives of the proposed fees order

Given the above discussion on the nature and extent of the problem being addressed, the objectives of the proposed fees order are to:

* Ensure that PrimeSafe will have the resources to meet the efficient costs of acquitting its regulatory obligations for 2016-17 and beyond, while ensuring that:
  + fees remain affordable for licensed entities; and
  + public confidence in the safety of meat, seafood and poultry and the maintenance of animal welfare standards are maintained; and
* Improve equity between regulated entities by achieving a better alignment between regulatory costs and fees paid across different licence categories.

# Overview of feasible options

Regulatory Impact Statements (RIS) are required to identify and assess all feasible options that would achieve the underlying regulatory objective. In accordance with this requirement, four specific options are set out and analysed in the following sections. However, it should be noted that a number of other potential options have been identified but found on initial analysis not to cross the threshold of “feasibility”. These are discussed briefly below.

**Differentiating fees based on risk**

As noted above, PrimeSafe is progressively adopting more risk-based management strategies. One potential option in this regard would be to charge varying fees within certain licence categories, based on past performance (i.e. in terms of inspection outcomes, complaints upheld, etc.). This would potentially yield efficiency gains, as it would mean that those licensees that required a greater commitment of PrimeSafe’s supervisory resources would make a larger contribution to its costs. It would also provide incentives for improved performance, since licensees demonstrating poor performance would face higher costs.

However, this option is considered infeasible on a number of grounds. First, it would be likely to yield an unduly complex fee structure, with consequent administrative difficulties and costs and a potential lack of transparency, or clarity, surrounding fee levels. Second, current practice is that non-compliance detected in inspections results in a process of third party audits undertaken immediately after remedial action is taken and over a set follow up period. As these audits are undertaken at the licensee’s cost by a third party auditor, there is no additional cost to PrimeSafe associated with these activities, while charging an additional fee could be seen as constituting a form of taxation or, at the least, of “double jeopardy”, given that the licensee is already required to pay for the program of follow up audits.

**Charging fees for inspections**

A variant of the above option would involve charging fees for any follow up inspections required to be conducted as a result of significant instances of non-compliance being detected. However, this option must also be considered to be infeasible, on the same basis as elucidated above: that is; current practice is that PrimeSafe does not, in most cases, undertake follow up inspections, rather requiring that third party auditing be undertaken. Given this, there is no basis in differential costs for such an approach to be taken.

**Flat rate fee for provision of pre-licensing advice**

As discussed above, PrimeSafe intends to provide significant advice to prospective licensees and to charge an hourly rate for the provision of business specific advice. Possible alternative approaches to recovering the costs of this new (or substantially expanded) activity would be to charge a flat fee for advice provision. A flat fee would have the benefit of simplicity in fee administration and would potentially be more affordable to smaller entities who may require more substantial amounts of advice. However, given that the extent of the advice to be provided is expected to vary widely, this approach was considered to be inequitable and inefficient. That is, in a context in which PrimeSafe is moving progressively to better match fees and costs for individual licensees and groups of licensees, this option would be inconsistent with the underlying logic of the broader fee structure.

**Fees for pre-licensing advice that differentiate according to licence categories**

An alternative to this option which would partly address this concern is the establishment of a series of flat fees, so there was a single fee for each type of intending licensee (e.g. a fee for prospective abattoirs, and one for prospective retail butcher shops). This would partly address the above concern regarding the need to ensure that fees and costs were well aligned. However, PrimeSafe believes that, even within licence categories, the extent of advice provided is likely to vary significantly.

Moreover, provision of these services is, as discussed elsewhere, essentially a response to a gap in a potentially contestable market. Hence, it is necessary to ensure that the fee structure adopted does not violate competitive neutrality principles. While an appropriately set hourly fee clearly meets this test, a flat fee would not appear to do so.

**Feasible options**

Given the above, four feasible options are identified and analysed below. These are:

* Adoption of single, percentage increase to all existing fees to fund the required provision of additional services;
* Adoption of limited amendments to the existing fee schedule to partly address divergences between revenue and cost in differing licence categories;
* Adoption of a larger fee reform that fully equalises fees and costs for each licence category; or
* Adoption of a fee structure that equalises fees and costs for each licence category, but is supported by a move to more risk based approaches to regulatory surveillance.

These options are then compared explicitly in Section 11 and the rationale for choosing the preferred option is identified.

# Option 1: A flat percentage increase in all fees

## **Description of the option**

This option would entail the application of a flat percentage increase to all existing fees, together with the adoption of a new fee for pre-licensing advice, of $250 per hour (ex GST). These changes would be sufficient to ensure that adequate revenue to meet PrimeSafe’s budget in 2016-17 and beyond. No changes would be made to the existing throughput categories underpinning the fees structures applicable to abattoirs, poultry processing facilities or further meat processing facilities. As noted previously, the budget will increase from $2.0 million to $2.5 million in 2016-17. This implies that a 25% increase across all licence categories would be required. Table 8.1 below sets out the implications of this option for individual fees.

**Table 8.1: Proposed fees – Option 1**

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Throughput** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| Abattoir \* | Up to 8,000 units | 1,356 | 1,695 |
|  | 8,001 to 15,000 units | 1,814 | 2,268 |
|  | 15,001 to 100,000 units | 3,241 | 4,051 |
|  | 100,001 to 200,000 units | 4,866 | 6,083 |
|  | 200,001 to 400,000 units | 6,486 | 8,108 |
|  | Over 400,001 units | 8,107 | 10,134 |

\* Note:

* Facilities supervised by the Department of Agriculture (DA) where DA accepts responsibility for all product placed on the domestic market will pay in accordance with the above fee schedule up to a maximum of $1,958.

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Throughput** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| Poultry Processing Facility | Up to 2,500 units | 377 | 471 |
|  | 2,501 to 50,000 units | 820 | 1,025 |
|  | 50,001 to 250,000 units | 1,719 | 2,149 |
|  | 250,001 to 1,000,000 units | 2,348 | 2,935 |
|  | 1,000,001 to 2,500,000 units | 3,598 | 4,498 |
|  | 2,500,001 to 5,000,000 units | 6,173 | 7,716 |
|  | Over 5,000,000 units | 11,118 | 13,898 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Throughput** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| Further Meat Processing \* | Up to 250 tonnes | 624 | 780 |
|  | 251 to 500 tonnes | 722 | 903 |
|  | 501 to 1,500 tonnes | 1,085 | 1,356 |
|  | 1,501 to 2,500 tonnes | 1,448 | 1,810 |
|  | 2,501 to 5,000 tonnes | 1,814 | 2,268 |
|  | Over 5,000 tonnes | 2,175 | 2,719 |

\* Note:

* Facilities supervised by the Department of Agriculture (DA) where DA accepts responsibility for all product placed on the domestic market will pay in accordance with the above fee schedule up to a maximum of $1,958.

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Throughput** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| Retail Butcher Shop | Not applicable | 266 | 333 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Throughput** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| Pet Food Establishment | Up to 50 tonnes | 266 | 333 |
|  | 51 to 150 tonnes | 902 |  |
|  | Over 150 tonnes | 1,814 |  |
| Pet Meat Processing | Not applicable | 2,175 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Throughput** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| Prime Tallow Processing | Not applicable | 3,053 |  |
| Game Meat | Not applicable | 821 |  |
| Inedible Rendering | Not applicable | 2,287 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Throughput** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| Meat Transport Vehicle | Not applicable | 114 | 143 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Throughput** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| Wholesaler Category A \* | Up to 200 tonnes | 820 | 1,025 |
|  | 201 to 400 tonnes | 1,232 | 1,540 |
|  | 401 to 1,000 tonnes | 2,868 | 3,585 |
|  | 1,001 to 2,000 tonnes | 6,151 | 7,689 |
|  | Over 2,000 tonnes | 8,199 | 10,249 |
| Wholesaler Category B \* | Up to 75 tonnes | 820 | 1,025 |
|  | 76 to 150 tonnes | 1,232 | 1,540 |
|  | 151 to 350 tonnes | 2,868 | 3,585 |
|  | 351 to 700 tonnes | 6,151 | 7,689 |
|  | Over 700 tonnes | 8,199 | 10,249 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Throughput** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| Processor Category A \* | Up to 150 tonnes | 820 | 1,025 |
|  | 151 to 300 tonnes | 1,232 | 1,540 |
|  | 301 to 750 tonnes | 2,868 | 3,585 |
|  | 751 to 1,500 tonnes | 6,151 | 7,689 |
|  | Over 1,500 tonnes | 8,199 | 10,249 |
| Processor Category B \* | Up to 50 tonnes | 820 | 1,025 |
|  | 51 to 100 tonnes | 1,232 | 1,540 |
|  | 101 to 250 tonnes | 2,868 | 3,585 |
|  | 251 to 500 tonnes | 6,151 | 7,689 |
|  | Over 500 tonnes | 8,199 | 10,249 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Throughput** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| Further Processor Category A \* | Up to 150 tonnes | 820 | 1,025 |
|  | 151 to 300 tonnes | 1,232 | 1,540 |
|  | 301 to 750 tonnes | 2,868 | 3,585 |
|  | 751 to 1,500 tonnes | 6,151 | 7,689 |
|  | Over 1,500 tonnes | 8,199 | 10,249 |
| Further Processor Category B \* | Up to 50 tonnes | 820 | 1,025 |
|  | 51 to 100 tonnes | 1,232 | 1,540 |
|  | 101 to 250 tonnes | 2,868 | 3,585 |
|  | 251 to 500 tonnes | 6,151 | 7,689 |
|  | Over 500 tonnes | 8,199 | 10,249 |

\* Note:

* Facilities supervised by the Department of Agriculture (DA) where DA accepts responsibility for all product placed on the domestic market will pay in accordance with the above fee schedule up to a maximum of $1,958.

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Throughput** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| Seafood Retailer | Not applicable | 615 | 769 |

|  |  |  |
| --- | --- | --- |
| **Pre-Licence Advice** | **Current Fee**  **$** | **Proposed Fee**  **$** |
| All licence types | Not available | 250 per hour (ex GST) |

## **Expected benefits of the option**

Option 1 would have the benefit of simplicity and of the changes to licence fees being readily understood by all affected parties. The current licence fee structure is well accepted by stakeholders and a simple, across the board approach to fee increases is also likely to be relatively well accepted.

In addition, this option could be seen as appropriate given the limitations in the quality of PrimeSafe’s current cost information. In this view, Option 1 would be regarded as an interim option, to be adopted pending the development of a better cost database which would enable a better balancing of costs and fees for different groups of licensees to be developed in the medium term.

## **Expected costs of the option**

The key cost of adopting Option 1 is that it would make no improvements to the existing fee structure. While there are some limitations to the quality of available cost data, PrimeSafe believes that it is sufficiently robust to potentially be used as the basis for improving the current alignment of regulatory costs and fees paid. Thus, adopting Option 1 would forego the possibility of making some movement in this direction.

Adopting Option 1 would also perpetuate the current, unduly complex set of output-based fee categories, despite the fact that some categories have no licensees in them and others have only one or two.

Finally, adopting this option would depart substantially from the expectations of PrimeSafe licensees. PrimeSafe conducted an extensive consultation process regarding the need to make changes to its existing fees throughout 2015, as summarised in Section 13, with the result that licensees generally expect a number of substantive changes to be made. Adopting Option 1 would have clear negative implications for stakeholder relationships.

# Option 2: Limited amendments to the existing fee schedule

## **Description of the option**

The first option to address the problems identified in Section 5 involves adopting a limited range of changes to the existing fee structure that would go some way toward equalising the degree of cost recovery achieved among different licence categories and would also rationalise the output based fee categories in the major licence categories of abattoirs, further meat processing facilities and poultry processing facilities.

Table 9.1 sets out the fees that would be adopted under Option 2 and compares these with the existing fee structure. Real fee increases would be adopted[[19]](#footnote-19) in all but two categories; seafood processing and other meat processing[[20]](#footnote-20). Licence fees in these latter categories would only be indexed in 2016-17 using the rate specified by the Treasurer in the budget context.

The following substantive changes to the current fees would be adopted under Option 2:

***Domestic abattoirs***

Some changes in the real value of licence fees would occur in the domestic abattoir sector under Option 2, largely as a result of the consolidation of the current six output based licence categories into four categories. Thus:

* The smallest category (up to 8,000 units) would be abolished, meaning that licensees with this level of throughput would henceforth form part of a new category of processors of up to 15,000 units of output and face fees that are 37.5% higher than at present. A total of four processors currently fall within the up to 8,000 units category and will be affected by this fee increase.
* The 15,001 to 100,000 units and 100,001 to 200,000 units categories will be consolidated. The fee of $3,330 applied to the new category will be unchanged in real terms for processors of up to 100,000 units but will represent a reduction of 32.2% for processors currently in the 100,001 to 200,000 units category.
* The current 200,000 to 400,000 units category will be expanded to a 500,000 unit maximum production level, thus yielding a fee reduction of 17.8% for processors of between 400,000 and 500,000 units.
* Processors of over 500,000 units will face a fee increase of 20%.

***Export abattoirs***

Export abattoirs pay lower fees, in recognition of the fact that, while PrimeSafe is required to license these processors, the main regulatory responsibilities fall to the Commonwealth Department of Agriculture, so that PrimeSafe’s regulatory costs are lower than with respect to domestic abattoirs. While there is some fee differentiation according to output levels, a “fee cap” of $1,566 currently is applied.

A new fee of $1,850 would be applied under Option 2, representing an increase of 18.1% on the fee currently paid by processors of more than 8,000 units and 36.4% on the fee currently paid by processors of up to 8,000 units. Only one licensee currently falls into the latter category.

**Poultry Processing facilities**

The number of output based fee categories in this sector would be reduced from seven to five. The consolidation of the two smallest output categories implies that processors of up to 2,500 units would face a fee increase of 368.4%, while processors in the next largest category would face a significantly smaller fee increase of 115.4%. Fees will rise by 40.4% for processors in the 50,001 to 250,000 units category. Processors of between 500,001 to 1 million units will experience a fee increase of 57.5%, as a result of being moved into the new 500,001 to 2.5 million units category. By contrast, processors in the three largest output categories will not see any change in real fee levels.

***Further meat processing***

The current structure of six output related fee categories will be reduced to five fee categories for this class of licence. The consolidation of the 501 to 1,500 tonnes and the 1,501 to 2,500 tonnes categories would have the effect of increasing fees by licensees of the former category by 37.1%. Processors in the three largest output categories would face slightly smaller fee increases of 23.2%, 25.0% and 18.1%, respectively.

***Seafood processors***

The fees payable by seafood processors would be unchanged in real terms, simply being indexed by the rate approved by the Treasurer in the budget context for 2016-17. The sole exception to this approach is that exporting seafood processors (i.e. those supervised by the Department of Agriculture) would be subject to a higher fee cap of $1,850 (cf. $1,566 at present), in line with the change proposed to be adopted in respect of exporting abattoirs and further meat processing facilities.

***Retail butcher shops***

Annual licence fees for retail butcher shops would increase by 20.3% to $320. In addition, a new licence category would be implemented for retail butcher shops manufacturing smallgoods. The fee for this licence category would be the same as that for a standard retail butcher shop licence in 2016-17, however, the fee would increase to $650 in 2017-18. Thus, licensees in this category would pay a fee 144.3% higher in 2007-18 than in 2015-16. The creation of this additional licence category, and the significantly increased fee associated with it, reflects the substantially higher risks associated with the manufacture of smallgoods and the consequently greater degree of regulatory oversight which PrimeSafe is required to exercise over these premises.

***Meat transport vehicles (MTV)***

There is currently only one licence category covering all meat transport vehicles. Under Option 2, this would change to a three tier licence, differentiated according to the size of the meat transport vehicle. Licence fees for all categories of meat transport vehicle would increase in real terms. However, the smallest category of vehicle (commercial vans) would experience only a modest 12.3% increase, while significantly larger increases of 71.1% and 116.7% would be applied to vehicles of up to 4.5 tonnes GVM and those of more than 4.5 tonnes GVM respectively. Of a total of 4,935 MTVs currently licensed, 1,931 would be licensed in the new commercial van category, 579 in the sub 4.5 tonne category and 2,425 in the over 2.5 tonne category.

The changes to MTV fees will result in Victoria’s fees for this sector being more closely aligned with those of other States and Territories. For example, New South Wales charges $328 per annum for a MTV licence, while Queensland charges $263.40 per annum. Both of these fees are higher than the fee proposed to be adopted in respect of the largest category of meat transport vehicle under Option 2[[21]](#footnote-21).

***Pre-licensing advice fee***

As noted in Section 5, PrimeSafe will be required, as a result of its most recent Ministerial Statement of Expectations, to provide substantial advice to prospective licensees prior to their lodgement of an initial licence application. Given that this is a service potentially able to be provided by the private sector, which PrimeSafe is providing as a result of the identification of a significant current gap in the private market, it is necessary to establish a cost-recovery based fee for the provision of this service. This is consistent with PrimeSafe’s general approach to fee setting and is also consistent with the competitive neutrality requirements of the National Competition Policy, given the potential for private businesses to enter this market in competition with PrimeSafe. Thus, where specific advice is provided to prospective licensees, a new fee of $250 per hour (ex GST) is proposed to be implemented.

PrimeSafe believes that this fee reflects the market rate charged by private consultants for the provision of similar types of advice in the meat, seafood and poultry industries, albeit that there is currently no market for the specific types of advice which PrimeSafe will be providing. Given the contestable nature of the service, PrimeSafe has chosen to set the fee at what it believes is a market level, rather than with reference to its costs of provision. However, it is confident that this fee will at least ensure that the costs of advice provision are fully covered. Given this, the proposed fee is considered to be consistent with the provisions of the Department of Treasury Cost Recovery Guidelines.

**Table 9.1: Summary of current and proposed licence fees**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Abattoir (Domestic)** | **Current** | **Proposed** | | |
| **Annual Throughput** | **2015-16**  **$** | **Annual Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 8,000 units | 1,356 | Up to 15,000 units | 1,864 | 37.5% |
| 8,001 to 15,000 units | 1,814 | 2.75% |
| 15,001 to 100,000 units | 3,241 | 15,001 to 200,000 units | 3,330 | 2.75% |
| 100,001 to 200,000 units | 4,866 | -31.6% |
| 200,001 to 400,000 units | 6,486 | 200,001 to 500,000 units | 6,664 | 2.75% / -17.8%[[22]](#footnote-22) |
| Over 400,000 units | 8,107 | Over 500,000 units | 9,728 | 20.0% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Abattoir (Export)** | **Current** | **Proposed** | | |
| **Annual Throughput** | **2015-16**  **$** | **Annual Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 8,000 units | 1,356 | Up to 15,000 units | 1,850 | 36.4% |
| 8,001 to 15,000 units | 1,566 | 18.1% |
| 15,001 to 100,000 units | 1,566 | 15,001 to 200,000 units | 1,850 | 18.1% |
| 100,001 to 200,000 units | 1,566 | 18.1% |
| 200,001 to 400,000 units | 1,566 | 200,001 to 500,000 units | 1,850 | 18.1% |
| Over 400,000 units | 1,566 | Over 500,000 units | 1,850 | 18.1% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Poultry Processing Facilities** | **Current** | **Proposed** | | |
| **Annual Throughput** | **2015-16**  **$** | **Annual Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 2,500 units | 377 | Up to 50,000 units | 1,766 | 368.4% |
| 2,501 to 50,000 units | 820 | 115.4% |
| 50,001 to 250,000 units | 1,719 | 50,001 to 500,000 units | 2,413 | 40.4% |
| 250,001 to 1,000,000 units | 2,348 | 50,001 to 500,000 units | 2,413 / 3,697[[23]](#footnote-23) | 2.75% / 57.5% |
| 1,000,001 to 2,500,000 units | 3,598 | 500,001 to 2,500,000 units | 3,967 | 2.75% |
| 2,500,001 to 5,000,000 units | 6,173 | 2,500,001 to 5,000,000 units | 6,343 | 2.75% |
| Over 5,000,000 units | 11,118 | Over 5,000,000 units | 11,424 | 2.75% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Further Meat Processing Facilities** [[24]](#footnote-24) | **Current** | **Proposed** | | |
| **Annual Throughput** | **2015-16**  **$** | **Annual Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 250 tonnes | 624 | Up to 250 tonnes | 641 | 2.75% |
| 251 to 500 tonnes | 722 | 251 to 500 tonnes | 742 | 2.75% |
| 501 to 1,500 tonnes | 1,085 | 501 to 2,500 tonnes | 1,488 | 37.1% |
| 1,501 to 2,500 tonnes | 1,448 | 2.75% |
| 2,501 to 5,000 tonnes | 1,814 | 2,501 to 5,000 tonnes | 2,235 | 23.2% |
| Over 5,001 tonnes | 2,175 | Over 5,001 tonnes | 2,719 | 25.0% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Retail Butcher Shops** | **Current** | **Proposed** | | |
| **Activity** | **2015-16**  **$** | **Activity** | **2016-17**  **$** | **Increase**  **%** |
| Meat and/or poultry only | 266 | Meat and/or poultry only | 320 | 20.3% |
| Meat/poultry and smallgoods | 266 | Meat/poultry and smallgoods | 320 | 20.3% |
|  |  | **Activity** | **2017-18**  **$** | **Increase**  **%** |
|  |  | Meat/poultry and smallgoods | 650 | 144.4%[[25]](#footnote-25) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Other Meat** | **Current** | **Proposed** | | |
|  | **2015-16**  **$** |  | **2016-17**  **$** | **Increase**  **%** |
| Prime tallow processing | 3,053 | Prime tallow processing | TBD | TBD |
| Game meat | 821 | Game meat | TBD | TBD |
| Inedible rendering | 2,287 | Inedible rendering | TBD | TBD |
| Pet meat processing plant | 2,175 | Pet meat processing plant | TBD | TBD |
| Pet food establishments |  | Pet food establishments | TBD | TBD |
| Up to 50 tonnes | 266 | Up to 50 tonnes | TBD | TBD |
| 51 to 150 tonnes | 902 | 51 to 150 tonnes | TBD | TBD |
| Over 150 tonnes | 1,814 | Over 150 tonnes | TBD | TBD |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Meat Transport Vehicles** | **Current** | **Proposed** | | |
| **Vehicle Type** | **2015-16**  **$** | **Vehicle Type** | **2016-17**  **$** | **Increase**  **%** |
| All vehicle types | 114 | Commercial van | 128 | 12.3% |
|  |  | Truck/Trailer under 4.5 tonnes GVM | 195 | 71.1% |
|  |  | Truck/Trailer over 4.5 tonnes GVM | 247 | 116.7% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Pre-Licensing Advice** | **Current** | **Proposed** | | |
|  | **2015-16**  **$** |  | **2016-17**  **$** | **Increase**  **%** |
| Not available | Not applicable | All licence types | 250 per hour (ex GST) | Not applicable |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Seafood Retailer** | **Current** | **Proposed** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Not applicable | 615 | Not applicable | TBD | TBD |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Seafood Wholesaler Category A \*** | **Current** | **Proposed** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 200 tonnes | 820 | Up to 200 tonnes | TBD | TBD |
| 201 to 400 tonnes | 1,232 | 201 to 400 tonnes | TBD | TBD |
| 401 to 1,000 tonnes | 2,868 | 401 to 1,000 tonnes | TBD | TBD |
| 1,001 to 2,000 tonnes | 6,151 | 1,001 to 2,000 tonnes | TBD | TBD |
| Over 2,000 tonnes | 8,199 | Over 2,000 tonnes | TBD | TBD |
| **Seafood Wholesaler Category B \*** | **Current** | **Proposed** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 75 tonnes | 820 | Up to 75 tonnes | TBD | TBD |
| 76 to 150 tonnes | 1,232 | 76 to 150 tonnes | TBD | TBD |
| 151 to 350 tonnes | 2,868 | 151 to 350 tonnes | TBD | TBD |
| 351 to 700 tonnes | 6,151 | 351 to 700 tonnes | TBD | TBD |
| Over 700 tonnes | 8,199 | Over 700 tonnes | TBD | TBD |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Seafood Processor Category A \*** | **Current** | **Proposed** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 150 tonnes | 820 | Up to 150 tonnes | TBD | TBD |
| 151 to 300 tonnes | 1,232 | 151 to 300 tonnes | TBD | TBD |
| 301 to 750 tonnes | 2,868 | 301 to 750 tonnes | TBD | TBD |
| 751 to 1,500 tonnes | 6,151 | 751 to 1,500 tonnes | TBD | TBD |
| Over 1,500 tonnes | 8,199 | Over 1,500 tonnes | TBD | TBD |
| **Seafood Processor Category B \*** | **Current** | **Proposed** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 50 tonnes | 820 | Up to 50 tonnes | TBD | TBD |
| 51 to 100 tonnes | 1,232 | 51 to 100 tonnes | TBD | TBD |
| 101 to 250 tonnes | 2,868 | 101 to 250 tonnes | TBD | TBD |
| 251 to 500 tonnes | 6,151 | 251 to 500 tonnes | TBD | TBD |
| Over 500 tonnes | 8,199 | Over 500 tonnes | TBD | TBD |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Seafood Further Processor Category A \*** | **Current** | **Proposed** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 50 tonnes | 820 | Up to 50 tonnes | TBD | TBD |
| 51 to 100 tonnes | 1,232 | 51 to 100 tonnes | TBD | TBD |
| 101 to 250 tonnes | 2,868 | 101 to 250 tonnes | TBD | TBD |
| 251 to 500 tonnes | 6,151 | 251 to 500 tonnes | TBD | TBD |
| Over 500 tonnes | 8,199 | Over 500 tonnes | TBD | TBD |
| **Seafood Further Processor Category B \*** | **Current** | **Proposed** | | |
| **Throughput** | **2015-16**  **$** | **Throughput** | **2016-17**  **$** | **Increase**  **%** |
| Up to 25 tonnes | 820 | Up to 25 tonnes | TBD | TBD |
| 26 to 50 tonnes | 1,232 | 26 to 50 tonnes | TBD | TBD |
| 51 to 100 tonnes | 2,868 | 51 to 100 tonnes | TBD | TBD |
| 101 to 200 tonnes | 6,151 | 101 to 200 tonnes | TBD | TBD |
| Over 200 tonnes | 8,199 | Over 200 tonnes | TBD | TBD |

Note:

* Seafood processing fees and “other meat” category fees will be increased in 2016-17 by the indexation rate set by the Department of Treasury and Finance in the budget context. As this rate has not been announced to date, the specific fees that will apply in this area cannot yet be calculated.
* \* Seafood processing facilities supervised by the Department of Agriculture (DA) where the DA accepts responsibility for all products placed on the domestic market will be required to pay a licence fee in accordance with the fee schedule up to a maximum fee of $1,850. This fee cap would replace the existing fee cap in respect of these facilities of $1,566

## **9.2 Expected benefits of Option 2**

Option 2 would address the need to increase PrimeSafe fee revenue by a sufficient amount to preserve its self-funding status in the context of the expected 25% increase in regulatory costs. Total revenue in 2016-7 would be approximately $0.5 million higher than in 2014-5 under this option. Table 9.2 below shows that around 75% of this additional revenue, or $0.4 million, would derive from the imposition of higher fees on larger meat transport vehicles. Smaller revenue increases would accrue as a by-product of the rationalisation of output based fee categories for abattoirs, further meat processing facilities and poultry processing facilities.

As noted in Table 9.1, Option 2 involves a staged increase in fees for the proposed new category of retail butcher shops that undertake smallgoods manufacture, with a second increase to occur in 2017-18. Thus, while incremental revenue from retail butcher shops is expected to be only $22,584 in 2016-17, an additional $77,908 would be expected to be raised in 2017-18 under this option.

**Table 9.2: Incremental revenue from Option 2: 2016-17 vs 2014-15**

|  |  |
| --- | --- |
| **Licence Category** | **Incremental Revenue**  **($)** |
| Abattoir (Export) | 6,174 |
| Abattoir (Domestic) | 9,758 |
| Poultry Processing | 13,648 |
| Further Meat Processing | 44,181 |
| Retail Butcher Shop | 22,584 |
| Game Meat | 0 |
| Prime Tallow Processing | 0 |
| Inedible Rendering | 0 |
| Pet Meat Processing | 0 |
| Pet Food Establishment | 0 |
| Meat Transport Vehicle | 396,458 |
| Pre-licensing advice | 30,000[[26]](#footnote-26) |
| **Total Meat** | **522,803** |

In addition to raising sufficient revenue to cover the expected costs of acquitting PrimeSafe’s broader range of functions in 2016-17 and beyond, Option 2 would improve the degree of matching of regulatory fees and costs in relation to the current fees arrangements. In particular, full cost recovery would be achieved in respect of meat transport vehicles – the most numerous licence category – for the first time, while cost recovery levels for retail butcher shops – the second most numerous licence category and one currently characterised by among the lowest levels of cost recovery at present – would rise significantly, from around 30% at present to over 40% by 2017-18. Moreover, this increase will be achieved in large part by charging significantly higher fees to retail butcher shops that manufacture smallgoods and as a result, pose more significant food safety risks.

Finally, the rationalisation of output based licence categories in the abattoir, poultry processing and further meat processing sectors will simplify fees administration in these areas and avoid potential fee based disincentives to business expansion.



## **Expected costs of Option 2**

The main cost of Option 2 is that it would only partly address the current situation in which cost recovery levels differ substantially for different licence types. While some significant improvements will occur in the areas noted above, substantial over-recovery of costs will continue in the licence categories dominated by larger processors including abattoirs, further meat processing facilities and poultry processing facilities, while significant under-recovery would continue particularly in relation to retail butcher shops as noted above, and meat inspectors.

Moreover, the net result of the proposed changes in the structure of output based fee categories for the affected licence types, when combined with the proposed fee changes for each output based category, will be that total revenue will increase in real terms in each category, notwithstanding the current over-recovery of costs. That said, the increase in total revenue (and therefore in average fees paid) in each of these licence categories will, in all cases, be lower than the proposed overall revenue increase of 25%[[27]](#footnote-27).

# Option 3: Equalise cost recovery level for all licence categories

## **Description of the option**

This option would involve major changes to the current fee structure that would ensure that a close match between regulatory costs and fee revenue was achieved for each category of licence. Table 10.1 summarises, in broad terms, the fees that would be charged under Option 3.

**Table 8.1: Fees by licence type – Option 3**

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence category** | **Current Fee[[28]](#footnote-28)**  **$** | **Option 3 Fee**  **$** | **Change (%)** |
| Abattoir (Export) | 1,335 | 671.65 | -49.7% |
| Abattoir (Domestic) | 5,728 | 3,694.22 | -35.5% |
| Poultry Processing | 4,104 | 2,928.87 | -28.6% |
| Further Meat Processing | 911 | 564.51 | -38.0% |
| Retail Butcher Shop | 266 | 1,005.76 | 278.1% |
| Prime Tallow | 3,053 | 222.55 | -92.7% |
| Game Meat | 821 | 157.17 | -80.9% |
| Inedible Rendering | 2,287 | 222.55 | -90.3% |
| Pet Meat Processing | 2,175 | 2,707.23 | 24.5% |
| Pet Food Establishment | 742 | 802.70 | 8.2% |
| Meat Transport Vehicle | 114 | 157.17 | 37.9% |
| Seafood Processing | 1,889 | 571.31 | -69.8% |
| Seafood Retailer | 626 | 559.45 | -10.6% |
| Wildcatch | 555 | 393.10 | -29.2% |
| Aquaculture | 464 | 1,212.67 | 161.4% |
| Meat Inspectors | 10 | 157.17 | 1471.7% |

Table 10.1 shows that there would be very substantial changes to the existing fee structure were Option 3 be adopted. In particular, this option would result in very large increases in the fees paid by small businesses and individuals in the short-term. Meat inspectors would see their annual licence fee rise almost 1,500% from $10 to around $157, while retail butcher shops would see a fee increase of 278% from $266 at present to over $1,000[[29]](#footnote-29). Aquaculture businesses would also see a rise in their licence fees of 161% from $464 to over $1,200.

Conversely, the average fees charged in the major licence categories of abattoirs, poultry processing facilities and further meat processing facilities would decline significantly, as would those charged in some smaller sectors including rendering, game meat processing and seafood processing. The impact on individual businesses within the sectors with output based fee differentials would be dependent on decisions as to how the reductions in overall fee revenue should be allocated within each licence category.

However, given the logic of Option 3, which seeks to match fees and costs closely, it can be anticipated that the largest scale businesses would reap larger than average fee reductions. This reflects the fact that, while precise data is unavailable, PrimeSafe believes that its regulatory costs are not closely related to the output levels of businesses in these sectors. This is partly due to the existence of fixed or quasi-fixed costs in the inspection process (e.g. in reviewing systems) and in part because larger businesses are generally better able to address compliance issues themselves, or by contracting external assistance privately, whereas PrimeSafe is frequently required to undertake more substantial inputs in relation to smaller businesses to advise and assist them in achieving compliance.

## **Expected benefits of Option 3**

Option 3 would, in common with all of the other feasible options, ensure that PrimeSafe generated sufficient fee revenue to fund the proposed expansion in its regulatory role. In addition, it would ensure equity between licence types by achieving a close matching of fee revenue and regulatory costs incurred for each individual licence category. This would end the current arrangement, under which significant cross-subsidies exist between licence categories. Option 3 differs significantly from Option 2 in this respect, as the adoption of Option 2 would imply a continuing cross-subsidy of $0.57 million to retail butcher shops which would be funded from above-cost recovery fees paid by seafood processors ($0.2 million), meat transport vehicle operators ($0.19 million) and further meat processing facilities ($0.17 million). Fees paid by abattoirs and poultry processing facilities would also be around $0.1 million lower under Option 3 than Option 2, as they would also be set to reflect regulatory costs[[30]](#footnote-30).

## **Expected costs of Option 3**

The major potential cost associated with Option 3 reflects the fact that it contemplates making substantial realignments of the current fee structure on the basis of a limited database on respect of the distribution of PrimeSafe costs between and within licence categories as noted above. Given this, there is a significant risk that some large fee increases may not be fully justified and may need to be reversed in the medium term, when better information is available. Should this occur, there would be a lack of certainty and transparency for affected licence holders and a potential loss of confidence in PrimeSafe’s approach to fee setting.

A second significant cost in relation to Option 3 is that the large fee increases contemplated in some licence categories could have real negative effects on the affordability of licence fees for small business.

# Option 4: Equalise cost recovery levels across licence types while adopting a more risk-based approach to regulatory surveillance

## **Description of the option**

Risk-based approaches to regulatory inspection and enforcement activity are increasingly widely accepted as constituting best practice in a range of regulatory contexts. Designing inspection programs that take account of risk, including by responding to the past performance of individual regulated entities, can maintain and improve regulatory outcomes while reducing the costs of these activities, particularly when risk-based inspection is supported by an appropriately tailored enforcement and sanctions regime.

This option would involve adopting a greater degree of risk-based targeting in PrimeSafe’s inspection and enforcement activities. While PrimeSafe currently adopts risk-based approaches in these areas to a significant extent, opportunities remain to increase the use of these approaches. Two key areas in this regard are the program of inspections of retail butcher shops for the presence of sulphur dioxide, and the program of animal welfare inspections of abattoirs, poultry processing facilities, and pet meat processing facilities.

**Animal welfare inspections**

112, or 10.4%, of the 1,082 inspections conducted by PrimeSafe during 2014-15 were carried out as part of the animal welfare program. Under this program, all domestic abattoirs, poultry processing facilities and pet meat processing facilities are inspected twice annually to ensure that animal welfare standards are being met. Under option 4, an alternative, risk-based approach would be taken to animal welfare inspections. This would imply that a less frequent inspection regime would be adopted in respect of facilities that had not been found to have any significant animal welfare related issues during one or more prior inspections. Where a significant animal welfare issue was subsequently be discovered, a more frequent inspection regime would be implemented over the next one to two years, until sustained compliance was again demonstrated.

**Sulphur dioxide inspection program**

400, or 37.0%, of the total of 1,082 inspections carried out in 2014-15 were conducted in retail butcher shops as part of a program to ensure that sulphur dioxide is not used in meat. This implies that slightly more than 40% of the 957 licensed retail butcher shops were randomly inspected each year as part of this program. Conversely, only one butcher shop was found to have used sulphur dioxide, a non-compliance rate of 0.25%. This very high compliance rate has been maintained over a number of years.

Given the high compliance rate, Option 4 would imply a significant reduction of the number of random inspections carried out under this program to around 10% to 15% of licensed retail butcher shops. This lower inspection frequency would be maintained unless and until a significant increase in non-compliance was detected. The current sanctioning arrangements, applicable where the use of sulphur dioxide is detected, would be maintained. Under these, the business is subject to sub-immediate closure, a need to amend its food safety program and provide a written submission demonstrating its commitment to meeting it, and a requirement that it be subject to an intensive, weekly third-party audit program for at least four weeks after reopening.

Other elements of the PrimeSafe inspection program would be unchanged under Option 4. This reflects the fact that there is little or no scope to adopt risk-based principles in other areas in respect of other major inspection categories, such as pre-licensing and post-licence cancellation inspections or complaints-based inspections.

## **Expected benefits of the option**

Adopting risk-based approaches in the areas highlighted above would provide the potential to reduce PrimeSafe’s regulatory costs and as a consequence, licence fees in some areas. Of particular importance would be the impact on retail butcher shops. As noted above, charging a full cost recovery based licence fee for retail butcher shops as proposed under Option 3, would imply a cost of approximately $1,000 per annum. However, if the proportion of retail butcher shops inspected under the sulphur dioxide program were reduced to 15%, this would enable licence fees to be reduced to approximately $770, while continuing to achieve a full cost recovery outcome. A further reduction in inspections to 10% of licensed retail butcher shops would result in a full cost recovery based licence fee of $720 per annum[[31]](#footnote-31) – representing a 28% reduction on the fee that would be imposed under Option 3.

The impact of reducing the number of animal welfare inspections on the licence fees payable by abattoirs, poultry processing facilities and pet meat processing facilities would be similar. For example, if the current program of two inspections per annum were replaced by a risk-based program entailing an average of one inspection per annum per premises, the average full cost recovery fee for a domestic abattoir would be reduced from approximately $3,700, under Option 3, to around $2,780. Similarly, average fees for poultry processing facilities would fall from around $2,930 to $2,020 and average fees for further meat processing facilities would fall from $2,710 to around $1,795[[32]](#footnote-32).

## **Expected costs of the option**

A poorly designed risk-based inspection and enforcement program has the potential to compromise the achievement of regulatory outcomes. In the context of the sulphur oxide program, the impact on public health is limited, primarily relating to a minority of asthmatics whose sensitivity to the allergen can cause significant exacerbation of their symptoms[[33]](#footnote-33). However, while sulphur dioxide is typically used in some meat products (notably sausages) the fact that no allowable concentration is declared under the Australia New Zealand Food Standards Code means that it is regarded as a contaminant when present in fresh meat. In the context of the animal welfare inspection program, any deterioration in compliance implies poor animal welfare outcomes for live animals during the slaughter process.

A further potential cost is that of a loss of public confidence. If a risk-based program is not well understood and accepted by the public, perceived outcomes may be less positive, even in the absence of any objective reductions in the standards achieved. This could potentially lead to reductions in consumer demand.

At present, PrimeSafe is reviewing its current sulphur dioxide testing program and considering the potential for changes to be implemented that will reduce costs of the program without compromising the achievement of the current very high levels of compliance with regulatory requirements in this area. However, pending the completion of this review, it is not possible to put forward a well-considered alternative program in this area that can be expected, with a high level of confidence, to achieve these dual objectives.

# Conclusion

## **Overview**

All of the proposed options discussed meet the first of the identified objectives, that of ensuring that sufficient revenue is generated to fund PrimeSafe’s budgeted regulatory activities. Given the legislative requirement for PrimeSafe to be self-funding, this is a fundamental requirement.

The options differ in terms of the second identified objective, of improving equity between regulated entities by creating a better alignment between fees paid and costs incurred for different licence types. All options other than Option 1 would provide improved equity outcomes in this regard compared with a continuation of the current fee regime. However, the extent of the equity improvement achieved would differ significantly between the options.

Options 3 and 4 clearly perform better against this objective than Option 2, as each would ensure, as far as possible[[34]](#footnote-34), that fee revenue and regulatory costs were exactly matched for each licence type. However, this objective would be achieved by implementing very substantial increases in existing fee levels in some cases. Moreover, these fee increases would be concentrated in areas in which concerns would necessarily arise as to the capacity to pay of the licensees, particularly where retail butcher shops are concerned. This is a necessary corollary of the fact that the fees have historically had regard to capacity to pay issues as well as cost recovery issues, and as part of this concern, that there have been explicit policy decisions taken to limit the fees paid by retail butcher shops.

Option 4 is less problematic than Option 3 in this regard, since an expected reduction in the level of inspection activity related to the sulphur dioxide program would mean that the size of the cost recovery based fees imposed on retail butcher shops would be lower than under Option 3 and the extent of the fee increase experienced by this group concomitantly lower. However, as discussed above, there are concerns regarding the implementation of Option 4 in the short term, given that PrimeSafe has yet to complete its review of the sulphur dioxide program and develop what it believes to be an appropriately modified approach to inspection and enforcement in this area. There would also be a need to develop a risk-based approach to animal welfare inspections in order to implement Option 4 effectively.

Given the range of considerations involved in determining the preferred option and the fact that not all can be quantified in dollar terms, a multi-criteria analysis is presented below to clarify the basis for the choice of the preferred option.

## **Multi-criteria analysis**

### *Assessment criteria*

Four assessment criteria have been identified, based on the specific objectives set out in Section 6 and the broader regulatory role of PrimeSafe. These are the extent to which the option aligns fees paid and regulatory costs incurred for different groups of licensees, affordability for small business, regulatory cost minimisation and maintenance of public confidence.

The ***alignment of fee revenue and regulatory costs*** for individual groups of licensees is both equitable and economically efficient and also reflects government policy, as reflected in the Department of Treasury and Finance Cost Recovery Guidelines.

***Affordability for small business*** has historically been an important consideration in PrimeSafe’s fee setting and the continued relevance of this objective is identified in the most recent Ministerial Statement of Expectations, which highlights the scope to reduce the regulatory compliance costs of small business.

***Regulatory cost.*** This criterionreflects the objective, set out in the Victorian Guide to Regulation, of ensuring that that identified regulatory objectives are to be achieved at the lowest feasible cost. This is also an implicit objective of the Cost Recovery Guidelines, which emphasise that only “efficient costs” should be recovered via regulatory fees.

***Maintenance of public confidence*** is essential for the continued economic success of the industry, since any concerns about the safety of meat, poultry and seafood would be likely to give rise to a decline in consumption by at least some sections of the community.

All of these criteria have been accorded equal weight, since all are considered to be closely related to the achievement of PrimeSafe’s regulatory responsibilities and the consequent prosperity of the meat, seafood and poultry industries.

### *Assessment of the options against the identified criteria*

***Appropriate alignment between regulatory costs and fees***

As all options necessarily ensure a full cost recovery outcome in the aggregate, all receive a positive score. This reflects the fact that the continuation of the status quo would not achieve an alignment of regulatory costs and fees at the aggregate level, whereas all of the feasible options considered would achieve this outcome. The scores of the options are therefore distinguished in terms of their performance in aligning regulatory costs and fees at the level of individual licence types.

Option 1 receives the lowest score of +3, against this criterion, as it would make no improvement to the current alignment of fees and costs across licence categories. All the remaining three options receive larger positive scores, since each would lead to a closer alignment between regulatory costs and fees paid than under Option 1. Options 3 and 4 both score +8. While each would imply that licence fees for each regulatory type would be set at levels which would, as exactly as possible, yield sufficient revenue to cover the costs of regulating that group of licensees, these options score less than the maximum of +10. This reflects the fact that the currently available management information is insufficiently detailed to allow the costs attributable to regulation of each licence type to be determined with precision. For example, little information is available on the average costs of undertaking inspections of different kinds of facilities, as discussed above. Thus, more detailed and accurate costing information would need to be available to develop an option that would receive a maximum score on this criterion. Option 2 scores lower than either Options 3 or 4 at +5. Its score is positive because it would achieve a better matching of regulatory costs and revenues than the current fee structure. However, some significant cross subsidies would remain and despite the relative paucity of detailed costing data, it is clear that this option would achieve a less accurate matching of fees and costs than either of the other two options.

***Affordability for small business***

As discussed above, this has been a significant consideration historically and the setting of licence fees continues to be considered as an important factor, as reflected in the most recent Ministerial Statement of Expectations. All options score negatively against this criterion, reflecting the fact that there would be a 25% increase in fee revenue received under all options, with at least some of this additional revenue being derived from small business. Option 1 scores best against this criterion at -2, since fee increases for small businesses would be limited to the general 25% rise. The remaining options would all involve increases in fees for a range of small businesses that exceed this amount. Option 2 scores the next best at -3, since the expected cost increases for retail butcher shops in particular would be smallest in this case. Option 3 scores worst at - 8, while option 4 scores - 5. Option 4 scores better than Option 3 largely because the adoption of more risk-based inspection and enforcement strategies would serve to limit the size of cost increases falling on retail butcher shops in particular.

***Regulatory cost***

Again, all options considered score negatively on this criterion. This reflects the fact that total regulatory expenditures would increase from the current levels under all three options, largely as a consequence of the additional functions which PrimeSafe has been requested to carry out via the Ministerial Statement of Expectations. Options 1, 2 and 3 all receive the same score of -2, against this criterion. This reflects the fact that the total fee revenue to be raised under each option would be identical at $2.5 million. Option 4 scores more highly at -1 because the proposed adoption of more risk-based inspection and enforcement arrangements would yield cost savings in the vicinity of $0.3 million, implying that the increase in total regulatory costs under this option would be limited to around $0.2 million, compared with $0.5 million under either Options 1 or 2.

**Maintenance of public confidence**

Options 1, 2 and 3 receive slightly positive scores on this criterion, in reflection of the fact that PrimeSafe will be increasing its resources and the range of activities that it undertakes in relation to meat, poultry and seafood safety. The provision of pre-licensing advice, in particular, may contribute to the achievement of slightly improved public confidence, since it should assist new licensees to reach a high level of food processing practice from the outset.

Conversely, Option 4 scores a slightly negative score. This reflects PrimeSafe’s view that the adoption of a risk based approach, entailed a reduced level of inspections, would give rise to some level of public concern if not accompanied by a successful marketing program to explain the rationale for the change and the safeguards adopted. In light of the current situation in which work has yet to be undertaken in this area, this is not considered feasible in the short term. Conversely, an assessment of the merits of adopting Option 4 in the medium term would be expected to yield a more positive score against this criterion.

Table 12.1 below summarises the scores given to each option in respect of each assessment criterion as discussed above.

**Table 12.1: Multi-Criteria Analysis Summary Scores**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Option** | **Alignment of Costs and Fees** | **Affordability for Small Business** | **Regulatory Cost** | **Maintenance of Public Confidence** | **Total** |
| Option 1 | +3 | -2 | -2 | 2 | +1 |
| Option 2 | +5 | -3 | -2 | 2 | +2 |
| Option 3 | +8 | -8 | -2 | 2 | 0 |
| Option 4 | +8 | -5 | -1 | -1 | +1 |

Table 12.1 shows that Option 2 receives the highest score at + 2, while Options 1 and 4 both score +1. All three of these options receive positive scores, indicating that all are preferable to the maintenance of the existing fees arrangements. Option 3 receives a net score of zero, indicating it ranks equally with the maintenance of the current fees arrangements on balance.

The scores received by the four options are similar, suggesting that there is limited difference in their overall merits. However, while the options receive similar summary scores, there are significant differences in their feasibility in the short term. In broad terms, Option 2 is considered to be the preferred option for adoption in the short to medium term, while it is anticipated that movement in the direction of regulatory arrangements and fees structures along the lines set out in Option 4 will occur over time. As discussed in Section 9, PrimeSafe is currently reviewing its approach to key aspects of its inspections program, with a view to expanding the extent to which risk-based approaches are adopted and thereby both increasing regulatory effectiveness and reducing regulatory costs. In this context, it also anticipates that further progress will be made in reducing the extent of cross-subsidies between groups of licensees. However, further rebalancing of fees to achieve this outcome will need to be based on the development and analysis of more detailed information on the costs incurred in undertaking specific regulatory activities in respect of specific groups of licence holders.

Given the above, it is proposed to proceed with the adoption of a revised fee structure as described in Option 2.

# Consultation

PrimeSafe has undertaken a substantial consultation program in relation to the proposed fee changes over the past year. The consultation program commenced in February 2015, when it sought feedback from a range of industry bodies on the outcomes of its internal financial review.

The bodies from which feedback was initially sought were:

* Australian Meat Industry Council;
* Seafood Industry Victoria;
* Melbourne Seafood Centre; and
* Victorian Chicken Meat Council.

Following consideration by PrimeSafe of the initial feedback received from these groups, amended licence categories and fee structures, particularly in relation to the throughput based licence categories were agreed with the relevant bodies, for implementation over a two-year implementation period. A range of other changes were also endorsed as appropriate by the major stakeholder groups. The key changes agreed by the above stakeholder representative bodies in this context were:

**Throughput-based licence categories**

* Reduction from six to four throughput categories for abattoir licences;
* Reduction from seven to five throughput categories for poultry processing facility licences; and
* Reduction in throughput categories from six to five for further meat processing facility licences.

**Export registered establishments**

* Revised fees for export registered abattoirs, further meat processing facilities, and seafood processing facilities.

**Retail butcher shop licence**

* Creation of a new licence category for retail butcher shops manufacturing smallgoods, to be charged a higher fee, to take account of the significant additional food safety risks involved; and
* Revised licence fees for existing retail butcher shops.

**Meat transport vehicle licence**

* Establishment of three vehicle categories to replace the previous single MTV licence, with licence categories based on vehicle carrying capacity and differential fees charged for each licence category.

**Seafood processing facility licence**

* The seafood industry presented a proposed fee structure in response to PrimeSafe’s initial fee proposals which would have removed the Category B licence category and as a result, would have yielded significantly less revenue from this sector than at present. PrimeSafe does not consider this proposal viable in a context in which most licensees will necessarily experience a significant increase in fees, since its adoption would create a further revenue shortfall that would need to be addressed through still higher fee increases in the meat and poultry sectors. Pending further discussion with the seafood industry, no change to licence arrangements or fees is currently proposed for the seafood sector, other than indexation of the current fees by the rate approved by the Treasurer and an increase in the fee cap for exporting seafood processors, from $1,566 to $1,850, consistent with the changes proposed in respect of exporting abattoirs and further meat processing facilities.

# Statement of compliance with the National Competition Policy

The National Competition Policy agreements set out specific requirements with regard to all new legislation adopted by jurisdictions that are party to the agreements. Clause 5(1) of the Competition Principles Agreement sets out the basic principle that must be applied to both existing legislation, under the legislative review process, and to proposed legislation:

*The guiding principle is that legislation (including Acts, enactments, Ordinances or Regulations) should not restrict competition unless it can be demonstrated that:*

*(a) The benefits of the restriction to the community as a whole outweigh the costs; and*

*(b) The objectives of the regulation can only be achieved by restricting competition.*

Clause 5(5) provides a specific obligation on parties to the agreement with regard to newly proposed legislation:

*Each party will require proposals for new legislation that restricts competition to be accompanied by evidence that the restriction is consistent with the principle set out in sub-clause (1).[[35]](#footnote-35)*

Therefore, all Regulatory Impact Statements must provide evidence that the proposed regulatory instrument is consistent with these National Competition Policy obligations. The Organisation for Economic Cooperation and Development *Competition Assessment Toolkit*[[36]](#footnote-36) provides a checklist for identifying potentially significant negative impact on competition in the Regulatory Impact Assessment context. This is based on the following four questions:

* Does the proposed regulation limit the number or range of suppliers?
* Does the proposed regulation limit the ability of suppliers to complete?
* Does the proposed regulation limit to the incentives for suppliers to compete?
* Does the proposed regulation limit the choices and information available to consumers?

According to the Organisation for Economic Cooperation and Development, if all four of these questions can be answered in the negative, it is unlikely that the proposed regulations will have any significant negative impact on competition and further investigation of competition impacts is not likely to be warranted.

The proposed fees order is limited to establishing regulatory fees at levels that recover the costs incurred by PrimeSafe in exercising its legislative functions. Thus, it is clear that none of the above questions can be answered in the positive. In particular, given that the fees charged in all cases represent a very small proportion of overall turnover – in part due to the ongoing subsidy towards small business entailed within the proposed fees – it is not considered that these proposed fee changes will have any negative impact on the number of suppliers in the industry and hence, on the level of competition. Consequently, the proposed fees order is considered to be fully consistent with the National Competition Policy.

# Implementation plan

The proposed fees are expected to be adopted effective 1 July 2016. The one exception relates to the fee for the new category of retail butcher shops manufacturing smallgoods. The differential fee for this licence category will not come into effect until 1 July 2017. This reflects the substantial size of the fee increase proposed and the fact that a large proportion of the affected licensees are small businesses. The provision of an addition 12 months’ notice prior to the charging of this fee will enable these businesses to consider whether they wish to continue or expand their smallgoods operations in light of the higher fee that will be payable.

The proposed fees have been the subject of substantial consultation with all relevant stakeholder groups carried out during 2015, as discussed in Section 13. Consequently, there is a high level of knowledge of the proposed changes among licensees and a high level of acceptance of the proposed changes. PrimeSafe will continue its communications with industries to ensure that stakeholders are aware of the details of the implementation of the new fee structure.

The revised fees will be implemented via PrimeSafe’s current administration systems. Since only one new fee is being adopted, minimal changes are expected to be required.

Fees made under the authority conferred by the *Meat Industry Act 1993* are not limited in duration. PrimeSafe expects to increase the fees by the rate published by the Treasurer for 2017-18. In the medium term, further reconsideration of the fees will be undertaken in the light of moves toward more risk-based regulatory approaches and the acquisition of better data on the specific regulatory costs attributable to different groups of licensees. This is likely to lead to a further realignment of the fee structure.

# Evaluation strategy

A key task to be undertaken by PrimeSafe in connection with the proposed fees is to improve its understanding of the costs incurred by it in undertaking a range of specific regulatory activities in relation to a range of different licensee groups.

This will be done in the context of broader reviews currently being commenced of its inspection and surveillance programs and will form an important element of these reviews. In line with normal PrimeSafe practice, this review activity will be undertaken in full consultation with stakeholders, who will have opportunities to engage in dialogue on both the issue of inspection and surveillance and that of appropriate future fee structures.

As a result of the reviews, there will likely be a significant reorientation of PrimeSafe’s inspection activities. While the resources devoted to the inspection function will not be reduced, the focus of the inspection activity is expected to shift in some areas, notably through replacing the current strong focus on SO2 with approaches that target a wider range of allergens. This may mean that a smaller number of more complex or detailed inspections are undertaken. As previously noted, an increase in the use of risk assessments as the basis for directing this activity will drive these changes to a significant extent and can be expected to achieve improved outcomes.

Ensuring a sound understanding of the costs involved in carrying out inspections in different contexts and for different purposes will be essential in enabling a significantly revised inspection program to be undertaken. This implies that the cost analysis underpinning fee setting will be more detailed and accurate than that reported in the current Regulatory Impact Statement.

A more disaggregated analysis of the activities which make up the “CEO/Administration” cost category will also be undertaken. This will provide data to support consideration of different allocations of elements of this cost category, in preference to the current approach which simply distributes this cost equally across all licensees. This reflects the view that, while there are significant fixed costs associated with the regulatory function, not all items currently included in the CEO/Administration category are likely to fall within this category. An example is given by the production of guidance materials on the production of dry-aged beef, highlighted in Section 5.2. This process will be facilitated by the adoption of a new integrated licensee database, which is currently being sourced.

Given the significant changes to PrimeSafe’s operations likely to arise as a result of the above-mentioned reviews, as well as the need to consider the impact of the fee changes currently proposed, PrimeSafe will undertake a substantive reconsideration of its fee structure within the next two to three years. This will aim to ensure that it meets the requirement of the Ministerial Statement of Expectations that it ensure “*fee structures and compliance and enforcement policies are appropriate, proportionate and transparent, regardless of business size or sector*”.

# Appendix 1: Proposed PrimeSafe fee schedule

|  |  |  |  |
| --- | --- | --- | --- |
| **Licence Category** | **Annual Throughput** | **Application Fee (Payable with first annual fee only)**  **($)** | **Annual Fee**  **($)** |
| **Abattoir1**  To calculate number of units of throughput:  1 cattle = 5 units  1 rabbit = 0.2 units  1 other stock = 1 unit | Up to 15,000 units  15,001 to 200,000 units  200,001 to 500,000 units  Over 500,000 units | 932  1,665  3,332  4,864 | 1,864  3,330  6,664  9,728 |
| **Poultry Processing**  To calculate number of units of throughput:  1 bird = 1 unit  1 rabbit = 1 unit | Up to 50,000 units (8,001 to 25,000kg)  50,001 to 500,000 units  500,001 to 2,500,000 units  2,500,001 to 5,000,000 units  Over 5,000,000 units | 883  1,207  1,849  3,172  5,712 | 1,766  2,413  3,697  6,343  11,424 |
| **Further Meat Processing2**(includes poultry meat & smallgoods) | Up to 250 tonnes  251 to 500 tonnes  501 to 2,500 tonnes  2,501 to 5,000 tonnes  Over 5,000 tonnes | 321  371  744  1,118  1,360 | 641  742  1,488  2,235  2,719 |
| **Retail Butcher Shop**  (meat/poultry only) | Not applicable  (Wholesale up to 50 tonnes) | 160 | 320 |
| **Retail Butcher Shop (Smallgoods)3**  (meat/poultry and smallgoods) | Not applicable  (Wholesale up to 50 tonnes) | 160 | 320 |
| **Prime Tallow Processing** | Not applicable | TBD4 | TBD |
| **Game Meat** | Not applicable | TBD | TBD |
| **Inedible Rendering** | Not applicable | TBD | TBD |
| **Pet Meat Processing Plant** | Not applicable | TBD | TBD |
| **Pet Food Establishments** | Up to 50 tonnes  51 to 150 tonnes  Over 150 tonnes | TBD  TBD  TBD | TBD  TBD  TBD |
| **Meat Transport Vehicles** | Commercial Van  Truck/Trailer under 4.5 tonnes GVM  Truck/Trailer over 4.5 tonnes GVM | -  -  - | 128  195  247 |

Notes:

1. Abattoirs supervised by the Department of Agriculture (DA) where DA accepts responsibility for all products placed on the domestic market are required to pay a licence fee in accordance with the fee schedule up to a maximum fee of $1,850. However, as the minimum fee specified in the schedule under the proposed changes exceeds this “cap”, all abattoirs in this category would pay the “capped” fee of $1,850. New licence applications covered by this arrangement will also be required to pay an application fee in accordance with the fee schedule up to a maximum of $925.
2. Facilities supervised by the DA currently pay a capped maximum fee of $1,566 which would rise to $1,850 in 2016-17 under this option. The maximum fee is payable only where the throughput level of the processor would otherwise dictate that a higher fee is payable (i.e. above 2,500 tonnes). For lower throughput levels, the fee payable is identical to that paid by processors only serving the domestic market.
3. From 1 July 2017, fees for retail butchers manufacturing smallgoods will be $325 (application) and $650 (annual licence fee).
4. For all fees listed as ‘To Be Determined’ (TBD), the existing fees payable by these licensees will be indexed from 1 July 2017 in line with the rate published by the Treasurer.

1. Processors of between 400,000 and 500,000 units will fall into the new category (200,000 to 500,000 units) and will experience a fee reduction of 17.8% compared with the fee of $8,107 currently payable by processors of over 400,000 units. [↑](#footnote-ref-1)
2. Applies above a new threshold of 500,000 units. [↑](#footnote-ref-2)
3. Higher fee applies above new threshold of 500,000 units. [↑](#footnote-ref-3)
4. Export meat processing facilities supervised by the DoA currently pay a capped maximum fee of $1,566, which would rise to $1,850 in 2016-17 under this option (18.1% increase). The maximum fee is payable only where the throughput level of the processor would otherwise dictate that a higher fee is payable (i.e. above 2,501 tonnes). For lower throughput levels, the fee payable is identical to that paid by processors only serving the domestic market. [↑](#footnote-ref-4)
5. Increase to 2017-18. [↑](#footnote-ref-5)
6. A similar authorisation is also contained in the *Seafood Safety Act 2003*. [↑](#footnote-ref-6)
7. These amendments had the effect of expanding the requirement to prepare RIS to cover a wide range of legislative instruments where this requirement had previously been limited to statutory rules (i.e. “regulations”). Since 2011, PrimeSafe fees have been increased only at the “Treasurer’s rate” announced in the budget context each year and so have not been increased in real (i.e. inflation adjusted) terms or subject to restructuring. Thus, the current proposed fee changes are the first to be subject to the RIS process. [↑](#footnote-ref-7)
8. In addition, the Act authorises the Minister to direct, if necessary, that the fees it charges be increased to a level sufficient to ensure that this outcome is produced. [↑](#footnote-ref-8)
9. See PrimeSafe (2009). *Annual Report 2008-09*, p 26. [↑](#footnote-ref-9)
10. Inflated by the Melbourne CPI All Groups index. [↑](#footnote-ref-10)
11. Health Department (2010). *Food borne Illness in Australia: Annual Incidence Circa 2010*, p 21*.* https://www.health.gov.au/internet/main/publishing.nsf/Content/E829FA59A59677C0CA257D6A007D2C97/$File/Foodborne-Illness-Australia-circa-2010.pdf [↑](#footnote-ref-11)
12. In particular, a significant proportion of asthma-sufferers are known to experience exacerbation of symptoms when exposed to SO2. [↑](#footnote-ref-12)
13. See PrimeSafe Annual Reports for those years. [↑](#footnote-ref-13)
14. A total of 334 complaints were received in 2014-15, of which 115, or slightly more than one third were found to be substantiated. The equivalent numbers for 2013-14 are 351 complaints and 128 substantiated. [↑](#footnote-ref-14)
15. Estimated 2016-17 cost. [↑](#footnote-ref-15)
16. The average fee in each of the categories with throughput based fee structure is calculated by dividing the total fee revenue received from that category of licence by the number of licensees in the category. [↑](#footnote-ref-16)
17. Department of Treasury and Finance (2013). *Cost Recovery Guidelines.* [*http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Cost-recovery-guidelines*](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Cost-recovery-guidelines) [↑](#footnote-ref-17)
18. For example, the current program of SO2 inspections of retail butcher shops is currently under review. [↑](#footnote-ref-18)
19. However, as shown in Table 9.1, real fee increases would not apply in all throughput categories. [↑](#footnote-ref-19)
20. This category comprises a range of meat products that are not for human consumption, plus game meats. [↑](#footnote-ref-20)
21. Moreover, the application fees payable in NSW and Queensland, at $378 and $546.50 respectively, are substantially higher than the Victorian application fees which would range from $64 to $123.50 under Option 2. [↑](#footnote-ref-21)
22. Processors of between 400,000 and 500,000 units will fall into the new category (200,000 to 500,000 units) and will experience a fee reduction of 17.8% compared with the fee of $8,107 currently payable by producers of over 400,000 units. [↑](#footnote-ref-22)
23. Higher fee applies above new threshold of 500,000 units. [↑](#footnote-ref-23)
24. Export meat processing facilities supervised by the DoA currently pay a capped maximum fee of $1,566, which would rise to $1,850 in 2016-17 under this option (18.1% increase). The maximum fee is payable only where the throughput level of the processor would otherwise dictate that a higher fee is payable (i.e. above 2,500 tonnes). For lower throughput levels, the fee payable is identical to that paid by processors only serving the domestic market. [↑](#footnote-ref-24)
25. Increase to 2017-18. [↑](#footnote-ref-25)
26. Based on an indicative estimate of 10 hours of paid advice being provided per month at $250 per hour (ex GST). This estimate is based on PrimeSafe’s current experience with advice requests and is necessarily subject to uncertainty. [↑](#footnote-ref-26)
27. Average fee increases on FY15 are projected to be 9.0% (domestic abattoirs), 15.8% (poultry processing) and 13.7% (further meat processing). [↑](#footnote-ref-27)
28. For categories in which output based fees are charged, the average fee paid in 2014-15 and the proposed average fee are cited. [↑](#footnote-ref-28)
29. This would be the average fee paid by retail butcher shops. Those who fell within the new licence category for retail butcher shops manufacturing smallgoods would pay more than this average amount, while those who do not would pay less. [↑](#footnote-ref-29)
30. The incidence of this fee reduction in those categories with output based fee structures (i.e. abattoirs, further meat processing facilities, poultry processing facilities) would require consideration under Option 2, as currently available cost information does not clearly distinguish the average regulatory costs incurred in relation to larger and smaller processors within these categories. [↑](#footnote-ref-30)
31. For simplicity, these estimates implicitly assume that the unit cost per inspection would be unaltered in the event that total inspections activity was reduced, as proposed. In practice, the existence of some fixed costs, at least in the short term, would mean that actual cost reductions would be less than suggested here. [↑](#footnote-ref-31)
32. This is an indicative calculation only, based on the current estimated cost per inspection of $912 and an assumption regarding rounding of the relevant fees. In practice, the reduction in fees achievable under such a scenario is likely to be smaller than this estimate would suggest, at least in the short term, due to the presence of quasi-fixed costs associated with the conduct of inspections (i.e. total costs would not fall proportionately with the number of inspections conducted. [↑](#footnote-ref-32)
33. Alvaro R. Garcia-Fuentes , Sabrina Wirtz , Ellen Vos and Hans Verhagen (2015). *Short Review of Sulphites as Food Additives.* European Journal of Nutrition & Food Safety 5(2): 113-120, 2015, Article no.EJNFS.2015.010. See: <https://www.researchgate.net/profile/Hans_Verhagen/publication/273518332_Short_Review_of_Sulphites_as_Food_Additives/links/555c764e08ae6aea081795c4.pdf> [↑](#footnote-ref-33)
34. As discussed in Section 5, the limitations of the available cost data mean that there is necessarily a significant degree of uncertainty surrounding cost allocations and as a result, conclusions regarding cost-recovery levels under different options. [↑](#footnote-ref-34)
35. *Competition Principles Agreement*, Clause 5. 1995. See: www.ncc.gov.au [↑](#footnote-ref-35)
36. See OECD (2011) *Competition Assessment Toolkit. Volume 1: Principles*, pp 8-9. OECD, Paris, 2011. [↑](#footnote-ref-36)