S G HEILBRON
ECONOMIC AND POLICY CONSULTING

Fisheries Cost Recovery Review

REPORT FOR THE DEPARTMENT OF PRIMARY INDUSTRIES AND REGIONS SOUTH AUSTRALIA

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Executive Summary

The current system of recovering the costs of regulating fisheries in South Australia (SA) has become increasingly problematic. It is complex, resource-intensive and hence expensive to administer and causes disputation with industry about the level of charges and how they are calculated.

The economic rationale for cost recovery has been based on concepts which may be clear in theory (although this too can be overstated) but are much less so in practice. The rationale had two aspects – cost recovery would maximise efficiency (giving signals to the governments and users to allocate resources) and equity (the notion that private beneficiaries of public services and resources should pay the full costs of delivering or regulating them).

But clearly demarcating private from public benefits and beneficiaries can be difficult. Signals to users of services have limited value if the services are provided by government as a monopoly and being required to pass on the full costs of the services provides little incentive for efficiency by government agencies. The most economically rational system would be to charge only the marginal cost of services, but this is difficult to calculate in practice and would result in significant revenue gaps for governments, which have become highly dependent on an activity-based cost recovery for their finances.

Whilst the aim of most cost recovery systems is to recover the full costs of activities, in practice less than full costs are commonly recovered. But in practice the biggest problems have been the increasing complexity and resource intensity of administering the system, and the conflicts generated with industries over the size and basis of the charges. In South Australian fisheries, the costs of all people, equipment and services are allocated in great detail to all the industry sectors; albeit some costs are excluded.

The current system has led to regular tension and disaffection between government and industry, partly reflecting opposition to paying for services that some industry members would consider have already been paid for by their taxes, such as compliance. There has been pressure by industry on government for increasing transparency about the basis for the costs they are charged. However, there are limits to how transparent government can be in relation to for example, the salaries of officials or underlying corporate agency costs which form the major costs being recovered. Yet this is what industries probably need to know more than anything to understand the models on which charges are based.

The South Australian fisheries cost recovery approach has been reviewed multiple times, but these reviews have generally focussed on incremental improvements rather than assessing the underlying economic rationale and its practical implications. In fact, because of these problems, other jurisdictions (Western Australia) have moved, or are considering the possibility of moving (Victoria), to a system whereby industries pay a fee for accessing common resources in the form of a percentage of the industry Gross Value of Production (GVP) to cover regulatory costs or a lease fee.

A GVP system means the risks associated with varying industry conditions are shared between industry and government. It means government has to plan for periods when industry GVP and hence receipts decline. But it equally means government receives clear signals on the need for efficiency in service provision and is able to use the funds strategically and not entirely for the benefit of the industry who paid them.

This Review describes the way in which a GVP percentage approach could be applied in South Australian fisheries. The impacts for government and industry are identified through modelling of forecast costs that would be recovered under the current system and forecast GVP.

A Business as Usual (BAU) scenario would see the continuation of the current cost recovery system, calculated on the basis of the costs increasing over the 2023/24 to 2025/26 period as forecast by the Department of Primary Industries and Regions (PIRSA) and including an assumed inflation uplift of 2.5 per cent, and industries' GVP forecasts based on estimates derived from the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES). This scenario would see the fisheries industry paying an average of $12.7m a year in costs recovered, equivalent to around 5.7 percent of GVP.

With the introduction of a GVP system, a forecast of GVP times 5 per cent could be applied for fisheries from 2023/24-2025/26 to demonstrate how the GVP model could be implemented for a 3-year period, with an alternative scenario of introduction over a 5-year period.

Historically, costs recovered measured as an equivalent of GVP, in for example the Spencer Gulf and West Coast Prawn Fishery have been around 2.4 per cent and the Southern Zone Rock Lobster Fishery around 3.6 per cent, while the Northern Zone Rock Lobster and Abalone fisheries have paid around 9.9 per cent and 10.7 per cent, respectively, and the Gulf St Vincent Prawn, Marine Scalefish and Charter Boat fisheries over 12 per cent. In the forecast period 2023/24 to 2025/26, these disparities would vary in some cases - for example the Spencer Gulf and West Coast Prawn Fishery would fall from 2.4 per cent to 1.9 per cent and the Gulf St Vincent Prawn Fishery would increase from 12.5 per cent to over 17 per cent of their forecast GVP.

It should be noted that the figures used for costs recovered in this analysis are those that are applied to industries, less co-management and Fisheries Research and Development Corporation (FRDC) costs. In the case of the fisheries industry, government accounts for around 40 to 43 per cent of the total costs recovered and industry around 57 to 60 per cent.

In contrast, applying a GVP approach using 5 per cent (government services only), would see some sectors pay more than would otherwise have been the case and some pay less. Those sectors that would pay more than under the current cost recovery model are the Spencer Gulf and West Coast Prawn ($1.5m more), Sardine ($0.5m more), and Southern Zone Rock Lobster ($0.5m more) and lesser increases for Blue Crab and Lakes and Coorong fisheries, while those sectors that would pay less are Abalone ($1.2m less), Marine Scalefish ($1.7m less), Northern Zone Rock Lobster ($0.8m less) and Gulf St Vincent Prawn ($0.3m less) fisheries, with lower reductions for others.

The potential approach can be phased in by implementing it over a longer period than in the method above, in order to delay the impact on those sectors that would pay more. However, it should be noted that some sectors gain, and some lose relative to the 2018/19-2022/23 period and delaying the implementation delays the reductions in payments for those sectors that will pay less, as well as delaying the increases for those sectors that will pay more.

In terms of addressing the issue of those who will pay more than would have been the case historically, the government might:

- Delay the application of the system in respect of one or more of those sectors which will pay more. The disadvantage of this approach is that if all these sectors (which will pay more) are charged discounted amounts the foregone recoveries to government will total up to around $0.7m for fisheries each year over the period 2023/24 to 2025/26 compared with what would have been revenues to government if the GVP system was applied with no delays for those paying more, leaving government revenues worse off. Relative to the BAU scenario, phasing in the increases over a 3-year period would mean fisheries paying $2.3 m less each year.
- In addition, a three-year moving average of GVP (as is used in Western Australia) could be used to calculate industry payments instead of a single year. This would have the effect of smoothing out volatility in the amounts paid by industry but also more significantly smooth out volatility in government revenues resulting from an unexpected sharp drop in GVP. Relative to BAU, fisheries would pay $3.3m less under this approach (phasing in the increases over a 3-year period).

The potential approach modelled herein is therefore one of payments based on the percentage of GVP identified above with a 3-year phasing in of the percentage GVP for those sectors that will pay increased amounts under the system and application of a three year moving average of historical GVP. This balances the impacts between sectors within the industries concerned, and between industry and government. The impacts on industry payments and government revenues flowing from application of this potential approach are outlined in the Review.

Maintaining the current cost recovery system entails the following risks:

- As costs of regulation continue to rise some fisheries sectors will find they are increasingly most likely unable to afford the charges. This is especially likely to be the case in those sectors adversely affected by the impacts of COVID (e.g. through higher costs of labour) and/or trade restrictions (e.g. on exports to China). The same would apply if the current high inflationary environment was to persist and be reflected in higher costs recovered with all other factors remaining unchanged.
- The level of disputation and disaffection with the current system is likely to continue and increase, as those charged increasingly question the costs being recovered in more and more detail.
- The costs to government in terms of officers responsible for maintaining the cost recovery system are likely to continue rising.

- The inability of government to use funds from cost recovery for anything other than the sectors concerned reduces the ability of government to target services to those areas of highest risk and to invest strategically for the future.

The limitations of the current system are that it is expensive and consuming of government time to administer and is causing disaffection from and disputation with industry. Moreover, because the costs recovered are unrelated to industry economic conditions and capacity to pay, and to some extent are not related to service utilisation, the risks of paying costs of regulation fall disproportionately on the industry.

The possible approach outlined herein would enable the following:

- Reduced need for addressing complaints from industry about transparency compared with the cost recovery system due to a simple GVP percentage calculation, and a sharing of the risks associated with changing industry economic conditions, leading to an improved relationship with industry.
- Reduced complexity and demand on government administration to manage both the resource and the relationships with industry.
- Improved signals to government on promoting an efficient use of administrative resources especially given that it will need to manage the risks associated with lower revenue when GVP falls.
- Government spends the revenue from industry to manage risks and returns, not linked to the costs of providing services.

Longer term, the approach would have the following implications:

- It provides a foundation for a progressive development of risk-based regulation and/or self-regulatory approaches.
- It necessitates government managing the risks associated with longer term variations in revenues associated with regulatory charges that reflect changes in GVP.
- It facilitates a shift towards focussing its investment in services on longer term, strategic challenges rather than on priorities driven by cost allocation.

Introduction

The Department of Primary Industries and Regions (PIRSA) has been operating a cost recovery policy for approximately twenty years. It operates from the premise that South Australia's aquatic resources are owned by the State and managed by PIRSA on behalf of the South Australian community. Any costs associated with government services that arise as a direct result of commercial access to the resources, are recovered from commercial licence holders through regulated licence fees. These services include, but are not limited to, fisheries management, policy, scientific monitoring and stock assessment, compliance and licensing.

Current cost recovery system

The current policy of recovering the costs of services provided by the South Australian Government to the fisheries industry has become highly problematic. The concept of activity-based cost recovery originated as part of the suite of reforms initiated by the Commonwealth Government around the turn of this century. The economic rationale for cost recovery has been based on concepts which may be clear in theory (although this too can be overstated) but are much less so in practice. The rationale had two aspects – cost recovery would maximise efficiency (giving signals to the governments and users to allocate resources) and equity (the notion that private beneficiaries of public services and resources should pay the full costs of delivering or regulating them).

But clearly demarcating private from public benefits and beneficiaries can be difficult. Signals to users of services have limited value if the services are provided by government as a monopoly and being required to pass on the full costs of the services provides little incentive for efficiency by government agencies. The most economically rational system would be to charge only the marginal cost of services, but this is difficult to calculate in practice and would result in significant revenue gaps for governments, which have become highly dependent on an activity-based cost recovery for their finances.

Whilst the aim of most cost recovery systems is to recover the full costs of activities, in practice less than full costs are commonly recovered. But in practice the biggest problems have been the increasing complexity and resource intensity of administering the system, and the conflicts generated with industry over the size and basis of the charges. In South Australian fisheries, the costs of all people, equipment and services are allocated in great detail to all the industry sectors; albeit some costs are excluded.

Drivers of change

The current system has led to regular tension and disaffection between government and industry. Part of this reflects opposition to paying for services that some industry members would consider have already been paid for by their taxes, such as compliance. There has been pressure by industry on government for increasing transparency about the basis for the costs they are charged.

However, there are limits to how transparent government can be in relation to costs, for example, the salaries of officials or underlying corporate agency costs which form the major part of costs being recovered. Yet this is what industry probably needs to know more than anything to understand the models on which charges are based.

The South Australian fisheries cost recovery approach has been reviewed multiple times, but overwhelmingly these have focussed on incremental improvements rather than assessing the underlying economic rationale and its practical implications. In fact, other jurisdictions and agencies are moving away from this type of cost recovery approach for fisheries because of the above problems.

Victoria has developed a cost recovery system which collects only around 11 per cent of the total cost for fisheries and aquaculture compared with around 60 per cent collected by South Australia (SA) for fisheries, with the rest provided from public funds. Many services there are non-recoverable because they are considered to generate public benefits. But even in Victoria, there is a movement for change to charging industry on the basis of a percentage of the Gross Value of Production (GVP) (it already has a royalty system applying to abalone) to reduce complexity, resource intensity and industry disaffection. This is what Western Australia (WA) has done.

WA has a model based not on cost recovery but instead on charging an access fee for use of a common resource which is sustainably managed. This is based on a percentage of the GVP for fisheries and pearling aquaculture. This approach has advantages of simplicity and substantially reduced administration costs and has resulted in significantly improved relations with industry. However, it does have distributional impacts – charging a percentage which is equivalent in revenue raising terms to the amount currently recovered means some sectors will pay more and some less compared to what they are paying under the current system. This can be addressed by having a transitionary period and potentially by capping payments at some level for those who will pay more.

The limitations of the current system in SA are that it is expensive and consuming of government time to administer and is causing disaffection from and disputation with industry. Moreover, because the costs recovered are unrelated to industry economic conditions and capacity to pay, and to some extent are not related to service utilisation, the risks of paying costs of regulation fall disproportionately on the industry.

The GVP system by linking payments to the ups and downs of production serves to balance risks between government and industry. The GVP system means that revenues are not linked to expenditure, and that government can be more strategic and agile in directing funds to manage the risks facing the natural resources and industry and maximise returns, with input from industry but without the incessant tensions. But it also means government will need to manage the risks associated with lower revenues when GVP falls, which may entail mechanisms for smoothing or buffering revenues or for greater flexibility in cost management by government – in this regard, the GVP approach provides signals to government to enhance efficiency that are far stronger than under the current cost recovery model.

The GVP approach potentially entails cross subsidisation, but that is already happening under the cost recovery system with its differential exclusions and partial cost recoveries. On balance, the current cost recovery system has become highly problematic, and the South Australian Government should consider making the move to a GVP model for fisheries. Other jurisdictions and agencies either have this in place (WA, and potentially Victoria too in the near future), or something similar (royalties in the Victorian abalone sector, and royalties or rent taxes in many resources and energy sectors).

Process being followed

Reflecting the above:

1. The South Australian Government could consider moving to an access fee system to provide funds for regulating access to sustainably managed common fisheries.
2. The access fee could be based on a percentage of GVP for each sector.
3. Forecasts of GVP could be developed for each sector to project the likely revenue that will be generated from the new system.
4. The additional issues identified herein associated with a move to a GVP system could be investigated.

This Review has been prepared to help further develop the policy for reforming fisheries cost recovery and to serve as the basis for consultation with industry on advancing a possible reform agenda.

Review and analysis

Previous reviews

PIRSA's cost recovery policies have been reviewed on numerous occasions in recent times, both as part of the policy's review process and external to that process. [1] These reviews have confirmed that, overall, cost recovery in fisheries is undertaken consistent with PIRSA's cost recovery policy, and in turn this is consistent with the Commonwealth's cost recovery guidelines.

However, these reviews overwhelmingly focus on how to make incremental improvements to, or streamlining, the existing system of cost recovery (e.g., improving transparency, or making more accurate the allocation of costs among users), and hence on the mechanics of the system rather than its inherent economic logic.

Some investigations of the cost recovery system used by PIRSA for fisheries and those used in other States undertaken for the purposes of this Review suggest significant variability in the cost recovery models used in the various jurisdictions and differing estimates of the percentage of costs recovered.

[1] See, for example Deloitte Access Economics, "Review of PIRSA's Cost Recovery Policy and practices, including their application to the Fisheries and Aquaculture Industries", 2015

The percentage of costs recovered varies widely, from 5 per cent of the total costs to manage a fishery (in the Northern Territory), to around 30 per cent (Australian Fisheries Management Authority, New South Wales, and Victoria) and 60 per cent (Tasmania, Queensland).

All States except one, Western Australia (WA), use some form of cost allocation based on activities – only WA uses a percentage of the GVP (which is characterised as a Resources Rent system).

There would appear to be two broadly applicable alternative approaches to cost recovery reform in SA being the Victorian system (which appears to be a version of what prevails in SA), and the WA system.

Continued incremental improvement to cost recovery – e.g., the Victorian system

The Victorian system is representative of the cost recovery approach in general, but it essentially differs from the South Australian one in the following respects:

- The Victorian system is realistic about the lack of clear demarcation between public and private goods.
- It recovers significantly less as a percentage of the total costs than SA – 11 per cent as opposed to around 60 per cent.
- It recognises the significant public benefits as well as the private aspects associated with managing fisheries sustainably.
- It recovers costs by means of fees and also a royalty system in the case of abalone.

The Pros and Cons of this approach relative to that in SA are as follows:

Pros:

Efficiency

- The Victorian system recovers significantly less of the total costs, and this could be expected to provide a more significant signal to the government as provider of the services to improve efficiency.

Equity

- The application of a royalty system (as Victoria does for abalone) would be expected to share risk and potentially capture economic rent.

Cons:

Efficiency

- Apart from the point above, the Victorian system generates similar outcomes to SA in terms of complexity and administrative resource intensity, and tension with industry. In addition, a structurally lower percentage of costs recovered means a greater reliance on other budgetary resources to continue service provision at current levels or entails reduced service provision.

- Finally, moving to a Victorian-like system would essentially entail SA determining what costs to exclude or charge at less than 100 per cent cost recovery, and the basis of such selection would be challenging given the lack of clarity in what is a public or private benefit conferred on users of government services.

As noted above, Victoria is strongly considering a move to a GVP system for fisheries to address the adverse aspects of the current system.

Risk based management access fee system (WA Model)

The Western Australian system essentially differs from the South Australian one in the following respects:

- The WA model is an access regime with a fee being charged that is based on a percentage of the GVP for fisheries.
- Beneficiaries of common resources essentially pay for access to the sustainably managed resource.
- The total costs recovered were originally set to recover an amount similar to that recovered under the full cost recovery system, but would fluctuate according to the GVP produced by the industry.
- The GVP approach also provides a clear and predictable cost to industry that can be factored into their business decisions.
- Revenue raised would not be linked to costs and would be invested by government on the basis of risks and returns to the sector concerned.
- When GVP increases industry also benefits with increased funds going to the peak industry body, the Western Australian Fishing Industry Council (WAFIC). (It should be noted however that under the South Australian co-management policy necessary funding is currently delivered to the relevant associations via their licence fees).

Pros

Efficiency

- Industry essentially pays for access to a sustainably managed common resource based on the value generated by their use of that resource. There is a reduced need for transparency (the need for which is arguable in the case of managing common resources by monopolies); less complexity and reduced demand on government administration to manage both the resource and the tense relationships with industry; the signals to government potentially improve for promotion of an efficient use of resources; and finally, the government spends the revenue from industry to manage risks and returns, not linked to the costs of providing services. It therefore allows a shift towards focussing government investment in services on longer term, strategic challenges rather than on cost allocation.
- It is estimated that the move to a GVP system saved at least three administration positions plus increased the productive time available for policy/research and compliance staff not having to fill in lots of detailed forms. This also reduced the number of meetings needed each year with sectors from multiple to one which

would reduce cost overheads. The results were a conservatively estimated saving of around $0.5 million per year.

- The benefits of increased efficiency through reduced administrative costs, and through better signals to government for resource allocation and investment (e.g., in cost-saving technology for monitoring and enforcement), can be passed on to fishers in the form of reduced access fees or re-invested into improved management and systems, or both.

Equity

- The GVP model better balances risks between government and industry, as it is linked more closely to capacity to pay (but revenue not profit – it is not a resources rent tax); it thus can help reduce tension with industry.

Cons

Efficiency

- It could be claimed that the GVP system undermines price signalling to users for allocative efficiency, but it is arguable whether this happens in a cost recovery system anyway in the case of government being a monopoly service provider; the potential for cross subsidisation of sectors (which already most likely happens to some extent under the current cost recovery system).
- Finally, government also would need to manage potential volatility in revenues especially where it has a substantial fixed cost base, although this can be addressed in certain ways (e.g. increased efficiency in administration that reduces the fixed cost load, application of an insurance premium of buffer fund approach, application of a three-year rolling average to smooth out variances across years).

Equity

- There would need to be a transitionary period to address distributional aspects of the new system (some paying less, some paying more than under the old system), but this is quite normal in the case of moves to a new policy. The new approach would apply a system that is similar to that already operating in SA with respect to mineral royalties.

Based on an analysis of the pros and cons of each system it is considered that the WA approach has clear advantages. It was also noted that Victorian authorities are currently considering moving away from this system to one based on a share of GVP for fisheries in order to reduce administrative cost and complexity and reduce the frustration of industry with the current system.

The potential approach

Principles

Reform of the cost recovery system should be based on a number of key principles:

- Rationale – there should be a clear rationale for the new system, providing a clear justification for recovering the funds. This should be based on a fee for access to use public waters (and access natural resources) to ensure a return to the community for the use of those waters (and resources).
- Impact on development – there should be consideration of impact of the fees charged on the development and economic sustainability of the industry, including the costs of complying with fees requirements.
- Comparability – the level of fees should take into account other comparable jurisdictional arrangements.
- Efficiency – an efficient method and, or process for fee determination should be considered.
- Effectiveness – the delivery of fee arrangements should be consistent with the objects of the relevant legislative instruments which should include the sustainable growth of the industry and benefits to the community.
- Transparency and accountability – a process should be adopted that enables industry, government and the general public to readily enquire about and obtain easily understandable information about fees and services.
- Clarity – there should be clarity regarding the nature of the right and the responsibilities of both government and industry associated with the access fee.
- Review – a proper mechanism needs to be determined including provision for input by relevant stakeholders.

Reflecting these suggested principles, the following elements of the new system could be as follows. Note these are indicative only and for demonstration purposes.

Elements of the approach

The key elements of the approach that could be considered are:

- Access fees to be considered for fisheries based on recovery of a percentage of the individual sectors' GVP from 2023/24 (as an illustrative example only).
- It should be noted that the figures used for costs recovered in this analysis are those that are applied to sectors, less co-management and Fisheries Research and Development Corporation (FRDC) costs. In the case of the fisheries industry, government accounts for around 40 to 43 per cent of the total costs recovered and industry around 57 to 60 per cent.
- The access fee for fisheries could be set at 5 per cent of GVP which is the rounded equivalent of the costs recovered as a percentage of GVP in 2018/19-2022/23. The figure is also the same as was set for fisheries by the WA government when it moved to a GVP percentage system. This figure compares relatively with the equivalent of 5.4 per cent of GVP which applied for the period 2018/19-2022/23 based on forecast costs recovered and GVP (see below).
- The costs recovered by government from fisheries at 5 per cent of GVP would decline relative to the level of recent years (5.4 per cent).
- Future fees recovered would fluctuate with movements in GVP of the individual sectors concerned, those sectors facing increased payments would have the GVP percentage phased in over a three-year period (those facing decreased payments

would have them applied in the first year however), and the percentages of GVP to be paid would be applied to a three-year moving average of historical GVP to smooth out payments.

Impact analysis

In order to analyse the impact of the approach, a model was developed. The assumptions for this were:

- Costs up to 2022/23 were those actually recovered under the current cost recovery system.
- For the years to 2025/26, costs are those forecast by PIRSA to be recovered under the current system.
- The GVP for 2018/19 to 2020/21 were the actual figures for each sector produced by BDO.
- For the years 2021/22 to 2025/26 GVP was forecast, derived from the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) (which forecasts for Australia as a whole and only some sectors – with other sectors estimated).
- The forecast costs/GVP percentages were calculated based on above.
- For 2023/24-2025/26, costs recovered were set at 5.0 per cent of GVP for all fisheries sectors.
- An alternative scenario entailed longer term forecasts for an additional two years 2026/27-2027/28. The forecasts for GVP were derived from ABARES for 2026/27 and for 2027/28 no change from the previous year was assumed in the absence of an ABARES forecast for that year. Costs recovered are forecast to continue increasing in these years at the same rate as for the previous years based on CPI. The generally applicable caution that should be exercised in the use of longer-term forecasts applies too in this case.

The impacts of these assumptions for the period to 2025/26 are as indicated in Table 1 below. This Table assumes that the percentage GVP system is applied from year 1 with no phase in or moving averages applied.

Table 1 Costs recovered under historical and GVP system (immediate application – no phase in period)

COSTS RECOVERED	Actual $	Actual $	Actual/Forecast $	Forecast %	Forecast $	Forecast $	Forecast $
	Costs recovered	Costs recovered	GVP	Costs/GVP	BAU Costs recovered	GVP Costs recovered	GVP system cf BAU
	2022/23	Av 2018/19-2022/23	Av 2018/19-2022/23	Av 2018/19-2022/23	Av 23/24-25/26 at GVP %	Av 23/24-25/26 at GVP %	$ change at GVP %
Fisheries						**5.0**	**5.0**
Abalone	2,098,921	2,159,436	21,096,403	10.7	2,205,627	982,014	-1,223,613
GSV Prawns	434,829	298,958	2,581,132	12.5	456,935	133,333	-323,602
SG & WC Prawns	849,535	835,382	38,060,377	2.4	892,724	2,400,000	1,507,276
South Rock Lobster	2,774,203	2,699,836	82,336,287	3.6	2,915,239	3,390,225	474,986
North Rock Lobster	1,354,522	1,328,608	15,445,570	9.9	1,377,935	572,996	-804,939
Blue Crabs	330,336	329,495	8,534,759	3.9	347,130	414,973	67,843
Lakes & Coorong	617,296	548,367	13,737,474	4.0	648,678	742,498	93,820
Sardines	694,618	905,006	25,092,812	3.6	729,931	1,272,854	542,923
Marine Scalefish & Vongole	2,568,758	2,578,962	19,515,143	13.2	2,699,350	1,007,676	-1,691,674
Misc	68,666	68,879	1,395,534	5.5	72,157	53,036	-19,121
Charter Boat	340,659	338,983	2,786,602	12.5	357,978	159,107	-198,871
Total	12,132,343	12,091,912	230,582,093	5.4	12,703,685	11,128,713	-1,574,972

Note: Costs recovered include all costs net of co-management and FRDC.
Note: Costs for giant crabs not included in Misc.

Key points to note are:

- Fisheries costs (overall) as a percentage of GVP for the period 2018/19-2022/23 averaged 5.4 per cent with Abalone, Gulf St Vincent (GSV) Prawn, Northern Zone Rock Lobster, Marine Scalefish and Charter Boat fisheries well above that figure, Miscellaneous average, and other sectors below.
- The costs/GVP to be recovered for fisheries (overall) from 2023/24 to 2025/26 would actually decline from 5.4 per cent to 5.0 per cent.
- Those sectors that would pay more than they would have under the current cost recovery model are Spencer Gulf and West Coast (SG & WC) Prawn ($1.5m more), Sardine ($0.5m more) and Southern Zone Rock Lobster ($0.5m more) and lesser increases for Blue Crab and Lakes Coorong fisheries, while those sectors that would pay less are Abalone ($1.2m less), Marine Scalefish ($1.7m less), Northern Zone Rock Lobster ($0.8m less) and GSV Prawn ($0.3m less), with lower reductions for others.

Overall, fisheries would pay around $1 million a year less ($11.1m) relative to 2018/19-2022/23 ($12.1m) and $1.6 million less than forecast BAU ($12.7m).

It should also be noted that the forecasts for costs to be recovered from 2023/24 to 2025/26 assume a CPI-based increase of 2.5 per cent a year. In the event that the high inflationary environment prevailing at the time of writing this Review persists, and this is reflected in PIRSA costs to be recovered, those costs would be higher than the forecasts contained herein. Assuming all else remains the same, the industry would be required to pay more to the government than is indicated above based on a higher CPI. Under a GVP system, the amounts to be paid by industry would not be linked to the costs of delivering the services.

Timing and adjustment

In order to ameliorate the impacts of moving to the GVP model, a series of adjustments were modelled.

The method and timing for implementing the possible approach are as follows:

- Forecast GVP times 5.0 per cent for fisheries.
- From 2023/24 to 2025/26 the GVP percentage is applied to the GVP in that year.
- A three-year phasing in of the percentage GVP for those sectors that will pay increased amounts under the system, with those paying less receiving immediate relief.
- Alternatively, a three-year phasing in period for both those paying more and those paying less.
- Application of a three-year moving average of historical GVP with the GVP to apply in 2023/24 being the average of the previous three years.

An alternative scenario of a five-year phase in was also modelled as noted above.

Table 2 Costs recovered under BAU and GVP system (with phase in of increases/decreases over three years and three-year moving average (or not) GVP)

COSTS RECOVERED	Forecast $	Forecast $	Forecast $	Forecast $	Forecast $	Forecast $
	BAU Costs recovered	GVP Costs recovered	GVP Costs recovered	GVP Costs recovered	GVP Costs recovered	GVP Costs recovered
	Av 23/24-25/26 at GVP %	Av 23/24-25/26 at GVP %	Av 23/24-25/26 at GVP %	Av 23/24-25/26 at GVP %	Av 23/24-25/26 at GVP %	Av 23/24-25/26 at GVP %
		Immediate application	Phase increases, use mov. av.	Phase all, use mov. av.	Phase increases	Phase all
Percentage GVP		5.0	5.0	5.0	5.0	5.0
Fisheries						
Abalone	2,205,627	982,014	891,767	1,282,203	982,014	1,404,102
GSV Prawns	456,935	133,333	118,536	214,000	133,333	240,666
SG & WC Prawns	892,724	2,400,000	1,695,575	1,695,575	2,076,096	1,907,463
South Rock Lobster	2,915,239	3,390,225	2,997,239	2,997,239	3,261,889	3,261,889
North Rock Lobster	1,377,935	572,996	527,067	801,659	572,996	863,664
Blue Crabs	347,130	414,973	386,974	386,974	389,804	389,804
Lakes & Coorong	648,678	742,498	666,299	666,299	712,007	712,007
Sardines	729,931	1,272,854	1,022,944	1,022,944	1,094,710	1,094,710
Marine Scalefish & Vongole	2,699,350	1,007,676	943,477	1,472,131	1,007,676	1,565,539
Misc	72,157	53,036	49,657	55,654	53,036	59,365
Charter Boat	357,978	159,107	148,970	211,140	159,107	224,711
Total	12,703,685	11,128,713	9,448,504	10,780,429	10,442,669	11,717,771

As is indicated by Table 2 above, the application of these changes based on a three-year phase in leads to the SG & WC Prawn, Southern Zone Rock Lobster, Blue Crab, Lakes and Coorong and Sardine fisheries sectors paying more than they would have under BAU but less than under immediate application of the GVP system with no moving average GVP used. This also means that for government, revenues over the period are $12.7 million under BAU, $11.1 million under the immediate application of the GVP system, $10.8 million under the 3-year phased in (both for those sectors who pay more and those who pay less)/moving average system, and $9.4 million under the phased in (only for those sectors who pay more)/moving average system.

The impacts on industry payments and government revenues flowing from application of the approach are illustrated below.

Chart 1 Fisheries payment scenarios first year of period 2023/24 to 2025/26

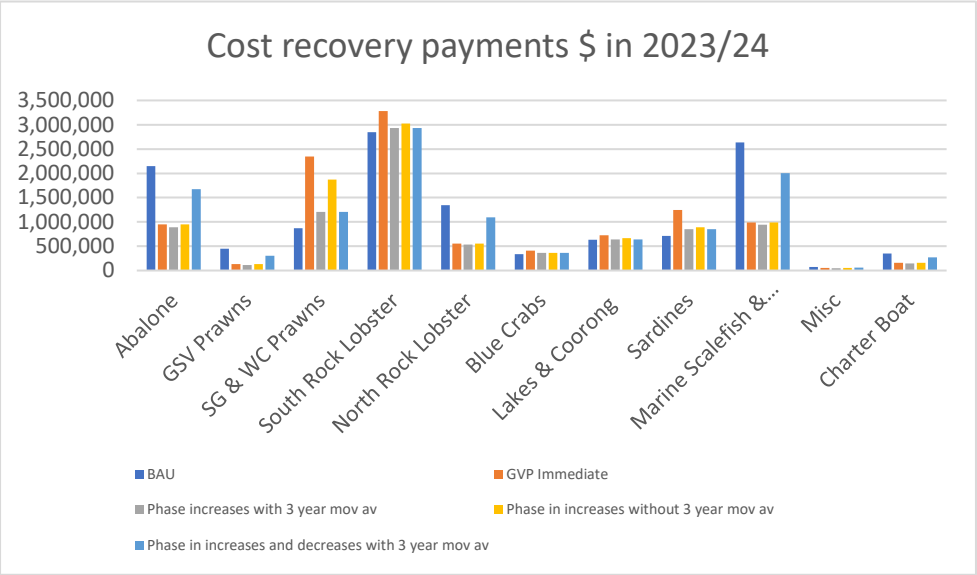
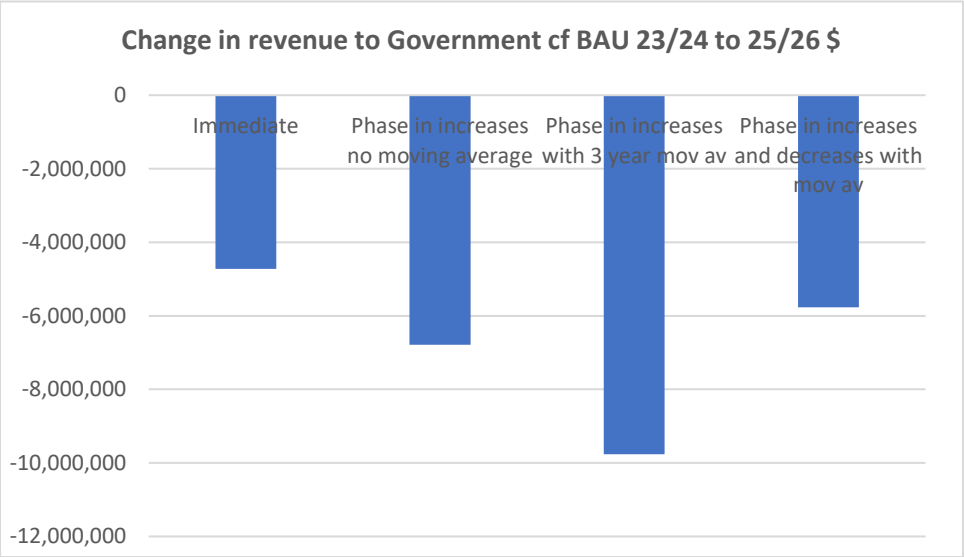


Chart 1 indicates the first-year immediate effects of the various alternatives to indicate the short-term impacts. For those sectors facing increases compared to BAU like the SG & WC Prawn Fishery which have historically paid much less than 5.0 per cent of GVP, the increase of paying that amount with no phase in or moving average would mean more than doubling their payments in the first year of the new system. Phasing in the GVP system over three years and applying a three-year moving average GVP would then halve their payments in the first year relative to not making these adjustments. Phasing in the payments but not applying the moving average would measurably increase their payments relative to also applying the moving average.

But for sectors who will pay less under the GVP system than BAU, they get the immediate benefit of lower payments and the impacts of applying a moving average GVP are minor, with the exception of the SG & WC Prawn and Northern Zone Rock Lobster fisheries which are forecast to have GVP that changes significantly in the period leading up to the introduction of the system. Phasing in their payments would increase them relative to not phasing them in, as their payments would decrease immediately without phasing in.

The impact of the alternative approaches on government revenues are illustrated below. Compared with the BAU, immediate application of the GVP system results in revenues collected by Government falling around $5 million over the three-year period concerned. Applying the phase in of the system for those facing increased payments and application of the moving average for GVP results in revenues to Government being almost $10 million lower over the period. Phasing in increases and decreases with the moving average the revenue foregone to under $5 million. To offset these decreases in government revenues to deliver the necessary services, the GVP figure could be increased (i.e. greater than 5%), noting this would have flow-on effects to the various sectors, particularly those who would be paying more.

Chart 2 Change in revenue to Government over 2023/24 to 2025/26



Finally, it should also be noted that the move to a GVP approach was simpler in WA than it would be in SA because in the former there was one major fishery sector (Rock Lobster) which was much bigger than the others and the 5 per cent of GVP figure was the equivalent of the costs recovered that the Rock Lobster sector paid.

In the scenario whereby the move to a percentage of GVP system was introduced over five years rather than three years, those sectors that would pay less under the GVP system than under BAU would see their payments decrease more slowly and those who would pay more under the GVP system would see the payments increase more slowly.

These impacts could be significant. For example, Abalone would see its payments in 2023/24 at $2.2 million under BAU, falling to around $1 million under the GVP system if applied immediately, but $1.8 million if phased in over 3 years and around $2 million if phased in over 5 years (no moving average). If other adjustments were made through applying the phase-in to those facing increasing payments only, or using moving average GVPs, similar patterns of outcomes would occur with a five year phase in as a three year phase in, only more gradually.

Risk of not proceeding

Maintaining the current cost recovery system entails the following risks:

- As costs of regulation continue to rise some fisheries sectors will find they are increasingly unable to afford the charges. This is especially likely to be the case in those sectors adversely affected by the impacts of COVID (e.g. through higher costs of labour) and/or trade restrictions (e.g. on exports to China). The same would apply if the current high inflationary environment was to persist and be reflected in higher costs recovered with all other factors remaining unchanged.

- The level of disputation and disaffection with the current system is likely to continue and increase, as those charged increasingly question the costs being recovered in more and more detail.
- The costs to government in terms of officers responsible for maintaining the cost recovery system are likely to continue rising.
- The inability of government to use funds from cost recovery for anything other than the sectors concerned reduces the ability of government to target services to those areas of highest risk and to invest strategically for the future, as well as enable opportunities for further co-management/self-regulation mechanisms to be explored.

Conclusions

Addressing current limitations

The limitations of the current system are that it is expensive and consuming of government time to administer, is causing disaffection from and disputation with industry, and imposes all the risks of paying costs of regulation on the industry.

The proposed approach would enable the following:

- Reduced need for addressing complaints from industry about transparency compared with the current cost recovery system due to a simple GVP percentage calculation, and a sharing of the risks associated with changing industry economic conditions, leading to an improved relationship with industry.
- Reduced complexity and demand on government administration to manage both the resource and the relationships with industry.
- Improved signals to government on promoting an efficient use of administrative resources especially given that it will need to manage the risks associated with lower revenue when GVP falls.
- Government spends the revenue from industry to manage risks and returns, not linked to the costs of providing services.

Longer term implications

Longer term the proposed approach would have the following implications:

- It provides a foundation for more strategic initiatives, such as the development of risk-based regulation and/or self-regulatory approaches.
- It necessitates government managing the risks associated with longer term variations in revenues associated with regulatory charges that reflect changes in GVP.

- It facilitates a shift towards focussing its investment in services on longer term, strategic challenges rather than on priorities driven by cost allocation, as well as enable opportunities for further co-management/self-regulation mechanisms to be explored.

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