

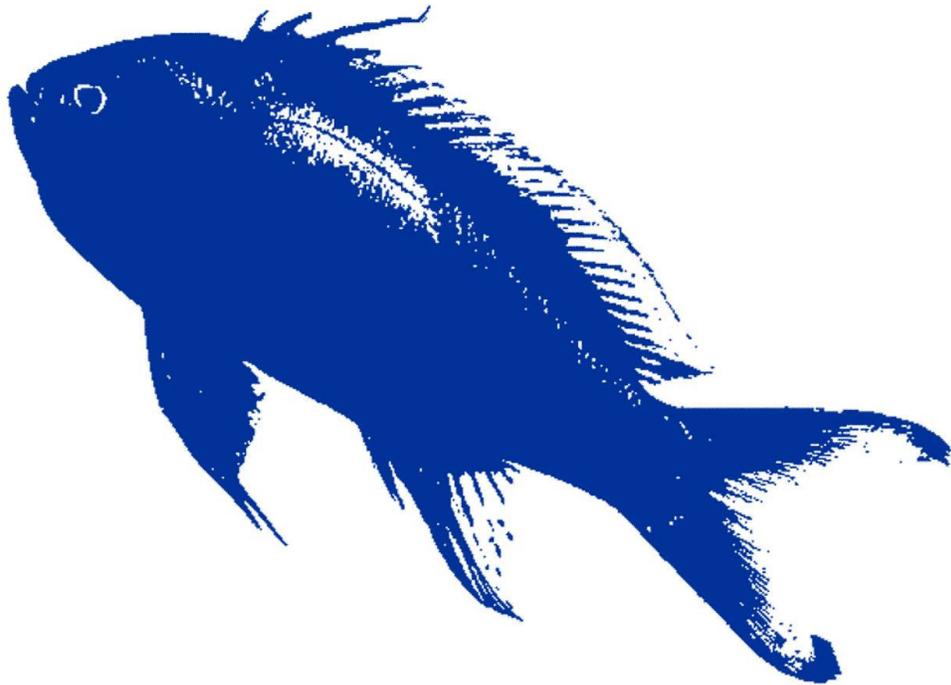
**Deloitte.**

**Department of Primary  
Industries and Resources  
South Australia**

**Review of Fisheries Cost Recovery Policy**

**FINAL REPORT**

**11 February 2009**



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## **Statement of Responsibility**

This report was prepared for the Department of Primary Industries and Resources South Australia solely for the purpose of providing a review of the fisheries cost recovery model as set out in our contract dated 25 November 2008.

In preparing this Report we have relied on the accuracy and completeness of the information provided to us by Department of Primary Industries and Resources South Australia and from publicly available sources. We have also relied upon the accuracy of comments made to us throughout the consultations conducted as part of the project. We have not audited or otherwise verified the accuracy or completeness of the information. We have not contemplated the requirements or circumstances of any one other than the Department of Primary Industries and Resources South Australia.

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# Executive summary

## Introduction

Cost recovery is an important mechanism in managing the use of the South Australia's fishery resource. It ensures that those who benefit from regulated access are charged the costs associated with enforcement of the regulations. It is also an important factor in the sustainable management of the resource for current and future users. This study conducts a review of the commercial fishery cost recovery framework in South Australia, as well as considering potential options for cost recovery from recreational fishers and potential roles of the Fisheries Council in the cost recovery process.

It is noted that the review of the cost recovery framework was not a formal audit, but rather it sought to identify any key issues that warrant further consideration and investigation in order to refine the process.

## Commercial fisheries cost recovery

### Alignment of cost recovery principles

The cost recovery principles applied by the Department of Primary Industries and Resources South Australia (PIRSA) are broadly consistent with those outlined by the Productivity Commission. However, the Productivity Commission does make some additional recommendations which are not captured in the PIRSA Fisheries principles. PIRSA Principles should be expanded to define its basic product set, with relation to public goods, goods with significant positive spillovers and other policy areas.

### Transparency

The cost recovery framework and model only provide limited transparency around the activities and costs associated with management of the non-commercial aspects of the regulatory functions, though there is a high degree of transparency for commercial fisheries. This means that there is insufficient detail on the total bucket of costs incurred, what activities these relate to and how these are allocated between commercial, recreational and indigenous fishers and the broader community.

Providing a transparent process that clearly articulates the total cost of managing the resources, distributes these costs between beneficiaries and how costs are to be recovered (either in full or in part) and the costs which will be covered by government may help to address some of the perceptions about cross subsidisation held by the commercial fishing industry.

There is also a transparency issue around the costs associated with research activities. Currently, there is very limited information provided about how the research costs are derived, as South Australian Research and Development Institute (SARDI) is essentially a monopoly research provider.

#### **Recommendation 1**

Develop a complete picture of the regulatory activities required in order to manage the fishery resource across all user groups (commercial, recreational, indigenous and broader community). Define the costs of these activities and then clearly identify the allocation of costs between all beneficiary user groups.

## Efficiency

Both PIRSA and SARDI are monopoly providers of the regulatory and research services and activities they provide.

In the case of PIRSA, the cost estimates are based upon activities within fishery management plans and the expected time that will be spent undertaking the various regulatory activities for each fishery. A time management study was conducted in 2005/06, which is also used to inform allocations between fisheries. However, it is not clear whether the budgeted allocations of time are representative of actual allocations or not and whether the costs incurred are efficient costs of regulation or not.

As SARDI has a monopoly on the provision of some discretionary research activities but does not provide a detailed cost breakdown for the activities, it is unclear whether the costs of these research activities are efficient. Two benchmarking studies were conducted in the late 1990s which compared the costs of research activities provided by SARDI with other comparable research providers. Broadly, these reports concluded that SARDI was a medium cost research provider. With these studies around a decade old, an updated benchmarking analysis should be undertaken.

In addition, some research activities will benefit all user groups (such as stock assessments for particular fish species) and a clear allocation of costs between user groups is necessary. These costs should be allocated across all user groups.

### **Recommendation 2**

Conduct a new review of SARDI fisheries research costs as soon as practicable, incorporating a review of cost efficiency and the allocation of research costs among beneficiary user groups, as part of development of the complete picture of regulatory costs.

Thereafter conduct regular benchmarking analysis (perhaps every 3-5 years) of PIRSA regulatory and SARDI research costs, and make the results publicly available, to improve transparency and ensure regulatory costs are efficient.

## Cost recovery model

Overall, the model appears to be consistent with PIRSA's cost recovery principles and appears to be allocating costs between commercial fisheries in a reasonable manner.

We also reviewed some key inputs to the cost recovery model. Most of these inputs appeared reasonable. However, in estimating the total number of FTE days over which salary (and on costs) and other costs are used to determine the total costs, and which ultimately determine the allocation of costs across the various fisheries and activities, an assumption is made that there are 200 operational days per FTE. This number of days appears to be too low.

In addition, a risk management premium of two per cent is applied in the model to all cash items (salaries and operational expenses). We understand that this risk management premium encompasses movement in salaries & operating expenses, doubtful debts, uncollected licence fees and critical & emergency responses from industry.

Inclusion of a risk management premium capturing the other items is not considered to be a common practice, particularly when only the upside (from PIRSA's point of view) is considered. Further detailed breakdown and analysis of these risks needs to consider specific treatment of some cost risks (such as doubtful debts) and general treatment of material cost impacts.

**Recommendation 3**

The treatment of capital costs should be reviewed to ensure consistency between real and nominal values. The assumption for the number of operational days per full time equivalent worker and the treatment of risks should be revised.

There are also some areas of the excel model that detract from the useability of the model and may warrant refinement, for example unnecessary detail and poor labelling of inputs and outputs. It may also be useful for PIRSA to develop a brief guideline to the model outlining key inputs, outputs and calculations.

**Recommendation 4**

The excel model used to allocate costs between the various commercial fisheries should be refined and guidance for using the model prepared.

## Recreational cost recovery

Establishment of the full picture of regulatory costs will clarify the component applicable to recreational fishery management. Following this, the set of activities required to manage the recreational fishing resource in a sustainable manner needs to be defined. This is the first step required in improving the cost recovery from recreational fishers.

With a defined set of management activities, the true costs of regulating the recreational fishery will be known, and consideration can be given as to whether government should continue to fund these activities out of consolidated revenue, or whether costs are recovered from recreational fishers.

**Recommendation 5**

Develop a new recreational fishing strategy or update the 2001-2005 strategy in order to inform whether there are any gaps in existing recreational regulatory activities, or whether resources are being allocated appropriately.

Identify whether the required activities can be met through existing budget allocations prior to considering additional cost effective recovery mechanisms.

Based upon the approaches to cost recovery of recreational activities in other states, a recreational fishing licence is the most common method adopted elsewhere. However, it is necessary to ensure that the licence fees are only recovering regulatory costs, and not over recovering in order to fund development activities, which is not necessarily consistent with cost recovery principles. Another threshold issue to consider is whether the administrative costs of such a recovery mechanism are warranted.

The selection of a preferred approach needs to align with the objectives and management functions of the recreational fishery. The cost recovery mechanism can be an important element in encouraging desired behaviours.

The approach also needs to align with current government policy. It is important to note that, in South Australia, the Government's current policy is that a recreational fishing licence will not be introduced.<sup>1</sup>

Other potential options for improving cost recovery from recreational fishers include:

<sup>1</sup> Premier Mike Rann indicated the Government's policy position on an interview on ABC Radio on 5 December 2009. Interview available at [www.abc.net.au/news/stories/2008/12/05/2438778.htm](http://www.abc.net.au/news/stories/2008/12/05/2438778.htm), accessed 3 February 2009

- registration of equipment and gear, such as is employed for rock lobsters, or through some form of tax on the purchase of equipment — however, this is unlikely to allocate costs appropriately, as the purchase of equipment is not necessarily correlated with fishing activity
- fish tag option adopted for pink snapper in Western Australia — however, such an approach may only be suitable for certain species, and in achieving certain objectives (such as quotas).

## Potential roles for the Fisheries Council

A number of potential roles in the cost recovery process for the Fisheries Council have been identified through the consultation process, lessons from other jurisdictions and the review and identification of potential improvements to the current cost recovery framework.

Potential Council roles to consider include:

- provide confidence to the fisheries and the Minister on whether the cost recovery processes and principles have been applied appropriately
- establishment of appropriate review periods for fees and regulations
- providing advice on the allocation of costs between different beneficiary user groups, namely recreational, commercial, indigenous and the broader community. This links in with Recommendations one and two
- assessing whether the costs of regulatory activities being recovered are efficient costs through undertaking benchmarking studies. This links in with Recommendations one and two.

### **Recommendation 6**

That the Council consider adopting the four proposed roles in the cost recovery process and clearly communicate these to the fishing community and the Government.

# 1 Introduction

## 1.1 Background

### 1.1.1 Regulatory background

Fish and other seafood are a finite natural resource. Government must manage the aquatic resource to ensure equitable access by commercial, recreational and traditional user groups and in order to protect biodiversity and the long term sustainability of the resource. These objectives are currently achieved through regulation controlling access to the resource, as established in the *Fisheries Management Act 2007* (which replaced the *Fisheries Act 1982*).

Under the *Fisheries Management Act 2007* (the Act) regulations are established to control commercial and traditional fishing activities. The Act does not directly regulate recreational fishing activities, except as they may relate to commercial activities (i.e. use of registered commercial vessels for recreational fishing activities). However, recreational fishing is regulated through the size and number of fish allowed to be taken and the equipment which can be used for recreational fishing (for particular species) in order to achieve overarching objectives of sustainability and biodiversity.

Fishing activities are typically divided into *fisheries*, which refers to a specific class of fishing activity.

The Act also established the Fisheries Council of South Australia (the Fisheries Council). The Fisheries Council has the responsibility for the development and ongoing maintenance of fishery management plans. Together, with the Fisheries Division within the Department of Primary Industries and Resources South Australia (PIRSA Fisheries), the Fisheries Council is responsible for managing the State's fishery resources

In managing the State's fishery resources, a number of costs are incurred by the Fisheries Council and PIRSA Fisheries, such as planning, licencing and permits and enforcement, amongst others. The Government has taken the view that it is appropriate to recover (at least partially) the cost of managing the State's fishery resources.

The Fisheries Council, through PIRSA Fisheries, has commissioned Deloitte Touche Tohmatsu (Deloitte) to conduct a review of the fisheries cost recovery model.

### 1.1.2 Overview of the regulated markets

The fish resource in South Australia is regulated to ensure that the resource is managed in a sustainable manner. The resource is managed to ensure access for the following interest groups (market segments):

- recreational users
- indigenous users
- commercial users
- the broader community.

The regulatory activities include:

- licencing, permits and registration of equipment
- compliance monitoring and surveillance
- enforcement
- fisheries research.

Costs associated with fish processors are currently recovered via a fee for service, but the costs of this activity are not well understood. PIRSA may consider undertaking a review of this activity in the future. These activities are not considered within the scope of this review. Similarly, the costs of managing indigenous access to fisheries, which are minor, are borne by the State Government and are not considered within the scope of this review.

## 1.2 Purpose of the report

The purpose of this report is to conduct a review of the South Australian cost recovery model for fisheries. Specific tasks undertaken as part of this project and presented in this report are:

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

The report does not audit or verify the accuracy or completeness of the cost allocation model (provided in spreadsheet format by PIRSA) or completeness of the inputs into the model. Rather, the report presents a high level review of whether the modelling approach is consistent with the current cost recovery principles for fisheries and whether the model is an effective tool in meeting PIRSA's objectives.

## 1.3 Methodology

Our methodology for this study involved:

- a review of relevant research and literature. In particular, a review of the SA Fisheries cost recovery model, best practice cost recovery principles and the experiences and processes in fisheries cost recovery in other jurisdictions.
- a review of the SA Fisheries Excel based cost recovery spreadsheet model, with particular attention on the logic of cost allocations and the financial inputs within the model. It is important to note that this review is not an audit or verification of the accuracy or completeness of the spreadsheet model or completeness of the inputs into the model.
- consultation with Fisheries Council members and relevant PIRSA staff. These consultations are to inform the review of the level of cost recovery for recreational fishing in South Australia.

## 1.4 Structure of the report

The structure of this report is as follows.

Chapter 2 discusses the PIRSA's principles of cost recovery in fisheries and compares these to best practice principles, undertakes an assessment of the PIRSA fisheries cost recovery framework and reviews the inputs to the cost to charge-out rates estimated in PIRSA Excel spreadsheet cost recovery model.

Chapter 3 presents a discussion on the current cost recovery mechanisms in South Australia that apply to recreational fishers, including charter boat fishers, the experiences in other jurisdictions and presents potential options for improved cost recovery from recreational fishers in south Australia.

Chapter 4 provides an overview of the role and functions of the Fisheries Council of South Australia, describes the governance arrangements of fisheries in other jurisdictions and presents potential options as to the role that the Fisheries Council could play in cost recovery.

# 2 Commercial fisheries cost recovery

## 2.1 Introduction

This section outlines the cost recovery principles applied to the recovery of costs for commercial fishing in South Australia. It then assesses these against the Productivity Commission's best practice principles for cost recovery as outlined in its 2001 *Cost Recovery by Government Agencies* inquiry report<sup>2</sup>.

Given the high level nature of both the South Australian cost recovery principles and the Productivity Commission principles, this has involved not only a broad assessment of how the two sets of principles compare but also consideration of the extent to which the application of the cost recovery principles in South Australia is consistent with the Productivity Commission's principles.

This chapter also includes a review of the Excel spreadsheet model used to allocate costs to fisheries against cost recovery principles.

## 2.2 Overview of the cost recovery framework

The South Australia commercial fisheries cost recovery framework is based upon an annual cycle of developing a program of work required to sustainably manage the fisheries resources (including cost estimates) and the setting of fees, licences and other charges to recover the full costs. A detailed copy of the cost recovery framework is provided in Appendix A. In brief, the annual process involves:

- development of fisheries management priorities for each of the individual fisheries
- consultation with industry on priorities and programs for coming year
- development of draft work program and services to be undertaken to address fisheries management priorities and general management of the fisheries resources
- consultation with industry on the draft work programs
- development of program costs using cost recovery model, and associated fees
- consultation with industry on the cost of the program.

Together, these processes form the framework for cost recovery in the South Australian Commercial fisheries. The framework is based upon the PIRSA Fisheries set of cost recovery principles outlined in Table 2.1.

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<sup>2</sup> Productivity Commission (2001), *Cost Recovery by Government Agencies*

## 2.3 Principles of Commercial Fisheries cost recovery

Recovery of the costs associated with regulating the South Australian Commercial fishing industry is based on a set of guiding principles. These principles have informed the development of the cost recovery framework for determining the costs of sustainable management and allocating these costs to the commercial fishing industry and between the various commercial fisheries. The principles adopted by PIRSA Fisheries are outlined in Table 2.1.

This table also presents the relevant best practice principle as identified by the Productivity Commission its 2001 *Cost Recovery by Government Agencies* inquiry report.<sup>3</sup> Each principle has been mapped to the PIRSA Fisheries principle that it best corresponds with.

As is evident from the information in the table, the cost recovery principles applied by PIRSA Fisheries are broadly consistent with those outlined by the Productivity Commission. It is a relatively simple task to match principles used by PIRSA Fisheries to those principles recommended by the Productivity Commission.

Having said that, the Productivity Commission does make some additional recommendations which are not captured by PIRSA Fisheries Principles. These include:

- Recommendation 7.5: Agencies and the Government together should define a basic information product set. This should be a dynamic process, with basic information products determined by reference to:
  - ‘public good’ characteristics
  - significant positive spillovers
  - other Government policy reasons.
- Recommendation 7.6: The basic information product set of agencies should be funded from general taxation.

The PIRSA Fisheries cost recovery principles do not directly address the concept of information being provided (or collected) for public good reasons, the spillovers it may create or other government policy objectives and community service obligations, such as providing access to the resource for indigenous fishers.

In the case of Fisheries, a key example of this ‘information product set’ is research. Research is generally considered to have strong public good characteristics and strong positive spillover benefits. However, the PIRSA principles and the cost recovery framework (discussed below) do not address the degree to which research undertaken as part of commercial fisheries management (and paid for by the commercial sector) may provide benefits to recreational fishers or the community more broadly, or provide information to facilitate other activities. Without recognition of these other interest groups and spillover benefits, commercial fisheries may be subsidising the benefits of other interest groups and activities.

Part of the issue here may simply be around transparency. The issues may be addressed within the framework (say through the development of the research charges), however, given these decisions around public good and spillover benefits are not clearly communicated or evident in the Excel spreadsheet model (i.e. not transparent) there is potentially room for the PIRSA Fisheries Cost Recovery Principles to be improved and align further with the

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<sup>3</sup> Productivity Commission (2001), *Cost Recovery by Government Agencies*

Productivity Commission's guidelines in this respect. This issue around transparency is further addressed in the following sections.

In addition, in assessing against the Productivity Commissions principles it is important to keep in mind that the Productivity Commission's principles have been designed for recovering costs in a broad range of activities, not just the fishing industry. Therefore some of the Productivity Commission's principles are less relevant to this review of cost recovery principles for South Australia's commercial fishing industry. For example, PIRSA Fisheries principles consider that only a model of full cost recovery is applicable for Commercial fisheries, while the Productivity Commission principles consider the potential for partial or no cost recovery (e.g. for community service obligations). This reflects the difference in the context in which the two sets of principles are based.

It is noted that the Productivity Commission does make a number of other recommendations in relation to the administrative side of cost recovery, particularly around reporting and accountability. However, these issues are not considered to be of great relevance to this study.

**Table 2.1: Principles of Cost Recovery framework**

PIRSA Fisheries Principles	Productivity Commission Principles
<b>General Principles</b>	
All cost recovery arrangements have clear legal authority	Recommendation 3.1: All cost recovery arrangements should have clear legal authority (p39)
An objective to raise revenue is not in itself sufficient justification to implement cost recovery arrangements.	Recommendation 7.1: Cost recovery arrangements that are not justified on grounds of economic efficiency should not be undertaken solely to raise revenue for Government activities. (p157)  Recommendation 7.4: The practice of the Government settings targets that require agencies to recover a specific proportion of total agency costs should be discontinued (p160)
Cost recoveries of activities exclude those undertaken for the Government (such as high level policy development, and Ministerial or Parliamentary services).	Recommendation 7.3: Cost recovery of activities should exclude those undertaken for the Government (such as policy development, and Ministerial or Parliamentary services), or to comply with certain international obligations. (p159)
All cost recovery arrangements have adequate mechanisms in place to promote meaningful consultation with stakeholders.	Recommendation 8.2: Agencies with significant cost recovery arrangements should have adequate mechanisms in place to promote meaningful consultation with stakeholders. (p195)
Cost recovery is only implemented where it is cost effective for Government to collect costs; consistent with policy objectives; and will not unduly stifle competition and industry innovation.	Recommendation 7.7: Cost recovery should not be implemented where it is not cost effective; it would be inconsistent with policy objectives or it would unduly stifle competition and industry innovation (p171)

PIRSA Fisheries Principles	Productivity Commission Principles
<b>Costing Principles</b>	
Cost recovery arrangements apply to specific activities, products or services.	Recommendation 7.2: Cost recovery arrangements should apply to specific activities or products, and not to the agency as a whole. (p158)
Cost estimates are based on the attribution of actual costs unless inefficiency can be demonstrated through benchmarking.	Recommendation 7.9: The administrative costs of regulation should be recovered, so that the price of each regulated product incorporates the cost of efficient regulation. (p175)
Costing methodologies are transparent.	Productivity Commission highlights the importance of transparency as a key attribute of good policy. (page XXXII)
<b>Pricing Principles</b>	
Cost recovery charges are linked as closely as possible to the costs of those activities, products or services.	Recommendation 7.10: Cost recovery charges should be linked as closely as possible to the costs of activities or products (p177)
The administrative costs of regulation are recovered, so that the price of each regulatory product incorporates the cost of efficient regulation.	Recommendation 7.9: As a general principle, the administrative costs of regulation should be recovered, so that the price of each regulated product incorporates the cost of efficient regulation. (p175)
Cost recovery is applied so as to recover the full amount of attributed costs of the product or service.	Costs should generally be either fully recovered or not recovered at all. (pXLIV) Partial cost recovery may be appropriate in situations where there are positive spillover benefits. (p177)

## 2.4 Alignment of framework with cost recovery principles

At a broad level, the cost recovery framework adopted by PIRSA appears to align with the guiding principles:

- the cost recovery framework appears to be based solely on recovery of legitimate activities associated with the sustainable management of the fishery resources
- industry is consulted throughout the annual process of setting work programs and fees
- the cost recovery arrangements apply to the specific activity of extracting fish from the resource (or processing of fish). The actual costs of managing the amount of extraction are those that are recovered
- a detailed Excel spreadsheet model is used to allocate costs to different fisheries based upon the estimated resources required to manage that fishery
- the pricing of licences and fees is aimed at recovering the full costs of regulation.

However, given that the principles are fairly high level statements, it is important to assess the degree to which some of the detailed processes within the framework align with the guiding principles. As part of the review of the framework (including the cost allocation model) and from the consultations with the Fisheries Council and PIRSA staff, opportunities for improvement in the cost recovery framework have been identified, as presented below.

### 2.4.1 Transparency

As discussed above, the annual review process provides for meaningful consultation with industry, seeking input throughout the process of setting licences and fees. Industry is consulted on:

- priorities for fisheries management
- draft programs for services that have been proposed to be undertaken during the coming year (industry given the opportunity to propose amendments to the program)
- the fees and charges that arise as a result of the proposed program of works. Agreement on the programs is sought from industry.

Consultation conducted as part of this review identified that industry is given the opportunity to provide significant input into the planning, cost recovery and setting of annual licence fees process, and that significant negotiation takes place around the annual licence fees. It was also widely recognised that the process of consultation and negotiation with industry has improved over time and that there is more open and honest disclosure as part of the negotiations.

However, the consultations and review of the cost recovery framework identified that there still appears to be some important issues associated with the transparency of the process.

Firstly, at the higher level, there is only limited transparency around the activities and costs associated with the recreational fishery management program and regulatory functions. Currently, cost recovery only applies to commercial fisheries. However, regulatory activities are also undertaken for the management of the recreational fishery, as well as for the broader community and indigenous fishers.

Whilst there is a relatively high degree of transparency associated with costs for regulation of the commercial sector, there is very limited information around the costs, and what activities these relate to, in regard to regulation of recreational fishers, and the management of the resource for indigenous users and the broader community. The cost recovery framework and Excel spreadsheet model do not provide detail on the total bucket of costs incurred, what activities these relate to and how these are allocated between commercial, recreational, indigenous and the broader community.

By only providing part of the picture around total regulatory costs, it is likely that a degree of scepticism about whether commercial fishers are subsidising other users and interest groups is likely to continue.

Providing a transparent process that clearly articulates the total cost of managing the resources, distributes these costs between beneficiaries and how costs are to be recovered (either in full or part) and the costs which will be covered by government will help to address some of the perceptions about cross subsidisation.

A prime example of this is research costs, and the potential impacts on the allocation of such costs. There is only limited information relating to the allocation of research costs between the various interest groups. Given the nature of research and development, (refer to Box 2.1), the research activities may provide both private good and public good benefits, with private good benefits shared between commercial, recreational and indigenous fishers. This gives

rise to a perception, conveyed within the consultations, that recreational fishers are ‘free riding’ on the research activities that the commercial sector is undertaking. Therefore, it is important when incorporating research costs into licence fees that there is a clear rationale for the allocation of these costs (at the individual project level) across all interest groups.

**Box 2.1: Discussion on public good qualities of research and development**

The outputs of R&D – new knowledge and skills – are, at least to a degree, non-rivalrous and non-excludable. Consumption by one party of the knowledge produced by R&D does not reduce the amount of that knowledge available for consumption by others. It is also, despite the various mechanisms for protection of intellectual property, almost impossible to fully exclude parties that did not invest in the generation of knowledge from accessing and benefiting from the new knowledge. The funding of R&D by one party will therefore generate some positive externalities that can be enjoyed by the wider community.

The research and development stages are the highest risk phases for project success and are where spillovers from innovation (that cannot be captured by the innovator) are potentially greatest. Failure to capture these spillovers provides the rationale for Government involvement, such that the spillovers are captured and disseminated throughout industry and wider community.

The Productivity Commission has recently stated the following that:

*“The strongest case for public support based on spillovers occurs:*

- *for basic research in science, especially where most governance and funding mechanisms concentrate on the highest quality and most efficient diffusion practices; and*
- *where businesses are engaged in novel R&D activities induced by support that, either spill over cheaply to others, or that trigger cycles of innovation by rivals. The spillover benefits will be greatest when there are many potential domestic beneficiaries (generic technologies, or many potential users of the technology because of industry structures).*

*Spillovers not only provide a rationale for public support, but pinpoint other policies that are important in increasing the effectiveness of the innovation system. These include measures that reduce the costs of absorption (such as skill upgrading); that facilitate research cooperation; and that provide new mechanisms for the legal distribution of knowledge in a digital world (for example, copyright and journal publishing models).”*

Productivity Commission, 2007, *Public Support for Science and Innovation*, p.73

The market failures associated with Research and Development (R&D) and the role for government funding for R&D have long been recognised and documented in economic literature. Market failure is a term used to describe a situation in which markets do not efficiently allocate goods and services. The term market failure is also often used to describe situations where market forces do not serve the perceived public interest – in this case the market will produce either more or less of a good than is optimal from the perspective of the society.

Another issue related to the costs associated with non-commercial aspects of managing the resource, and particularly the recreational fishery, is that there is currently no formal plan for the regulation and management of the recreational fishery (this is discussed further in section 3). Without a clear management plan and program of works for the recreational (and indeed indigenous) fishery, it is difficult to convincingly argue that there is no cross subsidisation. For instance, the management of recreational fisheries is based upon a budget

of around \$1 million per annum<sup>4</sup> and funds 10 fisheries officers. These recreational activities and the associated funding are not specifically identified in information used to determine commercial fisheries fees and charges, so it may not be transparent to commercial fishers that the activities are being undertaken and how they are being funded.

It is not clear whether the level of funding for the management of the recreational fishery is sufficient to ensure that the fishery is managed in a sustainable way – there is no current recreational fishing strategy as the most recent strategy was prepared in 2001 for the following five years. If the funding for managing the recreational fishery is not sufficient to ensure sustainable management, then questions can be asked as to whether the commercial sector is bearing more than its share of the burden in managing the fish resources as a whole (whether through cost allocations or through fish resource allocation decisions).

A second issue relating to transparency is the actual costs of research activities. Fisheries research activities can be classified in fish resource stock assessments and separate research programs as determined by specific Fishery Management Committees. Fish resource stock assessments must be undertaken by the South Australian Research and Development Institute (SARDI). SARDI received around \$4.6 million in 2007/08 to conduct the fish stock assessments.<sup>5</sup> However, other research programs determined by Fishery Management Committees can be awarded through tender processes, that is, the research provider is selected at the discretion of the fisheries board. It is understood that SARDI is most often used to undertake these ‘discretionary’ research activities.

In relation to the stock assessments undertaken by SARDI, the program of research activities is set by the management priorities, and SARDI uses its costing model to provide an estimate of the costs to undertake the necessary research, which is then incorporated into the cost allocation process. However, within the cost allocation process, there is limited information about how SARDI arrives at its cost estimates, which affects the transparency of the cost allocation process, and creates a perception that the costs may not be efficient costs of regulatory activities.

#### **Recommendation 1**

Develop a complete picture of the regulatory activities required in order to manage the fishery resource across all user groups (commercial, recreational, indigenous and broader community). Define the costs of these activities and then clearly identify the allocation of costs between all user groups.

### 2.4.2 Efficiency of regulatory activities

As was presented in Table 2.1, one of PIRSA’s principles of cost recovery is that cost estimates be based on the attribution of actual costs unless inefficiency can be demonstrated through benchmarking.

Both PIRSA and SARDI are monopoly providers of certain regulatory and research services and activities (noting that there is also some discretionary research activity determined by fishery boards that is not mandated to be undertaken by SARDI).

- In the case of PIRSA’s regulatory activities, the cost estimates are based upon the expected time that will be spent undertaking the various activities. This is also informed

<sup>4</sup> Around \$700,000 is recovered through the registration of recreational fishing gear. However, this funding typically comes from specialised fishing gear, such as rock lobster pots, but officers undertake activities across all recreational fishing activities. Therefore, some recreational fishers are paying whilst others are not.

<sup>5</sup> Relates to information provided by PIRSA from its service level agreement with SARDI for undertaking fish stock assessments.

by a time management study conducted in 2005/06. While it is not clear whether these are efficient costs, through the framework for setting commercial fisheries fees and charges the make-up of these costs are transparent to industry. It appears that this level of transparency means that industry does not raise the same level of concern around the efficiency of PIRSA costs as it does around SARDI costs.

Given that SARDI has a monopoly on the provision of stock assessments, and that there are transparency issues relating to SARDI's cost estimates, it is unclear (particularly to some commercial fishers) whether the costs of these research activities are efficient or not.

One solution to ensure that the costs of research are efficient in providing the required research activities could be to adopt competitive tendering processes for the required research activities (noting that SARDI could still participate in a competitive tendering process). Indeed, such an approach was raised within the consultations. However, whilst a competitive tendering process may mean that the actual costs of the research activities could fall (assuming that the current research costs are not efficient), it needs to be recognised that such a process would result in higher transaction costs because of:

- the need to prepare requests for tender and advertise them
- the need to assess bids
- the need for contract negotiation
- the need for ongoing contract management.

Using SARDI as the single provider of all stock assessments activities is likely to mean that such transaction costs are currently very low. These costs may increase if there are a significant number of research activities out sourced through competitive processes. On the other hand, such transaction costs could be minimised through packaging of a number of research activities together (in order to generate economies of scale) or through multi-year contract terms. On balance, it is not clear whether a competitive tendering process would lower the total costs of research activities (including transaction costs) compared to those associated with the current monopoly supplier approach.

Of course, any proposal to move to competitive tendering is premised on the assumption that the current research costs are not efficient. A first step might therefore be to seek to increase the transparency and disclosure of how SARDI determines the costs of required research activities (SARDI could be forced to comply with this requirement if there is a credible threat that it could lose its monopoly provider status). The greater transparency may allay some of the concerns that industry holds about the cost of research activities.

Indeed, two benchmarking studies comparing SARDI costs with those of other similar research organisations have been undertaken in the last decade to determine the efficiency of SARDI costs.

- the first of the benchmarking studies was undertaken in 1998, and benchmarked the relative costs of providing research staff at a number of research departments with a fisheries focus. The analysis considered the percentage mark up on base researcher salary, and concluded that “a reasonable charge for the provision of research by a State organisation such as SARDI would appear to be 200% of base salary”.<sup>6</sup> That is, a 100 per cent mark up on base salary. It also noted that any substantial direct costs (such as a special research vessel) and specialist skills, knowledge or equipment may warrant higher costs.

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<sup>6</sup> Ruello and Associates (1998), *An Examination of Fisheries Research Costs to Industry*, prepared for the South Australian Fisheries

- the second benchmarking study undertaken in 1999 was to “assist in the determination of charge-out rates considering SARDI Aquatic Sciences’ overheads, salary and operating costs” and benchmark these to other like institutions.<sup>7</sup> The analysis concluded that SARDI Aquatic Sciences was a medium cost research organisation, that there is potential for SARDI Aquatic Sciences to improve its allocation of some direct overhead costs and to reduce its level of indirect costs.<sup>8</sup> Interestingly, analysis of the results in this second benchmarking study suggest that costs of SARDI Aquatic Sciences were at a level of around 213 per cent of base salary costs, not inconsistent with the first study.

Based upon these benchmarking studies, it appears that SARDI was not the most expensive research provider, but nor was it the cheapest. However, in assessing the efficiency of SARDI research costs, it is also important to consider processes for ensuring the quality of research and for ensuring the research conducted is the most beneficial for the relevant user groups (including compliance with the cost recovery principle requiring meaningful consultation with stakeholders). Some research activities will benefit all user groups (such as stock assessments for particularly fish species). As such, there should be a clear allocation of costs between the various user groups.

We note that the 1999 study found that research provided by SARDI was highly regarded by the fishing industry. We also understand that SARDI has recently been engaged to provide research activities for the Victorian Government. However, given the role of SARDI cost in the cost recovery framework, a new review that examines fishery research cost efficiency and the allocation of these costs to beneficiary user groups is warranted.

#### **Recommendation 2**

Conduct a new review of SARDI fisheries research costs as soon as practicable, incorporating a review of cost efficiency and the allocation of research costs among beneficiary user groups, as part of development of the complete picture of regulatory costs.

Thereafter conduct regular benchmarking analysis (perhaps every 3-5 years) of PIRSA regulatory and SARDI research costs, and make the results publicly available, to improve transparency and ensure regulatory costs are efficient.

It is important to note that any reallocation of research costs between commercial fisheries or between other beneficiaries would result in both winners and losers (in terms of costs to be recovered). If a small commercial fishery is allocated higher research costs, it may make the fishery uncompetitive (or unviable). While government may then choose to further intervene in the market to support funding, at least there would have been a clear and transparent decisions making process supporting this intervention.

<sup>7</sup> Primary Industries and Resources (1999), *Terms of Reference for Consultancy: Fishery Research Costs*

<sup>8</sup> PricewaterhouseCoopers (1999), *Comparison of SARDI Costs with Comparable Institutions*, for the Department of Primary Industries and Resources SA

## 2.5 Review of inputs to charge-out rates

### 2.5.1 Allocation methodology

PIRSA Fisheries has developed an Excel spreadsheet model (“the cost recovery model”) which is used to allocate the costs associated with the management and regulation of each of the commercial fisheries (and hence the amount to be recovered from each of the South Australian Commercial fisheries). The total cost is then used in a separate process and model to establish annual charges for Commercial fishing licences and other fees and charges.

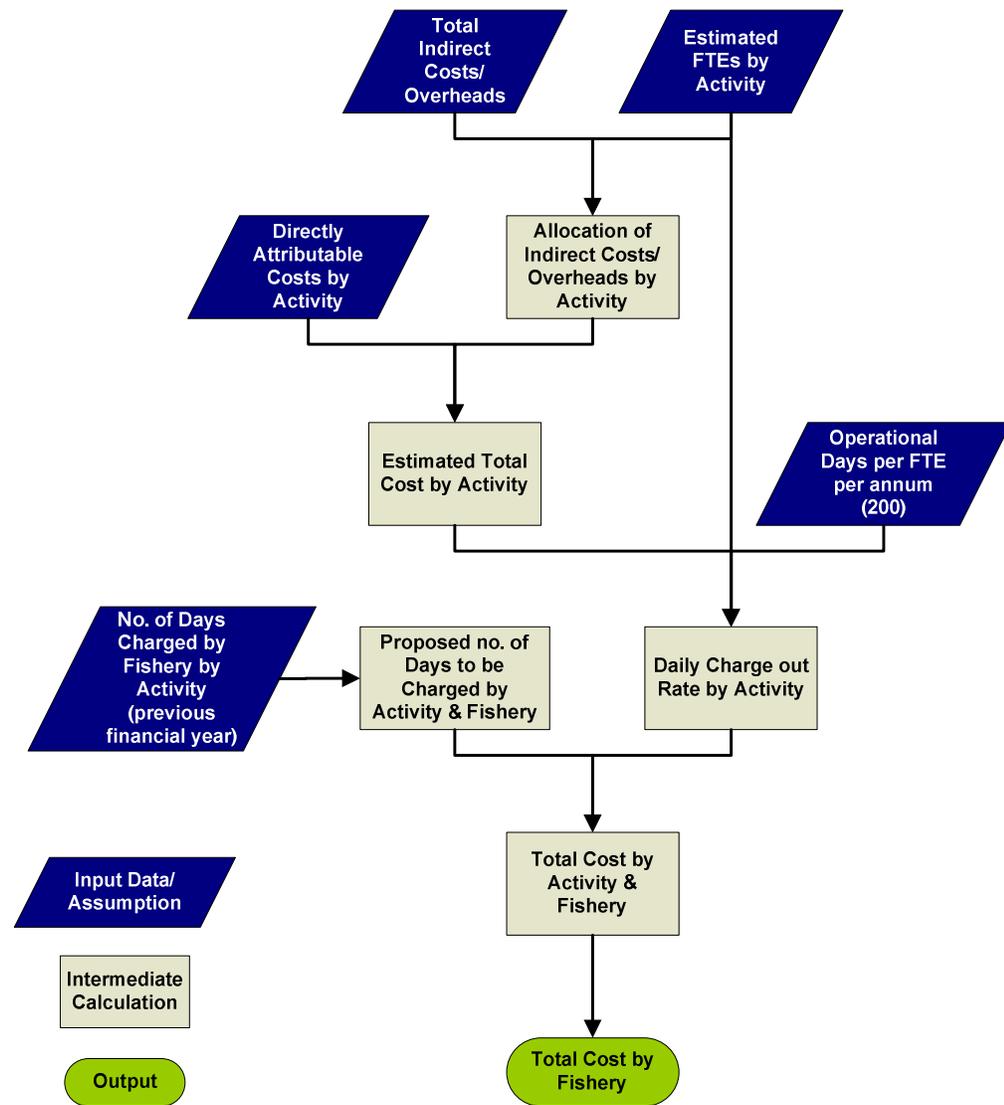
The cost recovery model works to allocate costs across two dimensions:

1. **Activities** – regulation of Commercial fisheries involves a number of activities. The allocation process attempts to align, as best as possible, the costs incurred in undertaking each of the regulatory activities. Within the model, these activities are aggregated to:
  - Directorate
  - Policy
  - Legislation
  - Licencing
  - Compliance
  - Marine bio-security
  - Other fees for service.
2. **Fisheries** – there are a number of different Commercial fisheries, as discussed in section 1.1.2. The allocation process attempts to align, as best as possible, the costs of regulating a particular fishery to that fishery.

Figure 2.1 presents a conceptual overview of the logic behind the cost allocation model. A more detailed breakdown of the Excel model structure is contained in Appendix B, and is also used to inform the analysis of charge-out rates. Broadly, the cost allocation process of the model involves:

- allocating indirect costs and overheads to each activity based upon the estimated full time equivalent (FTE) days spent on each activity
- calculating direct costs by activity (this is captured through actual wages, on costs, operational costs, etc and FTE by activity)
- calculating total costs by activity by summing total direct and indirect costs by activity
- calculating a daily charge-out rate per activity, based upon FTEs by activity and operational days per annum (200 days is assumed)
- calculating total cost by fishery by activity by multiplying the activity based daily charge-out rate by the proposed number of days to be charged by activity to each fishery (the latter is based upon actual data from the previous financial year, which in some instances is adjusted).

Figure 2.1: Overview of the SA Fisheries Excel Cost Recovery Workbook



Source: Deloitte interpretation of PIRSA Excel Cost Recovery Workbook

By estimating a charge-out rate for each activity, the model allocates costs by activity quite well and is consistent with the Productivity Commission’s recommendations as it attempts to link costs to particular activities. However, the allocation of days (and hence costs) to individual fisheries is based upon proposed days of activity to be undertaken. We understand that the allocation of days to fisheries has been informed by a time management study (performed in 2005/06 financial year), and is then subject to manual revisions within the cost recovery model.

A potential issue with the allocation of days between fisheries is that there is no ongoing collection of time spent (by activity) for each individual fishery. This means that there is no feedback between what is proposed (budgeted) and what actually occurs. Therefore, it is difficult to measure whether there is any cross subsidisation between commercial fisheries.

If detailed data was collected by activity by fishery, it may provide an improved base for allocation decisions, whilst also improving the overall transparency and accountability within the cost recovery process.

Box 2.2 presents a case study of the Victorian allocation methodology. Of particular relevance is how a database has been established to collect staff time spent in performing different fisheries management activities by fishery. Western Australia also has a similar database.<sup>9</sup> These databases provide the fisheries departments with annual information on how time is actually being spent, and can be used to inform allocations within the cost recovery models (as well as other management functions).

**Box 2.2: Case Study of Victorian Allocation Methodology**

The Victorian fisheries cost allocation methodology draws upon a database of staff time. The database records actual times spent by staff on 93 fisheries management activities, and are directly linked to specific fisheries and/or stakeholder groups.

Each of the 93 fisheries management activities are allocated between commercial, recreational and community costs, providing clear decisions around the public and private good benefits of the various activities.

All staff salaries and on costs are allocated to each activity based upon the time expended. Overheads are allocated based on the number of hours expended on each fisheries management activity for each fishery or stakeholder group.

Source: Victorian Department of Primary Industries (2007), *Regulatory Impact Statement: Fisheries (Aquaculture Licences, Fees, Levies and Regulations)*

The other issue identified with the allocation methodology is that there is no direct allocation of some 'overheads' to different fisheries. For instance, capital cost charges (calculated at eight per cent) are allocated to different fisheries on the basis of the overall allocation of time to individual fisheries. In the case of the offshore vessel, it is only allocated across ocean fisheries (and not across inland fisheries). For some capital charges it may be possible to accurately measure and allocate the amount of time the asset is used by individual fisheries, rather than simply on total time allocated to the fishery. However, there is an issue of materiality, as total capital charges equate to around 5-10 per cent of total costs. If there is only a marginal improvement in the allocation of certain assets, it is unlikely to materially affect the total costs to be recovered from individual fisheries.

Although there is potential to improve the allocation methodology, through greater granularity, the Productivity Commission's principle of ensuring that cost recovery is only implemented where it is cost effective should be kept in mind. Whilst it would be possible to achieve greater granularity, the cost of doing so may not justify the expense (an expense which would need to be recovered from the fisheries).

### 2.5.2 Review of inputs to charge-out rates

The project brief required a review of the financial inputs which influence the charge-out rates estimated in the cost recovery model. These charge-out rates are estimated for each of the seven activities outlined above. In turn, the daily charge-out rates are then used to estimate the cost to be recovered from each fishery based upon the number of budgeted days of each activity expected to be required to manage each of the individual fisheries.

<sup>9</sup> Western Australian Department of Fisheries (1999), *Cost Recovery Guidelines under an Integrated Project and Activity Costing Framework*

## Capital costs

Capital costs are recovered through two separate charges:

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

Whilst the way that the charges are being calculated is consistent with the appropriate treatment of capital assets in accounting and the building blocks approach often used to regulate prices in industries such as water and electricity, our review has identified that the calculations may have some issues.

From the available information in the cost recovery model, it appears that the calculations around capital charges (depreciation and return on capital) are mixing nominal and real values. The capital asset values appear to be based upon the acquisition price. However, there is no adjustment to these for inflation to either ensure that assets purchased in different years are in the same year's real terms, or adjusted for inflation to reflect nominal values.

Furthermore, if the asset values have actually been adjusted (external to the model) such that they are in real terms, there is no adjustment in the model to convert the depreciation and cost of capital charges into nominal values such that they are consistent with other costs in the model. Alternatively, if the asset values have actually been adjusted (external to the model) such that they are in nominal terms, the cost of capital charge is calculated using a real cost of capital, not a nominal cost of capital (refer to discussion on the cost of capital assumption in Section 2.5.3). In either case, the current calculations of depreciation and capital charges may not be calculated in an appropriate and consistent manner, and could require a correction.

Given the nature of the potential errors (excluding escalation in the calculations of asset values and capital charges), it is likely that the errors (if confirmed as an error) will have resulted in an under-recovery of costs.

## Operational expenses

Operational expenses are based upon those incurred in the previous financial year, and inflated using the CPI inflator (refer below) to estimate coming year costs.

Within the calculations of the model, these costs do not vary in magnitude in proportion to the number of employees (FTE). This means that if, within the cost recovery model, an increase in the number of FTEs is assumed (i.e. direct input by the user of a larger number of FTEs), there is no impact on the magnitude of the operational expenses. Therefore, an increase in the number of full time equivalents for a particular activity (e.g. directorate) actually results in a fall in the charge-out rate because the operational expense items are not adjusted for the number of FTEs.

It is reasonable to assume that, if the operational expenses do reflect costs associated with floor space lease costs, electricity and other such costs, there would be some relationship with the number of FTEs. While this modelling might not result in an incorrect level of total costs being recovered from industry, it certainly seems counter-intuitive and may be an area for potential refinement of the model.

### 2.5.3 Reasonableness of key financial inputs

#### Cost of Capital

Within the Excel spreadsheet model, the cost of capital is assumed to be eight per cent per annum. It is not made clear within the model if this is a real cost of capital or a nominal cost

of capital. However, PIRSA has advised that the cost of capital used in the model is consistent with advice from the Department of Treasury and Finance.

### Consumer Price Index Inflator

A consumer price index (CPI) inflator is used within the Excel spreadsheet model to inflate some costs from one year to the next (namely the fringe benefit tax and operational expenses). An assumed inflator of three per cent per annum, which is set by the South Australian Treasury, is adopted in the spreadsheet.

### Wage growth factor

Wage rates in the model for each of the different pay classifications are escalated to capture an increase in wages in October of each year. The escalation is based upon any approved increases under Enterprise Bargaining Agreements for the SA Government. An assumption on wage growth is only required in the model when Enterprise Bargaining Agreements are being negotiated at the same time that the cost recovery process is occurring.

### Operational days

In estimating the total number of FTE days over which salary (and on costs) and other costs are used to determine the total costs, and which ultimately determine the allocation of costs across the various fisheries and activities, an assumption is made that there are 200 operational days per FTE.

Under the following assumptions, it would appear that the number of operations days per annum could be closer to 217. This suggests that the 200 operational days appears to be too low. The impact of this in the model is actually that the proposed amount of revenue to be collected actually declines by around six to seven per cent.

- 52 weeks per annum, with four weeks annual leave, results in 48 potential work weeks
- five days per work week
- eleven public holidays per annum
- an allowance of one sick day per month.

### Risk management premium

A risk management premium of two per cent is applied to all cash items (salaries and operational expenses). We understand that this risk management premium encompasses:

- movements in salaries & operating expenses
- doubtful debts
- uncollected licence fees (i.e. take up were options are given)
- critical & emergency responses from industry.

Of these, it would be reasonable to provide a provision for bad and/or doubtful debts within the cost recovery model. However, this should clearly be identified as a separate line item.

Inclusion of a risk management premium capturing the other items is not considered to be a common practice, particularly when only the upside (from PIRSA's point of view) is considered. For instance, the movements in salaries risk management premium may capture an unexpected, or higher than expected, pay rise. Yet there is no consideration of the potential for the departure of an employee, who leaves a position vacant (for which no wages are paid for a period). Therefore, if risk management premiums are going to be included, they should be based upon risk assessments that identify potential overs and unders.

However, further detailed breakdown and analysis of these risks needs to consider the overall materiality of the impact of any changes.

**Recommendation 3**

The treatment of capital costs should be reviewed to ensure consistency between real and nominal values. The assumption for the number of operational days per full time equivalent worker and the treatment of risks should be revised.

### 2.5.4 Model useability

Overall, the model appears to be consistent with PIRSA's cost recovery principles and to be allocating costs between fisheries in a reasonable manner. However there are some areas that detract from the useability of the model and may warrant refinement. These issues have partly arisen because of the long life of the model and the fact that it has been owned by different people within PIRSA. These issues include:

- unnecessary detail in the model which distracts from the purpose of the model and makes it difficult to identify the key inputs and calculations in the model
- inadequate labelling of some inputs and outputs
- inadequate identification of the cells that need updating each year (e.g. by colour code).

In addition, there is some key person risk associated with the model. To ensure PIRSA's ability to continue to use the model it may be useful to develop a brief guideline to the model outlining key inputs, outputs and calculations.

**Recommendation 4**

The excel model used to allocate costs between the various commercial fisheries should be refined and guidance for using the model prepared.

### 2.5.5 Use of revenues collected through capital charges

Discussion with PIRSA identified that they face a particular issue associated with how revenues collected through capital charges (through the return of and return on capital) are viewed by the South Australian Department of Treasury and Finance (Treasury).

We understand that there is currently a 'use it or lose it' policy adopted by Treasury – if the funds collected through cost recovery are not spent in the year they are collected, the excess revenues go into the Government's consolidated revenue, and become available for redistribution to other sectors of the economy. There is no ability to carry over balances from one year to the next. Two key implications from such a policy arise:

- when new assets are required to support the sustainable management of the fisheries resource (and replace old assets that have reached the end of their useful life) these must be funded through that year's collection of funds or appropriations out of the consolidated revenue (and enter the process for budgetary decisions, with the risk that the asset purchase is considered a low priority and not receive funding or be subject to political whims)
- there is the incentive for PIRSA Fisheries to expend all revenues in the year that they are collected. This has the potential to result in inefficient investment decisions for managing the resource.

The current use it or lose it policy, and the incentive it creates to spend the revenues in that year, is likely to result in the revenues being spent in an inefficient manner – PIRSA has

identified that this behaviour may not be the best long term option for the sustainable management of the resource.

Furthermore, the current use it or lose it approach which provides PIRSA Fisheries with 'first call' on the cost recovery revenue it collects is inconsistent with one of the recommendations in the Productivity Commission report. Recommendation 8.1 states that "Agencies should not have automatic access to cost recovery revenue from compulsory regulatory activities. Funding for these activities should be subject to the same budgetary and Parliamentary scrutiny as activities funded from general taxation revenue."<sup>10</sup>

The use of revenue collected through capital charges is not an experience isolated to fisheries. The issue is an ongoing debate between the benefits of hypothecation and consolidation of all government revenues. Hypothecation is when certain Government revenues are ear-marked for certain expenditure activities. For example, in the case of fisheries, if there were hypothecation, then the revenues collected through cost recovery would be 'ear marked' for fishery purposes within the consolidated fund, and any balances could be carried over from one year to the next. The benefits of consolidating all government revenues (i.e. there is no ear marking of funds) are lost. The current situation which PIRSA is experiencing in relation to fisheries is almost a half way point between the two approaches, as the funds are ear marked, but only in the year that they are collected.

In the context of Fisheries, the Fisheries Management Act 2007 makes a provision for the continuation of the Fisheries Research and Development Fund. This fund receives payments from fees, levies and charges paid by fishers and is an example of hypothecation (relating to research and development).

There are pros and cons of each but ultimately a decision comes down to the trade-offs between efficiency at a whole of government level (but at the expense of sectoral or industry level) or efficiency at the sectoral or industry level (but at the expense of whole of government level). Such a decision is usually a function of the Treasury and Government at the time and the general political environment.

### **Hypothecation of revenues collected**

The hypothecation of revenues collected or establishment of a trust account in the relevant legislation, permits the carry over of balances from one year to the next. In establishing a trust account or defining hypothecated purpose, it must be specified what the funds can be used for. With this is a risk of obsolescence around the purpose of the funds and what they can be invested in, which may bring out inefficiencies in the longer term (i.e. not investing in the assets that are actually required).

If, across the Government's portfolios of responsibility, this approach is taken, then there is a decentralisation of the management of Government funds, which could create additional management and transaction costs.

However, such an approach does create the correct incentives to price in all the costs of assets, and is likely to lead to sustainable long term management of fisheries.

The hypothecation of funds also promotes horizontal equity, in that there is a direct link between those who are being "taxed" and who are receiving the benefits from that taxation.

In the case of South Australian Fisheries, there is an issue around the size of the funds. If there is likely to be significant recovery of capital funds, then a trust fund may be warranted. However, given that capital and depreciation account for around \$400,000 per annum (and only around 10 per cent of total revenues collected) the (relatively) small size of the funds may not warrant the establishment, management and transaction costs.

<sup>10</sup> Productivity Commission (2001), *Cost Recovery by Government Agencies*, p184

### **Consolidation of government revenues**

The current approach imposed on the collection of Fisheries is generally a consolidation of government revenues approach. However, only excess revenues are consolidated, rather than all revenues, and some funds are placed into the Fisheries Research and Development Fund. Such an approach can be assessed on efficiency and equity grounds.

It is, theoretically, efficient at a whole of government level. Submissions are made and government can rank the competing alternatives and make resource allocations decisions to maximise the social benefits of the investments.

However, at an individual sector or industry level, such an approach may not be efficient, because funding may not be made available when it is optimal (long term) to replace an asset. For instance, asset lives can generally be extended in the short term through higher maintenance activities. However, by delaying large capital outlays through maintenance activity, the optimal whole of life asset management approach may not be achieved, resulting in a loss of efficiency at the sector or industry level. In the case of South Australian Fisheries, although the Government has recently funded the acquisition of a new large offshore vessel, it took around ten years to get the funding for this. In the meantime, the ability of PIRSA to undertake its regulatory functions may have been constrained.

### **Interstate experience**

Interesting to the debate is the approach to capital acquisitions adopted by the Western Australian Fisheries Department, which is outlined in Box 2.3. The third of the three options available to the department is the pursuit of funding from sources external to government (market based funding arrangements) to procure the required assets, with the cost of financing these assets to be recovered through the cost recovery framework after purchase. Such an approach means that the agency is not reliant on direct Government funding to acquire the required assets.

#### **Box 2.3: Acquisition of Capital Assets in Western Australian Fisheries Management**

- “1. Capital acquisitions will continue to be funded under existing arrangements to the extent that funding is made available from the Consolidated Fund by Government.
2. The agency will recover the depreciation cost and interest relating to the capital provided for the capital acquisitions from the respective fisheries on implementation of accruals effective from 2000/01.
3. In cases where funding is not made available by Government from Consolidated Fund for capital acquisitions, the agency will consider other financing options to ensure the infrastructure necessary for the delivery of fisheries management services is in place. The cost of the implemented options will be recovered.”

Source: Western Australian Department of Fisheries (1999), Cost Recovery Guidelines Under an Integrated Project and Activity Costing Framework

It is not clear from the statement in the Western Australian Fisheries cost recovery guidelines what the ‘other’ financing mechanisms might be. It may be alluding to a standard procurement approach or a public private partnership (PPP) model, which are often used to finance capital assets. It may be the former, as in the case of South Australian Fisheries, the capital assets are of a relatively small size, and may not be attractive to the private sector for a PPP model.

Advice should be sought from the South Australian Treasury as to whether PIRSA is able to use market based mechanisms to purchase capital costs, and then recover these financing costs through the cost recovery framework. Of particular importance will be how the acquisition is deemed to be necessary for carrying out regulatory functions, and ensuring stakeholders that it is still reflecting efficient costs of regulation and not 'gold plating'.

# 3 Recreational fishing cost recovery

## 3.1 SA recreational fisheries cost recovery

### 3.1.1 Recreational fisheries

Recreational fishing activities in South Australia are subject to a number of rules and regulations. The rules and regulations predominantly relate to activities to ensure the resource is managed in a sustainable manner. As stated on the PIRSA Fisheries website, the regulation of recreational fishing activities provide for:

- setting catch (bag and boat) and legal size limits for the fish that can be taken
- seasonal or total protection of some species
- total or seasonal closure of some areas to fishing
- restrictions on the number and type of gear that can be used when fishing for particular species
- registration of some fishing gear (rock lobster pots and mesh nets)
- the need for permits or exemptions to be able to undertake some activities, for example harvesting sea-grass and marine algae and collecting fish for brood stock or research.<sup>11</sup>

As with commercial fisheries, the management of recreational fishing regulations incurs a number of costs. Generally, the activities required to manage recreational fisheries are the same as to manage commercial fisheries (the volume of activity and hence cost may vary):

- directorate and policy
- administrative costs associated with issuing permits and registration of equipment
- compliance activities, such as ensuring catch limits and legal size limits are adhered to (amongst other compliance measures)
- enforcement activities.

Some costs are recovered from recreational fishers through the registration of fishing gear and equipment. In 2007/08 around \$700,000 was recovered from the registration of recreational rock lobster pots, which was used to offset the costs of some regulatory activities. Other costs incurred in the management of recreational fisheries are funded by government through Consolidated Government revenues.

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<sup>11</sup> PIRSA Fisheries, *Managing Recreational Fishing*, available at [www.pir.sa.gov.au/fisheries/recreational\\_fisheries](http://www.pir.sa.gov.au/fisheries/recreational_fisheries), accessed 7 December 2008

Unlike commercial fisheries, South Australia does not have a formal cost recovery framework to recover the cost of managing recreational fisheries. In other jurisdictions, a recreational fishing licence is used to recover costs from recreational fishers, however the South Australian Government's current policy is that a recreational fishing licence will not be introduced.<sup>12</sup>

### 3.1.2 Recreational charter boat fishery

The recreational charter boat fishery has a number of unique characteristics. Charter boat operators are undertaking a commercial activity for the purpose of trade or business (i.e. to generate revenue). As such, they are classified as a commercial fishery by the Act.

However, it is the participants (fishers) on the charter boat that are extracting from the state's fish resource – the operator is merely facilitating the activity through providing equipment and knowledge (general knowledge around fishing and the fish resource). As such, the participants are classified as recreational fishers, as they are not using the resource for business or trade.

Therefore, certain activities of the recreational charter boat fishery are governed by the rules and regulations for commercial fisheries, whilst other activities (predominantly the actual fishing activities) are governed by the rules and regulations for recreational fishers (though the rules and regulations around the size, bag and boat limits may differ to those for individual recreational fishers).

The actual commercial operations of the charter boat fishery are subject to the principles of cost recovery for commercial fisheries in South Australia, that is, 100 per cent of the costs associated with regulating the fishery are to be recovered from the fishery.

It therefore appears that there is a lack of transparency around the costs assigned to the commercial operation, and the costs assigned to the recreational activities that the operators facilitate.

## 3.2 Options for improving cost recovery from recreational fisheries

### 3.2.1 Rationale for cost recovery from recreational fishing activities

*“The case for recovering the costs of particular regulatory and information activities depends on the presence of market failures and the degree to which the government requires those activities to be undertaken”<sup>13</sup>*

*Productivity Commission (2001)*

In the case of fisheries, the need for regulation is brought about by the objective to “protect, manage, use and develop the aquatic resource of the State in a manner that is consistent with ecologically sustainable development”.<sup>14</sup>

<sup>12</sup> Premier Mike Rann indicated the Government's policy position on an interview on ABC Radio on 5 December 2009. Interview available at [www.abc.net.au/news/stories/2008/12/05/2438778.htm](http://www.abc.net.au/news/stories/2008/12/05/2438778.htm), accessed 3 February 2009

<sup>13</sup> Productivity Commission (2001), *Cost Recovery by Government Agencies*

<sup>14</sup> South Australian Government (2007), *Fisheries Management Act 2007*, p14

There are essentially four broad groups with an interest in the State's aquatic resource:

- indigenous fishers
- commercial fishers
- recreational fishers
- broader community (public good).

All of these interest groups impose costs on the government in managing the resource (and the conflicting uses of the resource). However, costs are currently only recovered from commercial fishers (as was discussed in the preceding chapter), and from certain recreational fishers (e.g. recreational rock lobster fishers) with remaining costs associated with recreational fishers, indigenous fishers and broader community objectives met out of Government's consolidated funds.

The main objective of recovering costs associated with regulated access to the fisheries resource is to promote the efficient allocation of resources across the economy. Recognising the regulatory costs in the price of access to the fishery resource will help to ensure that fishers make the appropriate decisions around the amount of the resource that they extract (or the amount of fishing activity that they undertake). These principles apply equally to recreational and commercial fishers.

In the case of recreational fishing, recreational fishers benefit from the regulation of the fishery resource and should bear the associated costs of management (subject to the condition that it is cost efficient to recover these costs).

However, although recreational fishers are subject to rules and regulations, the consultations revealed that there is a perception (amongst both commercial and recreational fishers) that the compliance enforcement of these is not to the extent required to ensure the sustainable management of the resource.

It was noted in the consultations that there is no management plan for the recreational fishery (or fisheries) outlining the works program required to ensure the sustainable management of the resource. (It is noted that a five year recreational management strategy was developed by the recreational fishing industry review committee, but this was only for the period 2001 to 2005).

The consultations suggested that the current approach to managing the recreational resource is based upon a budgetary allocation from government, and then decisions around how this money can be spent to best manage the resource. This current approach may not necessarily result in the sustainable management of the resource. It is not consistent with how the commercial fishing sector is managed (which may be a cause of tension between the two interest groups, as the commercial sector, whilst paying for its costs of regulation, may be carrying a greater regulatory burden because of sub-optimal management of recreational fishing activities). Also, it may not achieve the object of the Fisheries Management Act 2007 to "protect, manage, use and develop the aquatic resources of the State in a manner that is consistent with ecologically sustainable development".

The appropriate approach to managing the recreational resource in a sustainable manner is to define the set of management activities required to achieve the desired outcome. It is these activities which should then be funded, and decisions made about what the best way to fund these activities is, which may or may not involve cost recovery from recreational fishers. Such an approach, even if cost recovery only occurs from commercial sector, would improve the overall transparency of the regulation of the fisheries resource as a whole.

**Recommendation 5**

Develop a new recreational fishing strategy or update the 2001-2005 strategy in order to inform whether there are any gaps in existing recreational regulatory activities, or whether resources are being allocated appropriately.

Identify whether the required activities can be met through existing budget allocations prior to considering additional cost effective recovery mechanisms.

### 3.2.2 Lessons from other states

#### Victoria

Regulation of recreational fishing in Victoria adopts many of the same principles as those in South Australia – minimum fish sizes, catch limits, bag weights, as well as other resource management measures such as fishery closures – though the exact specifications of the regulations may vary.

Unlike South Australia, however, recreational fishing in Victoria requires a recreational fishing licence, unless the person is exempt. A variety of time-based licences are available, and generally cost in the range of \$5.50 (for a 48 hour licence) up to \$60 (for a three year licence).

Initially the licence fee was established to recover the costs of regulatory activities (including the administration of the licencing system), including the buy back of certain commercial fishers (both Bay and Inlet) in order to reserve these for recreational fishers.

The licence fees are paid into the Recreational Fishing Licence Trust Account. The Fisheries Revenue Allocation Committee advises the Minister on the priorities for the disbursement of the funds from the Trust. The Victorian *Fisheries Act 1995* states that the funds in the Trust may be paid out for:

- amounts determined by the Minister for the purpose of improving recreational fishing
- the costs and expenses incurred in the administration or recreational fishing licences and the Fisheries Revenue Allocation Committee.

The Fisheries Revenue Allocation Committee advises the Minister (as requested) on the priorities for disbursement of the funds. According to the *Victorian Recreational Fishing Guide 2007/2008* the Recreational Fishing Trust Account allocates funds to:

- recreational fishing access and facilities (but not recreational boating-related)
- recreational fisheries' sustainability and habitat improvement (also including fish stocking)
- recreational fisheries-related research
- recreational fisheries-related education, information and training.

In 2006/07, the following activities were funded from the Recreational Fishing Licence Trust Account:

- 10 regionally-based Fisheries Officers
- the administration of the RFL and the RFGP
- the Victorian Recreational Fishing peak body (VRFish)
- recreational fishing licence sales commissions

- recreational fishing licence and recreational fishing grants program-related community information
- Bay & Inlet commercial fishing licence buy-back loan repayment
- matching funding of projects under Round 4 of the Commonwealth Government's Recreational Fishing Community Grants Programme.

Whilst Victoria has a recreational fishing licence, it is not based upon cost recovery principles. The licence revenue does recover the costs of regulation (and funds these activities). However, the funding of grants programs and the Victorian Recreational Fishing peak body are not consistent with cost recovery principles. These activities are essentially the equivalent of 'industry development' activities (where the industry is recreational fishing) and therefore outside the Productivity Commissions (and PIRSA's) principles.

In relation to recreational charter boat fishing, the Inquiry into Management of the Fishing Charter Industry in Victoria was undertaken in 2001. The inquiry recognised that such activities were not prescribed in the Fisheries Management Act 1995, but that such activity constituted a commercial fishery. However, the inquiry recommended that a system of licencing for charter boat fishing operators not be introduced.<sup>15</sup> This recommendation was supported by the government. As such, there are no licencing arrangements for the charter boat fishing industry in Victoria under the *Fisheries Management Act 1995* but participants on a recreational fishing charter boat are subject to the rules and regulations which apply to all recreational fishers.<sup>16</sup>

Although there is no regulation or licencing of charter boat operators under the *Fisheries Management Act 1995*, vessels used for such activities are regulated by Marine Safety Victoria to ensure the safety of passengers at sea (i.e. boat registration requirements).

### Western Australia

Western Australia also places restrictions on bag limits and catch sizes for recreational fishers (as well as other mechanisms in order to manage the resource). Like Victoria, Western Australia imposes a recreational fishing licence fee, with fees are paid into the Recreational Fisheries Account.

Recreational fishing tour operators (recreational charter boat operators) are required to purchase a licence. The licence describes the:

- boat size/length and passenger capacity
- whether the operator has multiple charter boats
- the number of different fishing zones the operator is licence to operate in.

Participants on a fishing tour must act in accordance with the provisions of the Act that relate to recreational fishing. In addition, the participants can only use one line or one rod and line. The fishing tour operator may be operating under a restricted licence, in which case no fish can be carried on the boat, and no fish can be taken onto land.

<sup>15</sup> Environment and Natural Resources Committee (2002), *Inquiry into the Management of the Fishing Charter Boat Industry in Victoria*, available at [http://www.parliament.vic.gov.au/enrc/inquiries/old/enrc/fishing\\_charter/default\\_pdf.htm](http://www.parliament.vic.gov.au/enrc/inquiries/old/enrc/fishing_charter/default_pdf.htm), accessed 17 December 2008

<sup>16</sup> Victorian Government, *Environment and Natural Resources Committee Inquiry into the Management of the Fishing Charter Boat Industry in Victoria: Government Response*, available at [http://www.parliament.vic.gov.au/enrc/inquiries/old/enrc/fishing\\_charter/documents/ENRC\\_FishingCharter\\_Gov.pdf](http://www.parliament.vic.gov.au/enrc/inquiries/old/enrc/fishing_charter/documents/ENRC_FishingCharter_Gov.pdf), accessed 17 December 2008

Fishing tour operator licence fee revenue is paid into the Recreational Fisheries Account, which suggests that the activity is classified as part of the recreational fishery, rather than a commercial fishery as is the case in South Australia. Either way, they are essentially treated as a commercial fishery, with the participants regulated by provisions in the Act that relate to recreational fishers.<sup>17</sup>

Funds in the Recreational Fisheries Account can be used for (as determined by the Minister):

- to cover the costs of recreational fishing administration and management
- the credit of the Fisheries Adjustment Schemes Trust Account under the *Fisheries Adjustment Schemes Act 1987*
- the enhancement and development of recreational fishing, including research, publicity and educational programmes
- to conduct enforcement, operations and compliance programmes
- to purchase capital assets required in connection with the administration or management of recreational fishing
- to purchase any authorisation, entitlement, boat or fishing gear for the benefit of recreational fishing
- to provide payment in consideration for the surrender of an aquaculture lease
- to assist any body (whether incorporated or not) whose objects include the promotion of recreational fishing
- in payment of the costs of administering the Account
- any other purpose for which moneys may be lawfully paid from the Account.<sup>18</sup>

### 3.2.3 Options for Recreational Fishing cost recovery in SA

Based upon the approaches to cost recovery of recreational activities in other states, a recreational fishing licence is the most common method adopted. Not only are they applied in Victoria and Western Australia, New South Wales also has a recreational licencing system, as does Tasmania for sea fishing, whilst Queensland requires permits for recreational fishing in dams.

However, the licence fees in other states are not simply recovering costs associated with regulation, they are ‘over recovering’ these costs and funding other development activities, which is not necessary consistent with cost recovery principles. This may reflect the history of the introduction of interstate recreational licensing that includes the intention to recover funds to compensate for commercial quota ‘buy-backs’, for example. This is not to say that a recreational fishing licence approach could not be adopted in South Australia that only recovers regulatory costs in addition to a compliance fee, consistent with cost recovery principles.

Through the consultations, a number of potential methods for cost recovery from recreational fishers were suggested, however, there was a general view that a recreational fishing licence would be the simplest to implement.

<sup>17</sup> One particularly unique feature of the regulation of recreational fishing not seen in Victoria or South Australia is a tag system which is imposed on Pink Snapper in the Freycinet Estuary. The tag system essentially applies a quota to the species by limiting the number of tags sold each year. Recreational fishers must tag the fish for them to be in compliance with the regulations (the quota relies on enforcement/compliance).

<sup>18</sup> Government of Western Australia (2008), *Fish Resources Management Act 1994*

Another option considered involved recovery of costs through registration of equipment and gear, such as is employed for rock lobsters, or through some form of tax on the purchase of equipment. (Although the latter would be unlikely to allocate costs appropriately, as the purchase of equipment is not necessarily correlated with fishing activity.) Such an option may be suitable for certain fishing activities but may not be appropriate for all recreational fishing activities. For instance, the variety of different fishing rods that any individual fisher may own could mean that some fishers would need to register multiple rods even though they don't necessarily place a larger burden on the resource than a fisher who has a single rod used occasionally.

A final option is the fish tag option adopted for pink snapper in Western Australia. However, such an approach may only be suitable for certain species, and in achieving certain objectives (such as quotas).

### 3.2.4 Selection of an appropriate option for recreational cost recovery

The selection of the most appropriate option for recovering costs associated with managing the recreational fishery will ultimately depend upon a number of important considerations.

Perhaps most importantly, the selection of an appropriate cost recovery mechanism should be dependent upon the objectives that are trying to be achieved and the behaviours that want to be addressed through regulation. The cost recovery mechanism can act as an important instrument in driving the desired behaviour. But to determine these, there needs to be a clear recreational management plan and program of works to managing the resource (including compliance and enforcement).

It is possible that the objectives being sought may vary by fish species, type of activity or by geographic location. For instance, a casual fisher standing on a river bank and casting a line in may have a vastly different impact on the resource to some deep sea fishing activities.

Therefore, different mechanisms may be required for different species, or even different regions. A system which varies by species and geographic location, whilst the most effective approach to achieve the desired resource management outcomes, may be overly complex and either deter people from undertaking recreational fishing activities or simply result in people ignoring the rules and regulations.

There is also a threshold issue which must be addressed – the potential revenues raised need to be able to cover the costs of the administrative activities as well as recovering costs associated with compliance and monitoring activities, R&D and other activities. An assessment of the relative costs and revenues of different approaches would need to be undertaken to inform this.

In the states which have already implemented a recreational fishing licence, it may be that on the balance of these considerations a recreational licence was the best solution. But this does not make a prima facie case for a recreational fishing licence in South Australia. Generally, a recreational fishing licence is a blunt instrument, yet may be the most cost effective.

Further investigation of these factors is required before selecting a preferred cost recovery mechanism for recreational fishing.

# 4 Cost recovery and governance of fisheries

## 4.1 Governance of Fisheries

Under the new *Fisheries Management Act 2007*, the Fisheries Council of South Australia (Fisheries Council) was established. The council has a number of responsibilities (as detailed in Appendix C). Having only been established for approximately one year, the Fisheries Council is still in its infancy, and some of its functions are not yet clearly defined.

It is understood that Management Committees assist the Fisheries Council in the preparation of management plans for each of the individual fisheries, and that a number of fisheries are moving towards a co-management approach to fisheries management.

A co-management approach involves the industry having a role in the functions and activities that government currently performs, such as research. Government usually continues to play a role, particularly in resolving conflicts between the various user groups.

In relation to cost recovery, the Act says that the Fisheries Council is to “advise the Minister about fees to be paid in connection with fishery”. How it achieves this is not clear cut.

One of the tasks of this review is to propose potential roles that the Fisheries Council may play in cost recovery. In doing so we have had regard to advisory committee models proposed or established in other fisheries jurisdictions, as well as the views expressed by Fisheries Council members through the consultation process.

### 4.1.1 Victoria

Following the Victorian Fisheries Consultative Arrangements Review<sup>19</sup> it has recently been announced that a new governance arrangement will be introduced. A new performance-based consultative framework will be introduced from 1 January 2009; it will embody the Government’s commitment to effectively engage with fisheries stakeholders. The Government will amend the *Fisheries Act 1995* to:

- wind up the Fisheries Co-Management Council, its associated Fishery Committees and the Fisheries Revenue Allocation Committee
- remove legislative recognition of peak bodies
- establish a commitment to transparent, equitable and performance-based consultation with stakeholders.

These changes were in response to concerns about<sup>20</sup>:

- the complexity, efficiency, consistency and flexibility of a mandated legislative regime for consultation
- stakeholder representation
- the robustness of governance arrangements

<sup>19</sup> Minister for Agriculture, Consultative Arrangements for Victoria’s Fisheries Resources – Policy Statement, October 2008.

<sup>20</sup> Victorian Fisheries Consultative Arrangements Review Discussion Paper, 2007.

- the clarity of role and purpose of various groups.

In particular, it was noted in the review that “the intricate and inconsistent mandated consultation requirements contained within the *Fisheries Act 1995* have conferred an enormous amount of responsibility, and potentially influence, on a small number of fisheries bodies.” In addition, “Rigid legislative arrangements do not always deliver outcomes for fisheries management which are responsive to the majority of stakeholders.”

Under the new arrangements, the Department of Primary Industries will be responsible for undertaking the consultation process with stakeholders. This would occur through a general consultation process on issues that fall outside the legislation.

A new body called the Fisheries Consultative Body would be established to provide enhanced governance for the new framework, particularly with respect to required statutory engagement with fisheries stakeholders. The body will be chaired by a Department of Primary Industries representative and comprise a single member from each of the five key fisheries stakeholder sectors.

The terms of reference for the Fisheries Consultative Body is to be developed by the Department of Primary Industries for consideration by the Minister and will focus on providing oversight and governance of the consultative process for statutory decision making about the sustainable management of fisheries resources.

#### 4.1.2 Western Australia

In Western Australia, Ministerial Advisory Committees (MACs) are the major source of advice for the Minister for Fisheries on the management of the State’s fisheries and other issues affecting the Fisheries Portfolio. They also provide a forum where stakeholders are involved in discussion on problems identified and possible solutions developed.

The *Fish Resources Management Act 1994* provides for the establishment of fishery management and other advisory committees to provide information and advice to the Minister for Fisheries on:

- matters related to the protection and management of the fishery
- the administration of the Act.

A similar advisory process is outlined in the *Pearling Act 1990* for the pearling and pearl culture sectors, which is called the Pearling Industry Advisory Committee. This Committee also provides advice to the Executive Director of Fisheries.

Similar provisions in the *Fisheries Adjustment Scheme Act 1987* exist for the establishment of Voluntary Fishery/Fisheries Adjustment Scheme Committees of Management which provide advice to the Minister for Fisheries on the desirability of establishing schemes and the subsequent consideration of offers under those schemes.

Ministerial Advisory Committees are expertise-based, advisory in nature and make recommendations to the Minister for Fisheries. The eight fishery Ministerial Advisory Committees have certain statutory functions outlined in section 65 of the Act in relation to amending and revoking Management Plans and, at the Minister’s request, in relation to Policy Guidelines.

Fishery Ministerial Advisory Committees will have Terms of Reference outlining those functions that relate to their specific task, but will typically advise the Minister on a range of activities in relation to fisheries such as:

- the development of proposals in relation to Management Plans
- research and development priorities and review

- finance and budget planning and review
- fisheries management services
- extension and publicity, including community awareness programs
- compliance and monitoring
- performance indicators
- strategic plans.

The Terms of Reference for a typical commercial fishery MAC would be:

- to advise the Minister on matters relating to the fishery on which the advice of the Advisory Committee is sought by the Minister
- to seek advice from all parties with an interest in the fishery, including peak industry bodies, on matters relating to the fishery on which the advice of the Advisory Committee is sought by or being given to the Minister.

The Terms of Reference for a typical Regional Recreational Fishing Advisory Committee would be:

- to advise the Minister in the management and enhancement of regional recreational fisheries, fish stocks and their habitat, by canvassing community views and providing advice to the Recreational Fishing Advisory Committee (RFAC) and Department of Fisheries
- to provide advice and comment to RFAC from a regional perspective on recreational and other fisheries management issues which are referred to it by the Minister
- to develop recommendations for the consideration of RFAC which have implications for the regional recreational fishing community
- ensure the needs of regional recreational fishers are adequately catered for on issues of specific relevance to the region they represent
- ensure that regional committee views are representative of the wider recreational fishing community within the region
- cooperate with the Department of Fisheries in regional community education and extension of recreational management initiatives.

## 4.2 Potential role of Fisheries Council in cost recovery

A number of potential roles for the Fisheries Council have been identified through the consultation process, lessons from other jurisdictions and the review and identification of potential improvements to the current cost recovery framework.

In terms of lessons from other jurisdictions, it is first important to note that this issue needs to be considered within the context of the legal framework for fisheries management in a particular jurisdiction, as well as the context and purpose of particular frameworks. For example, the new Victorian approach has been developed for a stakeholder engagement purpose (rather than an advisory purpose) and decentralises the consultation process from particular fisheries advisory committees. In contrast, the Western Australian model has a clear ministerial advisory purpose.

The key insight to be taken from the Victorian process of reform is that there is the potential for enormous amount of responsibility, and potentially influence, to be captured by a small number of fisheries bodies. Hence Victoria has moved away from this stakeholder engagement model.

The key insight from the Western Australian experience is that the model for commercial fisheries, while allowing for the Ministerial Advisory Committees to undertake a range of tasks, requires advice to be sought from the Minister. Therefore the Committees are prevented from becoming involved in detailed issues and disputes at the behest of industry unless advice is sought from the Minister.

In the consultation process, a key theme that arose was that the Fisheries Council could undertake a dispute resolution role or arbitration role in relation to unresolved cost recovery issues between PIRSA and industry. However, such a role carries the risk of undermining the incentive for parties to negotiate a solution in good faith — for example, industry may seek to bypass the existing negotiations if they feel that the Fisheries Council would sympathise with their position. In addition, a number of disputes relate to the capacity of a particular fishery or fisher to pay annual cost recovery fees determined. Upon discussion with Fisheries Council members, it was the Council’s view that an arbitration role requiring such a judgement of fellow industry participants would not be appropriate. Consistent with the Western Australian model, the Fisheries Council could become involved only at the request of the Minister to advise on a process or framework for by which the Minister may make such judgements. In addition, the Council could still advise the industry and the Minister on whether the cost recovery process has been followed for a particular cost recovery decision or dispute, in order to ensure confidence in the initial cost allocation.

We have therefore identified potential roles for the Fisheries Council as follows:

- provide confidence to the fisheries and the Minister on whether the cost recovery processes and principles have been applied appropriately
- establishment of appropriate review periods for fees and regulations. Currently, fees for each of the commercial fisheries are reviewed on an annual basis, even though for some fisheries the works program is essentially simply rolled forward from one year to the next. It may be possible that a works program can be set out for more than one year at a time. The Fisheries Council could advise the Minister whether a fishery could have a longer term work program set out, and the frequency of development of the associated fees
- providing advice on the allocation of costs between different users groups, namely recreational, commercial, indigenous and the broader community. As was identified earlier in this report, there is a lack of transparency of around the allocation of total costs associated with managing the fish resource between these user groups. If a process is adopted whereby the costs of managing recreational and indigenous fisheries and other activities for the wider communities benefit, the fisheries council could advise the Minister on the appropriate allocation of costs between the various user groups. Costs associated with research are a good example, where benefits can accrue to a wide number of stakeholders, even if predominantly undertaken to address an issue within a specific group. Therefore, there is likely to be many research projects which provide benefits to all groups, and the costs should be allocated in accordance with the benefits that are received by each group. This role links with Recommendations one and two

- assessing whether the costs of regulatory activities being recovered are efficient costs. Currently, it is not clear whether the costs of regulatory activities undertaken by both PIRSA and SARDI are efficient costs. Therefore, the Fisheries Council could advise the Minister, through benchmarking, as to whether these costs are efficient or not. This role links with Recommendations one and two.

It is noted that, whilst potential roles for the Fisheries Council have been presented, this analysis does not constitute legal advice, and as such it does not consider whether the Fisheries Council has the power under the Act to perform these roles.

**Recommendation 6**

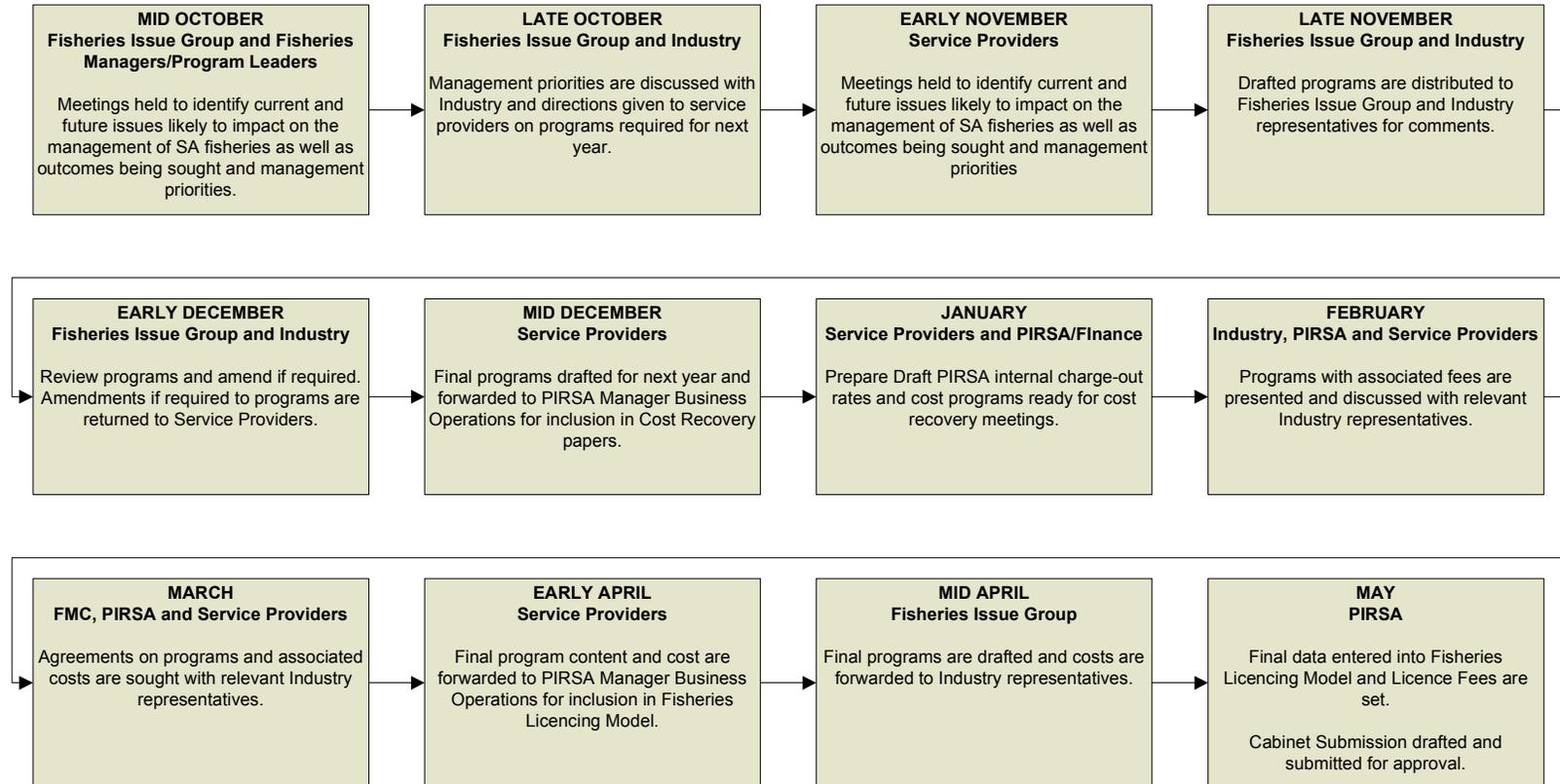
That the Council consider adopting the four proposed roles in the cost recovery process and clearly communicate these to the fishing community and the Government.

# Appendix A

## Detailed cost recovery framework

The figure presented in this diagram is an overview of the annual process that is undertaken to establish the licences and fees payable by each of the commercial fisheries to cover the costs of providing regulated access to the State's fish resources. Together, these processes form the cost recovery framework adopted in South Australian Fisheries.

Figure A.1: PIRSA cost recovery framework – service levels development, consultation and costing process

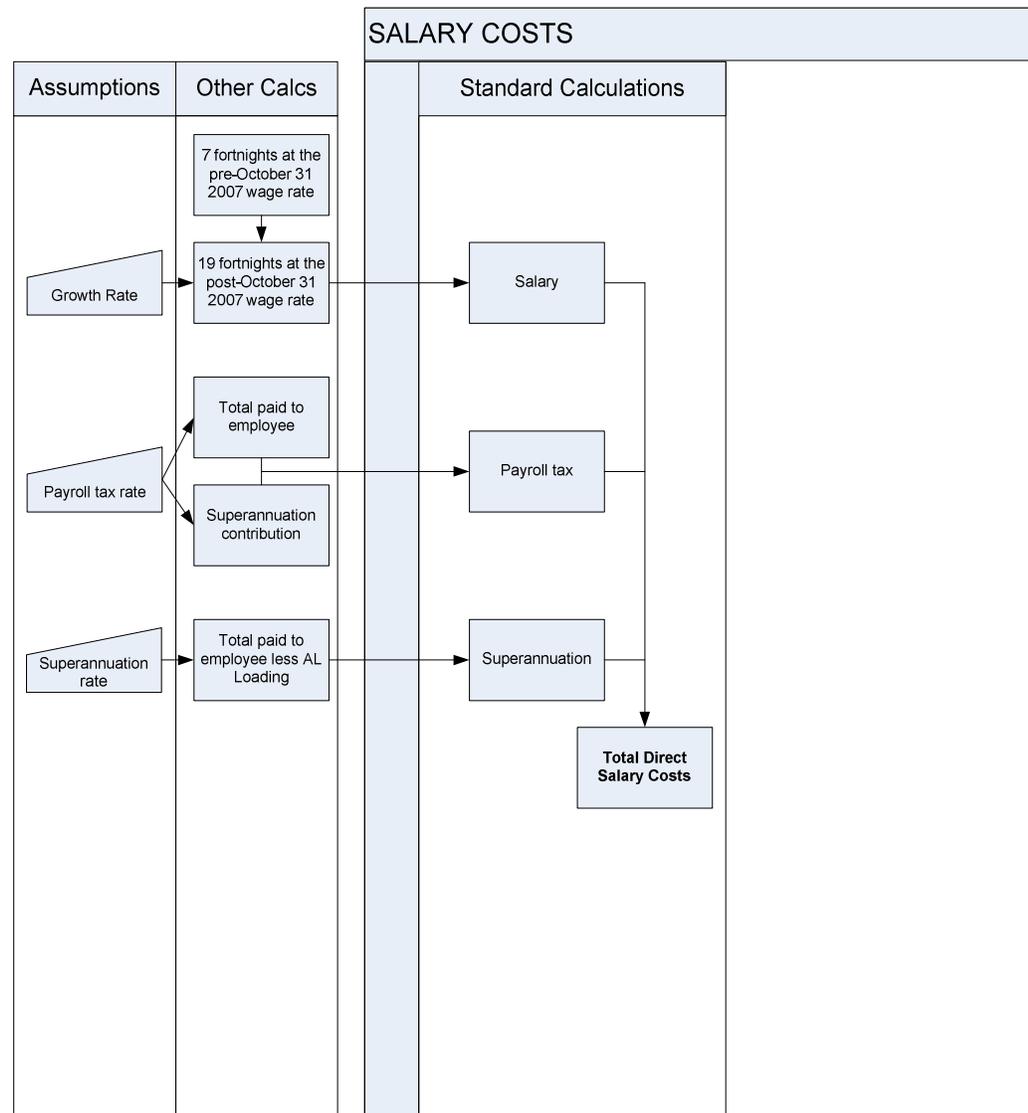


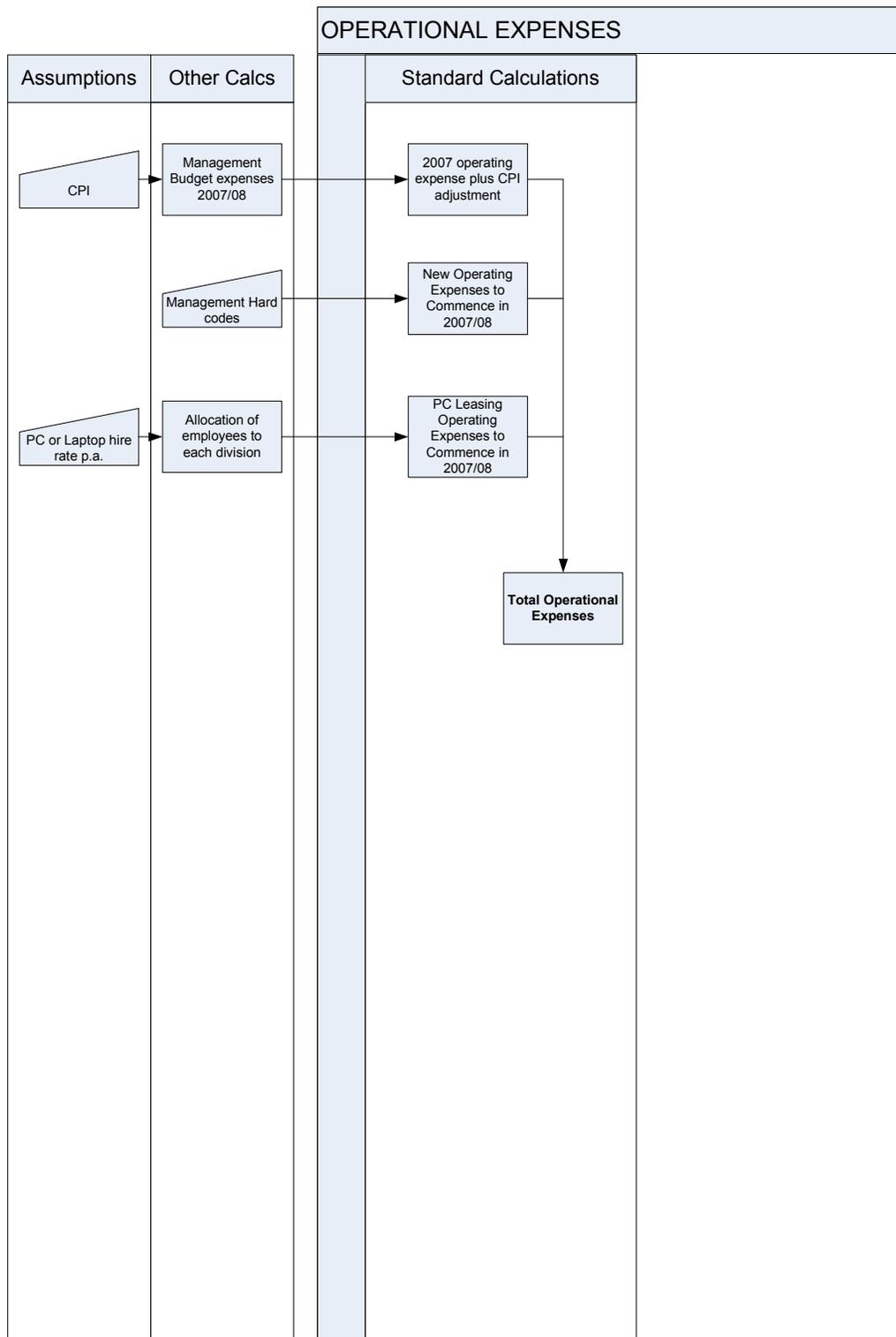
Source: replicated from information by PIRSA Fisheries

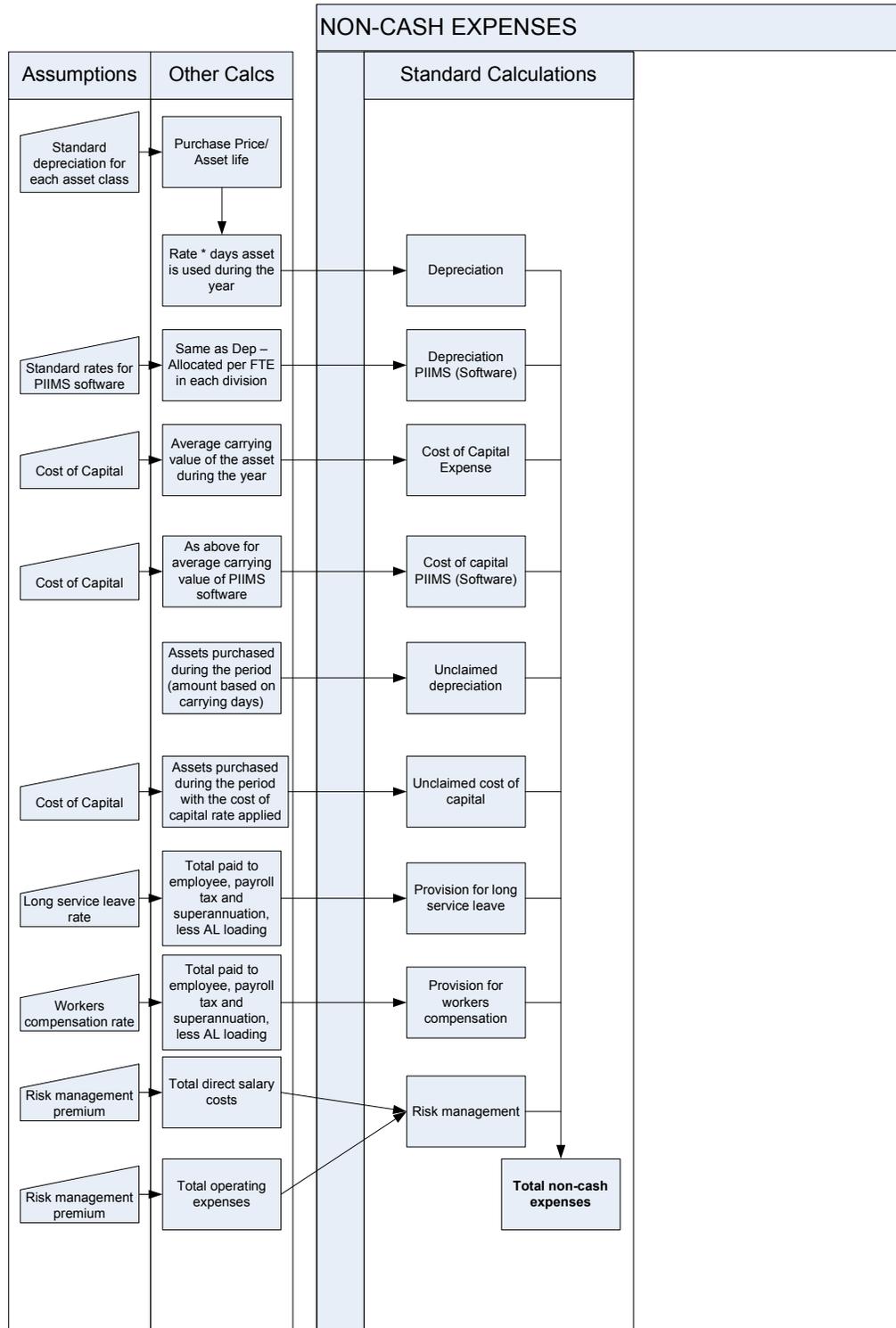
# Appendix B

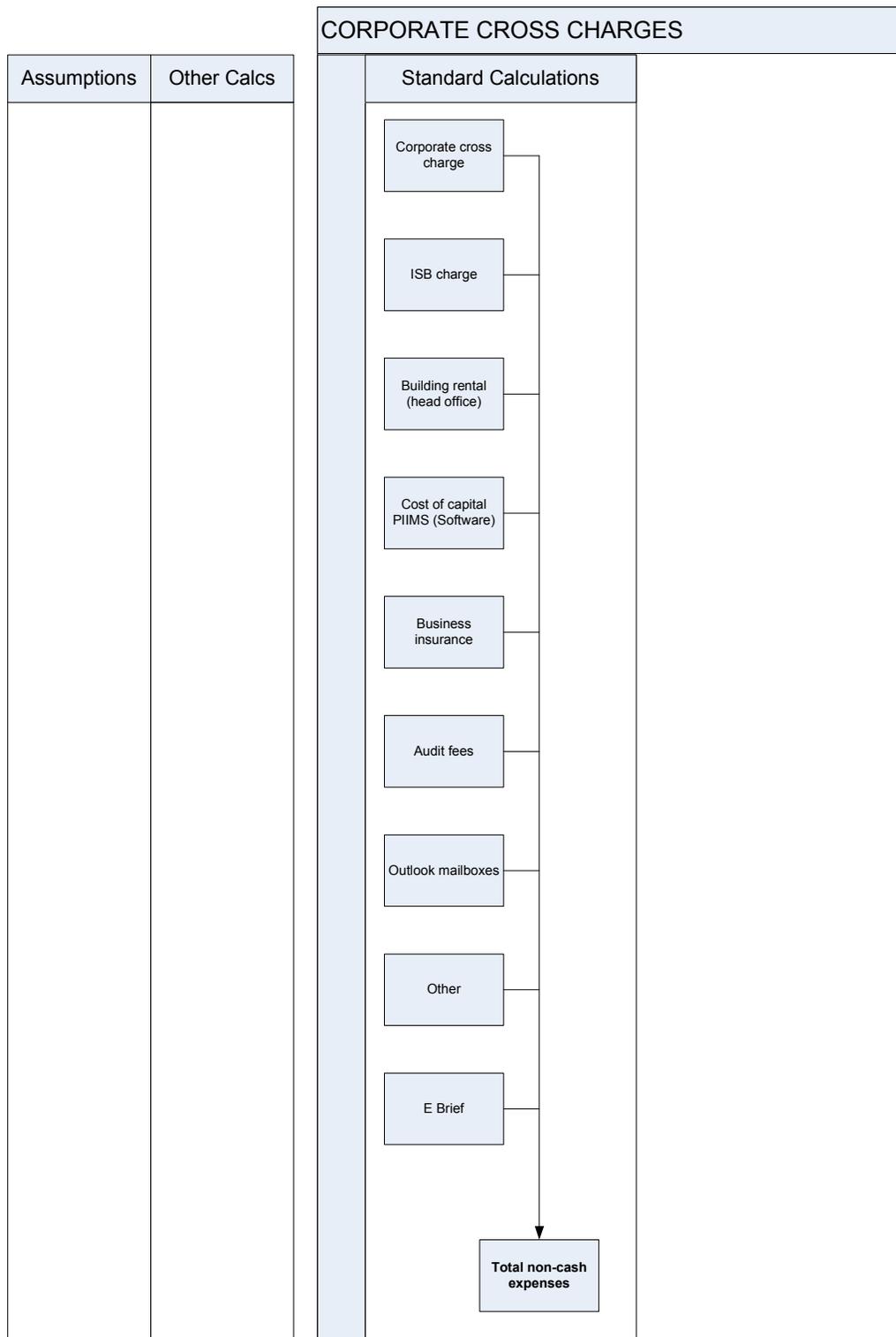
## Detailed cost allocation model structure

The diagrams in this appendix present an logic map of the structure of the cost allocation model.









# Appendix C

## Functions of the Fisheries Council of South Australia

The South Australian Fisheries Management Act 2007 confers upon the Fisheries Council of South Australia the following functions:

- to prepare management plans as required under this Act
- to conduct reviews of management plans
- to promote the co-management of fisheries
- to promote research, education and training in relation to fisheries and the management of fisheries
- to advise the Minister on the management of aboriginal traditional fishing, commercial fishing and recreational fishing
- to advise the Minister about fees to be paid in connection with fishery authorities
- to advise the Minister on the application of money in the Fund
- to advise the Minister on State-wide policies in relation to fisheries management and research
- to advise the Minister on matters relating to intergovernmental agreements and arrangements related to fisheries or fishing
- to advise the Minister on issues related to the allocation of access to aquatic resources in particular fisheries
- to prepare or promote codes of practice on best practice concerning matters of relevance to holders of fishery authorities
- to carry out such other functions as may be assigned or delegated to the Council by the Minister.

# Appendix D

## Recommendations

**Recommendation 1**

Develop a complete picture of the regulatory activities required in order to manage the fishery resource across all user groups (commercial, recreational, indigenous and broader community). Define the costs of these activities and then clearly identify the allocation of costs between all beneficiary user groups.

**Recommendation 2**

Conduct a new review of SARDI fisheries research costs as soon as practicable, incorporating a review of cost efficiency and the allocation of research costs among beneficiary user groups, as part of development of the complete picture of regulatory costs.

Thereafter conduct regular benchmarking analysis (perhaps every 3-5 years) of PIRSA regulatory and SARDI research costs, and make the results publicly available, to improve transparency and ensure regulatory costs are efficient.

**Recommendation 3**

The treatment of capital costs should be reviewed to ensure consistency between real and nominal values. The assumption for the number of operational days per full time equivalent worker and the treatment of risks should be revised.

**Recommendation 4**

The excel model used to allocate costs between the various commercial fisheries should be refined and guidance for using the model prepared.

**Recommendation 5**

Develop a new recreational fishing strategy or update the 2001-2005 strategy in order to inform whether there are any gaps in existing recreational regulatory activities, or whether resources are being allocated appropriately.

Identify whether the required activities can be met through existing budget allocations prior to considering additional cost effective recovery mechanisms.

**Recommendation 6**

That the Council consider adopting the four proposed roles in the cost recovery process and clearly communicate these to the fishing community and the Government.