Review into the development of a funding framework for Local Land Services NSW

Submission by:
Brian Tomalin

General comments:

- A future rating system should concentrate on a funding model that will enable LLS to undertake the wide range of functions expected independent of Treasury budget constraints.

- In order to ensure that all LLS regions maintain financial sustainability it may be necessary to consider a broad-based system that targets most of the community and the funds are quarantined for LLS and redistributed in accordance with individual LLS regions requirements. Funding allocations should be distributed on a performance based criteria. However there are legal and political constraints that would need to be addressed. A rate could not be allocated outside the region in which it is collected and there are constitutional restrictions on State collected taxes. It may be possible to strike a community or public benefit levy but this would have political ramifications.

- Funding arrangements are now enshrined in the Local Land Services Act. Any recommendations by IPART for a rating/levy system which differs from the provisions of the LLS Act will require amendments to the legislation.

  The proposed funding arrangements appear to be:
  - Rural landholder rates to finance services currently provided by LHPA;
  - Current LHPA recurrent administrative and regulatory functions will be funded by Treasury;
  - Recurrent Natural Resource Management funding will continue to be provided by Treasury;
  - Agricultural extension services will be funded by Treasury;
  - A Catchment Levy can be struck to fund a shortfall in catchment activities (NRM project funding);
  - Funding for emergency biosecurity activities will continue as at present;
  - LLS can establish a fee for service.

- It could be argued that if LLS has to charge a fee for service for anything then they should not be doing it. Unless there is a case of market failure a fee for service could compete with commercial providers.

- It would be preference is to consider beneficiaries as community (as opposed to government), industry and landholder.
  - Governments tend to regulate at the request of industry (e.g. footrot program or pest animals which create economic damage) or to protect human health and safety or in line with broad community expectations (e.g. natural resource management).

- Plant biosecurity is currently unfunded and unallocated. At this stage as there is no clear idea of what is expected of LLS in delivering plant biosecurity it will be difficult to identify beneficiaries and risk creators.
• With respect to biosecurity (e.g. surveillance visits and management of declared diseases and residues i.e. quarantine, property disease eradication programs and etc.) any fee for service to individuals will create a disincentive for producers to report disease events. As such a fee for service puts the portion of the benefit that is to industry and community at risk. Placing fees on such services is inconsistent with the Productivity Commission’s view that in general, cost recovery should not be implemented where: “... it is inconsistent with policy objectives (p25)”. In other words, care must be taken to ensure that a fee for a biosecurity activity (or any service) does not reduce the effectiveness of that activity or service.

• Under the current LHPA system the regulatory function is funded by ratepayers, it appears that under LLS this function will be funded by Government. The proposed LLS arrangements appear to apply funding to silos within the organisation. Such an arrangement is inefficient from a management perspective and creates a silo mentality for staff.

• It is easier to identify beneficiaries rather than risk creators. EAD cost sharing focuses on beneficiaries; however we often target risk creators e.g. swill feeding audits, tip inspections, intensive industries and declared pest animal activity. Unlike consultants and private vets who often work with the top 20% LHPAs and in future LLSs are exposed to a much broader demography and have a more realistic understanding of disease/pests prevalence and risk profiles.

• Government funding could then be applied to those functions or activities that could not be covered by a rate/levy or have such wide public benefit that government funding is the only option.

• The future funding model will need to provide for:
  o Core funding (administration, infrastructure, plant and equipment, permanent staff, Regional Strategic Planning, native vegetation consent).
  o Compliance and regulatory functions.
  o Advice and extension services for Biosecurity (livestock health, pests), agricultural extension, NRM extension.
  o Biosecurity programs (livestock health and pests)
  o NRM programs
  o Agricultural productive improvement programs

• Biosecurity functions and services (program funding, extension and regulatory) apply to:
  o Primary producers
  o Rural communities
  o Urban communities

• NRM services (program funding and extension) apply to:
  o Primary producers
  o Rural communities
  o Peri-urban communities
  o Urban communities
• Agricultural services (program funding and extension) apply to:
  o Primary producers
  o Rural landholders
• NRM consent applies to
  o Primary producers
  o Rural landholders
• Government funding for LLS services will decline not increase in the future. All government funding is subject to the budget process and changing government priorities.
• The future rate/levy structure will need to reflect what is required for the future not what interim arrangements are in place or what was past practice.
• All the information regarding LLS functions indicate that are aimed at farmers and landholders, it is not clear if this includes urban landholders and urban communities. The LLS Bill contains provisions that continue LHPA responsibility for biosecurity (livestock and pests) regulation in urban areas and rural areas. NRM functions delivered by CMAs have included both urban and rural communities. Is the delivery of these functions to urban communities recognised in the IPART brief?
• The IPART Terms of Reference does not allow for the consideration of the possible need to recover private good components of natural resource management (current CMA ) functions, especially if government funding for this area is reduced.
Cost recovery principles (Chapter 3)

1. Do you agree with IPART’s proposed cost recovery principles? Are there other factors IPART should consider in developing its cost recovery principles? 23

- Core funding cannot be included as a component of cost recovery rate/levy or fee for service. Those who do not consume a “service” but benefit from a “public benefit” component do not contribute unless the rate/levy is community wide.
- Risk creators – most farmers consider that in respect to pests and weeds the risk creators are National Parks.
- To be sustainable pest and weed control programs require a landholder contribution (beneficiary pays) those who do not participate benefit at no cost. Identification of non-participants and imposing a charge would be administratively difficult (if legally possible).
- Is a compliance function or service?
- There are four parties that consume LLS services or functions:
  - Government (regulatory and compliance functions)
  - Community
    - Whole community through public benefits
    - Local communities through localised public benefits
  - Industry
  - Landholders
- LLS funding principles
  - A General Public Benefit levy across the whole community with a mechanism to equalise the income across all LLS Regions (quarantined for LLS)
  - A Local Public Benefit for areas within the LLS regions which require the provision of services which are beyond the capability of individual landholders but which have local public benefit (determined by regional board)
  - A fee for service to cover private benefit where the service is not or cannot be provided by the market
- LLS is responsible for regulation of declared pests and biosecurity in urban area and rural areas. A rate/levy based restricted to rural ratepayers for the regulation and delivery of services to a section of the community not contributing to the cost.
Introduction to the Cost Recovery Framework (Chapter 4)

2. Should we use the cost recovery frameworks that we have identified from other jurisdictions? Are there other examples of cost recovery frameworks that we should consider? 32

3. Do you agree with IPART’s approach which includes a series of stages and ‘key questions’? Can our suggested approach be improved? 32

1 Introduction Review into the development of a funding framework for Local Land Services NSW  IPART 5

- LLS is a relatively unique organisation – other frameworks are only partially applicable
  - PC principle are applicable
  - SA concept of shared responsibility is applicable
  - General public benefits need to factored in
- Urban communities pose a significant biosecurity threat
- Urban communities consume and rely on NRM activities
- Staged approach is sound provided it is on top of a core funding mechanism to account for administration, etc and regulatory compliance functions.
- Figure 4.2 Decision tree:
  - After Q2 requires a box for “Government”
  - 

Cost Recovery Framework (Stage 1) – Identify demand for the service (Chapter 5)

4. How should we identify the demand for the services provided? How should we identify the main party or parties that benefit from or contribute to the need for the services? 39

- Statutory requirements and the impact and implementation of consent and compliance needs to be considered earlier than Chapter 5.
- Distinguish between services that consumers seek (NRM, Ag extension) and services that are required due to statutory requirements (biosecurity responsibilities and pest control responsibilities)
- Government demands compliance “services”.
- Where a landholder has a statutory obligation to undertake certain actions or comply with a legislative requirement are they a risk creator? Or are they a risk creator if they do not comply? In either case who is demanding the service and who is the beneficiary?
  - Is the risk creator?
    - Government who are responsible for the statutory requirement
    - The landholder to whom the statutory obligation applies
    - The community who requires government to enact the statutory requirement
  - Who is the beneficiary?
    - Government who imposes the statutory requirement
    - The landholder who has to comply and may benefit from the
Cost Recovery Framework (Stage 2) – Apportion cost shares between parties (Chapter 6)

5. Should a sliding scale arrangement be used to apportion costs between parties using LLS services? If so, are the percentages used for the State/Commonwealth Plant and Animal deeds appropriate for use? 43

6. Should a risk matrix approach be used to apportion costs between parties using LLS services? If so, what percentages would be appropriate to apply to the relative risks imposed by different stakeholders? 45

7. Can we assign weights (high, medium and low) to reflect the impact each party has in requiring the service be provided? 46

8. Should IPART use the Stakeholder Reference Panel’s consultation outcomes to apportion costs shares for LLS services? Are there issues with this approach? 48

9. Should LLS boards be able to exercise discretion under the draft Cost Recovery Framework when determining cost shares between parties? 49

10. Do you agree with the approaches discussed by IPART to apportion cost shares? If not, why not? Can you suggest another way to determine efficient cost sharing that is transparent and practical? 49

11. What information is publicly available on an appropriate split between parties that would use LLS services? 49

- A sliding scale is appropriate where emergency biosecurity arrangements exist between Federal/State Governments and Industry where is able to recover costs from industry participants.
- A risk matrix is appropriate where there are a number of parties sharing benefits or responsibilities:
  - Government
  - Whole community
  - Local community
  - Landholders
  - Industry
- Percentages could be:
  - Set percentage State-wide for to cover government and whole community obligation
  - Regional LLS determine percentage split between local community, landholders, industry depending on local issue/requirement
  - Fee for service
  - Require standard matrix and guidelines for use by all LLS regions
- The standard matrix and guidelines should provide guidance in determining weighting
- The Stakeholder Reference Panel’s consultation outcomes reflect past practices not what is required to enable LLS to be sustainable going forward
- LLS boards must be able to exercise discretion when determining cost shares
### Beneficiaries/Responsibilities LLS functions/services

<table>
<thead>
<tr>
<th>Function</th>
<th>Administration</th>
<th>Regulatory</th>
<th>Emergency response*</th>
<th>Biosecurity extension</th>
<th>Agricultural extension</th>
<th>NRM extension*</th>
<th>Biosecurity programs¹</th>
<th>Agricultural production programs</th>
<th>NRM programs*</th>
<th>PVP consent</th>
<th>TSRs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>100%</td>
<td>25%</td>
<td>%</td>
<td>%</td>
<td>25%</td>
<td>25%</td>
<td>10%</td>
<td>10%</td>
<td>50%</td>
<td>50%</td>
<td>20%</td>
</tr>
<tr>
<td>Whole community</td>
<td>25%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>25%</td>
<td>25%</td>
<td>10%</td>
<td>10%</td>
<td>50%</td>
<td>50%</td>
<td>20%</td>
</tr>
<tr>
<td>Local community</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Landholders</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Industry</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
</tr>
</tbody>
</table>

1. Biosecurity programs include livestock health programs, pest control programs, plant biosecurity programs
2. Subject to Plant and Animal Deeds
3. NRM extension gives government a policy outcome
4. NRM programs give government a policy outcome; whole community, local community, landholders, industry benefits/responsibilities will vary according to intended program outcomes.

### Funding option and collection mechanism (Chapter 7)

12. Which rating base(s) should be adopted by LLS and why would this rating base be the best option? 72
13. Which fee collection system(s) should be adopted by LLS and why should this fee collection system be adopted? 72
14. Should exemptions or reductions in charges be used as part of the cost recovery mechanism to provide incentives to reduce risks? 72
15. Are there lessons to be learned from the rating bases and fee collection mechanisms that are adopted in other jurisdictions? 72

1. Introduction 6 IPART Review into the development of a funding framework for Local Land Services NSW

### Rating system

- **Notional Carrying Capacity**
  - Based on productive capacity or number of livestock that could be supported on a holding
  - Subjective determination
  - Narrow ratepayer base
  - Difficult to understand for holdings that do not rely on livestock
  - High value cropping areas rated on basis of low livestock capacity
  - Does not reflect funding for services or functions required
  - An alternative is an assessment of the land’s productivity based on the soil types and rainfall which is fairly readily accessible with differentials based on land use as per the land and stock returns.
It would end up similar to the notional carrying capacity but without any reference to dry sheep. Would require a different method of calculation method for holdings not carrying livestock

- Area based rate
  - Inequitable
  - Low productivity-extensive holdings would have large rate liability
  - High productivity intensive holding would have low rate liability
  - Does not reflect funding for services or functions required

- Land Value
  - Could establish broad rating base
  - Could be structured to reflect funding for services or functions required in accordance with standard matrix and guidelines
  - A problem with unimproved capital value is that properties such as improved blocks using irrigation and running stock will pay the same amount as their dry block neighbour unless the value of the water licence is taken into account in the calculation.
  - Exemptions or reductions could be difficult and costly to administer and create ratepayer discontent.
  - The Hunter Catchment Levy provides a model for collection via Local Government. The advantages appear to be:
    - A broad based system minimising individual liability
    - One rate notice for all rates or levies

**Audit methodology (Chapter 9)**

16. Do you agree with IPART’s proposed approach to assessing the extent to which LLS boards have applied efficient cost recovery pricing? Are there other factors IPART should consider? 82

- Financial audit is a given.
- Other audits required are:
  - Performance audit to determine funding allocations based on performance.
  - Compliance audit to determine effective regulatory function
  - Compliance audit to determine effectiveness of application of fees and charges
- Performance and compliance audits should be conducted by one auditor such as the Natural Resources Commission who engages specialist audit contractors
- Performance for biosecurity functions (livestock health, plants and pests) should be on the same basis as current NRC audits for NRM bodies.