



Food
Authority

2 July 2013

M13/202

Mr Colin Reid
Land Services Review
IPART
Level 8, 1 Market Street
SYDNEY NSW 2000

Via email: colin.reid@ipart.nsw.gov.au

Dear Mr Reid

I refer to IPART's "Review of a rating framework for Local Land Services NSW", currently underway. I understand that submissions are sought from interested parties.

The NSW Food Authority currently administers the Meat Industry Act, through which a levy is applied. The Livestock Health and Pest Authorities currently collect this levy on behalf of the Authority, in return for which a commission is paid. For this reason, the NSW Food Authority has an interest in the funding framework and a submission in this regard is attached for your consideration.

Yours sincerely

Samantha Torres
Director, Policy & Programs



**Review of funding framework for Local Lands Services NSW
Submission by the NSW Food Authority
to the
Independent Pricing and Regulatory Tribunal**

The Livestock Pest and Health Authorities currently collect a levy on behalf of the NSW Food Authority through their ratings framework, meaning that the NSW Food Authority has a direct interest in the development of a workable funding framework for Local Lands Services into the future. This submission addresses the following issues in relation to the development of a rating framework for Local Land Services NSW:

1. The appropriateness of the Meat Industry Levy (MIL),
2. The most appropriate rating base, and
3. The most appropriate fee collection mechanism.

The submission recommends:

1. Continuation of the MIL as appropriate (efficient and effective):
 - It contributes to the funding of a broad range of programs and activities which maintain and enhance food safety in the NSW meat industry and build on the industry's good reputation, both domestically and internationally, as a reliable source of safe food.
 - It is a modest sum (average of \$14 per rateable property in 2012) which is paid by and closely aligned to its direct beneficiary, livestock farmers.
2. Continuation of the calculation of the MIL on the basis of notional carrying capacity of land, and
3. Adoption of a fee collection arrangement with Local Land Services that includes the MIL in rates notices issued by Local Land Services boards.

Overview of the NSW meat food safety framework

The NSW Food Authority (the Authority) is a NSW government agency that works to ensure food for sale in NSW is safe and correctly labelled and that consumers are able to make informed choices about the food they eat.

Responsible to the Minister for Primary Industries, the Authority provides a single point of contact on food safety for industry, local government and consumers. It is Australia's only through-chain food regulatory agency, regulating and monitoring food safety across NSW – from primary production through to point of sale.

The Authority administers and enforces *Food Act 2003* with the objectives of ensuring that food for sale is both safe and suitable for consumption and preventing misleading conduct in connection with the sale of food. Under *Food Act 2003* the Authority enforces the provisions of the national Food Standards Code and various sector-based food safety schemes prescribed in Food

Regulation 2010. The Authority operates on a partial cost-recovery funding model, with regulated industries contributing financially to the regulatory system.

One of the food safety schemes relates to the meat industry and requires a business involved in the operation of a poultry farm, abattoir, knackery, meat processing plant, rendering plant, animal food processing plant or in meat retail, meat transport or animal food transport to comply with specific regulation concerning meat food safety. Such a business is required to be licensed with the Authority and may be required to implement and maintain a food safety program which is then subject to regular audit by officers of the Authority. Costs to the business arise from the implementation and maintenance of a food safety program and fees are incurred for the licence and any audits.

Notably this meat food safety scheme does not include the on-farm activities of red meat producers. These businesses are not required to be licensed with the Authority or to implement food safety programs subject to audit. This is in contrast to poultry meat production and to the dairy, seafood and egg industries where businesses engaged in certain primary production activities, considered to present a higher level of food safety risk, are required to be licensed and comply with specific sector based food safety management requirements.

1. Rationale for the Meat Industry Levy – appropriateness (efficiency and effectiveness).

Red meat producers, although not subject to licensing and audit requirements (and their costs), benefit from the targeted regulatory intervention applied to meat processing and retail activities. These requirements directly affect their produce once it leaves the farm and is processed, packaged, transported, stored and sold for consumption.

Further, the Authority participates in a broad range of meat food safety activities which extend beyond the administration of the meat food safety scheme and are of direct benefit to NSW meat producers. These benefits and key activities which promote them are as follows:

a. Maintain product integrity

- Operation of testing programs for meat substitution and illegal chemical use in meat (for example, horsemeat testing and speciation),
- Investigations into illegal slaughter and unlicensed operations,
- Detection of excessive pesticides and veterinary medicines in meat samples,
- Compliance work relating to beef labelling in retail and wholesale operations,
- Administration of the lamb branding scheme including the issuing of rollers,
- Surveillance and enforcement operations relating to lamb branding,
- Operation of food safety verification programs, both microbiological and chemical,
- Monitoring and compliance of country of origin labelling and general labelling requirements,
- Participation in a coordinated response to meat substitution controls, developing an industry animal welfare standard and reviewing veterinary public health and post mortem procedures,
- Engagement with imported food product issues involving public health implications – (for example, EU canned meat product BSE controls), and

b. Maintain export access

- Engagement and participation in projects with industry bodies such as Meat Livestock Australia (MLA) and SAFEMEAT to address technical issues of concern in the meat sector,

- Participation in the Federal residue testing program (including the National Residue Survey, National Antibiotic Residue Management) which involves developing testing and sampling programs in coordination with the Department of Agriculture, Fisheries and Forestry,
- Reviewing and addressing issues relating to the food export meat sector with the Department of Agriculture, Fisheries and Forestry through the Food Export Regulators Steering Committee (FERSC),
- Supporting the Department of Agriculture, Fisheries and Forestry in overseas government reviews of meat industry, the facilitation of export markets and making representations to overseas governments on the regulatory oversight of the meat industry.

c. Protect public health (and industry reputation)

- Operational response to residue incidents and liaison with the NSW Department of Primary Industries on these matters,
- Work on stock disease/animal disease issues with public health zoonotic implications,
- Incident management (for example: response to notifications from NSW DPI).

d. Foster national consistency of regulation (and ease regulatory burden)

- Participation in the development of a national meat standard and a consistent approach to its implementation.

e. Promote industry education and consultation

- Developing resource materials for use by the meat industry,
- Undertaking training initiatives concerning animal welfare in the processing sector,
- Creation and implementation of industry and consumer education programs,
- Co-ordination of the Meat Industry Consultative Council as the NSW industry consultative committee for meat food safety regulation which includes producer representatives.

The sum collected through the MIL provides a significant financial contribution to the performance of this ongoing work. In the 2012 calendar year, for example, the MIL contribution of primary red meat producers to the NSW meat food safety framework amounted to \$1,032,000 (inclusive of commission paid to the LHPA's). This can be contrasted against the licence and audit fee contributions of other segments along the meat supply chain during the 2011-12 financial year such as abattoirs and meat processing plants (not including cold stores) (\$619,000) and meat retail premises (\$1,227,000). The nature of the MIL means that the red-meat primary production total contribution to the NSW meat food safety framework is spread over a broad base of approximately 77,495 MIL ratepayers, meaning that each producer pays a small amount (average \$14). By contrast, licensed, higher risk activities are carried out by a smaller number of operators and their individual contributions are higher; for example in 2011-12 abattoirs and meat processing plants (not including cold stores) numbered a total of 411 facilities, but contributed \$619,000 (an average of \$1506).

When the MIL regulation was re-made in 2006, the Food Authority undertook a communication campaign which advised producers of the programs that were being funded by the MIL and their objectives. The benefits to be gained in safe-guarding high consumer confidence in our domestic produce, not only in the Australian market but also internationally were clear.

As the Australian Government's *National Food Plan White Paper 2013* cautions:

"Despite an impressive safety record, we cannot afford to become complacent. Unsafe food can result in serious illness, undermine confidence in the food supply system and affect

access to export markets. The cost of foodborne illness is significant, resulting in lost productivity, medical costs and even death. Ensuring food safety into the future will require vigilance. If we are to manage new and emerging risks, our regulatory environment must continually adapt and be responsive, comprehensive and adequate without being unduly burdensome on industry.” (p60)

Further, with a stated goal for Australia to become a leading food exporter and be considered in the top three countries in the world for food safety by 2025, the White Paper stresses the importance of continuing to review and improve our food safety management systems.

“We will also support market access by continuing to seek recognition of Australia’s food safety management system as meeting or exceeding the requirements of our trading partners. Such recognition allows a trading partner to accept Australian food products verified under Australia’s food safety system, minimising the need for additional inspection and testing.”(p27)

The MIL is a modest levy which is paid by and is closely aligned to its direct beneficiary, livestock farmers. It funds a broad range of programs and activities designed to maintain and enhance food safety in the NSW meat industry. These programs build on the good reputation of our domestic meat market and Australia’s meat exports as a reliable source of safe food. It is an efficient and effective levy.

Determination and collection¹

The MIL is paid annually to the Authority by every occupier of NSW land who is liable to pay an animal health rate in respect of that year.

The animal health rate is levied by a Livestock Health and Pest Authority (LHPA) in respect of rateable land within its district. Rateable land is exempt from the animal health rate if the number of actual stock on that land in the preceding year was less than 50 stock units.

The amount of the MIL payable by the ratepayer is the sum of \$5 + 0.6 cents for each stock unit of the notional carrying capacity of the land. The notional carrying capacity of the land is assessed by reference to the number of stock units that could be maintained on that land in an average season under management practises that, in the opinion of the LHPA, are usual for that district. For this purpose, a 40 kilogram wether sheep of any breed represents 1 stock unit, and a 400 kilogram steer of any breed represents 10 stock units.

The maximum levy amount payable in relation to the land in any year is \$130.

The *Meat Industry Act 1978* allows for the Authority to enter into an agreement with an LHPA (or the State Management Council of LHPAs) concerning the issuing of levy notices and the collection and recovery of those levies. The agreement may provide for the deduction of a commission by an LHPA for performing this work.

¹ At time of writing Local Land Services Bill 2013 passed Parliament on 27 June 2013 and was awaiting assent. The Bill proposes the establishment of Local Land Services on 1 January 2014. Local Land Services may undertake the functions of the Livestock Health and Pest Authorities (and its State Council) that are outlined in this submission.
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At the present time, the LHPAs calculate the MIL and collect it in their rates notices issued annually to their ratepayers. A commission of 7.6% (excluding GST) is currently charged by the LHPAs to the Authority for calculation and collection of the levy.

In 2012 the gross MIL collected by the LHPAs on behalf of the Authority was \$1,032,000. From this the commission received by the LHPAs for collection of the MIL was \$86,000 (inclusive of GST). The MIL received by the Authority (net of commission) was \$946,000. This sum represented about 4 % of the Authority's total revenue for that year. The MIL was collected from 77,495 ratepayers with **the average levy payment being approximately \$14.**

During the 2011-12 financial year, general, animal health and special purpose rates paid to the LHPA's totalled approximately \$35,600,000. In contrast, the MIL sum collected by the LHPA's on behalf of the Authority in 2012 was \$1,032,000 – a figure of less than 3%.

2. The most appropriate ratings base.

IPART has been asked to assess the merits of three possible ratings bases:

- notional stock carrying capacity,
- land area (per hectare), and
- unimproved land value.

As mentioned above, notional carrying capacity relates to the number of stock units that could be maintained. In the context of the Food Authority's work, the number of stock units that could be maintained is the closest available approximation of the land's primary production capacity and most closely aligns the MIL with its purpose of improving our meat food safety management system. Notional carrying capacity also enables a proportionate contribution to be made by primary producers on a logical basis, with those holding properties capable of maintaining higher numbers of stock units paying a higher levy (within the annual limit of \$130).

Land area (per hectare) and unimproved land value simplistic provide absolute measures that are comparable across districts. However, neither of these potential ratings bases provide a way to link the rate applied to the property with its commercial production potential. The Food Authority's remit in regard to the regulation of primary production of food means that any rating system applied should ideally align with the commercial production capacity of the property. Notional carrying capacity is therefore preferred by the Authority to a ratings base determined by land size or unimproved land value.

3. The most appropriate fee collection mechanism

The collection of the MIL is currently undertaken on behalf of the Authority by the LHPAs who calculate it and collect it in their rates notices issued annually to their ratepayers. A commission of 7.6% (excluding GST) is charged to the Authority for this work. In 2012 this amounted to \$78450 plus GST of \$7845. The total paid by the Authority to the LHPAs in 2012 was therefore \$86300.

The Issues Paper suggests that the main issue to consider when determining the efficiency of fee collection mechanisms is that of transaction costs, ie: the costs associated with collecting rates from landholders.

Presently, the Authority does not have the capacity to independently apply the MIL. In the absence of the current arrangements, the Authority would be required to design and implement a mechanism to apply and collect the levy. In addition to the initial resource cost of establishing a new system (such as legislative development processes; IT and administrative structure development), this would likely necessitate the employment of additional staff to administer the system on an ongoing basis. While this is technically possible, the suitability of this approach is questionable, particularly as it would increase the number of interactions affected landholders would have with government agencies and bureaucracy. In particular, this would seem at odds with the government's drive toward providing "one-stop shops" wherever possible. The cost to the Authority of the existing approach of approximately \$86,300 (for 2012), is a reasonable transaction cost given that the administration and collection of the MIL has been entirely undertaken by the LHPAs on the Authority's behalf. It is highly unlikely that the Authority would be able to develop and then undertake this function on an ongoing basis for less cost.

1 July 2013