

Deloitte Access Economics

**Review of APVMA Cost  
Recovery Discussion Paper  
*Addendum***

**Prepared for**

**CropLife Australia**

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# Acronyms

ABC	Activity Based Costing
AERP	Adverse Experience Reporting Program
Agvet	Agricultural and veterinary
APVMA	Australian Pesticides and Veterinary Medicines Authority
AGCR Guidelines	Australian Government Cost Recovery Guidelines (2005)
CPI	Consumer Price Index
CRIS	Cost Recovery Impact Statement
DSEWPAC	Department of Sustainability, Environment, Water, Population and Communities
DHA	Department of Health and Ageing
FTE	Full Time Equivalent jobs
GDP	Gross Domestic Product
GNP	Gross National Product
SLA	Service Level Agreement
WCI	Wage Cost Index

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# Addendum

CropLife Australia engaged Deloitte Access Economics to review the Australian Pesticides and Veterinary Medicines Authority (APVMA) Cost Recovery Discussion Paper (the Discussion Paper) and to model the economic impact of inefficient regulations on agriculture and the wider economy.

Our report to CropLife, dated 16 February 2012, should be read in conjunction with this addendum.

In that report, we recommended that CropLife seek additional information to allow a better understanding of the basis for the proposed cost recovery arrangements:

## *Recommendation 1*

APVMA should release more information to stakeholders to foster a greater understanding of the revenue being sought. In particular, the PricewaterhouseCoopers (August 2011) Activity Based Costing report and the Service Level Agreements with the Health and Environment departments were not available for verification at the time of writing.

## **Additional information**

In response to an FOI request from CropLife, APVMA released the ABC report and SLAs on 26 March 2012.

Deloitte Access Economics has reviewed this package of additional information. This addendum documents our updated findings based on that additional information.

## **SLAs**

The SLAs with the Health (DHA) and Environment (DSEWPAC) departments specify the arrangements for those departments to undertake some activity on behalf of APVMA, relating to health and environment component of assessments, respectively.

Issues identified with the SLAs include:

- The Environment assessments (FOI item 1D) cost \$141 per hour while the Health assessments cost \$159 per hour (FOI item 2). It is not clear why the Health payment could not be reduced to a similar cost to the Environment payment, and similarly for the fixed-price components that are based on these hourly rates.
- The indexation applied to the Environment assessments (the mechanism used to increase fees from FOI item 1A in 2008, to 1B in 2009, 1C in 2010 and 1D in 2011) could not be replicated using the WCI and CPI formulation specified in the SLA. DAE obtained the WCI and CPI data from the ABS and applied it to the fee rates in FOI item 1A and could not precisely replicate the fee increases in items 1B, 1C and 1D. That noted, the discrepancies were not substantial.
- No efficiency dividend is applied to the SLAs, so that the productivity improvements that the government expects to be achieved from other government workers are not applied to APVMA nor the services contracted to other agencies through the SLAs.
- The APVMA should demand productivity improvements from agencies that at least offset any above-CPI wage growth. Examples of productivity improvements could include Health and Environment staff accumulating skills over time that result in assessments being conducted more efficiently.
- If APVMA is in fact paying more (in real terms) without receiving more in return, that may reflect poor procurement practices or an explicit policy decision not to apply government-wide productivity expectations to cost-recovered agencies. It is questionable whether the industry

should be required to pay for the excess costs that result from such decisions or procurement arrangements.

## ABC

The PwC Activity Based Costing report estimates the cost of undertaking various categories and modules of services.

Issues identified with the ABC report include:

- The quantum of ‘Corporate Overheads’ appears to be excessive. APVMA spends \$10.84m on ‘Corporate Overheads’ and the ABC report does not provide any further breakdown or justification of these costs.
- With 100.8 FTE of front-line staff, this equates to more than \$107,000 in overheads per front-line staff member.
- PwC note (p13 of FOI item 3) that the ABC is only an exercise in allocating time and cost, and is silent on the issue of the adequacy of the current fee structure or whether costs are efficient. For example, the ABC report does not conduct any benchmarking of whether APVMA overheads and cost structures are efficient.
- The volumes used to calculate unit prices are not reported, that is, the ABC report only provides statistics on aggregate costs and unit costs, and not the volumes of services (ie the denominator in the calculation) for each category. As such, it is difficult to verify the resulting unit prices.
- The ABC report appears to allocate all costs, and is unclear how appropriation-funded costs are netted off (The APVMA receives around \$133 000 a year of appropriated funds towards its activities on Minor Use and about \$630 000 a year to compensate for lost interest earnings following the move to the FMA Act.) These items from the appropriation-funded bucket may cause the cost-recovered bucket to be overstated.
- It is difficult to reconcile the components on p7 (front line staff), p8 (Overheads), and p9 (SAS) with the total expenditure of \$26.3m, and it is unclear whether ‘other costs including Global Joint Reviews’ are included in the overheads figure of \$10.84m, and ‘sections that feed into services charged under a fee’ were excluded from the analysis. A summary and reconciliation of how operating costs are allocated would be beneficial.
- The ABC methodology is constructed with the levy as the residual, hence the ABC report does not appear to provide any quantitative support for the amount of revenue raise through the levy, nor the grand total of revenue to be raised through cost recovery. That is, the ABC report takes the total amount of revenue to be raised as an exogenous input (\$26.3 million).
- The APVMA Cost Recovery Discussion paper should make it clearer to the reader that there has been no independent third party validation of the total revenue being sought through cost recovery. The PwC ABC report only addresses the revenue mix and not the revenue total.
- In summary, the ABC report does not appear to be sufficient to justify the overall level of revenue being sought from industry. It only provides relativities on the workload involved in the different categories and modules.

# Limitation of our work

## General use restriction

This addendum is prepared solely for the use of CropLife Australia for responding to the APVMA Cost Recovery Discussion Paper, FOI documents released as part of that process, and related activities. This addendum is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The addendum has been prepared for the purpose set out in our engagement letter with CropLife dated 24 Jan 2012 and the engagement addendum dated 26 April 2012. You should not refer to or use our name or the advice for any other purpose.