



**Australian Government**

**Department of Agriculture,  
Fisheries and Forestry**

# Impact Analysis

## Modernising the agricultural levies legislation

**Department of Agriculture, Fisheries and Forestry**

Levies and Innovation Branch



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We acknowledge the Traditional Custodians of Australia and their continuing connection to land and sea, waters, environment and community. We pay our respects to the Traditional Custodians of the lands we live and work on, their culture, and their Elders past and present.

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# Summary

The current agricultural levies legislation has been in place since 1989 and has grown over time. There are more than 50 pieces of legislation governing over 110 levies across over 75 commodities and 18 levy recipient bodies.

The impending sunset of multiple levies legislative instruments triggered a thematic review of the legislative framework by the department in 2017-18. The review found that the legislation serves the objectives of the levy system and is necessary to the continuation of a successful industry-government arrangement, but that the accumulation of ad hoc amendments have resulted in legislation that is duplicative, complex, opaque, and inflexible. The review further concluded that the administration of the current legislation is inefficient and creates unnecessary costs.

Policy options considered in this impact analysis are Option 1 – Status quo (remaking sunset instruments with minimal change) and Option 2 – Modernising the agricultural levies legislation. Modernising the levies legislative framework would include streamlining provisions that enable the imposition, collection and disbursement of levies into fewer pieces of legislation. Operational details, such as levy settings and obligations for collection agents, would consistently be included in subordinate legislation. Existing provisions across the framework would be streamlined, modernised and standardised, and the new legislation would be developed in accordance with modern drafting standards. In addition, the following key changes would be implemented: adoption of modern compliance arrangements to support flexibility and more proportionate enforcement measures; and changes to the methodology underpinning matching funding arrangements to provide more clarity and certainty to RDCs about their funding limits.

Option 2 would impose one-off transition costs associated with implementing and understanding the modernised legislation of approximately \$1.82 million (net present value over 10 years) on the economy. Of these costs approximately \$570,000 is likely to be borne by industry for compliance and \$1.25 million borne by government for administration. The costs are likely to break-even if the proposed changes are effective in reducing regulatory burden by as little as 1%. This means that at any level of regulatory burden reduction over 1%, the economy-wide benefits will outweigh the economy-wide costs and the proposed changes are worth pursuing. The proposed changes under Option 2 intend to consolidate and simplify the legislative framework and remove any out-dated or redundant provisions that create confusion. This is likely to reduce regulatory burden by at least 1%, indicating that the benefits of Option 2 outweigh the costs.

Extensive consultation has been undertaken to identify problems and options and inform the development of the draft legislation. Industry stakeholders consistently expressed strong support for the agricultural levy system and the modernising of the legislative framework which underpins it. Feedback received has informed policy documents and the draft legislation.

The draft modernised legislation is scheduled to be introduced into Parliament for consideration and approval prior to 1 April 2025, the sunset date of some levies legislative instruments. To support the commencement of the new legislative framework, the department would also have to make changes to educational information and systems.

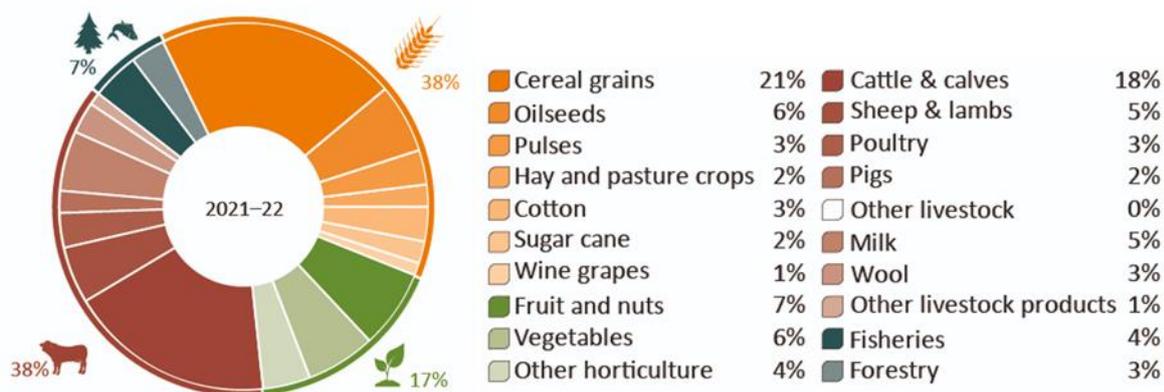
# Introduction and background

## Australian primary industries

In 2021–22, there were 87,800 agricultural businesses in Australia who employed approximately 300,000 people<sup>1</sup> across the primary industries sector (ABARES 2023). The primary industries’ combined gross value of production was \$93 billion (2.4% of the GDP) in 2021-22, out of which around 72% of the total value was exported at an estimated value of \$76 billion, accounting for 11.6% of goods and services exported.

The most valuable commodity groups were livestock products (including cattle, sheep and milk) which accounted for approximately 38% of total production value as well as cereals and other broadacre crops (including wheat, coarse grain and canola, among others) which also made up approximately 38% of the total production value (Figure 1).

**Figure 1: Agriculture, fisheries and forestry value of production, by commodity, 2021–22**



Source: ABARES 2023

## The agricultural levy system

Australia’s agricultural levy system supports primary industries to be more sustainable and prosperous through improved productivity, market access and competitiveness.

The agricultural levy system is a unique and successful partnership between the Australian Government and agricultural industries that has been operating in various forms since 1936. The current system is enabled by a legislative framework introduced in 1989. Industries choose whether to establish a levy and the Australian Government then imposes the levy through legislation. The

<sup>1</sup> As the Australian Bureau of Statistics (ABS) Labour Force Survey (LFS) (ABS 2023c) only focuses on the Australian resident civilian population, there is a significant number of overseas workers employed in the agriculture sector not captured in the LFS. As a result, there is an underestimation of approximately 8%, or 25,000 workers

government administers and disburses levies on behalf of primary producers for investment in research and development (R&D), marketing, biosecurity activities, biosecurity emergency responses and residue testing.

By drawing on the Commonwealth's constitutional power to impose statutory levies and charges on the products of primary industries, the agricultural levy system addresses the problem of under-investment in agricultural R&D that may result from a free-rider problem. The imposition of levies and charges on all producers in an industry prevents free-riders from taking advantage of the benefits derived from investment in R&D made by a small number of producers. Levies are disbursed to levy recipient bodies (LRBs) to invest for the purpose they are imposed to fund.

The Australian Government also matches industry investment in R&D up to legislated limits by providing payments to research and development corporations (RDCs), the LRBs for R&D and marketing levies. A target of investment in R&D equivalent to 1% of an industry's gross value of production (GVP) was identified as the desired level of investment when the legislative framework first was established in 1989. This target is still supported by the GVP limit on matching funding today.

Agricultural industries are responsible for driving all aspects of their levy, including establishing or discontinuing levies as needed as well as setting the specific levy rates and exemptions.

The agricultural levy system has grown over time as industries have chosen to establish statutory levies on an increasing number of commodities. Approximately 92% of primary industries (by value of production) have levies in place now. Over 110 levies are collected across primary industries on over 75 leviable commodities including meat, dairy, field crops, forestry, game animals, horticulture, live animal exports, livestock processing, poultry, wine and other primary industries.

In 2021-22, the department disbursed \$973 million to LRBs, comprising \$603 million in levies and \$370 million in Commonwealth matching funding for R&D. Of the total levies disbursed, \$574 million was for R&D and marketing, \$17 million for biosecurity activities and emergency responses and \$12 million for residue testing (Department of Agriculture, Fisheries and Forestry 2023).

The investments made by levy payers and the Australian Government have been key to the growth of Australian primary industries and are an important driver of productivity and profitability growth in Australia (ABARES 2023a). It has been estimated that each additional \$1 of R&D investment could generate a return for farmers of \$7.82 (ABARES 2023b).

## Types of levies

There are 5 purposes for which agricultural levies or charges (levies) can be established under the agricultural levy system.

- **R&D levies** allow industry to invest in systematic experimentation and analysis in any field of science, technology, economics or business. They are invested by RDCs on behalf of industry.
- **Marketing levies** allow industry to fund marketing, advertising, or promotion of industry products. They are invested by RDCs on behalf of industry.
- **Animal Health Australia (AHA) and Plant Health Australia (PHA)** levies allow industry to fund member contributions to AHA and PHA. AHA and PHA facilitate a national approach to

enhancing Australia's animal and plant health status, through government and industry partnerships for pest and disease preparedness, prevention, biosecurity emergency response and management.

- **Emergency Animal Disease Response Agreement (EADRA) and Emergency Plant Pest Response (EPPR) levies** allow industry to repay the Australian Government, over a period of time, an industry's share of the costs of a response to a pest or disease incursion under the Emergency Plant Pest Response Deed (EPPRD) and the Emergency Animal Disease Response Agreement (EADRA), where the government has underwritten the industry's contribution in the first instance.
- **National Residue Survey (NRS) levies** allow industry to fund residue monitoring activities undertaken by the NRS (within the department) to manage the risk of chemical residues and environmental contaminants in Australian animal and plant products. NRS levies are used by NRS to assist participating industries to demonstrate good agricultural practice and meet importing country requirements.

## Stakeholders

Multiple stakeholders interact with the agricultural levy system and play an important role in the operation of the system (see Figure 2).

- **Levy payers** are growers, primary producers, processors, and importers or exporters of leviable goods and are responsible for paying levies.
- **Collection agents** (also called intermediaries) operate at identified narrow points in the supply chain that most leviable products flow through, such as sale yards, abattoirs or markets and are responsible for collecting levies and submitting returns to the department on behalf of levy payers.
- **Industry representative bodies (IRBs)** advocate on behalf of producers and levy payers. They can propose to establish or amend a levy to industry and present the agreed proposal to the Department and the Minister.
- **The department** is responsible for administering the levies legislation, which includes receiving levy returns from collection agents, disbursing levies to LRBs and conducting compliance activities. The department also provides advice and support to industry on matters relating to the levy system.
- **Levy recipient bodies (LRBs)** are responsible for managing and investing levies and matching funding for the benefit of relevant industries. There are 18 LRBs including 5 statutory and 10 industry-owned RDCs, AHA, PHA, and the NRS (administered by the department).

**Figure 2: Key stakeholders involved in the agricultural levy system**



## Processes

The levy system involves a number of processes from the establishment or amendment of levies and the approval of legislative changes to the collection, disbursement and investment of levies (see Figure 3).

- **Development of levy proposals** – Industry representative bodies develop levy proposals after identifying a problem or opportunity facing industry and consulting with industry. If a majority of industry participants support the levy proposal, the industry body submits the proposal to the Minister.
- **Approval of levy proposals and legislative changes** – The Minister considers the levy proposal, associated costs to the government and regulatory impact and the legislative changes necessary to implement it presented by the department. If the Minister agrees to the proposal, legislative changes will be drafted and considered by either the Parliament of Australia (primary legislation) or the Federal Executive Council (subordinate legislation).
- **Collection of levies** – Collection agents collect levies from levy payers, submit levy returns and make payments to the department. Some levy payers submit their returns directly without going through a collection agent. The department provides support services to collection agents and undertakes compliance activities.
- **Disbursement of levies** – The department disburses the collected levies to LRBs and provides matching funding to RDCs for eligible R&D expenditure up to legislated limits. Costs for the administration of levies are recovered by the department from LRBs.
- **Investment of levies** – LRBs invest the levies, on behalf of relevant industries and in accordance with legislated spending requirements, in R&D, marketing, biosecurity activities, biosecurity emergency response and the testing of animal and plant products for pesticides and veterinary residues and environmental contaminants.



### **Disbursement legislation**

Disbursement legislation authorises and governs payments of levies to LRBs and matching funding to RDCs. There are currently 13 Acts and 17 subordinate instruments.

- *Australian Meat and Live-stock Industry Act 1997*
- *Dairy Produce Act 1986*
- *Egg Industry Service Provision Act 2002*
- *Forestry Marketing and Research and Development Services Act 2007*
- *Horticulture Marketing and Research and Development Services Act 2000*
- *Pig Industry Act 2001*
- *Sugar Research and Development Services Act 2013*
- *Wool Services Privatisation Act 2000*
- *Primary Industries Research and Development Act 1989*
- *Wine Australia Act 2013*
- *Australian Animal Health Council (Live-stock Industries) Funding Act 1996*
- *Plant Health Australia (Plant Industries) Funding Act 2002*
- *National Residue Survey Administration Act 1992*

A full list of all Acts, regulations and other subordinate instruments of the agricultural levies legislation framework is at Appendix A: Current levies legislation.

## **About this impact analysis**

This impact analysis has been prepared in accordance with the Australian Government Guide to Policy Impact Analysis (Office of Impact Analysis 2023). It presents the problems identified with the agricultural levies legislative framework informed by the results of multiple reports, including a review and stakeholder consultations undertaken by the department. It also provides the results of a cost-benefit analysis (CBA) which was undertaken by Deloitte Access Economics of the option to modernise and streamline the legislation relative to the status quo. The impact analysis builds on the early assessment regulation impact statement completed in 2019 (OBPR ref 24492) (Department of Agriculture 2019).

The structure of the remainder of the report is as follows:

Chapter 1: The problem

Chapter 2: Need for government intervention

Chapter 3: Policy options considered

Chapter 4: Potential impact of options

Chapter 5: Consultation undertaken

Chapter 6: Best option and how it will be implemented

Chapter 7: Evaluation of chosen option

# 1 The problem

The current agricultural levies legislation has been in place since 1989 and has grown over time as industries have chosen to establish statutory levies on more commodities. There are more than 50 pieces of legislation governing over 110 levies across over 75 commodities and 18 levy recipient bodies.

The impending sunset of multiple levies legislative instruments triggered a thematic review of the legislative framework by the department in 2017-18. The review found that the legislation serves the objectives of the levy system and is necessary to the continuation of a successful industry-government arrangement, but that the accumulation of ad hoc amendments have resulted in legislation that is duplicative, complex, opaque, and inflexible. The review further concluded that the administration of the current legislation is inefficient and creates unnecessary costs.

The key issues identified by the review and the early assessment regulation impact statement, and confirmed through ongoing stakeholder consultation as well as further analysis undertaken by the department, are presented below.

## 1.1 Complexity

The large number of Acts and subordinate instruments that make up the legislative framework evolved over the last 30 years. This has involved numerous ad-hoc additions and amendments which have increased the complexity of the framework. There are also a number of instruments and provisions that are spent, redundant or which no longer serve a purpose under the current framework. In 2015, the Senate Rural and Regional Affairs and Transport References Committee asserted that the legislative framework for agricultural levies is 'complex, convoluted and difficult to penetrate' and that 'this complexity is evident at every stage of the process' (Senate Rural and Regional Affairs and Transport References Committee 2015).

The main driver of complexity is the dispersion of related provisions and operational details across multiple Acts and subordinate instruments. For example, a cattle producer would have to look at over 45 sections in 9 different pieces of legislation to understand their levy obligations. To understand where their levy funds are directed, they would have to look at another 3 pieces of legislation.

Throughout the legislative framework there are provisions that rely on cross-referencing to other parts of the framework to have effect. There are also duplications and many inconsistencies between different parts of the framework. As new RDCs have been created and moved from statutory to industry-owned models over time, new Acts have been created. These Acts generally provide for the same outcomes in practice but are drafted in different ways using different approaches and language. This makes it difficult to provide clear and consistent guidance that applies to all RDCs.

Other complexities are related to some of the mechanisms currently prescribed within the legislation. For example, the methodology for calculating one of the matching funding limits, the GVP limit, involves a 3-year rolling average of an industry's GVP, including the current financial year and the 2 previous financial years. The inclusion of the current financial year means that the limit on

matching funding for each RDC is not known until the end of the financial year. This has led to complex administrative processes for matching payments and presents funding uncertainty for RDCs.

## 1.2 Inconsistencies

As mentioned above there are inconsistencies across the legislative framework. One of them is the way operational details for different commodities are included in the legislation. Levy settings are inconsistently spread across primary legislation and subordinate legislation. There are also inconsistencies in relation to levy requirements as well as terms used. An example is the 12 different terms used to describe the role of IRBs and 5 variations on the role itself.

Another area of major inconsistency is the legislative arrangements for matching funding. Some of the disbursement regulations include a formula for how the GVP limit is determined and others do not. For those that do, the GVP limit may be determined by the minister or the secretary. The total levies limit on matching funding also varies for different industries, and does not apply at all to some industries. Complex legislative arrangements have been developed over time to provide for additional amounts to be matched above levies. Some disbursement Acts include an explicit provision to allow for matching of past expenditure in future years, while others provide for this indirectly through the way the matching funding limits operate.

### Box 1: Matching funding limits

The Commonwealth provides matching funding to most RDCs according to the lesser of 3 limits:

- 50% of eligible expenditure on R&D (expenditure limit)
- levies collected or disbursed (total levies limit)
- 0.5% of an industry's Gross Value of Production (GVP), averaged over the current and 2 previous financial years (GVP limit).

## 1.3 Lack of flexibility

Stakeholders have repeatedly emphasised a need for increased flexibility to improve their ability to ensure levies are optimally set. As many of the operational details for levies are distributed across multiple Acts or instruments, it can be a complicated and lengthy legislative process to change levies. Where primary legislation needs to be changed, it can take even longer as the amendments need to be considered and approved by the Australian Parliament. Depending on several factors, levy proposals can take up to 3 years or more from idea to implementation. This can impact on an industry's ability to redirect funding to new priorities in a timely manner.

Another area of the legislation that unnecessarily restricts industries' ability to increase their levy investments is the maximum levy rates currently imposed on some levies. This issue was identified by the Productivity Commission in its report on rural R&D (Productivity Commission 2011) and led to the repeal of most of the maximum levy rates for R&D and marketing levies. However, some were overlooked and the maximum levy rates for biosecurity and NRS levies also remained.

There is also a lack of flexibility in the legislative framework in relation to compliance tools available to the department. The limited compliance tools available are not flexible enough to appropriately respond to different levels of non-compliant behaviour. The only penalties available are through

criminal prosecution. Other enforcement tools are limited and do not have penalties (either civil or criminal) attached. The compliance framework is also not consistent with other modern compliance frameworks used across government.

The use and disclosure of levy and charge information is regulated under the legislative framework. A need has been identified for the department (e.g. ABARES) and other Commonwealth entities to be able to access certain information for agricultural policy, research and statistical purposes.

Another limitation of the current legislative framework is that levies can only be imposed on products or goods. This has prevented the bee industry from establishing a levy on bee pollination services (the levy would be on the service, not the bees themselves). A similar issue also required the horse disease response levy to be enacted in standalone legislation.

## **1.4 Effects on stakeholders**

These issues have created uncertainties and imposed unnecessary costs on industry and government. Stakeholders have difficulty understanding their rights and obligations and may misinterpret the law. This results in increased information requests to the department and a higher level of unintentional non-compliance among stakeholders. In addition, legislative amendments, such as adjustments of levy rates, have been complicated and taken a long time to implement.

The time and effort that levy payers and collection agents currently spend speaking with the department to understand and ask questions regarding their obligations on an ongoing basis collectively added up to over 4,202 calls in 2018-19 (Department of Agriculture, Water and the Environment 2020). The total cost related to responding to the levy-related queries, including those generated from incorrect returns and/or payments, was \$438,371 (Department of Agriculture, Water and the Environment 2020).

Poor levy understanding has been identified as the highest contributor to levy underpayments and overpayments. Between 2013-14 and 2018-19, the average compliance rate across all collection agents was 66%<sup>2</sup>, with an average \$2.6 million in levy adjustments (Department of Agriculture, Water and the Environment 2020). Levy adjustments include levy underpayments collected from levy payers and levy overpayments returned to levy payers. The additional processing required by the department to administer levy underpayments and overpayments adds to the regulatory burden and total cost for stakeholders.

## **1.5 Available data**

In identifying and analysing the issues outlined above, the department undertook detailed analysis of the existing legislative framework and comprehensive consultation with relevant industry

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<sup>2</sup> A collection agent is determined as non-compliant if their return contains data entry errors, if they have incorrect payments or if information has been discovered in their records that leads to the identification of new agents.

stakeholders. Stakeholder consultation was also conducted with relevant policy and administrative areas of the department. Data on levies and matching funding collected and disbursed as well as costs relating to the administration of the levies legislation have been sourced from published reports to levies stakeholders and internally from the levies administration area of the department.

The consultation and analysis outlined above has enhanced the department's understanding of existing areas of regulatory burden and informed the proposed legislative changes. An assessment of overall regulatory burden associated with the agricultural levies legislation has not been undertaken, due to the effort and imposition on stakeholders that would be required to develop a comprehensive estimate. However, the department is aware of the value placed on the levy system by industry stakeholders, and the importance of supporting it with an effective legislative framework that imposes minimum regulatory burden. The changes proposed in the modernised levies legislation intend to deliver this outcome.

## 2 Need for government intervention

### 2.1 The need for legislative change by government

There is already an established need for a partnership between the Australian Government and industry to facilitate investment in industry priorities and a continued need for a legislative framework to enable this partnership. The department has consulted directly with levy stakeholders who continue to express their support for this system, where levies are initiated by industry and legislated by the Australian Government.

The sunseting levies legislative instruments require government action. The problems identified in Chapter 1 – a legislative system that is overly complex, inconsistent, and lacking in flexibility – are a direct consequence of the way that the legislative framework, which underpins the agricultural levy system, is currently drafted and structured. The only way the problems can be addressed is through legislative change by the Australian Government. Non-regulatory alternatives (for example, industry-developed guidelines) are considered impractical for the reasons set out below. As such, alternatives to government action to address the problems are not considered in this impact analysis.

### 2.2 Objectives of government intervention

The main objective of the government's intervention is to maintain the purpose and function of the agricultural levy system through the levies legislative framework.

The secondary objectives of the government's intervention are the streamlining and modernising of the legislation to reduce complexities, amend inconsistencies and improve flexibility. This includes reducing the regulatory burden and compliance costs imposed on industries in their ongoing effort to understand and comply with their legal obligations.

No changes are intended to be made through this process to the key elements of the system, the collection and disbursement of levies to support investment in R&D, marketing, biosecurity activities, biosecurity emergency responses and residue testing. The intervention would also not change levy rates as such changes have to be initiated by industry.

### 2.3 How success will be measured

Success of the government intervention would be a legislative framework consisting of fewer pieces of legislation, with less duplication and inconsistencies, clearer structure, more flexibility and drafted to modern standards. This would mean the legislation should be easier to read and understand. This would also mean reduced regulatory burden and compliance costs for stakeholders as it would reduce the time and effort spent on understanding and complying with their obligations.

It would also mean that legislative amendments to operational details would be easier and quicker to make. These improvements would not only lead to a reduction in regulatory burden, but also support industry and the department to implement future policy changes more efficiently and effectively. There may still be some barriers for industry stakeholders in relation to interacting with the new legislative framework. Even modernised legislation may still be difficult to understand. However, simpler and more consistent provisions would make it easier for the department to develop guidance material. Stakeholders would have to engage with the material provided and spend time reading it.

Some level of stakeholder engagement would be required to achieve the desired outcomes such as reduced compliance rates.

## 3 Policy options considered

### 3.1 Option considered but not progressed for analysis

#### 3.1.1 Non-regulatory option

Consistent with the *Australian Government Guide to Policy Impact Analysis* and the approach taken in the early assessment RIS, a non-regulatory option has not been explored in further detail in this impact analysis (Office of Impact Analysis 2023, Department of Agriculture 2019). A non-regulatory option would not achieve the government's main objective of maintaining the current agricultural levy system through a legislative framework. The agricultural levy system draws on the Commonwealth's constitutional power to impose statutory levies and charges, requested by industries, on the products of primary industries. A non-regulatory option would also be contradictory to the commitment by successive governments to RDCs and matching funding for R&D investment. Removing the Australian Government's role in the administration of the levy system would pose an unacceptable risk to agricultural industries and would adversely impact on Australia's economy.

An option to 'do nothing' and allow the legislation to sunset has also not been explored. Letting the sunseting instruments lapse would also pose an unacceptable risk to agricultural industries.

### 3.2 Options for analysis in this impact analysis

#### 3.2.1 Option 1: Status quo

Option 1 would not involve any additional government intervention other than to remake the sunseting legislative instruments with minimal change.

As such, this option would maintain the legislative framework in its current form. This option would not address the problems outlined in Chapter 1. It would also not align with the government's commitment to promoting clearer, less complex laws.

Under this option it is likely that the existing legislative framework would continue to develop in an ad hoc and inefficient manner (by amendment, addition of new legislation and/or repeal of existing legislation) over time in response to industry requirements. This may make it increasingly harder to make amendments and implement government policy effectively and efficiently. Regulatory burden could also continue to grow, along with unintentional non-compliance. The department could increase its communication and educational materials to support understanding of and compliance with the legislation, but this would increase costs which would need to be recovered from industry and would not address the root cause of the problem.

#### 3.2.2 Option 2: Modernising the agricultural levies legislation

Option 2 proposes changes that are consistent with the objectives of maintaining the purpose and function of the agricultural levy system and making improvements to the legislation that support the agricultural levy system by reducing complexity, amending inconsistencies, and improving flexibility across the current legislative framework.

This would include streamlining provisions that enable the imposition, collection and disbursement of levies into fewer pieces of legislation. The primary functions of the levy system – imposition, collection and disbursement of levies – would be enabled through consolidated primary legislation.

**Figure 4: Proposed modernised levies legislative framework**



A Services Levies Bill would be developed to enable levies to be imposed on certain agricultural services. A separate Bill is necessary as the Constitution provides for rules about the form of laws imposing taxes. Separate Bills for imposing excise levies, customs charges and levies on services are required to comply with those rules. This Bill would enable a potential bee pollination services levy to be enacted in future, something not possible under the current legislative framework (as noted in section 1.3).

The new Excise Levies Bill would also incorporate the horse disease response levy which is currently imposed on its own in stand-alone legislation. The Excise Levies and Customs Charges Bills would also enable similar levies and charges to be enacted in future.

All operational details, such as levy settings and obligations for collection agents, would be included in subordinate legislation only. All levies relating to a particular agricultural commodity would be listed in the same place. Similarly, all levies and charges attached to a particular levy recipient body would be listed in the same place.

The new legislation would also be developed in accordance with modern drafting standards and introduce consistent language, concepts, and requirements across the legislative framework. Examples include consistent terms for levy payers and collection agents, payment due dates and record keeping requirements.

One consistent set of disbursement provisions would be developed for all RDCs (except for separate matching funding provisions for the Fisheries Research and Development Corporation (FRDC)). This would allow for the repeal of existing disbursement provisions across 10 disbursement acts.

Existing provisions would be streamlined, modernised and standardised across the whole legislative framework. In addition to this, key changes would include:

- **Introducing standard regulatory powers:** Compliance and enforcement powers in the Collection Bill would involve alignment with the *Regulatory Powers (Standard Provisions) Act 2014*. This

would provide new enforcement tools and would increase consistency with other Commonwealth regulatory schemes that collection agents participate in.

- **Modernising and strengthening information management:** The Collection Bill would include more comprehensive and modern information management provisions. This would include the extension of access to data for ABARES (within the department) and other Commonwealth organisations (for specific purposes only).
- **Consistently specifying role of IRBs:** The role of IRBs in relation to levies would be simplified, clarified and more consistently expressed.
- **Removing maximum levy rates:** Any remaining maximum levy rates for R&D and marketing would be removed. Levy rates could not be set higher than what is recommended by IRBs.
- **Enabling levy polls for all industries (if requested):** Existing dairy and wool polls would be enabled under imposition legislation (rather than disbursement legislation). New provisions would enable levy polls to be established in relation to any levy, if requested by industry.
- **Standardising matching funding arrangements:** Matching funding would be limited by the expenditure limit (50% of RDCs' R&D expenditure) and GVP limit (0.5% of an industry's average GVP). Common R&D definition would apply to determine what activities can be matched. Carry-over of eligible R&D expenditure for matching in future years would be explicitly included in the new legislation.
- **Removing total levies limit:** One of the current matching funding limits, the total levies limit (total of levies received by RDC) would be removed.
- **GVP limit based on 3 previous financial years:** The GVP limit for matching funding would be based on data for the 3 previous financial years (currently based on the current and 2 previous financial years).
- **Standardising spending requirements for RDCs:** Spending of levies by RDCs would be consistently and clearly linked to the purpose for which the levy has been imposed (R&D, marketing, general). Spending of matching funding would be for R&D only. Allowable spending of general levies and any industry specific spending requirements would be included in subordinate legislation.

## 4 Potential impacts of options

### 4.1 Approach to estimating costs and benefits

This chapter summarises the CBA undertaken by Deloitte Access Economics to assess the potential impacts (costs and benefits) of Option 2 (modernising the agricultural levies legislation) on industry stakeholders and the government, relative to Option 1 (the status quo).

CBAs provide a robust, structured and transparent approach to balancing the different impacts, modelling the potential economic costs and benefits where possible. Given there are no major policy changes being considered, the CBA summarised in this chapter focuses on regulatory burden reduction and therefore, draws upon regulatory burden measurement (RBM) methodology to estimate the value of benefits in the form of improvements in regulatory burden.

This chapter first defines the different costs and benefits quantified and monetised in the CBA and notes the other broader qualitative benefits that the reforms are intended to support (but which are not modelled in the CBA).

The results of the CBA are then summarised to compare the two options. The costs to implement and administer each option are presented first. In terms of benefits, there is a degree of uncertainty regarding the effectiveness of Option 2 in reducing regulatory burden. In cases such as these, a break-even approach is commonly used when the benefits, or the magnitude of likely benefits, are uncertain and therefore difficult to quantify. Break-even analysis is a technique that involves estimating the scale of benefits required to offset the estimated costs of an option.

This chapter summarises the break-even approach used by Deloitte Access Economics to determine the level of benefits, in terms of regulatory burden reduction, needed to offset the estimated costs.

A detailed description of the approach taken to quantify the costs for each stakeholder and detailed inputs, assumptions and calculations used to do so is outlined in the CBA report in Appendix B: Cost-benefit analysis report.

#### 4.1.1 Quantifiable costs and benefits

The costs to industry have been quantified based on a series of estimates relating to the likely transition costs imposed by Option 2, relative to Option 1 (the status quo). These are one-off costs, primarily associated with the time and effort required to understand the proposed changes to the levies legislation. An estimation of the costs imposed on government is also provided based on the time and effort expected to communicate the changes to industry, to develop and implement new systems, processes and guidance material, and to undertake additional staff training.

The quantifiable benefits in this analysis take the form of cost savings (in terms of time and effort) that are expected to accrue to industry stakeholders as a result of a reduction in regulatory burden. These benefits have been measured and monetised using RBM methodology in line with the Australian Government Guide to Policy Impact Analysis (Office of Impact Analysis 2023), which estimates the incremental reduction in costs between the status quo and the scenario in which the proposed changes under Option 2 are implemented. Similarly, the quantifiable benefits to government in this analysis include the anticipated cost savings (in terms of time and effort)

associated with administering a levy system that is easier to administer (largely due to less time required to help stakeholders understand the system) and the ability to adopt a more proportionate, risk-based approach to compliance activities.

#### **4.1.2 Unquantified benefits**

Relative to Option 1, the proposed changes under Option 2 are also anticipated to deliver a wider range of benefits that are not quantified or monetised in the CBA due to their intangibility. These benefits are primarily expected to increase the effectiveness of the levies legislation in achieving its regulatory objectives. While not quantified, these benefits are still highly valuable and are a key driver of the proposed reforms. These benefits include, for example:

- Improved flexibility and responsiveness of the levies legislative framework to the changing needs of Australia's agricultural industries, particularly through easier and faster legislative amendments.
- Improvements in industry confidence through increased consistency, transparency, or predictability of the legislative framework. For example, the earlier determination of the GVP limit would provide RDCs with increased investment certainty, as they would know what their GVP limit on matching funding is at the beginning of the financial year.
- More proportionate and targeted compliance activities through the adoption of civil penalty, infringement notice and injunctions provisions of the *Regulatory Powers (Standard Provisions) Act 2014*. This would significantly improve the department's compliance programs so that entrenched low level non-compliance is targeted and criminal penalties are then only used for the most serious offending conduct.

## **4.2 CBA results**

### **4.2.1 Costs of the proposed options**

Option 1, which reflects the status quo, would not involve any additional government intervention other than to remake the sunseting legislative instruments with no or minimal change. However, under Option 1, the current structure of the legislative framework would remain large, complex and sometimes difficult to navigate due to duplication and inconsistency in some provisions.

Option 1 is not expected to impose transition costs on industry or government. The problems identified in Chapter 2 would, however, continue and potentially aggravate with further amendments and new stakeholders entering the system. For example, increased difficulty in understanding legislative obligations, may further increase regulatory burden and unintentional non-compliance.

Compared to Option 1, Option 2 is expected to impose one-off transition costs in the first year of implementation for both industry and government. Here, the main cost to industry (including levy payers, collection agents, IRBs and LRBs) is the time and effort required to understand the changes to the levies legislative framework. In total, the one-off costs to industry (compared to the status quo) are estimated to be approximately \$610,000 in the first year of implementation. Discounting these costs over a 10-year period, the costs to industry are approximately \$570,000 (NPV over 10 years) or approximately \$61,000 per year (on average) (Table 1). Given the nature of Option 2, all of the costs to industry are borne in the first year as a result of the one-off transitional activities.

The cost of Option 2 to government is higher than that of the costs to industry because, beyond communicating the changes to industry, there is likely to be more transitional activities required of government in administration and implementation. The main administrative costs to the department are associated with the implementation of the new legislative framework in the first year including initial communication and education of industry regarding the proposed changes under Option 2, the training of staff and the updates required to guidance material, internal processes and systems. In total, the cost to government (compared to the status quo) is estimated to be approximately \$1.25 million (NPV over 10 years) (Table 1).

**Table 1: Summary of costs to industry stakeholders**

Stakeholder	Total cost over 10 years (NPV)	Average cost per year
Industry stakeholders	\$570,000	\$61,000
Levy payers and agents	\$461,000	\$49,000
IRBs	\$43,000	\$5,000
LRBs	\$66,000	\$7,000
Government	\$1,253,000	\$134,000
Total	\$1,823,000	\$195,000

Table 2 summarises the average annual regulatory costs for key stakeholders posed by the different reform options, from business as usual. The average costs noted in Table 2 reflect the average costs to business over a 10-year period which comprise only one-off transaction costs in the first year of \$570,000, and no costs every year thereafter. No changes in regulatory costs are anticipated for community organisations or individuals.

**Table 2: Regulatory Burden Estimates table**

Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector (Option 1: Status quo)	\$0	\$0	\$0	\$0
Total, by sector (Option 2: Streamlining legislation)	\$61,000	\$0	\$0	\$61,000

#### 4.2.2 Addressing uncertainty through break-even analysis

Break-even analysis has been applied to the CBA model to identify the benefits over 10 years required to offset the one-off direct cost impacts associated with Option 2, compared with the status quo (Option 1). The results from the CBA should therefore be regarded as a test of whether the benefits are likely to offset the costs.

The CBA results suggest that the monetised economy-wide benefits and costs associated with the proposed reforms will break-even if the changes are effective in reducing regulatory burden by as little as 1% (approximately) – see Table 3. This would mean a 1% reduction in the quantity of compliance and administrative activities and/or a 1% reduction in the average cost of those activities.

In other words, for any level of regulatory burden reduction over and above 1%, the economy-wide benefits will outweigh the economy-wide costs and Option 2 would be worth pursuing.

The proposed changes under Option 2 intend to consolidate and simplify the legislative framework and remove any out-dated or redundant provisions that create confusion. Therefore, given that the scale of improvement in regulatory burden required to break-even (1%) is considered relatively minor, the improvements required to break even are considered very likely. For example, in the case of calls made by industry to the department, a 1% reduction in call volume would mean a reduction of 36 calls out of a total of 4,202 calls per year.

**Table 3: Economy-wide break-even analysis (at an effectiveness rate of 1%)**

	Benefits	Costs	BCR
<b>Economy-wide</b>	\$1,823,000	\$1,823,000	1.00
<b>Industry</b>	\$1,591,000	\$570,000	2.79
<b>Government</b>	\$232,000	\$1,253,000	0.19

### 4.2.3 Benefits of the proposed options

At an effectiveness rate of 1%, Option 2 would yield benefits equal to the value of costs. In terms of benefits for industry, to the extent that the proposed changes reduce unnecessary complexity, duplication and potential contradiction in the legislative framework, Option 2 is expected to lower barriers to interacting with the agricultural levies legislation. In doing so, the proposed changes can reduce the regulatory burden imposed on industry by making it easier to understand and comply with the requirements of the levies legislation. As such, the benefits quantified in this section take the form of avoided costs to industry, measured as the value of time and effort saved. For industry, this amounts to approximately \$1.6 million in benefits (NPV over 10 years) or approximately \$227,000 per year (on average).

Relative to Option 1, Option 2 is expected to reduce the current costs associated with the administration of the agricultural levies legislation by the department. This is because making legislative obligations easier to understand is expected to reduce the need for the department to educate industry on these matters and enforce compliance. Some changes are also expected to improve the ease and efficiency of the department's collection and disbursement of levies. For government, this translates to approximately \$232,000 in benefits (NPV over 10 years) or approximately \$33,000 per year (on average).

An estimate of the feasible benefits which would accumulate to industry and to government if the proposed changes under Option 2 were 1% effective (the economy-wide break-even point) in reducing regulatory burden are summarised further in Table 4. Here, while economy-wide benefits are equal to economy-wide costs, the benefits to industry are higher than that to government as the proposed changes under Option 2 are expected to result in larger reductions in regulatory burden to industry in comparison to any associated reductions in administrative costs to government.

**Table 4: Summary of benefits at break-even effectiveness rate (1%)**

Stakeholder	Total benefit over 10 years (NPV)	Average benefit per year
Industry stakeholders	\$1,591,000	\$227,000
Levy payers/agents	\$1,571,000	\$224,000
IRBs	\$3,000	\$500
LRBs	\$17,000	\$2,000
Government	\$232,000	\$33,000
Total	\$1,823,000	\$260,000

## 4.3 Small business and competition impacts

### 4.3.1 Impacts on small businesses

Relative to Option 1, Option 2 does not change the roles or obligations of levy stakeholders. The majority of costs imposed by Option 2 comprise one-off transition costs associated with the initial time and effort required by levy stakeholders to understand and familiarise themselves with the new legislation. Therefore, in theory, smaller levy stakeholders (including levy payers, collection agents, IRBs and LRBs) may be disproportionately impacted relative to larger ones. This is because small businesses often have less financial and labour resources to expend to comply with and undertake these regulatory activities. Small businesses, with less technical expertise are also more likely to require more time in interpreting the changes. This said, the actual impact on an individual stakeholder of understanding the changes is small (e.g. half an hour of time). In addition, the benefits of Option 2 relative to Option 1 (increased clarity and guidance in interpreting legislation) can present proportionally greater time savings for small businesses.

Further, the CBA assumes that levy stakeholders who are more actively involved in the operation of the levy system including collection agents, IRBs and LRBs are more likely to exert more time and effort to understand the proposed changes under Option 2. As these costs are fixed, larger organisations may be better equipped to take on the initial increase in regulatory burden. Again, as the majority of costs are only imposed in the first year of implementation, the likely burden on each stakeholder over the longer term is expected to be minimal.

The removal of the total levies limit under option 2 is expected to impact on a very small number of RDCs only. In 2021-22, only 3 RDCs were limited by the total levies limit in practice. All other RDCs were limited by expenditure or the GVP limit. For those 3 RDCs, the removal of the total levies limit would mean an increase in matching funding. These financial benefits to some RDCs have not been included in the CBA as they represent a direct transfer from government to industry and therefore do not have a net impact on economy-wide impacts.

### 4.3.2 Impacts on competition

Option 2 is expected to impose minimal impacts on competition. If anything, by reducing regulatory burden, additional time and effort may be freed up for levy stakeholders to focus instead on other priority business-as-usual activities. For example, instead of spending time trying to understand the legislation and their obligations under it, levy payers may spend that time undertaking business planning activities. This may improve competitive conditions within the agricultural market.

Further, improving the effectiveness and efficiency of the legislation is likely to better ensure the optimal investment of industry funding. This may work to promote competitive conditions within Australian primary industries by increasing the quality and appropriateness of the output of investment in line with industry priorities including research and development, marketing and biosecurity.

## 5 Consultation undertaken

The department has undertaken consultation to identify problems and options and inform the development of the draft legislation. During legislation development, consultation has been undertaken to clarify details relating to the existing legislation, provide clarity on the nature of changes and identify any potential unintended consequences of the new legislation.

The consultation has been broad and has involved public as well as targeted consultation processes. Key stakeholders consulted to date include:

- Levy payers
- Collection agents
- IRBs
- LRBs, including RDCs, PHA, AHA and the NRS area in the department
- Other industry stakeholders
- Government stakeholders

In 2017-18, IRBs and RDCs were consulted to inform the thematic review of the levies legislative framework, triggered by the impending sunseting of multiple levies related instruments. The review was informed by reports by the Senate Rural and Regional Affairs and Transport References Committee in 2014 and 2015 and a study undertaken by ACIL Allen Consulting in 2016 in relation to the levy system. These reports incorporated stakeholder views on challenges and opportunities for reform. Key stakeholder views reported in these reports include support for the levy system, the need to reduce complexity and to improve the efficiency and flexibility of the system.

In 2019-20, public consultation was undertaken on the early assessment regulation impact statement (RIS). 66 submissions were received from levy payers, IRBs and collection agents, and the department held targeted discussions with RDCs, AHA and PHA. Stakeholders expressed a clear preference for streamlining and modernising the legislation (Option 2) rather than remaking the sunseting instruments (Option 1). Stakeholders also expressed support for:

- using the Commonwealth's regulatory powers framework in the design of the new legislation
- amending the calculation of the GVP limit to include data from the three previous financial years rather than the current and two previous financial years
- removing the total levies limit on matching funding.

In 2021-22, the department conducted targeted consultation with IRBs and RDCs to inform the development of the legislation and wrote to around 7,500 collection agents to provide information about the proposed approach to the new legislative framework. The main feedback received from the majority of RDCs related to the definition of R&D. RDCs highlighted the importance of R&D extension activities and suggested that the definition should be modernised to ensure that the scope and priorities of the work undertaken by RDCs are adequately reflected. IRBs provided input to assist with the redrafting of their levies, including details on how their levies were working in practice and feedback on proposals to improve consistency of key terms across the new framework.

In May-June 2023, a public consultation process on the draft Bills, regulations and rules was held. This consultation gave stakeholders an opportunity to see and provide feedback on the draft legislation. 62 responses were received, 51 responses to targeted survey questions and 11 written submissions. Meetings were also held with a variety of stakeholders including IRBs, RDCs, AHA and PHA. Stakeholder feedback focused on specific provisions such as the definition of R&D and the determination of the GVP limit. Stakeholders sought clarity around the implementation of the draft legislation, including the operation of proposed compliance powers and information sharing. The feedback provided will inform the finalisation of the draft legislation.

Further consultation is expected to be undertaken in late 2023 or early 2024 on the full draft regulations and rules, including provisions for the remainder of the levies that were not drafted by the time of the May-June 2023 consultation.

In summary, industry stakeholders consistently expressed strong support for the agricultural levy system and the need for it to be underpinned by legislation. They provided feedback on strengths and issues of the system and the legislative framework. Common issues identified were the complexity of the legislation and the need to make the levy amendment process simpler and quicker. Stakeholders also consistently agreed that redundancies should be removed, and the legislation standardised and simplified where possible.

The feedback received was incorporated into the review, early assessment RIS and this impact analysis and considered in the development of the draft legislative framework. Most of the key concerns raised by stakeholders were addressed. Some stakeholders expressed a view that the effort required to amend levies should be proportional to the change being sought. The department is limited in its ability to increase flexibility for amending levies. There are whole of government and parliamentary processes which must be followed when creating or amending tax laws. However, the department's Levy Guidelines were updated in 2020 to make it clearer that industry's consultation can be proportional to the proposed change.

In addition, some stakeholders raised issues or asked for policy changes which were outside the scope of streamlining and modernising the legislation. The department has recorded all stakeholder feedback and will consider it further in future policy processes.

# 6 Best option and how it will be implemented

## 6.1 Best option

Based on the CBA in Chapter 4, and informed by several rounds of consultation, the best option to address the policy problem is Option 2. Option 2 is expected to achieve its primary objective in terms of maintaining the purpose and function of the agricultural levy system in supporting industry investment in R&D, marketing, biosecurity activities, biosecurity emergency response and residue testing. Option 2 is also expected to achieve the objective of streamlining and modernising the agricultural levies legislation.

Option 2 does not propose changes to levy settings or the policy underpinning the levy system. Instead, option 2 will involve a number of changes to restructure, clarify and simplify aspects of the legislative framework that relate to the administration of the levy system.

The proposed changes are expected to impose one-off transition costs associated with implementing and understanding the modernised legislation of approximately \$1.82 million (NPV over 10 years) on the economy. Of these costs approximately \$570,000 is likely to be borne by industry for compliance and \$1.25 million borne by government for administration. The distribution of costs is likely to be concentrated in the first year of implementation and become immaterial in the longer term.

These costs are likely to break-even if the proposed changes are effective in reducing regulatory burden by as little as 1% (approximately). This would involve a 1% reduction in the quantity of compliance and administrative activities and/or a 1% reduction in the average cost of those activities. This means that at any level of regulatory burden reduction over and above 1%, the economy-wide benefits will outweigh the economy-wide costs and the proposed changes are worth pursuing.

The scale of improvement in regulatory burden required to break-even (1%) is considered relatively minor and therefore feasible. For example, in the case of calls made by industry to the department, a 1% reduction in call volume would comprise just 36 calls out of 4,202 per year. At this level of effectiveness, the benefits to industry could be expected to reach approximately \$1.59 million (NPV over 10 years) and for government, approximately \$232,000 (NPV over 10 years). Here, the monetised benefits associated with the preferred option take the form of avoided costs to industry associated with a reduction in regulatory burden. Improvements in the efficiency of government administration of the legislation are also expected to result in benefits in the form of avoided costs.

## 6.2 Implementation

Option 2 requires redrafting of the whole levies legislative framework. This involves drafting new Bills and subordinate legislation and repealing existing legislation.

To date, new Bills have been drafted and exposure draft consultation on those Bills has been held. These Bills will have to be considered and passed by both Houses of Parliament before they can come into effect. Drafting of subordinate legislation is ongoing and will require further consultation.

The new legislative framework is scheduled to commence before 1 April 2025, the sunseting date for some levies legislative instruments. The legislative package will need to commence prior to the sunseting date of those instruments to avoid disrupting levy imposition and disbursement of funds. The size of the legislative package and competing legislative priorities pose a risk to achieving this timeframe. To manage this risk the Bills have been scheduled to be introduced into Parliament in Spring 2023 to allow sufficient time for the passage of the Bills and the subsequent approval processes of subordinate legislation.

To support the commencement of the new legislative framework, the department would also have to make changes to internal and external information and resources, train staff and make changes to systems that support the administration of the levies legislation. Stakeholders would need to be informed about the legislative changes and any changes to administrative processes ahead of commencement. The department would also have to prepare for a temporary increase in the number of requests for information or guidance from industry stakeholders. Implementation risks, such as not having key system changes and resources in place by the time the new legislation commences, are being mitigated by the Department through detailed implementation planning.

Based on the CBA, a reduction in regulatory burden of 1% (break-even point) is considered very likely. There may be some risk that the understanding of legislative changes and related administrative practices by stakeholders could take longer than anticipated. This could be addressed through additional communication and education. The department will also build on its ongoing engagement with RDCs, AHA, PHA, IRBs and collection agents to provide support in understanding the new legislation.

## 7 Evaluation of chosen option

The department monitors and evaluates elements of the levy system on an ongoing basis. Key performance and operational data are collected, and have been published by the department through reports to levies stakeholders. This data will allow the department to track cost savings in the form of reduced time and effort spent by the department in administering the new legislation. It will also provide an indication of cost savings for industry stakeholders.

The department will continue to engage with stakeholders including in relation to the collection and disbursement of levies through levies administration activities. In addition, the department interacts with LRBs and industry bodies regularly in relation to policy issues. These ongoing interactions will provide opportunities to seek feedback from stakeholders in relation to the new legislative framework.

Existing compliance programs provide opportunities to ask for stakeholder feedback on the new legislative framework and guidance material. These include regular and targeted compliance programs with levy payers and collection agents as well as a liaison program with IRBs. In recognition of the new regulatory powers being incorporated in the legislative framework (compared with the existing legislation), the department will monitor and assess any changes in compliance rates.

Similarly, existing interactions with RDCs, such as annual performance meetings and independent performance reviews, will allow the department to seek feedback on the new legislation.

Any future amendments to the legislative framework, including to establish or amend levies, will provide opportunities to reflect on the new legislative framework and its benefits in supporting the levy system and responding to industry needs efficiently. In addition, the department could consider undertaking a comprehensive evaluation three to five years after the commencement of the new legislative framework. The legislative instruments under the framework will sunset after 10 years, meaning the department will also potentially have the opportunity in advance of that date to do another extensive review of the framework and assess its effectiveness.

Table 5 provides a preliminary high-level evaluation plan for the modernising of the agricultural levies legislation. As implementation planning progresses, a more comprehensive monitoring and evaluation framework may be established.

**Table 5: Preliminary evaluation plan**

Key metrics	Outcomes		
	Short-term	Medium-term	Long-term
Qualitative – stakeholder feedback	- Collate feedback received from various stakeholders throughout implementation phase (collection agents, IRBs and RDCs) (1 year) - Reviews of and adjustments to guidance material and communication (1 year)	- Collate feedback received from stakeholders through regular interactions (e.g. compliance program, RDC performance meetings) (ongoing) - Regular internal and external reporting on key data collected (ongoing)	- Collate feedback received from stakeholders through regular interactions (e.g. compliance program, RDC performance meetings) (ongoing)
Quantitative – number of calls and emails and time taken to respond			
Quantity and complexity of legal advice sought in relation to the new framework			

## Modernising the agricultural levies legislation

Effort required for legislative amendments	- Regular internal and external reporting on key data collected (ongoing)	- Department to consider developing an evaluation report to assess whether the intended outcomes of the new legislation have been achieved (3-5 years)	- Regular internal and external reporting on key data collected (ongoing)
Compliance rate			- Department to consider review of legislative framework ahead of the sunseting of legislative instruments (10 years)

# Appendix A: Current levies legislation

Current levies legislation													
Primary Industries (Excise) Levies Act 1999		Primary Industries (Customs) Charges Act 1999		Primary Industries Levies and Charges Collection Act 1991		National Residue Survey (Excise) Levy Act 1998		National Residue Survey (Customs) Levy Act 1998		Horse Disease Response Levy Act 2011	Horse Disease Response Levy Act 2011	Horse Disease Response Levy Collection Act 2011	
Primary Industries (Excise) Levies Regulations 1999		Primary Industries (Customs) Charges Regulations 2000		Primary Industries Levies and Charges Collection Regulations 1991		Primary Industries Levies and Charges (National Residue Survey Levies) Regulations 1998							
Primary Industries (Excise) Levies (Designated Bodies) Declaration 2017		Primary Industries (Customs) Charges (Designated Bodies) Declaration 2007		Primary Industries Levies and Charges Collection (Other Collection Product Details) Determination 2017									
Primary Industries (Excise) Levies (Forest Growers) Designated Bodies Declaration 2007													
Primary Industries (Excise) Levies (Pasture Seeds) Declaration 2012													
										<p><b>Key</b></p> <ul style="list-style-type: none"> <li>Act</li> <li>Subordinate instrument</li> <li>Sunsetting subordinate instrument</li> </ul>			
<p><b>Note:</b> this diagram does not list the transitional instruments from previous amendments to the levies legislation framework which are also in-scope for the project.</p>													
Current legislation that establishes RDCs and enables the payment of levies to levy recipient bodies (LRBs)													
Statutory RDCs		Industry RDCs									Biosecurity focussed		Residue testing
Primary Industries Research and Development Act 1989	Wine Australia Act 2013	Dairy Produce Act 1986	Pig Industry Act 2001	Australian Meat and Livestock Industry Act 1997	Sugar Research and Development Services Act 2013	Forestry Marketing and Research and Development Services Act 2007	Horticulture Marketing and Research and Development Services Act 2000	Egg Industry Service Provision Act 2002	Wool Services Privatisation Act 2000	Australian Animal Health Council (Live-stock Industries) Funding Act 1996	Plant Health Australia (Plant Industries) Funding Act 2002	National Residue Survey Administration Act 1992	
Cotton Research and Development Corporation Regulations 1990	Wine Australia Regulations 2018	Dairy Produce Regulations 1986		Australian Meat and Live-stock Industry Regulations 2023		Forestry Marketing and Research and Development Services Regulations 2008	Horticulture Marketing and Research and Development Services Regulations 2001		Wool Services Privatisation (Wool Levy Poll) Regulations 2003		Plant Health Australia (Plant Industries) Funding Determination 2022		
Fisheries Research and Development Corporation Regulations 1991		Dairy Produce (Dairy Service Levy Poll) Instrument 2016		Australian Meat and Live-stock (Meat Processor Marketing and Research Bodies) Declaration 2007					Wool Services Privatisation (Miscellaneous Provisions) Regulations 2000				
Grains Research and Development Corporation Regulations 1990				Australian Meat and Live-stock Industry (Live-stock Export Marketing Body and Live-stock Export Research Body) Declaration 2004					Wool Services Privatisation (Research Body) Declaration 2008				
Rural Industries Research and Development Corporation Regulations 2000				Australian Meat and Live-stock Industry Act 1997 – five declarations of approved donors, research body and industry marketing body									

# Appendix B: Cost-benefit analysis report

*The Department of Agriculture, Fisheries and Forestry commissioned Deloitte Access Economics to develop the cost-benefit analysis. The analysis below represents the views and assessment by Deloitte Access Economics.*

## 3 Cost benefit analysis of options

This chapter analyses the costs and benefits of the proposed options, with a focus on the reduction in regulatory burden imposed on levy stakeholders.

### 3.1 Approach to options analysis

This chapter analyses the potential impacts (costs and benefits) of Option 2 to the agricultural levies legislation on industry stakeholders and the Government. The proposed changes have been assessed using Cost-Benefit Analysis (CBA), which provides a robust, structured and transparent approach to balancing the different impacts, modelling the potential economic costs and benefits where possible. This CBA also draws upon regulatory burden measurement (RBM) methodology to estimate the value of benefits in the form of improvements in regulatory burden (section 3.2.1).

This chapter first defines the different costs and benefits quantified and monetised in this CBA and notes the other broader qualitative benefits that the reforms are intended to support (but which are not modelled in this CBA). This chapter then outlines the approach taken to quantify the costs for each stakeholder and details each of the specific inputs, assumptions and calculations used to do so. The discussion and illustrative modelling of costs and benefits outlined in this CBA report is based on publicly available data, as well as information provided by, and in consultation with, the department.

To deal with uncertainty regarding the effectiveness of the proposed changes in reducing regulatory burden, this chapter will then present an illustrative estimate of the feasible benefits which would accumulate to industry if the proposed changes were to break-even and be worthwhile implementing.

#### 3.1.1 Quantifiable costs and benefits

In this chapter, the costs and benefits have been broken down by stakeholder group to illustrate the different types and varying degrees of impact felt by industry stakeholders (levy payers, collection agents, IRBs and LRBs) and by government as a result of Option 2.

The costs to industry have been quantified based on a series of estimates relating to the likely transition costs imposed by Option 2, relative to Option 1 (the status quo). These are one-off costs, primarily associated with the time and effort required to understand the proposed changes under

Option 2 to the levies legislation. An estimation of the costs imposed on government is also provided based on the time and effort expected to communicate the changes to industry, to develop and implement new systems, processes and guidance material, and to undertake additional staff training.

The quantifiable benefits in this analysis take the form of cost savings (in terms of time and effort) that are expected to accrue to industry stakeholders as a result of a reduction in regulatory burden. These benefits have been measured and monetised using RBM methodology in line with the *Australian Government Guide to Policy Impact Analysis*, which estimates the incremental reduction in costs between the status quo and the scenario in which the proposed changes under Option 2 are implemented. Similarly, the quantifiable benefits to government in this analysis include the anticipated cost savings (in terms of time and effort) associated with administering a levies system that is easier to administer (largely due to less time required to help stakeholders understand the system) and the ability to adopt a more proportionate, risk-based approach to compliance activities.

This chapter also notes that the department expects there may be direct financial costs and benefits as a result of changes which remove certain limits on the allocation of matched funding to RDCs. These may potentially accrue in the form of increased government funding provided to RDCs (representing a cost to government and a benefit to industry). However, in consultation with OIA and the department, these financial benefits have not been included in the economy-wide CBA in this report, as they represent a direct transfer from government to industry and therefore do not have a net impact on the economy-wide impacts. Deloitte Access Economics understands that the department's analysis of these potential financial benefits to RDCs (and corresponding costs to government) is ongoing.

### **3.1.2 Unquantifiable benefits**

Based on advice from the department, Deloitte Access Economics understands that relative to Option 1, the proposed changes under Option 2 are also anticipated to deliver a wider range of benefits that are not quantified or monetised in the CBA due to their intangibility. These benefits are primarily expected to increase the effectiveness of the levies legislation in achieving its regulatory objectives. While not quantified, these benefits are still highly valuable and are a key driver of the proposed reforms. These benefits include, for example:

- improved flexibility and responsiveness of the levies legislative framework to the changing needs of Australia's agricultural industries, particularly through easier and faster legislative amendments
- improvements in industry confidence through increased consistency, transparency, or predictability of the legislative framework. For example, the earlier determination of the GVP limit would provide RDCs with increased investment certainty, as they would know what their matching funding limit is at the beginning of the financial year
- more proportionate and targeted compliance activities through the adoption of civil penalty, infringement notice and injunctions provisions of the *Regulatory Powers (Standard Provisions) Act 2014*. This would significantly improve the department's compliance programs so that entrenched low level non-compliance is targeted and criminal penalties then only used for the most serious offending conduct.

## 3.2 Method and assumptions

### 3.2.1 CBA methodology

The analysis undertaken in this CBA measures the impact of the proposed changes under Option 2 against the status quo – a scenario where the agricultural levies legislation remains unchanged and continues to operate the way it does currently (Chapter 2). Where possible, this CBA attempts to value the gains and losses from the regulatory changes in monetary terms. The costs and benefits of the proposed changes under Option 2, relative to the status quo, will be directly compared to determine whether the impact on industry is positive and therefore, whether the package of reforms to the agricultural levies legislation is worthwhile.

The impacts of the proposed changes under Option 2 are also assessed using the Benefit to Cost Ratio (BCR). The BCR refers to scale of quantified benefits relative to quantified costs, expressed in the form of a ratio (where benefits are divided by costs). A BCR greater than one indicates that the benefits related to the proposed changes under Option 2 are greater than the costs (or, for every \$1 of cost incurred by government and/or industry, a benefit of greater than \$1 is achieved). As such, any BCR that is equal to or greater than one can be expected to deliver a positive impact on stakeholders and therefore, can be considered be worth pursuing.

As consistent with the Australian Government policy analysis guidelines, the costs and benefits have been modelled in net-present-value (NPV) over a period of 10 years<sup>3</sup>. Calculating the impact in NPV terms, as is best practice, ensures that the estimates of benefits and costs are appropriately discounted at a real rate of 7%<sup>4</sup>. As required by the Australian Government, sensitivity analysis is undertaken on this discount rate. Monetary figures reported are in terms of their current dollar value (the 'real' value)<sup>5</sup>.

#### 3.2.1.1 Monetising costs

The monetised costs associated with proposed changes under Option 2 are one-off transition costs to industry and government stakeholders. For industry (meaning levy payers, collection agents, IRBs and LRBs) this includes the one-off costs in terms of time and effort required to understand the changes to the legislation. This was calculated using estimates of the time taken for each stakeholder to read online guidance material, to call the department or an IRB for further clarity, or to have a legal expert review the changes and provide advice.

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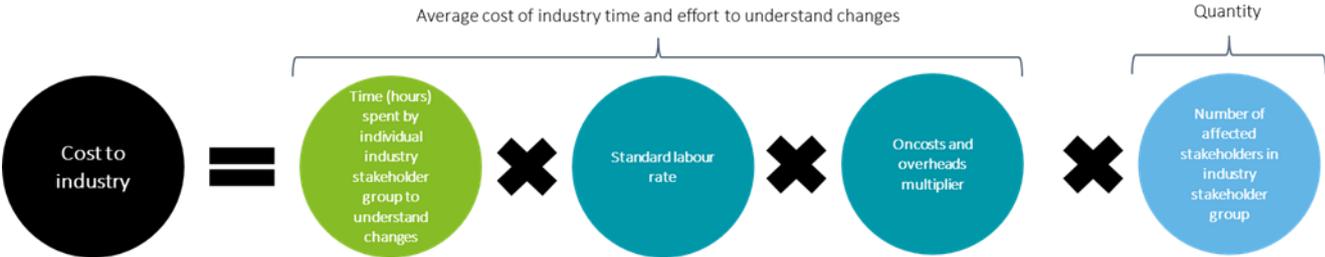
<sup>3</sup> Department of the Prime Minister and Cabinet Office of Best Practice Regulation, Guidance Note: Cost-benefit Analysis (March 2020)

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

To monetise costs for industry, the standard labour rate of approximately \$45.5 per hour has been used in line with the *Regulatory Burden Measurement Framework*<sup>6</sup>. This default hourly cost is based on average weekly earnings but adjusted to include income tax. This provides an economy-wide value of employee time. The standard labour rate has then been multiplied by a factor of 1.75, as is consistent with relevant guidelines, to account for on-costs and overheads<sup>7</sup>. This results in a scaled-up rate of \$79.63 per hour for work-related labour costs.

**Figure 3.1 Method for monetising costs to industry**



Source: Deloitte Access Economics

Note: Some industry stakeholder groups may seek external legal advice rather than spending their own time understanding the changes. This has been reflected in the model (see section 3.3.3)

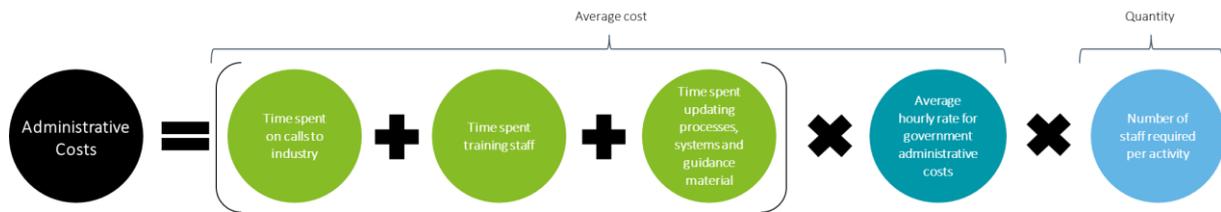
For government, administrative costs are driven by the cost to implement the proposed changes under Option 2 (Figure 3.2). This was calculated based on estimates of the approximate costs associated with staff training, the time and effort associated with making the required updates to internal processes, systems and guidance material as well as any educative activities to explain the changes to industry. These estimates were informed by consultation with the department. The specific inputs and assumptions used to calculate the administrative costs in terms of time have been outlined in section 3.4. The number of staff required for each of these activities was also considered. These estimates were then multiplied by government administrative costs converted to an hourly rate of \$200 (including on-costs and overheads) to obtain costs in monetary terms<sup>8</sup>.

<sup>6</sup> Department of the Prime Minister and Cabinet Office of Best Practice Regulation, *Regulatory Burden Measurement Framework* (March 2020)

<sup>7</sup> Ibid.

<sup>8</sup> Department of Agriculture, Forestry and Fisheries

**Figure 3.2 Method for monetising administrative costs**



Source: Deloitte Access Economics

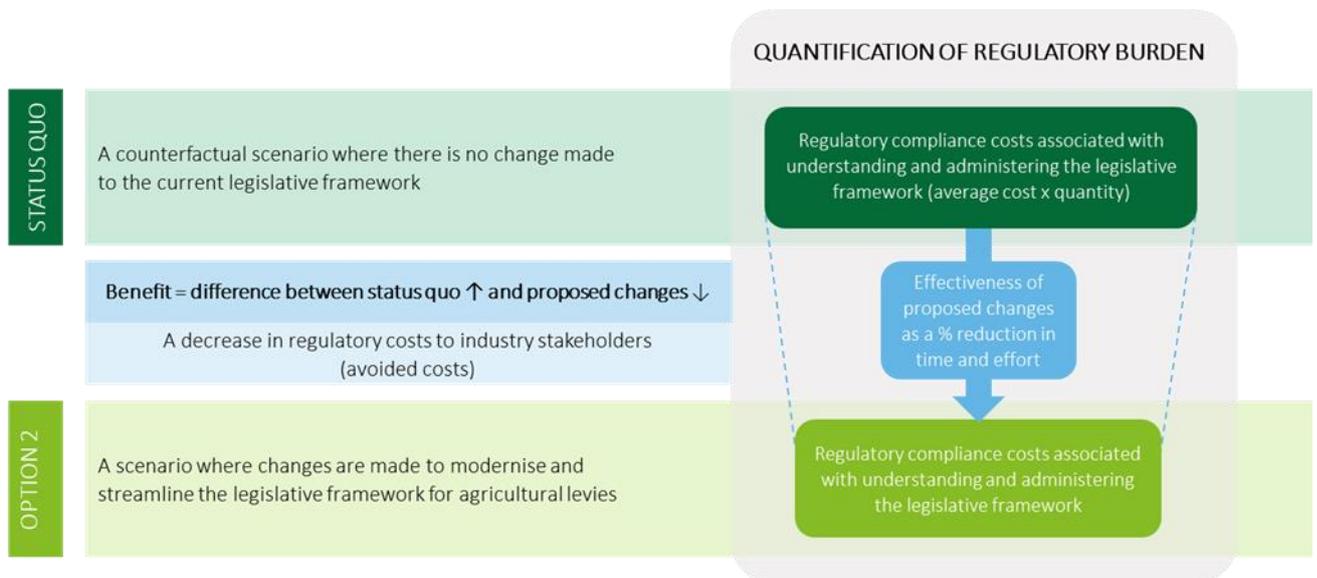
**3.2.1.2 Monetising benefits and addressing uncertainty**

Based on consultation with the department, the proposed changes under Option 2 are expected to decrease the time and effort associated with undertaking the activities required to understand, comply with or administer the agricultural levies legislation. This makes interactions with the legislative framework more efficient and creates savings for industry and government (for example, the value of time and effort which is no longer required to be exerted as a result of the proposed changes under Option 2). Therefore, the monetised benefits associated with the proposed changes under Option 2 take the form of avoided costs which result from the expected reduction in regulatory burden.

For industry, the proposed changes under Option 2 are expected to result in a reduction in the time and effort required to understand and comply with their regulatory obligations on an ongoing basis. For government, there is an expected reduction in the ongoing costs (in terms of time and effort) required to administer the scheme and enforce compliance.

RBM methodology has been applied within this CBA to quantify and monetise these efficiency gains. RBM methodology requires a direct comparison between the expected level of regulatory costs imposed on industry and government under the proposed changes under Option 2 and the status quo (Figure 3.3).

**Figure 3.3 Regulatory burden reduction methodology**



As is consistent with the *Regulatory Burden Measurement Framework*, the first step taken in this CBA to model the potential benefits is to model any regulatory costs already associated with the status quo (a scenario where no changes are made to the current legislative framework)<sup>9</sup>. Estimates made in relation to the cost of time and effort currently exerted by industry in understanding and complying with the legislative framework have been informed by publicly available information and financial reports<sup>10</sup>. All assumptions and inputs of this nature are outlined in further detail in section 3.3. For government, the cost to administer the legislative framework under the status quo is informed by the financial breakdown outlined in the most recent Report to Levies Stakeholders<sup>11</sup>. This forms a basis to which the regulatory costs under the proposed changes under Option 2 will be compared.

In the absence of industry stakeholder consultation, the regulatory costs under proposed changes under Option 2 have been calculated using an assumption of effectiveness regarding the proposed changes under Option 2. This effectiveness assumption represents a percentage decrease in the time, effort and/or quantity of regulatory activity required by industry and government to understand or administer the legislation that is directly attributable to the proposed package of reforms. As such, there is a degree of uncertainty regarding the extent to which the proposed changes under Option 2 will reduce regulatory burden for both industry and government. To address this uncertainty, a break-even approach has been taken in this CBA to identify the percentage reduction in regulatory burden required for the costs and benefits to be equal. The break-even point occurs where the BCR is equal to one. The CBA discusses whether this break-even point is achievable and likely, and if the proposed changes under Option 2 are worthwhile.

As mentioned above, it is also important to note that the monetised benefits only represent a portion of the total benefits expected by the department to result from the proposed changes under Option 2. A range of benefits are unable to be quantified including (but not limited to) increased clarity regarding regulatory obligations and increased responsiveness of the legislative framework to emerging industry challenges and opportunity for investment that is better aligned with industry priorities. The department expects there to be broader benefits from the modernisation and improved regulatory effectiveness of the legislative framework. While these benefits are not quantified in this CBA, they are of importance and in many cases are key drivers of the proposed changes under Option 2.

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<sup>9</sup> The Department of the Prime Minister and Cabinet, *Regulatory Burden Measurement Framework* (March 2020)

<sup>10</sup> The Department of Agriculture, Water and the Environment, *Report to levies stakeholders 2018-19* (May 2020)

<sup>11</sup> The Department of Agriculture, Water and the Environment, *Report to levies stakeholders 2018-19* (May 2020)

### 3.3 Costs to industry

Based on consultation with the department, the proposed legislative amendments are expected to impose one-off transition costs in the first year of implementation. Here, the main cost to industry (that is, levy payers, collection agents, IRBs and LRBs) is the time and effort required to understand the changes to the levies legislative framework. The specific inputs and assumptions used to calculate these costs for each levy stakeholder group are described in the relevant subsections below.

In total, the cost to industry (compared to the status quo) is estimated to be approximately \$570,000 (NPV over 10 years) or approximately \$61,000 per year (on average) (Table 3.1). Given the nature of Option 2, all of the costs to industry are borne in the first year as a result of the one-off transitional activities.

**Table 3.1 Summary of costs to industry stakeholders**

Industry stakeholder	Total cost over 10 years (NPV)	Average cost per year
Levy payers/agents	\$461,000	\$49,000
IRBs	\$43,000	\$5,000
LRBs	\$66,000	\$7,000
<b>Total</b>	<b>\$570,000</b>	<b>\$61,000</b>

Source: Deloitte Access Economics

#### 3.3.1 Levy payers and collection agents

For the purpose of this analysis, levy payers and collection agents have been grouped together as they have similar legislative obligations to pay levies and submit returns. In reality, the department advises that it is rare that levy payers submit their own returns, and, in most cases, collection agents submit returns on behalf of the levy payers.

It is assumed that both levy payers and collection agents will spend time to understand the changes. Due to a lack of data, there is uncertainty regarding the number of levy payers who lodge their own returns and who would therefore be incentivised to understand the proposed changes under Option 2 when they are implemented. In the absence of this information, a conservative assumption has been made in this CBA that 5% of total levy payers (5,000 out of 100,000) will seek to understand the changes – whether they lodge a return or not – based on their involvement or broader interest in the agricultural levies legislative framework. Given their passive role in the system, subject matter experts within the department suggest that levy payers would be more likely to learn about the changes using online guidance material and that only a small proportion would call the department or an industry body to do so. The calculation used to estimate the cost to levy payers is outlined in Figure 3.4 below.

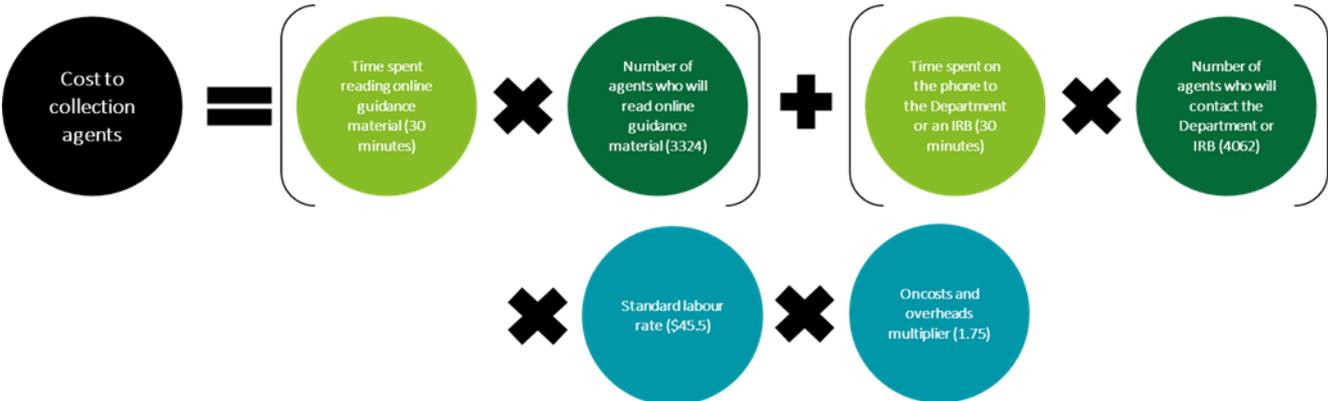
**Figure 3.4 Cost to levy payers calculation**



Source: Deloitte Access Economics

Relative to levy payers, the analysis assumes that collection agents are more likely to seek to understand the changes because the legislative framework is integral to their everyday activities. As such, it is assumed that 100% of total collection agents (7,386) will spend time to understand the proposed changes under Option 2. It is also assumed that collection agents are more likely than levy payers to spend time speaking (over the phone) to the department than to industry representatives. This is reflected in the model, where it is assumed that 50% of collection agents would be likely to speak to the department to understand the proposed changes under Option 2 while only 5% of collection agents would be likely to reach out to IRBs. It is assumed that the remaining 45% of collection agents would be likely to read online guidance to understand the proposed changes under Option 2. The calculation used to estimate the cost to levy payers is outlined in Figure 3.5 below. The specific inputs used to calculate the costs to both levy payers and collection agents are summarised in Table 3.2.

**Figure 3.5 Cost to collection agents calculation**



Source: Deloitte Access Economics

**Table 3.2 Modelling inputs used to estimate costs to levy payers and collection agents**

<b>Input</b>	<b>Value</b>
<b>Levy payers (regardless of whether or not they lodge a return)</b>	
Total number of levy payers	100,000
Number of levy payers who will seek to understand the changes to legislation (5% of all levy payers)	5,000
Number of levy payers who will contact industry representatives to understand the changes	500 (10%)
Number of levy payers who will contact the department to understand the changes	500 (10%)
Number of levy payers who will read online guidance material to understand the changes	4,000 (80%)
<b>Time taken</b>	
Time taken by levy payers to understand the new legislation by reading online guidance material	30 minutes
Time taken by levy payers to understand the new legislation by calling the department or an industry representative body	30 minutes
<b>Collection agents</b>	
Total number of collection agents	7,386
Number of collection agents who will contact industry representatives to understand the changes	369 (5%)
Number of collection agents who will contact the department to understand the changes	3,693 (50%)
Number of collection agents who will read online guidance material to understand the changes	3,324 (45%)
<b>Time taken</b>	
Time taken by collection agents to understand the new legislation by researching and reading online guidance material	30 minutes
Time taken by collection agents to understand the new legislation by calling the department or an industry representative body	30 minutes

Source: DAFF analysis and input from subject-matter experts, including previous stakeholder engagement undertaken as part of the reform program.

Under the modelled parameters above, and relative to the status quo, the transition costs to levy payers and collection agents associated with the proposed changes under Option 2 amount to approximately \$461,000 (in NPV over 10 years) or approximately \$49,000 per year (on average). It is important to note that, given that all costs to industry are expected to be one-off transition costs associated with the time and effort taken to understand the proposed changes under Option 2, costs will only be imposed in the first year.

### **3.3.2 Industry representative bodies**

Under the proposed changes under Option 2, IRBs are expected to spend time and effort to understand the changes. As with collection agents, given the active involvement of IRBs in the levies system, the analysis assumes that all IRBs will face the one-off transition costs. In addition, this CBA

assumes that IRBs will also be required to explain the changes as necessary to collection agents and levy payers.

The proposed changes under Option 2 are not expected by the department to impose any additional ongoing costs on IRBs over and above their current obligations under the status quo. The calculation of costs is outlined in Figure 3.6 below and the specific inputs used to calculate the costs to IRBs are summarised in Table 3.3.

**Figure 3.6 Cost to IRBs calculation**



Source: Deloitte Access Economics

**Table 3.3 Modelling inputs used to estimate costs to IRBs**

Input	Value
<b>IRBs</b>	
Number of IRBs	70
Number of IRBs that will seek to understand changes to legislation	70 (100%)
Number of IRBs that will call the department to understand the proposed changes (10%)	7 (10%)
<b>Time taken to understand changes</b>	
Average time taken by IRBs to understand changes to legislation	2 hours
Time taken by IRBs to understand the new legislation by calling the department (this is in addition to the 2 hours above)	30 minutes
<b>Time taken to explain changes</b>	
Time required of IRBs to explain the changes to legislation to collection agents and levy payers	30 minutes
Number of calls to IRBs from collection agents or levy payers	869

Source: DAFF analysis and input from subject-matter experts, including previous stakeholder engagement undertaken as part of the reform program.

Relative to the status quo, and under the modelled parameters, the transition costs to IRBs associated with the proposed changes under Option 2 amount to approximately \$43,000 (in NPV

over 10 years), all of which are imposed in the first year following the introduction of the proposed changes under Option 2.

### 3.3.3 Levy recipient bodies

The department expects that out of all LRBs (18) only RDCs (15) will seek to understand the proposed changes under Option 2. The department advises that this is because for other types of LRBs (Animal Health Australia (AHA), Plant Health Australia (PHA) and National Residue Survey (NRS)) there will only be minor legislative change. As such, the department expects the proposed changes under Option 2 to bear no impact on these LRBs.

It is assumed that all RDCs (15) will spend time to understand the proposed changes under Option 2 but will seek to do so in different ways. As such, the total cost to LRBs is the sum of any time spent by RDC staff to understand the proposed changes under Option 2 and the cost for some RDCs to engage external legal professionals to provide advice (Figure 3.7). Specific inputs and assumptions made to calculate these costs have been outlined in Table 3.4.

**Figure 3.7 Calculation of the total cost to LRBs associated with the proposed changes under Option 2**



Source: Deloitte Access Economics

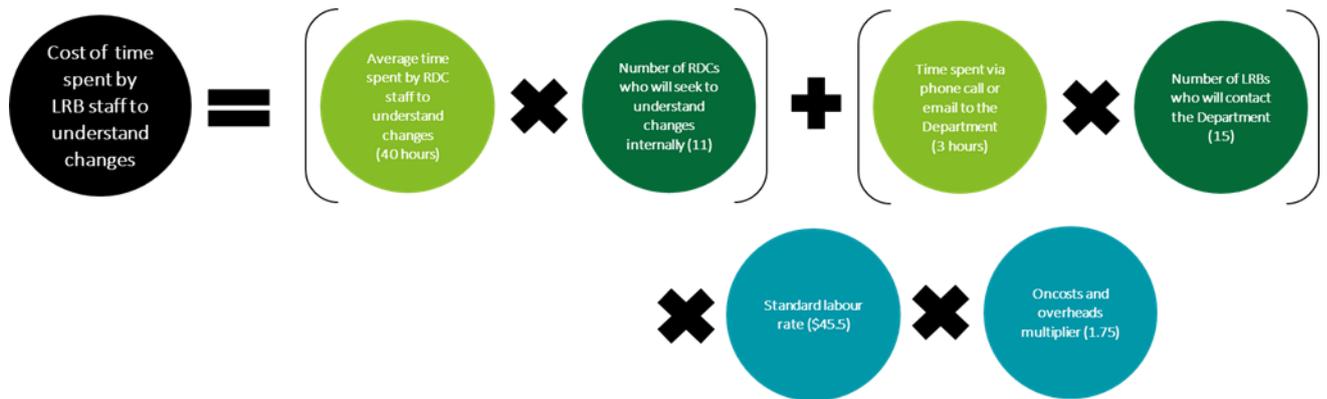
The department expects that all RDCs will contact the department (via phone call or email), and this is expected to take approximately 3 hours in total for each RDC. In addition to this, approximately 75% of RDCs (11) will spend an additional 40 hours of staff time and effort to understand the changes. Here, an hour of an RDC staff member's time has been valued at the standard hourly wage rate of approximately \$45.5<sup>12</sup>. This has been multiplied by a factor of 1.75 to account for on costs and overheads. This results in a scaled-up rate of \$79.63 per hour, as consistent with the *Regulatory Burden Measurement Framework*<sup>13</sup>. The equation used to calculate the cost of time spent by RDC staff to understand the proposed changes under Option 2 is laid out in Figure 3.8.

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<sup>12</sup> The Department of the Prime Minister and Cabinet, Regulatory Burden Measurement Framework (March 2020)

<sup>13</sup> The Department of the Prime Minister and Cabinet, Regulatory Burden Measurement Framework (March 2020)

**Figure 3.8 Cost of time for LRBs calculation**

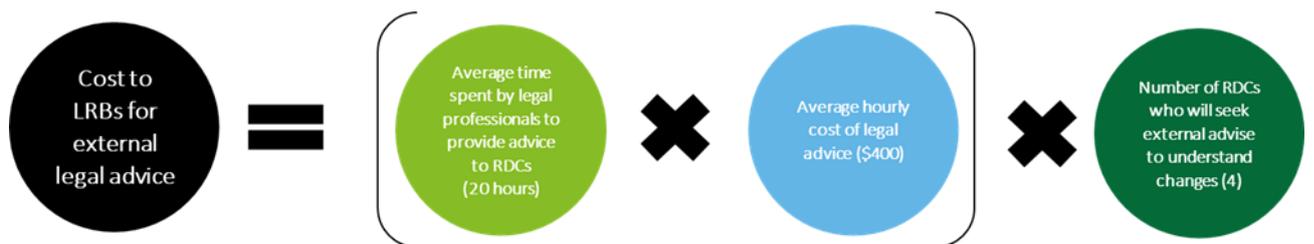


Source: Deloitte Access Economics

Based on advice from the department, it is also expected that some LRBs will engage external legal professionals to provide advice on the proposed changes under Option 2. For the purposes of this analysis, it is assumed that approximately 25% of RDCs (4 RDCs) seek external advice from legal professionals.

This CBA assumes that legal professionals would require less time (only 20 hours in comparison to 40 hours for internal RDC staff) but would charge RDCs more per hour (with the average hourly cost to RDCs of a legal professional’s time being \$400 per hour). Given the uncertainty regarding the various ways that external legal consultants may undertake and charge for this work, the average cost of engaging legal professionals by the hour has been determined by taking the midpoint of a range of hourly charge-out rates for lawyers in Australia (based on employee level)<sup>14</sup>. The calculation of costs to LRBs for external legal advice is set out in Figure 3.9.

**Figure 3.9 Cost to RDCs of engaging legal professionals**



Source: Deloitte Access Economics

Some LRBs may be required to exert additional administrative effort to ensure that their internal processes are in line with updated legislative requirements. For example, the proposed changes under Option 2 may require some RDCs to update some elements of their processes for preparing

<sup>14</sup> Legal vision, How Much Does a Lawyer Cost and What are Their Hourly Rates? (September 2021), Lawpath, How Much Does a Lawyer Cost (2022 Update) (January 2021)

matching funding claims. However, in the absence of consultation with industry stakeholders, and given the uncertainty and variation in terms of both the extent of effort that may be required as well as the number of LRBs required to make change, the level of administrative effort has not been monetised in this CBA. It is therefore noted that costs may vary between LRBs in the first year and, in some cases, be larger than the monetised estimates in this CBA. However, the department considers this impact is likely to be relatively small as, in general, the proposed changes under Option 2 are expected to reduce the overall administrative burden for LRBs.

**Table 3.4 Modelling inputs used to estimate costs to LRBs**

Input	Value
<b>LRBs</b>	
Number of LRBs	18
Number of LRBs that are RDCs	15
Number of LRBs that are not RDCs (AHA, PHA and NRS)	3
Number of LRBs who will seek to understand the proposed changes to legislation (RDCs only)	15*
Number of LRBs who will seek to understand the changes internally (75% of RDCs)	11
Number of LRBs who will seek external legal advice (25% of RDCs)	4
<b>Time taken to understand changes</b>	
Time taken by internal RDC staff to understand changes to legislation	40 hours
Time taken by external legal professionals to provide advice on changes to legislation	20 hours
Time taken by other types of LRB staff to understand changes to legislation	20 hours
Time taken by LRBs to contact the department for information (in addition to the time above)	3 hours
<b>Value/cost of time</b>	
Value of LRB time (including on-costs and overheads)	\$79.63 per hour
Cost of legal professionals time (including on-costs and overheads)	\$400 per hour

Source: DAFF analysis and input from subject-matter experts, including previous stakeholder engagement undertaken as part of the reform program.

Note: \*It is assumed that all LRBs who seek to understand the changes are RDCs given that the proposed changes relating to matched funding are more likely to impact RDCs

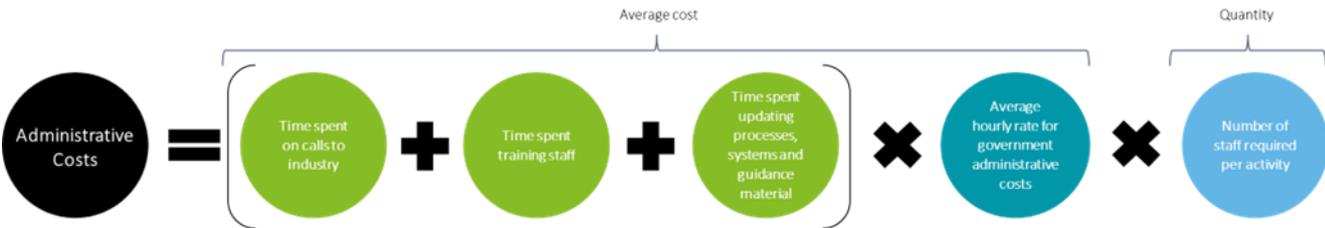
Using the inputs above, the total costs to LRBs associated with the proposed changes under Option 2 are estimated to be approximately \$66,000 (in NPV over 10 years) all of which are imposed in the first year following the introduction of the proposed changes under Option 2. Of this, the cost associated with the time taken by LRB staff to understand the changes is estimated to be approximately \$36,000 (in NPV over 10 years). The cost associated with engaging external legal professions by some RDCs is approximately \$30,000 (in NPV over 10 years). The proposed changes under Option 2 are not expected by the department to impose any additional ongoing costs on LRBs over and above their current obligations under the status quo.

### 3.4 Costs to government

Relative to the status quo, the proposed changes under Option 2 are expected to impose one-off costs on the department associated with the implementation and administration of the new legislative framework. In initial implementation, the department would be required to communicate the legislative changes to levy payers, collection agents, IRBs, and LRBs. This analysis assumes that the department would educate industry through the development of guidance material and by responding to additional calls from levy payers and collection agents.

In administering the new proposed legislative framework, the department would also invest additional time and effort to update or modernise any internal processes and systems (relating to the collection and disbursement of levy funding) as well as provide internal education and training to staff within the finance and compliance teams. These costs have been monetised by multiplying these estimates of time by the hourly rate for government administrative costs (this has been advised by the department to be \$200, including overheads and on-costs). The calculation of costs to the department is set out in Figure 3.10.

**Figure 3.10 Calculation of administrative costs to the department**



Source: Deloitte Access Economics

**Table 3.5 Modelling inputs used to estimate costs to the department**

Input	Value
<b>Cost to explain changes</b>	
Time spent by departmental staff explaining changes to levy payers, collection agents and IRBs (per call)	30 minutes
Time spent by departmental staff explaining changes to LRBs (in total per LRB)	3 hours
Number of calls to levy payers, collection agents and IRBs (total)	4200
Number of calls to LRBs	18
<b>Cost to update processes, systems and guidance material</b>	
Time spent to update processes	3 months
Time spent to update systems	3 months
Time spent to update guidance material	3 months
Number of fulltime staff required to update processes, systems and guidance material	3

<b>Cost to undertake training</b>	
Time spent undertaking training	1 day (8 hours)
Number of staff required to undertake training	29

Source: DAFF analysis and input from subject-matter experts, including previous stakeholder engagement undertaken as part of the reform program.

In total, the proposed changes under Option 2 are expected to impose costs of approximately \$1.25 million on the department (in NPV over 10 years). All of these costs will be imposed in the first year of implementation.

### 3.5 Total costs

Table 3.6 summarises the average annual regulatory costs to key stakeholders posed by the different reform options, from business as usual. The average costs noted in Table 3.6 reflect the average costs to business over a 10-year period which comprise only one-off transaction costs in the first year of \$570,000, and no costs every year thereafter. No changes in regulatory costs are anticipated to community organisations or individuals.

**Table 3.6: Regulatory Burden Estimates table (change in costs on average each year)**

Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
<b>Total, by sector (Option 1: status quo)</b>	\$0	\$0	\$0	\$0
<b>Total, by sector (Option 2: streamlining legislation)</b>	\$61,000	\$0	\$0	\$61,000

Source: Deloitte Access Economics

### 3.6 Break-even analysis

Given uncertainty regarding the effectiveness of the proposed changes under Option 2 in reducing regulatory burden, a break-even approach has been applied in this CBA to identify the scale of monetised benefit required to offset the one-off direct cost impacts associated with the proposed changes under Option 2. As mentioned in section 3.2.1.2, this approach estimates the benefits to each of the industry stakeholders at an intervention effectiveness rate where total economy-wide benefits are equal to economy-wide costs. As such, this CBA should be regarded as a test of whether the benefits of the proposed changes under Option 2 are likely to exceed the costs, rather than a point estimate of the specific impacts.

The intervention effectiveness rate is used as an input in the CBA model to monetise benefits by reducing the duration and quantity of effort currently exerted in the status quo. The specific inputs impacted by the degree of effectiveness include:

- the time spent on an ongoing basis to understand or explain the legislative framework

- the quantity of industry stakeholders requiring help to understand their obligations on an ongoing basis
- the number of incorrect returns and/or payments by industry
- the time taken by LRBs (RDCs only) to ensure compliance with spending requirements and to plan investment of funding
- the cost associated with administering the legislation, including compliance.

The results of this CBA suggest that the monetised economy-wide benefits and costs associated with the proposed reforms will break-even if the changes are effective in reducing regulatory burden by as little as 1% (approximately). This would involve a 1% reduction in the quantity of compliance and administrative activities and/or a 1% reduction in the average cost of those activities. This means that at any level of regulatory burden reduction over and above 1%, the economy-wide benefits will outweigh the economy-wide costs and the proposed changes under Option 2 are worth pursuing. Based on in-house regulatory expertise and advice provided by the department, this break-even point is considered both feasible and likely.

The proposed changes under Option 2 will simplify the legislative framework through consolidation and the use of modern drafting standards. Therefore, the scale of improvement in regulatory burden required to break-even (1%) is considered relatively minor. For example, in the case of calls made by industry to the department, a 1% reduction in call volume would comprise just 36 calls out of 4,202 per year.

**Table 3.7 Economy-wide break-even analysis (at an effectiveness rate of 1%)**

	Benefits	Costs	BCR
<b>Economy-wide</b>	<b>\$1,823,000</b>	<b>\$1,823,000</b>	<b>1</b>
<b>Industry</b>	\$1,591,000	\$570,000	2.79
<b>Government</b>	\$232,000	\$1,253,000	0.19

Source: Deloitte Access Economics

It is noted that this is the break-even point, or level of regulatory burden reduction, required for economy-wide benefits to equal economy-wide costs only. At this break-even point, the benefits to industry are approximately triple the value of costs, however, the costs and benefits to government do not break-even. Therefore, the costs and benefits for industry and for government are anticipated to break-even at different effectiveness rates (see Table 3.8 and Table 3.9).

The break-even point for industry occurs at an intervention effectiveness rate of approximately 0.3%. At this rate, both the government and economy-wide costs and benefits do not break-even, with BCRs of less than one. Again, given the negligible scale of improvement required to break-even, this break-even point is considered feasible and highly likely.

**Table 3.8 Industry break-even analysis (at an effectiveness rate of 0.3%)**

	Benefits	Costs	BCR
<b>Economy-wide</b>	\$653,000	<b>\$1,823,000</b>	0.36
<b>Industry</b>	<b>\$570,000</b>	<b>\$570,000</b>	<b>1</b>
<b>Government</b>	\$83,000	\$1,253,000	0.07

Source: Deloitte Access Economics

The break-even point for government occurs at an intervention effectiveness rate of approximately 4.5%. This break-even point is higher than for the economy as a whole and for industry given that the intent of the reforms was primarily to deliver benefits to industry.

At this rate, both the industry and economy-wide benefits far outweigh the costs of the proposed changes under Option 2. At this break-even point, industry gains approximately \$15 in avoided costs per every \$1 of cost incurred while the economy as a whole would yield approximately \$5 in avoided costs for every \$1 of cost incurred.

**Table 3.9 Government break-even analysis (at an effectiveness rate of 0.3%)**

	Benefits	Costs	BCR
<b>Economy-wide</b>	\$9,759,000	<b>\$1,823,000</b>	5.35
<b>Industry</b>	\$8,505,000	<b>\$570,000</b>	14.93
<b>Government</b>	<b>\$1,253,000</b>	<b>\$1,253,000</b>	<b>1</b>

Source: Deloitte Access Economics

### 3.7 Benefits to industry

The department expects the proposed changes under Option 2 to minimise barriers to interacting with the agricultural levies legislation by reducing unnecessary complexity and increasing flexibility. In doing so, this option is likely to reduce the level of regulatory burden imposed on industry in their ongoing efforts to understand and comply with their legal obligations. As such, the benefits quantified in this section take the form of avoided costs or in other words, the value to industry of time and effort saved.

This section provides an illustrative estimate of the feasible benefits which would accumulate to industry if the proposed changes under Option 2 were 1% effective (the economy-wide break-even point) in reducing regulatory burden. This relates to a 1% reduction in the average cost of compliance (in terms of time and effort) and/or a 1% reduction in the frequency (quantity) of that effort.

**Table 3.10 Summary of benefits to industry stakeholders**

Industry stakeholder	Total benefit over 10 years (NPV)	Average benefit per year
Levy payers/agents	\$1,571,000	\$224,000
IRBs	\$3,000	\$500
LRBs	\$17,000	\$2,000
Total	<b>\$1,591,000</b>	<b>\$227,000</b>

Source: Deloitte Access Economics

The department also expects that the proposed changes under Option 2 may deliver a wide range of benefits that have not been quantified or monetised in this CBA. These benefits are primarily expected to increase the effectiveness of the levies legislation in achieving its regulatory objectives. While these benefits cannot be quantified, they are still highly valuable and are a key driver of the proposed reforms. Benefits of this nature include, for example:

- Improved flexibility and responsiveness of the levies legislative framework to the changing needs of Australia’s agricultural industries, particularly through easier and faster legislative amendments.
- Improvements in industry confidence through increased consistency, transparency, or predictability of the legislative framework. For example, the earlier determination of the GVP limit would provide RDCs with increased investment certainty, as they would know what their GVP limit on matching funding is at the beginning of the financial year.
- More proportionate and targeted compliance activities through the adoption of civil penalty, infringement notice and injunctions provisions of the *Regulatory Powers (Standard Provisions) Act 2014*. This would significantly improve the department’s compliance programs so that entrenched low level non-compliance is targeted and criminal penalties are then only used for the most serious offending conduct.

### **3.7.1 Levy payers and collection agents**

Relative to the status quo, the proposed changes under Option 2 would reduce both the size and complexity of the agricultural levies legislation. This would improve the understanding of both levy payers and collection agents in relation to their legislative obligations to pay levies and submit returns.

Therefore, based on consultation with the department, the proposed changes under Option 2 are expected to produce ongoing benefits, in the form of avoided costs, for levy payers and collection agents by lowering both:

- the time and effort taken by each levy payer or collection agent to understand the details of their legislative requirements on an ongoing basis (the average cost). This includes communication over the phone with the department or an IRB or reading online guidance material.
- the number of levy payers and/or collection agents requiring clarification (the quantity).

To monetise these benefits, the time currently undertaken by levy payers and collection agents to understand and ask questions regarding their obligations on an ongoing basis under the status quo was estimated first. These estimates were made using publicly available data on the number of levy payers and collection agents who seek additional information each year (either over the phone or through online guidance material) and the average time taken to do so (see Table 3.11)<sup>15</sup>.

Given the uncertainty regarding the effectiveness of the proposed changes under Option 2 in reducing regulatory burden, a break-even approach has been applied in this CBA to monetise any potential benefits. As mentioned in section 3.2.1.2 and above, this approach estimates the benefits to each of the industry stakeholders at an intervention effectiveness rate where total economy-wide benefits are equal to economy-wide costs. For levy payers and collection agents, the intervention effectiveness impacts modelled levels of regulatory burden by:

- reducing the time required to understand the legislation on an ongoing basis by 1% (the break-even effectiveness rate) relative to the status quo (see Table 3.11)
- reducing the quantity of levy payers and collection agents requiring ongoing assistance to understand the legislation by 1% (the break-even effectiveness rate) relative to the status quo (see Table 3.11).

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<sup>15</sup> The Department of Agriculture, Water and the Environment, *Report to levies stakeholders 2018-19* (May 2020)

**Table 3.11 Regulatory burden reduction for levy payers and agents, per year**

Regulatory burden activity	Effort under the status quo per year		Effort under the proposed changes per year		Impact of proposed changes per year	
	Time	Quantity	Time	Quantity	Time	Quantity
<b>Cost to industry spent on the phone to the Department</b>	5 minutes per call	4202 calls	4.95 minutes per call	4167 calls	↓0.04 minutes (2 seconds)	↓36 calls
<b>Cost to industry spent on the phone to IRBs</b>	5 minutes per call	4202 calls	4.95 minutes per call	4167 calls	↓0.04 minutes (2 seconds)	↓36 calls
<b>Cost to industry spent reading online guidance materials</b>	116 minutes per page	87,576 web-page visitors	115 minutes per page	86,852 web-page visitors	↓ 0.97 minutes (58 seconds)	↓724 web-page visitors

Source: Deloitte Access Economics based on Report to Levies Stakeholders 2018-2019 (May 2020)

At the break-even point, and relative to the status quo, the proposed changes under Option 2 would be expected to yield approximately \$1.57 million to levy payers and collection agents (NPV over 10 years) or approximately \$224,000 per year (on average). These monetised benefits represent the ongoing value of avoided costs to levy payers and collection agents associated with a reduction in annual regulatory burden.

### 3.7.2 Industry representative bodies

The proposed changes under Option 2 would also be expected by the department to reduce regulatory burden for IRBs, relative to the status quo, and therefore yield ongoing benefits in the form of avoided costs. By simplifying the agricultural levies legislation, relative to the status quo, the proposed changes under Option 2 would reduce the ongoing time required by IRBs to answer questions from industry regarding the legislative framework and their obligations under it. It would also be expected to reduce the number of calls from industry received by IRBs each year.

To monetise these benefits, estimates in terms of the number of calls and the time taken on each of these calls were made relative to current conditions under the status quo. These estimates were informed by publicly available data and assumptions regarding the proportion of levy payers and agents that are likely to reach out to IRBs for information on their legislative obligations.

Again, given uncertainty, the effectiveness of the proposed changes under Option 2 in reducing regulatory burden is assumed to be 1% (the break-even effectiveness rate). Therefore, both the number of calls and the time spent on those calls was reduced by this effectiveness rate. The

difference between the status quo and the modelled scenario represents the avoided costs to IRBs associated with the proposed changes under Option 2.

**Table 3.12 Regulatory burden reduction for IRBs, per year**

Regulatory burden activity	Effort under the status quo per year		Effort under the proposed changes per year		Impact of proposed changes per year	
	Time	Quantity	Time	Quantity	Time	Quantity
<b>Cost to IRBs spent on the phone to industry</b>	5 minutes per call	4202 calls	4.95 minutes per call	4167 calls	↓0.04 minutes (2 seconds)	↓36 calls

Source: Deloitte Access Economics based on Report to Levies Stakeholders 2018-2019 (May 2020)

As such, relative to the status quo, the proposed changes under Option 2 would be required to yield approximately \$3,000 (NPV over 10 years) in avoided costs to IRBs or approximately \$500 each year (on average) in order to break-even.

### 3.7.3 Levy recipient bodies

Under the proposed changes under Option 2, provisions within the legislative framework relating to the legal requirements and obligations of LRBs (for example, details relating to matching funding and spending requirements) would be clarified and made more consistent. Based on consultation with the department, the proposed changes under Option 2 are expected to reduce regulatory burden by assisting LRBs (RDCs only) in their efforts to comply with their obligations under the agricultural levies legislation relative to the status quo. The proposed changes under Option 2 achieve this by:

- clarifying requirements for different streams of funding to reduce the time and effort taken by each RDC to ensure compliance with these requirements, and
- increasing the predictability and transparency of matching funding decisions and thus, reducing the time and effort required to forecast and make investment decisions relating to the allocation of matching funding.

Again, given uncertainty regarding the effectiveness of the proposed changes under Option 2 in reducing regulatory burden, a break-even approach has been applied. Here, the effectiveness of the proposed changes under Option 2 in reducing regulatory burden is assumed to be 1% (the break-even effectiveness rate). For LRBs, the intervention effectiveness impacts modelled levels of regulatory burden by:

- reducing the time required to ensure compliance with funding requirements on an ongoing basis by 1% (see Table 3.13)
- reducing the time required to make investment decisions on an ongoing basis by 1% (see Table 3.13).

**Table 3.13 Regulatory burden reduction for LRBs, per year**

Regulatory burden activity	Effort under the status quo per year		Effort under the proposed changes per year		Impact of proposed changes per year	
	Time	Quantity	Time	Quantity	Time	Quantity
<b>Cost to LRBs to comply with spending requirements</b>	80 hours (2 weeks) per year	15	79.3 hours per year	15	↓40 minutes per year	-
<b>Cost to LRBs forecast and make investment decisions for matched funding</b>	160 hours (4 weeks) per year	15	158.7 hours per year	15	↓ 1.3 hour per year (79 minutes)	-

Source: Deloitte Access Economics based on Report to Levies Stakeholders 2018-2019 (May 2020)

Therefore, using the break-even effectiveness rate, the proposed changes under Option 2 would yield approximately \$17,000 (NPV over 10 years) in avoided costs relative to the status quo, or approximately \$2,000 per year.

### 3.8 Benefits to government

Based on consultation with the department, the proposed changes under Option 2 are expected to reduce the current costs associated with the administration of and compliance with the agricultural levies legislation. This is largely due to an improvement in industry’s understanding of legislative obligations and therefore, a reduction in need for government to educate industry on these matters and enforce compliance activities. In particular, the proposed changes under Option 2 are expected to reduce costs, relative to the status quo, by:

- reducing instances of minor non-compliance with legislation (in the form of incorrect returns and/or payments) and therefore, decreasing the number of queries generated
- reducing the time and frequency of industry stakeholder management activities (including effort required to answer questions and explain obligations)
- reducing other costs including legal activities, IT and commodity-specific requests for support.

Given uncertainty regarding the effectiveness of the proposed changes under Option 2 in reducing regulatory burden (including the time and cost associated with administering the legislative framework), a break-even approach has again been applied. Here, the effectiveness of the proposed changes under Option 2 in reducing regulatory burden is assumed to be 1% (the break-even effectiveness rate). For government, the intervention effectiveness impacts modelled levels of regulatory burden by:

- reducing the annual cost associated with agent management through decreasing the number of industry stakeholders requiring information and the average cost associated with engaging with each agent by 1% (see Table 3.14)

- reducing the annual costs associated with queries by reducing the number of queries that are raised as a result of incorrect returns by 1% (see Table 3.14)
- reducing the annual costs associated with non-targeted compliance by reducing the average cost associated with managing missing or incorrect returns by 1% (see Table 3.14)
- reducing other costs (including legal services, IT, reports, and commodity-specific requires for support) by 1% (see Table 3.14).

**Table 3.14 Regulatory burden reduction for Government**

Regulatory burden activity	Effort under the status quo per year		Effort under the proposed changes per year		Impact of proposed changes per year	
	Time	Quantity	Time	Quantity	Time	Quantity
Annual cost to Government associated with agent management	\$198	4,202	\$196	4,167	↓\$2	↓36
Annual cost to Government associated with queries	\$26	16,554	\$26	16,184	-	↓370
Annual cost to Government associated non-targeted compliance	\$338	2,500	\$335	2,500	↓\$3	-
Other annual costs to Government (including legal services, IT, reports, etc.)	\$309,000		\$306,000		↓\$3,000	

Source: Deloitte Access Economics based on Report to Levies Stakeholders 2018-2019 (May 2020)

Relative to the status quo, the total benefit to the department in the form of avoided costs at an intervention effectiveness rate of 1% is approximately \$232,000 (NPV over 10 years) or approximately \$33,000 per year (on average). It is important to note that at this whole-of-economy break-even point, the costs and benefits to Government do not themselves break-even. An intervention effectiveness rating of approximately 4.5% is required for the costs and benefits to Government associated with the proposed reforms to be equal (see section 3.5).

## 3.9 Sensitivity analysis

### 3.9.1 Assumed effectiveness of the proposed changes under Option 2 (break-even point)

### 3.9.1.1 Economy-wide break-even point

As noted in section 3.2.1.2, the costs and benefits have been estimated by calculating the required intervention effectiveness rate for the proposed changes under Option 2 to break-even. In other words, the level of reduction in regulatory burden required for the economy-wide costs and benefits to be equal. At this rate of effectiveness, the proposed changes under Option 2 impose costs and yield benefits of approximately \$1.82 million (NPV over 10 years).

Given the uncertainty that exists with regards to the effectiveness of the proposed changes under Option 2 and the large impact that changes in this effectiveness rate have on the modelled results, sensitivity analysis is considered best practice and is being undertaken in this CBA to provide information about how the benefits and costs may be affected by changes in the assumed effectiveness of the proposed changes under Option 2. For example, sensitivity analysis can answer questions such as what the benefits and costs would be if the proposed changes under Option 2 only reduced regulatory burden by 0.5% and whether the changes would still be worthwhile in that scenario.

To test the sensitivity of the CBA results against the effectiveness assumption, sensitivity analysis has been conducted for two additional scenarios which lie 0.5 percentage points either side of the 1% effectiveness rate modelled in the analysis above. All other assumptions used to calculate the costs and benefits are held constant.

The results in Table 3.15 suggest that the benefits of the proposed changes under Option 2 are sensitive to this assumption. When the effectiveness is reduced to 0.5%, the proposed changes under Option 2 would impose a net-cost of approximately \$718,000 (NPV over 10 years). Alternatively, when the effectiveness assumption is increased to 1.5%, the combined costs and benefits yield a net-benefit of approximately \$1,477,000 (NPV over 10 years). At each of these effectiveness ratings, industry stakeholders yield a net-benefit whilst a net-cost is imposed on Government.

**Table 3.15 Results of sensitivity analysis of economy-wide intervention effectiveness assumption**

	Economy wide break-even point		
	0.50%	1% (modelled scenario)	1.50%
<b>Total economy-wide costs</b>	\$1,823,000	1,823,000	\$1,823,000
<b>Total economy-wide benefit</b>	\$1,105,000	1,823,000	\$3,300,000
Net-impact	<b>-\$718,000</b>	<b>\$0</b>	<b>\$1,477,000</b>
BCR (total)	<b>0.62</b>	<b>1</b>	<b>1.81</b>
<b>BCR (industry)</b>	1.69	2.79	5.05
<b>BCR (government)</b>	<b>0.11</b>	<b>0.19</b>	<b>0.34</b>

Source: Deloitte Access Economics

### 3.9.1.2 Industry break-even point

As demonstrated in section 3.5, the point at which the combined costs and benefits to industry break even occurs when the intervention effectiveness rate is set to 0.3%. At this rate of effectiveness, the proposed changes impose costs and yield benefits to industry of approximately \$570,000 (NPV over 10 years).

To test the sensitivity of the CBA results against the effectiveness assumption, sensitivity analysis has been conducted for 2 additional scenarios which lie 0.1 percentage points either side of the 0.3% effectiveness rate modelled in the analysis above. All other assumptions used to calculate the costs and benefits are held constant.

The results in Table 3.16 suggest that the benefits of the proposed changes under Option 2 are, again, sensitive to this assumption. When the effectiveness rating is reduced to 0.2%, a net-cost of approximately \$183,000 is imposed on industry. Similarly, when the effectiveness rating is increased to 0.4%, industry yields a net-benefit of approximately \$202,000.

This supports the results of the broader CBA which suggests that, for industry, the proposed changes must be at least 0.3% effective in reducing regulatory burden for the reforms to be worthwhile. It is important to note here that the economy as a whole, including Government, incurs a net-cost at each of these effectiveness ratings with BCRs of less than one.

**Table 3.16 Results of sensitivity analysis of industry break-even point**

	Industry break-even point		
	0.2%	0.3% (modelled scenario)	0.4%
Total economy-wide costs	\$1,823,000	1,823,000	\$1,823,000
Total economy-wide benefit	\$443,000	653,000	\$885,000
Economy-wide net-impact	-\$1,381,000	-\$1,170,000	-\$939,000
<b>Industry net-impact</b>	<b>-\$183,000</b>	<b>\$0</b>	<b>\$202,000</b>
BCR (economy-wide)	0.24	0.36	0.49
<b>BCR (industry)</b>	<b>0.68</b>	1.00	1.35
BCR (government)	0.04	0.07	0.09

Source: Deloitte Access Economics

### 3.9.1.3 Government break-even point

As demonstrated in section 3.5, the point at which the combined costs and benefits to Government break-even occurs when the intervention effectiveness rate is set to approximately 4.5%. At this rate of effectiveness, the proposed changes under Option 2 impose costs and yield benefits to government of approximately \$1.25 million (NPV over 10 years) and the BCR is equal to one.

To test the sensitivity of the CBA results against the effectiveness assumption, sensitivity analysis has been conducted for 2 additional scenarios which lie 1.5 percentage points either side of the 4.5% effectiveness rate modelled in the analysis above. All other assumptions used to calculate the costs and benefits are held constant.

The results in Table 3.17 suggest that the benefits of the proposed changes under Option 2 are sensitive to this assumption. When the effectiveness rating is reduced to 3%, a net-cost of approximately \$415,000 is imposed on government. This means that at this effectiveness rating, the costs to administer the scheme outweigh the ongoing benefits (avoided costs associated with regulatory burden reduction).

Alternatively, when the effectiveness rating is increased to 6%, there is a net-benefit of approximately \$413,000 to government. This supports the results of the broader CBA which suggests that, for government, the proposed changes under Option 2 must be at least 4.5% effective in reducing regulatory burden for the combined costs and benefits to break-even and be worthwhile doing.

**Table 3.17 Results of sensitivity analysis of Government break-even point**

	Government wide break-even point		
	3%	4.5% (modelled scenario)	6%
Total economy-wide costs	\$1,823,000	\$1,823,000	\$1,823,000
Total economy-wide benefit	\$6,555,000	9,759,000	\$12,927,000
Economy-wide net-impact	\$4,731,000	7,936,000	\$11,103,000
Industry net-impact	\$5,146,000	\$7,936,000	\$10,690,000
<b>Government net-impact</b>	<b>-\$415,000</b>	<b>\$0</b>	<b>\$413,000</b>
BCR (economy-wide)	3.59	5.35	7.09
BCR (industry)	10.03	14.93	19.76
<b>BCR (government)</b>	<b>0.67</b>	<b>1.00</b>	<b>1.33</b>

Source: Deloitte Access Economics

### 3.9.2 Discount rate

It is also considered best practice to undertake sensitivity analysis on the discount rate given there is general uncertainty about the appropriate discount rate to use for regulatory proposals<sup>16</sup>. The Australian Government recommends a discount rate of 7% which has been applied in this analysis. The Australian Government recommends sensitivity analysis of the net present value of benefits using discount rate of 3 and 10%.

The results in Table 3.18 suggest that the benefits of the proposed changes under Option 2 are sensitive to the discount rate. When the discount rate is reduced to 3%, the combined potential costs and feasible benefits are estimated to impose an economy-wide net-benefit of \$320,000 (NPV over 10 years). This means that, at a discount rate of 3%, the proposed changes are still worthwhile doing at an effectiveness rating of 1%.

However, when the discount rate is increased to 10%, a net-cost is imposed on the economy of approximately \$178,000 (NPV over 10 years). Holding the effectiveness rating constant at 1%, the proposed changes would not be worthwhile at this effectiveness rating as the whole-of-economy BCR falls below one. Therefore, if costs and benefits were to be discounted at this rate, a new break-even point or intervention effectiveness rating would need to be determined for the benefits associated with the proposed changes under Option 2 to exceed the costs and be worth pursuing.

**Table 3.18 Results of sensitivity analysis of the discount rate**

	Discount rate		
	3%	7% (modelled scenario)	10%
Total economy-wide costs	\$1,894,000	\$1,823,000	\$1,774,000
Total economy-wide benefits	\$2,214,000	1,823,000	\$1,595,000
Net-impact	\$320,000	0	-\$178,000
<b>BCR (economy-wide)</b>	<b>1.17</b>	<b>1.00</b>	<b>0.90</b>
BCR (industry)	3.26	2.79	2.51
BCR (government)	0.22	0.19	0.17

Source: Deloitte Access Economics

<sup>16</sup> Department of the Prime Minister and Cabinet Office of Best Practice Regulation, Guidance Note: Cost-benefit Analysis (March 2020)

### 3.10 Conclusion

In summary, the proposed changes under Option 2 are expected to impose one-off transition costs associated with implementing and understanding the changes of approximately \$1.82 million (NPV over 10 years) on the economy. Of these costs approximately \$570,000 are likely to be borne by industry for compliance and \$1.25 million borne by government for administration.

These costs are likely to break-even if the proposed changes under Option 2 are effective in reducing regulatory burden by as little as 1% (approximately). This would involve a 1% reduction in the quantity of compliance and administrative activities and/or a 1% reduction in the average cost of those activities. This means that at any level of regulatory burden reduction over and above 1%, the economy-wide benefits will outweigh the economy-wide costs and the proposed changes under Option 2 are worth pursuing.

The scale of improvement in regulatory burden required to break-even (1%) is considered relatively minor and therefore feasible. For example, in the case of calls made by industry to the department, a 1% reduction in call volume would comprise just 36 calls out of 4,202 per year. At this level of effectiveness, the benefits to industry could be expected to reach approximately \$1.59 million (NPV over 10 years) and for government, approximately \$232,000 (NPV over 10 years).

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