

To: Ministry for Primary Industries
costrecovery@mpi.govt.nz

Submission on:

Developing a Cost Recovery Framework for the Ministry for Primary Industries

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Submitter:

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Submission on: Developing a Cost Recovery Framework for the Ministry for Primary Industries

1. Introduction

- 1.1 Agcarm welcomes the opportunity to comment on the Discussion Document – Developing a Cost Recovery Framework for the Ministry for Primary Industries.
- 1.2 Agcarm has supported the consultative process implemented by MPI with industry to develop the framework, but believes the completed discussion document has ‘missed the mark’ in providing the clarity and direction that industry is seeking.
- 1.3 In most instances Agcarm members are already paying full cost recovery for MPI services. Unfortunately, the current services provided by MPI are not meeting legislative requirements and/or agreed performance indicators, hence the need to ensure that any future industry wide cost recovery framework has the support of all industry groups.
- 1.4 As a core statement Agcarm seeks greater efficiencies, more accountability and improved communication from MPI prior to supporting any future cost recovery increases.

2. Summary of the submission

- 2.1 Agcarm’s perspective is that the First Principles Review of Cost Recovery must reflect a framework outlining an efficient and measurable cost recovery regime that is acceptable to industry. A key part of the framework is that the charges are justifiable, measurable and transparent. In addition, it is important that a ‘penalty’ is introduced should MPI not meet agreed performance criteria and/or regulatory requirements.
- 2.2 As an example, In 2015 Agcarm supported cost recovery based on improved MPI performance and more efficient processing of product applications and general services. At the time of supporting increased cost recovery, a set of measurable performance standards was agreed between Agcarm and MPI. Responses from members during the 1 January 2016 to 31 May 2016 period highlights that MPI are failing to meet both regulatory timeframes and agreed KPIs.
- 2.3 Based on this premise it is disappointing that the discussion document has so far failed to provide a comprehensive review of MPI cost recovery. The overriding impression of stakeholders is that the review is focused on protecting MPI’s cost recovery revenues more so than contributing positively to the Government Business Growth Agenda objective of doubling exports.
- 2.4 The review has not provided an in-depth analysis of the nature of services provided by MPI nor provided any information on the current levels or forms of cost recovery. Analyses of the principles, policies and practices both in the New Zealand and international context are not provided. What is provided more generally is a statement of the current position, legislated provisions and the MPI preferred cost recovery options.
- 2.5 The discussion of matters, such as general public interest and funding options, are reduced to brief statements capped by a MPI resolution favouring administrative ease and an exclusion of cost sharing. The review would be more informative if it included a focus on the purpose of MPI activities rather than focusing solely on the nature of services delivered. Consideration of the club/private concept is appropriate in any analysis of how to implement cost recovery once the appropriate sector share has been determined after the analysis of public interest and Government objectives.
- 2.6 The discussion document would have benefited from wider sector engagement during the preparation stage. Issues such as the inability to pass on costs to consumers, international and

other domestic comparisons, the need for efficiency incentives and the ineffectiveness of current cost recovery consultations would have better informed by a stronger stakeholder engagement process.

3. Discussion

The questions for submitters as outlined in the cost recovery document provide the basis for the discussion.

3.1 Key Points from Sections 3.1 and 3.2

1. Do you agree with the objectives of cost recovery as set out in this section? If not, why not?

Yes, but further expansion of the objectives is required to encourage greater service efficiency and minimise transaction costs for service users and stakeholders.

2. Do you agree that equity, efficiency, transparency and justifiability are the principles that should guide MPI's approach to cost recovery? If not, why not?

Yes. Noted that from an Agcarm perspective the current MPI cost recovery systems are not currently guided by the principles of efficiency, transparency and justifiability. As an organisation we are highly disappointed by the level of efficiency in the processing of product registrations by MPI, more so in that we have provided our support to increased charges based on improved MPI performance.

3. Should MPI consider any other principles when considering cost recovery?

The current principles are supported. However, MPI needs to place greater emphasis on efficiency of service and how this will be measured to meet industry expectations.

4. Do you see value in having a common set of principles which apply generally to all of MPI's cost recovery activities?

Yes

5. Are there areas that should be treated differently? If so why?

It is important that in application of the principles that MPI can meet industry expectations, especially when industry is paying for full cost recovery of services.

3.2 Key points from Section 4.1

6. Do you agree with the funding policy outlined? If not, why not?

It would be useful to see comparisons with other Government departments, along with overseas examples of how cost recovery is implemented.

7. Do you agree with our assessment of the economic characteristics of our services? If not, please provide details.

Agcarm is comfortable with being charged for direct services when classified as a private good, for example, registration of a company product.

However, we are not comfortable with cost recovery charges when there is a wider public good to be considered, for example, compliance charge.

8. Do you support the exceptions that have been identified? Are there other exceptions that may be justified?

Yes

9. Do you support charging for compliance activities? If not, why not?

No – compliance is not viewed as an industry related cost as it has wider public good outcomes. Agcarm is not supportive of paying for compliance activities, for example, food residue measurements.

The exception would be where there is direct company benefits, for example, manufacturing audits. Noted that these are already fully cost recovered.

3.3 Key points from Section 4.2

10. Do you agree with the costing policy outlined? If not, why not?

Costs should only be charged under the approach of 'Charging only efficient costs'. Industry should not be paying for MPI inefficiencies or for unrelated services. Charges must be transparent and measurable.

11. Are there approaches we have not considered? If so, what are they?

No further approaches come to mind.

It would be useful to have some actual examples of how cost recovery would work.

12. Are there efficiency or equity considerations we have not described? If so, please describe.

The emphasis in cost recovery must be on receiving value for money. MPI needs to act more as a business in that inefficiencies lead to reduced profit and delayed sales.

If industry is to pay for more services then MPI must deliver outputs in an efficient manner – noted that from an Agcarm perspective this is currently not the case and is very disappointing.

3.4 Key points from Section 4.3

13. Do you agree with the analysis of the various charging options above? If not, why not?

Yes, with the emphasis on MPI being able to justify its 'actual' charges if challenged.

MPI needs to consider an overhaul of its IT systems for services and charging (especially in ACVM) if it is to provide the efficiencies required by industry.

14. Which types of charges do you favour and why?

Agcarm supports actual charging and/or fixed fees, based on MPI meeting legislative requirements and agreed performance indicators.

Where MPI does not meet agreed indicators and industry is paying for actual charges there needs to be a penalty in place to deal with the MPI poor service, for example, reduced fees or a 'fine'.

15. How do you think cost variations should be dealt with - should all service users be charged an average cost, or in line with actual costs? Why?

Charges need to be agreed with each industry group, i.e. this would need to be on a case by case situation, with the one cost approach not suiting all industry groups.

16. Are there any services that MPI provides that you think would be particularly good candidates for a two-part tariff?

No opinion is offered on this question.

3.5 Key Points from Section 5.1

17. Are there other factors that should be considered when determining the frequency of review?

Agree on a three yearly review.

18. Are there charges you would like to see reviewed more or less frequently and why?

No

19. What information would you expect to see provided when charges are reviewed?

Current MPI performance in meeting agreed outputs – where performance has not been met, then it would be hard to justify any increase in charges.

Improvements in MPI systems, e.g. new IT systems, reduction in corporate costs.

Valid reasons for a review – e.g. staff costs, overheads

It is noted in the discussion document that MPI has invested in technology systems to improve efficiency of services at the border.

Agcarm submits that investment must be made in the ACVM area to improve efficiencies prior to industry agreeing to any further cost reviews.

20. How can consultation processes be improved?

The consultation process was good, but due to the confidentiality in the process, information was not able to be shared with our members. Greater engagement with members at an earlier stage in the consultation process would have led to a more robust and acceptable framework.

3.6 Key Points from Section 5.2

21. How frequently do you meet with MPI staff and what is the nature of this engagement?

Meetings, both informal and formal, are held on a regular basis. Engagement is mainly focussed on ACVM matters around registrations of products and related matters, such as Antimicrobial resistance, data protection and stewardship.

22. What types of matters are discussed?

ACVM issues, cost recovery - especially performance concerns with MPI processing of applications, international activities in the animal health and crop protection arenas, biosecurity, stewardship, food safety and related issues.

23. How could the engagement be improved?

Improved communication and efficiency from MPI officials – this is very poor in most cases, particularly in the delayed response (or no response) to e-mails and phone call enquires/requests.

24. What types of information would you like MPI to report on?

Any relative work that industry funds – MPI need to meet agreed performance criteria. Internal improvements, such as IT systems that are planned for improving performance.

25. How frequently should MPI report?

Quarterly, or as deemed relevant by MPI.

3. About Agcarm

Agcarm is the industry association for manufacturers and suppliers of crop protection and animal health products. For further information and a full list of members, see www.agcarm.co.nz.

These products protect public health, improve animal welfare and help environmental management. They:

- Play a pivotal role in growing high yield, sustainable food and fibre products;
- Help supply healthy, nutritional and affordable food;
- Keep New Zealand's agriculture, horticulture and forestry sectors internationally competitive.

Our members are committed to safety, innovation and product stewardship.