

REPORT ON

**THE REVIEW OF THE NSW LIVESTOCK
HEALTH AND PEST AUTHORITY
(LHPA) MODEL**

A review commissioned by the
Minister for Primary Industries
by Terry Ryan

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Vision Statement

In line with the 2021 Plan the recommended changes will increase the devolution of decision making, funding and control to groups and individuals for local activities while retaining centralised control in relation to state-wide issues and priorities.

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REVIEW OF THE NSW LIVESTOCK HEALTH AND PEST AUTHORITY (LHPA) MODEL

Context:

The NSW Government is committed to biosecurity through **NSW2021** (State Plan) goals:

3. *Drive economic growth in regional NSW.*
4. *Increase the competitiveness of doing business in NSW.*
22. *Protect our natural environment.*
28. *Ensure NSW is ready to deal with major emergencies and natural disasters specifically to:*

‘Maintain preparedness to deal with biosecurity threats’ by:

- developing nationally consistent plant and animal biosecurity legislation and implementing this by 2015;
- increasing awareness of the benefits, and adoption of, on-farm biosecurity plans by NSW producers;
- expanding the NLIS and other traceability systems to cover 95% of NSW livestock industries; and
- building capacity within local government, community groups and landholders to effectively manage invasive animals, plants and diseases.

Key findings:

1. The prime responsibility for biosecurity lies with those who are most directly affected, either as risk creators or risk bearers, namely farmers and other landholders in agricultural and rural areas.
2. The LHPAs are established historically in legislation to deliver certain front line functions, including some important biosecurity functions, on behalf of landholders, farming industries and the community.

While the current dispersed governance arrangement of the LHPAs has strengths in relation to regional intelligence and local coordination of service delivery, it has also frequently led to lack of clarity and differences of perspective between the Authorities, landholders and the NSW Government (Department of Primary Industries) on their respective responsibilities and priorities, which inhibits timely and consistent delivery of important front line functions.

3. There is also evidence of significant systemic weaknesses in corporate governance and accountability of individual Authorities to State Management

Council and, in turn, to the NSW Government and ratepayers, and there is room for greater administrative efficiency.

4. The staff of the LHPA, employed through the CEO of the State Management Council, are the cornerstone of the current LHPA model in delivering animal health and pest animal biosecurity operations, and are responsible for Travelling Stock Reserve (TSR) management. The LHPAs deliver crucial services in ensuring the effectiveness of the animal health strategy for NSW and should continue to maintain the e-PIC register and perform the compliance operations of the NLIS.
5. To ensure the LHPA model efficiently delivers core frontline functions in line with its legislated responsibilities, and contributes to the objectives of the State Plan, it is essential that the LHPA develop with the NSW Government (Department of Primary Industries) policy in relation to the adoption and implementation of state-wide biosecurity priorities and operations, and engagement mechanisms for emergency and preparedness campaigns. This direction should be informed by regional-level intelligence.
6. Further, this review has identified the potential for a broader biosecurity role for the LHPA model that includes plant pests and diseases, and weeds.
7. While particular parcels of the TSR system may deliver values, such as nature conservation and recreation to the broader NSW community and some grazing opportunities for a small section of the LHPA ratepayer base, there is no longer a robust case for landholders to continue to manage reserved public lands to support these values.
8. A new LHPA model can contribute to the 2021 State Plan by:
 - helping develop biosecurity policy and coordinating the delivery of frontline animal and plant biosecurity services;
 - actively responding to all biosecurity and general emergencies coordinated by the Department of Primary Industries; and
 - participating with other agencies in joint compliance and advisory functions on pest animals, pest insects, diseases and weeds.
9. In order to refocus and broaden the role of the LHPA model it will be necessary to break with historical thinking and remodel the governance arrangements. This will require a staged approach.

Recommendations

The following recommendations are based upon achieving the most efficient value for money outcome for ratepayers and taxpayers in NSW. This means that any services delivered should be targeted appropriately at providing the greatest return to the ratepayers and taxpayers funding the functions, and that they are delivered in the most cost-effective means. A more comprehensive explanation of the analytical framework used in assessing the LHPA is provided in Attachment 2.

Stage 1: Reinvigorate governance and refocus priorities

Preamble

It is necessary to maintain the functions currently undertaken by the LHPAs for the benefit of ratepayers and NSW taxpayers. (Attachment 1). However, these functions need to be delivered efficiently. That is, in tandem with other agencies and organisations responsible for state-wide biosecurity matters and in a way that ensures value for ratepayer money. The recommendations for Stage 1 will support a transition process to ensure continuity in those functions while enabling the development of a longer term more efficient approach to the delivery of biosecurity and other functions for the benefit of all landholders — farmers, rural residential land owners and crown land managers (Stages 2 and 3).

The current LHPA system is not working effectively and delivering for either the ratepayers or taxpayers of NSW..

The current arrangements for implementing the NSW Animal Health Plan through the LHPAs have not worked. Animal health issues are primarily state--wide and industry wide issues, not generally regional issues. As demonstrated in Attachment on the Animal Health Plan, there has been a degree of policy inertia that has delayed both assessment for negotiation and amendment where necessary and thence its implementation. The problem of dealing with multiple authorities was recognised in the 2008 IMC report and the NSW Government's 2009 Regulation Impact Statement for changing of the legislation. It was presumed that moving from 47 RLPBs to 14 LHPAs would improve the ability to get quicker agreement on the Animal Health Plan. The empirical evidence since the creation of the LHPAs has not shown improvement in this capability. (Attachment 5.)

The allocation of resources to undertake appropriate surveillance functions for animal diseases appears to be based upon historical locations and resources and not be subject to a risk return analysis for the livestock industries in NSW. With resources based upon the funds available to the individual authorities, there is no

risk basis for the appropriate location of the appropriate personnel to quickly and effectively detect and deal with animal disease outbreaks

It should be noted that under the arrangements for the structure of the LHPAs, there is a subsidy to the livestock industries in the Western Division, which because of the industry wide impact function of an exotic disease outbreak is a subsidy from the taxpayers of NSW to the industry as a whole. A state-wide approach to animal health would not need to subsidise any regions as it would be a state-wide risk based assessment of resources required for all the industries affected.

The animal health biosecurity function is assessed as being a category where the benefits accruing to the industry from collective action exceed the costs and is beyond the capability of producers to undertake action voluntarily either individually or in groups.

The services being provided are at a high cost and there is scope for significant savings to ratepayers. An overview of the inefficiencies in the system is provided in Box 1.

Box 1: Identified inefficiencies in the LHPA system

Overhead costs double that of comparable local governments.

Over governance – one paid elected director for every three staff.

Staff time diverted to servicing too many meetings on too many non-crucial issues, too often.

Policy inertia shown in inability to resolve issues or make decisions: on

- rating systems;
- animal health plan;
- the future of TSRs;
- implementing an appropriate accounts structure; and
- rectifying boundary anomalies.

Details of these inefficiencies are provided in the attached papers that cover the individual functions and performance aspects of the current system.

To commence the process of delivering efficiently the biosecurity functions necessary for NSW:

- 1. Dissolve the existing 14 LHPAs and State Management Council. Establish an interim single state-wide LHPA (the LHPA) with a Board of Management comprising independent, skills-based directors appointed by the Minister for Primary Industries. The Board to report to the Minister.**

Submissions clearly indicated a failure in the role of the State Policy Council in ensuring the effective review of issues and efficient delivery of services to ratepayers. Policy inertia was demonstrated in many cases and specific examples are provided in Attachments 5, 8 and 9.

The NSW Farmers Association and other submissions raised the issue of what they termed "cost shifting". This refers to the DPI moving additional functions and consequently costs, currently paid for by the taxpayer. This "cost shifting" is not necessarily deleterious if the costs are directly attributable to the requirements of an industry or group of ratepayers, as they are costs imposed upon the rest of society that can be internalised to the industry or group of ratepayers. In other words, they are exposed to the true cost of conducting their operations without a subsidy from taxpayers. However, there are functions of government that should be funded by government and there needs to be separate sources of advice on the allocation of appropriate functions.

A potential problem in allowing the DPI alone to determine the Animal Health Plan and consequent resource requirements is that it could lead to what is known as "goldplating". This is where excessive resources are devoted to a function beyond what is the optimal economic level relative to the risks and returns. (Attachment 17)

The LHPA will be funded by ratepayers. There needs to be accountability to the ratepayers to ensure, as many have commented, that there is "value for money" from the funding by levies on landholders and industry. This accountability needs to be separate from the accountability to government through the DPI as the other partner in negotiating the animal health functions and budgets. (Attachment 18)

- 2. Abolish the current State Policy Council. Establish an advisory committee, reporting to the Minister, to review and advise on the adequacy and appropriateness of the LHPA's strategic and operational plans and associated funding requirements and rating system. The committee, the LHPA Advisory Committee, should comprise representative ratepayer and industry interests from the cattle, sheep, pig, poultry and horse industries and a cross-section of ratepayer interests. The advice of this Committee should be made public.**

A biosecurity risk can occur at any time and the functions undertaken by the LHPA are essential in this area. There must be continuity of function delivery.

- 3. All LHPA staff to continue to report to the CEO of the state-wide LHPA through the regional general managers. The CEO to report to, and take direction from, the Board of Management.**

As detailed in Attachment 5, there has been policy inertia in implementing the NSW Animal Health Plan, the core function of the LHPAs. Regional biosecurity issues are subsidiary to the state-wide and industry wide animal health requirements.

Appropriate delivery of this core function will be rectified through the implementation of the following recommendation that:

4. The LHPA to

- **take direction from the Department of Primary Industries in emergency response and recovery situations (biosecurity and natural disasters)**
- **take direction from the DPI in relation to implementation of NSW Government biosecurity and natural disaster policies**
- **reach agreement with the DPI in relation to the adoption and implementation of procedures for other matters such as regional biosecurity issues. The scope and process for reaching agreement to be formalised in a Memorandum of Understanding, to be signed off within 12 months.**

The information provided from the LHPA Management systems, especially the financial accounts, do not provide information in a transparent form to allow ratepayers and others to assess the efficiency of service delivery. Though recommended previously in the past reviews, cost centre accounting has still not been developed let alone adopted by the authorities. This creates a lack of transparency in determining appropriate allocation of resources and rating within authorities. (Attachments 4 and 9)

5. The LHPA to implement a management system to improve service delivery, reduce the overall costs of operation and improve transparency and accountability to the NSW Government and ratepayers. In particular the management system should deliver accurate management data relating to inputs, outputs and the assessment of outcomes, including cost centre accounting.

The removal of the regional authorities could curtail some information flows to the state wide body and it is essential that in the interim period, existing mechanisms be enhanced to ensure that appropriate information is available for decision-making at the state wide level. There are already existing arrangements and structures and these can be built upon. However, additional efforts should be made in the interim period to involve ratepayers in the provision of information for effective decision-making that meets ratepayer requirements.

6. To ensure continued access to regional advice, the DPI is to continue to provide the interim LHPA regional intelligence obtained via existing regional pest animal and animal health committees and structures. These committees should be expanded, where necessary, to comprise DPI and LHPA staff, farmer and other land manager interests.

Understanding and meeting the needs to ratepayers is vital for the timely and efficient delivery of LHPA services for ratepayer benefit. In the absence of the local LHPA Boards, LHPA regional staff will need to review and strengthen, within the context of the LHPA state wide strategic and operational plans, the way in which they interact with

ratepayers. This might involve, for example, regular informal meetings with particular groups of ratepayers in addition to the various discussions that staff undertake in the normal course of their advisory and compliance roles.

To assist in delivering the most efficient outcome for ratepayers, the DPI should not have a monopoly on the provision of information and advice. By making this a contestable function, there is a check against cost shifting and excessive over allocation of resources to functions.

7. The LHPA is to be free to seek and use advice from any other sources.

The management of TSRs by LHPAs is an historical artefact inherited from the previous organisations of Pastures Protection Boards and Rural Lands Protection Boards. Totalling an estimated 600,000 hectares, and historically managed by these organisations, they have a long history deriving from pre-modern transport infrastructure. Currently very few, if any, are used for their original purpose of moving livestock from farms to markets or railheads as livestock are now moved long distances in short periods by trucks.

The full costs of maintaining TSRs are unknown, as the LHPAs do not undertake full cost centre accounting,

There were a large number of submissions drawing attention to the fact that there were many other attributes of TSRs other than for use by livestock. These included environmental remnant vegetation, wildlife corridors, inland fishing, Aboriginal heritage and cultural heritage values that benefited the community in general.

The issue of who should fund TSRs was raised at the public meetings especially for their benefits of a non-agricultural nature. There was a general acceptance by all participants in the public meetings discussing this issue that ratepayers alone should not be expected to pay for these public benefits. The Terms of Reference require an analysis of the distribution of public and private benefits from the activities of the LHPAs. The TSRs are an identified area where there is significant potential for the benefits to the public and other interests to be greater than the benefits received by the LHPAs and in turn for the benefits to ratepayers to be less than the costs they incur in maintaining the TSR network. Detailed information is not available to state categorically the extent of the benefits and costs accruing to different usages of the TSR network, but information was provided that they are generally a net cost to ratepayers.

The LHPA may require some land reserves for emergency management issues such as for flood reserves but it will need to make the case to keep specific land areas. (Attachment 8)

8. Devolve management responsibility for all the public lands currently dedicated as travelling stock reserves and routes to the DPI Division of Catchments and Lands. The LHPA be required to make the public

benefit case at the local level for the LHPA to retain management of any individual area of Crown Land for livestock purposes.

Stage 1 Structure

Single state-wide LHPA

Board of Management

- Responsible for managing the delivery of services
 - National and State animal health priorities under the direction of the DPI
 - local animal health priorities to be determined within 12 months
 - pest animals
- appointed by Minister for Primary Industries
- reports to Minister and ratepayers
- staff employed by the single state-wide LHPA

Advisory committee

- responsible for ensuring ratepayer interests are protected
- provides advice on functions and costs
- appointed by Minister for Primary Industries representing ratepayer and industry interests
- information provided to it from existing structures
- free to seek information from other sources
- reports publicly to Minister and ratepayers

Stage 2: Build for the future

The range of agricultural production, biosecurity, and natural resource management issues that necessitates some degree of NSW Government involvement will continue to change. The delivery of the associated services must similarly change in order to cost effectively meet contemporary needs.

Currently multiple government agencies deliver services or regulate land managers or their production systems. There are areas of overlap between agencies, duplication in administrative and other costs, and frequent confusion for landholders and ratepayers as to which agency is the appropriate one to deal with on any specific issue. In addition, these agencies all have differing and separate administrative structures, funding, compliance, and governance arrangements. These issues could be addressed through the creation of a "one-stop shop" to more effectively deliver landholder advisory services and regulatory intervention, and also deliver efficiency savings through, for example, co-location of support services, reduction in administrative duplication and multi-skilling in compliance services.

This review has not nominated specific regions or programs to be incorporated into the "one-stop shop" but it is recommended that a process be established to develop the regional structure to ensure the most efficient delivery of services for ratepayers. The identified governance, management accounting and accountability within the existing structure need to have a process to resolve before the establishment of new delivery mechanisms.

9. During the Stage 1 interim governance period, a new regional advisory and delivery framework to be developed with a view to establishing a system where:

- **the LHPA Board of Management retains control of implementing NSW Government policy and emergency response and other regionally delivered services to rural landholders are integrated into a single delivery framework; and**
- **robust management systems ensure operational and financial accountability throughout the system to the NSW Government and to ratepayers.**

10. Broaden the LHPA involvement in the delivery of frontline biosecurity functions to include delivery of frontline plant biosecurity services and participation with other agencies in joint compliance and advisory functions on pests, diseases and weeds.

There are significant differences in the functions and structures of the various governmental organisations providing services to landholders. There needs to be a significant process of investigation to determine how the appropriate functions can be melded into existing arrangements or if there is a need for the creation of a completely new structural arrangement. The interests of ratepayers in receiving "value for money" for the services provided should be paramount.

11. Create a new regional service delivery organisation to deliver a broader array of the services currently provided to landholders separately by the (state wide) LHPA, CMAs, DPI and weeds authorities.

An identified problem with the existing arrangements for the LHPAs was the lack of process for changing regions and determining the appropriate number of regions. In determining these regions, lessons need to be learnt from the previous arrangements on the requirements for minimum efficient scales so that ratepayers are not overburdened with excessive overhead costs. For example, the Western Division LHPAs are not viable on current arrangements as they have too few ratepayers to cover the costs of having two of their own near full-scale authorities. (Attachment 19).

In establishing this new regional delivery organisation, consideration will therefore need to be given to the appropriate number of 'regions' and to the process for facilitating adjustment in regional boundaries to reflect differences and change in economic, social, environmental and agricultural circumstances. Regions should be of an efficient scale to deliver the necessary investment in biosecurity and other operations at least cost to ratepayers and the NSW taxpayer.

The framework for analysis and funding biosecurity is set out in Attachment 2. It is based upon finding the most economically efficient means of ensuring that those who contribute to the costs should broadly pay for them. The key point is that the other beneficiaries (say taxpayers) only need to contribute to the investment in biosecurity if the primary beneficiaries do not receive sufficient benefits to justify them making the investment.

Under the current arrangements there are cross subsidies applying across many of the functions of the LHPAs that are distorting the price signals of the true costs of operating and owning rural lands. For example,

- between those with no or few livestock to those with livestock
- from ratepayers to non-ratepayers for animal health – non-ratepayers with less than the 50 prescribed stock units
- from ratepayers to non-ratepayers for pest animal control
- from ratepayers to non-ratepayers for managing TSRs for community values
From non-animal health ratepayers in some LHPAs to animal health ratepayers
- from animal health ratepayers in some LHPAs to non-animal health ratepayers
From ratepayers to users of TSRs
- from ratepayers in regions not affected by plague locusts to regions affected by plague locusts
- from ratepayers with prescribed animals to non-ratepayers with non prescribed animals
- from taxpayers to regions affected by cattle ticks
- from taxpayers to landholders in the Western Division.

12. Develop a new risk-based funding model for biosecurity and other functions that takes into account the need for appropriate contributions from industry, landholders and government. Recognising the principle that prime responsibility for biosecurity lies with both risk-bearing and

risk-creating farmers and other landholders in agricultural and rural areas, options for funding include any or all of:

- **fees for service, where there are no commercial alternatives;**
- **direct industry contributions;**
- **broadening the current rate base;**
- **independent scrutiny of proposed rate changes through IPART**
- **government grant programs; and**
- **core funding from taxpayers.**

There are private sector competitors to the LHPAs and they should not be disadvantaged by arrangements that discriminate in favour of internal suppliers.
(Attachment 6.)

Stage 2/3 structure

Changes to the Stage 1 structure for the longer term.

Biosecurity and regional service delivery organisation

Board of management

- Responsible for implementing policies and emergency responses
- Responsible with DPI for integrating biosecurity and other regionally delivered services to rural landholders into a single framework
- Responsible with DPI for coordinating joint biosecurity compliance, regulatory and advisory functions with other agencies

Regional service delivery organisation

- Staff employed by the organisation
- Staff multiskilled to undertake appropriate multiple functions
- Responsible for compliance and regulation
- Advisory and other market based services to be contestable
- Provide intelligence on biosecurity and other issues of responsibility and share information with appropriate organisations

Advisory committee(s)

- Provide advice on all functions to the Board of Management to ensure ratepayer input into resource allocations and priorities
- Free to seek information from any sources
- The structure of the advisory committee(s) will depend upon the functions being undertaken by the organisation and its method of funding.
 - This will be dependent upon the evidence and experiences from the implementation of Stage 1

Stage 3: Regain regional leadership

Biosecurity risks will vary between regions due to industry composition, climatic conditions and many other environmental and other factors. The differential impacts on regions of cattle ticks and plague locusts are detailed in Attachment 7. Relating risks to the costs and returns of specific biosecurity issues will help ensure an efficient allocation of resources in dealing with the problems. Therefore there should be flexibility in determining priorities and the consequent funding for meeting those priorities across regions. To achieve this requires appropriate knowledge for the decision-makers in allocating resources for the different functions.

- 13. Establish the new regional advisory and delivery framework with a formal structure that draws on local advisory committees. It should have local advisory responsibilities under the direction of the state-wide Board of Management. This process could be expected to take 12 months, giving a total transition period of 2-3 years.**

In line with the 2021 Plan the recommended changes will increase the devolution of decision making, funding and control to groups and individuals for local activities while retaining centralised control in relation to state-wide issues and priorities.

Background

Widespread landholder and industry concerns lead to the temporary deferral of certain changes to the LHPA rating system implemented from 1 January 2009. The LHPAs are established under the Rural Lands Protection Act 1998 and a review of this Act delivers on an election commitment of the NSW Government to conduct a comprehensive review of the LHPAs before the implementation of any new rating system.

There had been a series of complaints made about the operations of the LHPA and the increases in their rates. This followed on from a restructure implemented by the previous government moving from 47 Rural Lands Protection Boards to 14 Livestock Health and Pest Authorities. At the same time as the new structure was implemented, there were significant increases in rates for many ratepayers due to rationalisation of rate structures across the now amalgamated boards in the authority areas and an increase in the Pest Insect Levy.

Terms of Reference

The review will:

1. clarify and assess the appropriateness of the Government's objectives associated with the Rural Lands Protection Act 1998 and the Livestock Health and Pest Authorities (LHPAs);
2. assess whether the provisions of the Act and the associated Rural Lands Protection Regulation 2010 are those which enable the Act's objectives to be most efficiently achieved;
3. consider whether the objectives and functions of LHPAs reflect contemporary biosecurity needs and State and national biosecurity priorities;
4. assess whether the LHPAs current biosecurity and land management responsibilities should be broadened;
5. determine the appropriate size and method of levying of rates upon landholders, including the size of minimum rateable landholdings and the base upon which rates are levied;
6. identify whether there are alternative governance models which may be more cost effective and would enhance regional service delivery for a range of services, including the services provided by the LHPAs; and
7. investigate whether the proportion of public and private benefits generated by LHPAs is reflected in the system's funding sources.

Attachment 1. Biosecurity requirements

For this review, it is taken as a given that New South Wales needs effective biosecurity surveillance and control arrangements. The Federal Government is responsible for minimising incursions at the border. If there is an incursion that gets beyond the border, state governments have the constitutional responsibility for effectively controlling or eradicating the problem. At a national level there are agreements in place in a variety of industries that delineate responsibilities and funding for specific biosecurity incursions. As a component of these arrangements, the LHPAs provide a crucial infrastructure in an emergency exotic animal disease outbreak. All jurisdictions maintain an infrastructure for these purposes but they vary in structure and funding. There is a general approach amongst jurisdictions that the beneficiaries should pay for preparedness and response for biosecurity issues.

The Beale Report for the Australian government titled One Biosecurity provided a clear indication of the sound reasons for investing and maintaining biosecurity measures:

"There are numerous examples and extensive material available to illustrate the tangible financial benefits that result from effective investment in biosecurity functions and facilities across the continuum. The introduction of serious exotic pests and diseases, such as foot and mouth disease and BSE, would have serious implications in terms of loss of agricultural production as well as the cost of control and eradication. The Productivity Commission estimated in 2002 the Gross Domestic Product impact of a foot and mouth disease outbreak in Australia at \$2 billion to \$3 billion for a short outbreak, rising to between \$8 billion and \$13 billion for a 12 month outbreak."

The equine influenza outbreak provides a case study of the costs that can be incurred from a biosecurity incursion impacting on animal health. The Beale Report commented:

"The direct cost of eradicating equine influenza within New South Wales and Queensland was \$110 million, however, this figure significantly understates the costs to the community of the outbreak. It does not include government assistance payments, indirect costs associated with loss of markets or losses for associated businesses or the loss of amenity and convenience for the community."

There has been a more recent report commissioned by the Federal government, by Ken Matthews encompassing a review of the impacts and arrangements of dealing with a foot and mouth disease outbreak. The report reiterated the Beale review recommendations on adopting a risk return approach for biosecurity risks.

"More rigorous application of the risk-return principle, not only in border operations, but throughout the entire biosecurity continuum. The Beale Review (2008)

recommended a risk-return approach to managing biosecurity risk. Progress is being madein this direction, but with the right guidance about risks, more can be done"

As an example of the importance of this in other jurisdictions, the Queensland Government has been involved in a process of consultation for the last 2 1/2 years with interested parties on developing an effective biosecurity arrangement for that state. Draft legislation has been published and according to their own internal estimates, it will still take another 18 months to finalise the consultation and development arrangements for implementing their new system. A summary of the status of the Queensland arrangements is provided in Attachment 15.

Biosecurity threats are across the spectrum, with potential effects on animals – both native and introduced, plants – agricultural and native and all other native life forms. There are the known pests and diseases elsewhere in the world that are not present in Australia such as foot and mouth disease and Varroa destructor on honeybees. As an example of the costs of biosecurity incursions Varroa has its initial impact on bees, but the major and most costly impact will be on agricultural and home garden plants. The potential of Varroa shows the integrated nature of biosecurity threats for both plants and animals. Currently, though bees are animals, the response to a Varroa incursion will be under the Emergency Plant Pest Response Deed between industry and the Federal and State governments. There are many known possible biosecurity threats but as demonstrated again in the honeybee industry with the Apis cerana incursion in North Queensland, many threats have not been categorised under either the Plant Deed or the equivalent Emergency Animal Disease Response Agreement.

The approach of this report accepts the need for an effective biosecurity system in New South Wales and the analysis is based upon delivering the most cost-effective system for the industries and people. In public meetings, following discussions, there was an acceptance by ratepayers that there needed to be a biosecurity insurance system in place. The primary objections to the current system were that they did not see "value for money" and felt that there was significant waste and cost padding in the current system. This is not to deny that there were many submissions and comments at the public meetings that these biosecurity functions should be paid for by the taxpayer generally rather than industry or ratepayers.

Attachment 2. Framework of analysis

Criteria for assessment

The criteria for assessment of the options for the LHPA system and the information provided on them are to achieve the most economically efficient outcome. This outcome is for the most efficient use of ratepayer and community resources. This means that any services delivered should be targeted appropriately at providing the greatest return and that they are delivered in the most cost-effective means.

Helping in this assessment is the requirement for transparency in revenues and costs. This generally requires removal of any cross subsidies, and if they are required, that they be measured and explicit. Cross subsidies generally dampen the price signals in ensuring an efficient usage of resources with consequent higher costs for ratepayers. The collection of revenues and the costs incurred upon undertaking LHPA functions should be related as much as possible. Cost reflective revenue collection is an effective means of achieving the goal of the most economically efficient usage of ratepayer resources.

The LHPA functions of animal health, and compliance and regulation of pest animals are nonmarket functions. There is no alternative private sector model that can deliver the surveillance and preparedness for exotic disease outbreaks. Some of the delivery functions such as maintenance of TSRs and pest control are available from market-based suppliers and therefore benchmarks can be derived for efficient cost levels for those services. Some of the inputs into the LHPAs such as rate collection can also be from contestable service suppliers such as local governments.

However in the primary focus it is necessary to derive a structure that provides the incentives to ensure there is constant search for low-cost efficient outcomes for the provision of the functions and services. Because many of these are in the nonmarket arena, the governance structure is the best means of ensuring that there is an incentive structure to achieve these efficient outcomes.

Hierarchy of assessment

In assisting the analysis of the LHPA functions, a hierarchy for assessing of the needs for intervention on biosecurity issues was presented:

- for diseases or pests specific to the farm or landholder and that are unlikely to spread to neighbouring farms then it should be the farmers' responsibility. The costs and benefits of remedial action are solely within the farm or landholding.
- for diseases or pests that can be 'transmitted' to neighbouring farms or landholdings but do not disperse rapidly, voluntary groups of farmers and neighbours acting together should be able to coordinate their actions to deal with the issue without the need for outside intervention by government or other authorities. The costs and benefits of remedial action are confined to the group.

- for diseases or pests that can spread beyond neighbouring farms or landholdings but only cause costs for the industry or region in which it is located. If it is beyond the capability of the individual farmer or voluntary groups of farmers to take action to deal with the problem, but the benefits accruing to them from collective action exceed the costs, there may be a role for a compulsory levy to fund remedial action.
- for diseases or pests that can spread widely, but the benefits to landholders (as a group) are less than the costs of dealing with the problem and there are benefits accruing to others, such as for environmental protection and public health, which would exceed the costs of dealing with the problem. Public health issues include animal diseases such as anthrax and Hendra virus which can infect humans. In these cases as insufficient action might be taken by the landholders there is a potential case for topping up with taxpayer funding. However, in doing so the costs of intervention on both the revenue raising side and the expenditure of funds have to be considered.

An initial categorisation of the different impacts of various animal and plant pests and diseases was presented in the Options Paper. In the paper it was stated "Noxious weeds and Weeds of National Significance (WONS) fit only into the first two categories of farm specific or local travelling pests with the consequent similarity in control or eradication arrangements". Submissions made the point that many weeds can travel significant distances.

Noxious weeds should be considered to be in the third category, relating to distance travelled as Noxious Weeds and WONS can spread vast distances via floods, travelling stock (carried on sheep), dust storms and on agricultural equipment. This is an ongoing issue and weeds can spread down catchments, across state borders and from farm to farm.

Attachment 3. Review process

In conducting the review, a series of steps were taken to ensure comprehensive input from the public, ratepayers and interested parties.

An Issues Paper was distributed providing an outline of the framework for analysis and a series of questions on what were identified as key issues and a request for submissions to address the issues.

There was a very strong response with a large number of submissions lodged covering a very wide range of issues.

To assist in focusing the review, an options paper with was drawn up to present draft general options for discussion of the scheduled public meetings. The options were drawn up on issues and ideas presented in the earlier submissions, previous enquiries and meetings with various stakeholders. The time period for submissions was also extended to allow further comments on the options paper.

A series of public meetings were held throughout New South Wales. Details of the meetings are in Attachment 20 . Participants at the meeting included individual ratepayers, representatives of ratepayers groups, LHPA staff and directors and members of other interested parties and organisations,(eg Weeds Councils, Aboriginal Land Councils, National Parks and Wildlife Service) and members of the general public.

Throughout the review process, discussions have been held with interested parties and further submissions have been received on issues to help facilitate the process.

To aid in the carrying out of the review process, the documentation associated with the review has been made available publicly to assist and to ensure transparency in the process. The Issues Paper, the Options Paper and most of the submissions are available publicly on the DPI website. Some submissions were asked to be made confidential and some were treated confidentially by the review where they dealt with specific individual circumstances, even though they were not asked to be made confidential.

Nearly 400 submissions were received for the review.

Issues paper

The Issues Paper provided information on a framework for analysis and a series of questions covering a very wide range of issues involving the LHPAs. The questions

ranged from the conceptual in general about the whole system such as “is the value to NSW livestock producers/land owners of the services delivered by LHPAs sufficient to outweigh the cost of funding the LHPAs?” More specific questions were asked about individual occurrences such as some involving the equine influenza outbreak.

The Issues Paper attracted a large number of submissions, which covered a large number of issues, many of which were raised in the paper with others covering issues not directly canvassed in the issues paper. There were no responses to some of the questions also.

Options paper

To assist in focusing the Review, an options paper with draft general options was drawn up. The options drew on issues and ideas presented in submissions received, previous inquiries and meetings with various stakeholders. It is clear that there were major concerns with the existing LHPA model in terms of the activities and operations, accountability and the funding of LHPAs

Four major options were presented.

- option 1: The status quo, recognising the LHPAs strategic plan for the next few years
- option 2: A single state wide LHPA — abolition of the 14 LHPAs as they stand
- option 3: Transfer of all LHPA responsibilities to the DPI
- option 4: Transfer of all LHPA activities to the most appropriate agencies which could include a new combined agency.

In seeking information on the options, the paper outlined that there were some general functions common to all options such as compliance, accountability and requirements from funding for the functions to be undertaken from landholders and stockowners.

Possible issues were provided for all the options to focus submissions and discussion on the benefits and costs of each option.

Attachment 4. Previous reviews of the LHPA and predecessor organisations.

There have been a number of reviews of the system over the decades encompassing a variety of issues. As well as these ones noted there have been a number of other studies and enquiries into specific aspects of the system. These other inquiries included issues such as a study commissioned from the DPI on TSRs as well as other independent studies, from both private and government authorities, of the management and utilisation of the TSRs. There have also been other inquiries such as a NSW Parliamentary Public Accounts Committee into animal health functions in NSW.

1976 Bull Report Pastures Protection Boards - fundamental review of entire system

1984 Justice Nagle – Rating

1987 David Lowing – Rating

1995 Coopers and Lybrand Rural Lands Protection Boards - fundamental review of entire system

1996 Task Force Review of the Coopers and Lybrand report

1998 Rating Mechanism – Rating

2004 National Competition Policy - Rural Lands Protection Act 1998

2007 Richard Bull – Rating

2008 IMC - Rural Lands Protection Boards - structure and sustainability

Various changes have flowed through from these reports with many of the recommendations still being implemented or considered for implementation. The Richard Bull report on rating was adopted for moving to an area base for rating purposes but has still not been implemented. The most recent report by IMC had many of its recommendations adopted and is still being implemented.

However, a simple analysis from the reports indicates that the number and frequency of them demonstrates that there have been long term concerns at a governmental and ratepayer level on the functions and effectiveness of the LHPA system and its

predecessor organisations. This especially applies to the rating or revenue raising basis of the system.

It also demonstrates that the approach of previous reviews has not fixed the system for the long-term or ensured a process for fixing the system to adapt to changes in the environment that they face.

External reviews impose direct financial costs on either taxpayers generally in New South Wales or ratepayers of the LHPA system. They also impose indirect costs on the functioning of the system through diversion of resources to meet the requirements for information from the reviews. These resources undertaking this work are unable to dedicate fully to the functions of the system.

However, the number of reviews indicates that the LHPA system itself does not have the effective capabilities of addressing issues arising that require changes to the existing system. This report provides examples in other sections on the prevailing policy inertia in the current system.

The information for rectifying the identified problems in the LHPA system is not readily available to either this review or to other external parties. The information is nearly all internal to the LHPA system and is not available in a readily transparent form for detailed assessment of options about functions.

The crucial parameter in this review is the requirement to find a methodology to address and rectify the lack of progress on many of the issues identified in previous reports and reviews.

To address this policy inertia which has not been rectified following previous reports, a series of recommendations to ensure a process of addressing issues are provided in this report. The process will include measures such as:

- ensuring transparency of information, starting with the provision of cost centre accounting, to ensure that there is accurate knowledge of the costs of provision of services;
- transparency on the Key Performance Indicators and the measures of meeting those indicators;
- transparency of process measures through assessment by IPART and approval;

- public and transparent processes for ratepayers to assess performance.
- transparency and agreement by appropriate bodies of the functional plans of the LHPA model.

Ensuring transparency on actions and providing appropriate public accountability mechanisms should allow ratepayers and other interested parties to assess the effectiveness of LHPA functions on a more regular basis.

The process for reform should not just entail existing problems but also a means of adapting to future requirements in a changing environment, in policy, economic, industry and environmental issues. Many of these issues cannot be predicted and therefore a process of adaptation is essential.

Attachment 5. Animal health plan

The core function of the LHPAs is the implementation of the NSW Animal Health Plan (AHP). This determines the roles, priorities and the means of providing the Key Performance Indicators for determining the effectiveness of operations. The 2010 -- 11 Animal Health Plan was incorporated into the function management plans and was still being used as the basis for current operations as of late 2011. The plan is negotiated between the NSW DPI and the LHPAs.

A draft of the 2011-12 plan was submitted by DPI to the LHPA CEO on 11 May 2011 for consultation. No feedback was received by DPI from the LHPA.

At the public meetings conducted in late October and early November, LHPA veterinarians were questioned about the draft/final AHP and many did not know about its existence. There were changes between the two years which would indicate a change in the Key Performance Indicators for the assessment of the staff and the authorities in meeting the animal health biosecurity needs of NSW.

As a proxy for determining the importance the authorities place on this function its ranking relative to other objectives in the Strategic Plan can be viewed. For one authority Strategic Plan there are five objectives.

Objective 1:

"The LHPA is acknowledged by ratepayers as a dynamic service organisation for livestock health and pest management with productive relationships with the Minister, agencies and stakeholders."

The first strategy for this objective is:

"Build trust and confidence with external stakeholders including the establishment of a functional and effective relationship with DPI through an MOU and other partnership instruments."

The performance indicator is that it will be the result of media monitoring analysis.

Objective 2:

“The LHPA has established clear and agreed objectives for each functional area and has met key performance expectations.”

From the Strategic Plan there were five strategies under this objective with animal health being the second. The following animal health strategies and priorities from that plan are:

Strategies

SDV's are to lead;

- *establishment of a functional and effective relationship with DPI on a contract basis where policy and programs are fully evaluated*
- *for livestock health programs, principally the NSW Livestock Health Program, development of key performance indicators and the establishment of reporting mechanisms*
- *emergency animal disease preparedness and the review of response programs*
- *engagement of industry stakeholders to improve awareness about EAD incursion and of the need for prompt reporting.*

Priorities

- *Livestock health key performance indicators to be agreed by 31 December 2011.*
- *All procedures and practices regarding emergency animal disease preparedness and response have been reviewed and agreed by all stakeholders by 30 June 2012.”*

The other three objectives and their strategies primarily related to internal administrative issues for the LHPA.

It should be noted that the 2011 -- 12 plan was seven months before the expected agreement on the Key Performance Indicators envisaged by the authority at the end of the calendar year. This is halfway through the year of the envisaged plan. It is not a new phenomenon having to agree to an Animal Health Plan as there has obviously been agreement on the previous year's plan that is still being used.

The number one priority of having the key performance indicators agreed by 31 December does not appear to be an urgent priority considering the time delay from provision of the draft plan to final agreement.

The DPI in their submission noted:

“The governance structure within the LHPA would appear to be made more complicated by the organisational structure comprising 14 autonomous authorities and a State Management Council. This causes difficulty in gaining agreement on the implementation of government policies, procedures. Specifically the present system

requiring all government and department policies and procedures to be renegotiated and reissued as LHPA Written Instruments or Guidelines before they can be implemented within the LHPA system has created a number of unforeseen problems."

In the Better Regulation Statement for the introduction of the legislation for the creation of the LHPAs, it was stated that the movement from 47 RLPBs to 14 LHPAs would make it much easier to negotiate the Animal Health Plan.

There does not appear to be a mechanism or process in place to resolve these problems.

Also from the DPI submission it could be interpreted that there is a growing divergence between veterinarians in the DPI and the LHPA. Their suggestion was:

"LHPA staff could more clearly identify with their role in delivering government priorities if professional development programs included the opportunity for secondment to DPI. Short periods of secondment would give staff exposure to areas such as policy development, national negotiation, laboratory service delivery and animal health planning at the state level."

Another issue identified that may be hindering effectiveness in consultation between the two organisations is there is no direct veterinarian input of advice to the State Policy Council of the LHPAs. There is direct advice input into the State Management Council.

There is also the problem of competing requirements between exotic disease issues at a state or industry level and endemic disease issues at a local level. This issue varies between LHPAs, as one LHPA in its Strategic Plan provided details of its Localised Authority Objectives and had no mention of local animal health issues for the coming year but did have two local objectives for pest animal control.

There does not appear to be any mechanism for resolving conflicts in the allocation of resources between state and industry priorities and local priorities.

An issue of critical importance for the effective functioning of the animal health strategy in NSW is the formal relationship between the DPI and the LHPAs and their respective responsibilities in an animal emergency disease outbreak. The DPI in their submission noted a problem with the existing Memorandum of Understanding (MOU) which was established in 2003 relating to emergency animal diseases.

"The present MOU between DPI and the LHPAs requires DPI to reimburse LHPAs for all salaries when involved in an animal emergency but not for emergencies associated with a natural disaster such as floods or fires or pest insect response programs e.g. plague locusts. When the current MoU was negotiated, the authors of the MOU incorrectly believed that LHPA staff costs could be claimed under the

EADRA. This is not the case. Under the EADRA LHPAs are recognised as a government agency therefore normal salary costs are not eligible for reimbursement during animal emergencies.”

The DPI made the following recommendation on changing the MOU.

“National Emergency Animal Disease Response Agreement – it needs to be recognised that the frontline biosecurity services currently performed by a number of agencies, are considered part of the NSW government’s normal commitments under the EADRA agreement. LHPAs must be recognised as a government authority and as for all other government agencies; their normal staff salary costs should not be recoverable as worded in the current MoU. The MOU between the LHPA and DPI should be amended to be consistent with other government agencies and emergencies.”

The MOU has to be negotiated between the two parties as they are the ones with the appropriate information and interests in ensuring a mutually acceptable effective outcome. This review cannot determine what the appropriate parameters of an agreement are.

However, it can be noted that the LHPAs have not been treating it as a priority issue. From one LHPA board progress report on issues, one of their performance indicators was that an MOU would have been renewed by 30 June 2012. The submission from the LHPA stated *"discussions on reviewing the MOU have been postponed until the review outcome is known"*.

The Animal Health Plan is the core function of the LHPAs and is a function that delivers the greatest benefit to ratepayers, industry and the people of NSW. The inability to effectively negotiate and implement a state-wide Animal Health Plan is a symptom of the failures of the decentralised system of governance of animal health functions.

Livestock now travel more frequently and more widely both intra-and interstate than when the predecessor organisations were created. Previously, because of this reduced movement of livestock, many animal health issues would be confined to regions. This is no longer the case. An exotic disease outbreak could very easily be spread throughout NSW before detection and would require a state-wide, industry wide approach to containment and eradication. For this prime function there would be very few local issues except for the local surveillance requirements and occasionally specific local area animal health problems which can be incorporated into a single state wide body through the use of local advisory committees. This would be after prioritising the risks and returns of potential exotic disease outbreaks.

It should be noted that under the arrangements for the structure of the LHPAs, there is a subsidy to the livestock industries in the Western Division, which because of the

industry wide impact function of an exotic disease outbreak is a subsidy from the taxpayers of NSW to the industry as a whole. A state-wide Animal Health Authority would not need to subsidise any regions as it would be a state-wide risk based assessment of resources required for all the industries affected.

Views from submissions

The majority of small holdings outside urban areas have livestock of some sort and are impacted by biosecurity issues and exotic disease outbreaks. LHPAs service these properties even though they are not rateable.

LHPA vets are a real asset when it comes to fighting exotic diseases. They were instrumental in dealing with the equine influenza outbreak. The LHPAs do get compensated for the time their vets are away working on the bigger biosecurity issues, but who are the gullible landholders who are paying for them to be in readiness? Anybody in Victoria? Queensland? Anywhere? No, just NSW. Clever or GULLIBLE?

The issue of biosecurity is a very important one. It needs to be properly and fairly funded by all the people who benefit from keeping Australia free of exotic diseases ie all Australians. . Challenges into the future would include managing the threat of emerging diseases such as benign theileriosis and Hendra virus, preparedness for further incursions of exotic diseases such as FMD or screw worm fly, and changing current management policies such as the Ovine Johnes Disease plan should there arise a definite link between OJD and Crohne's disease. The LHPA has demonstrated a capacity to effectively deliver when required in such circumstances but the NSW AVA would concur with the findings of the Beale Review that effective biosecurity is a sound investment and more resources are required to meet the future challenges.

in the event of exotic disease outbreak producers notify the individual LHPA, who notifies state management council, who notifies policy council, who notifies the state government department concerned, and it is this department that will ultimately have control of the situation. I doubt 5 lines of communication can be considered effective in determining priorities and dealing with problems in a timely and efficient manner.

the largest financial risk of an outbreak of exotic disease, or an unmanaged plague of mice or locusts, lies with farmers. Exotic disease will collapse our domestic markets, particularly for beef and sheepmeat, as export markets close, and excess produce floods the domestic market. As with any financial risk, business people insure against this risk. Compared to most farm insurance bills, LHPA rates are a small insurance premium to pay to maintain farm income derived from open domestic and export markets,

Attachment 6. Animal Health Resources

A risk return approach as recommended in the Beale and Mathews reports requires some sort of probability assessment of an event and a benefit cost analysis, where the benefits of avoidance are compared to the otherwise situation and associated costs and expenditure. In order to ensure the most efficient allocation and lowest cost delivery of the appropriate level of services it is necessary to have assessments of the risks and what resources should be committed to reducing those risks.

It is a nonmarket environment providing the insurance policy cover for the industry on animal health and therefore there is very little in the way of any market type benchmarks. This acknowledges that it is a difficult issue to resolve but is also an essential requirement for the LHPA to undertake. They should have the incentive to ensure value for money for ratepayers and should be able to use the information they generate internally and make comparisons with other jurisdictions for benchmarking purposes. No process was revealed for undertaking these functions in the review process.

How many vets?

At all the public meetings, the question of the optimum level of resources for animal health surveillance was raised. It was put in the explicit terms of a question "how many veterinarians are required in your area?" There were no responses to the question at any of the public meetings.

The animal health function undertaken by the Livestock Health and Pest Authorities is their primary function. It also accounts for a significant proportion of the total resources used by the authorities and funded by ratepayers. As outlined previously there is a non-transparency in the accounts of the authorities of the total costs for undertaking this function. Case studies detailed later for two LHPAs indicate that there is a cross subsidy from all ratepayers to the animal health function because of the non-inclusion of overheads for the entire organisation being attributed to any of the animal health functions.

No explanation has been provided as to the appropriate number of veterinarians required to undertake the animal health functions of the authorities.

The number of veterinarians has fluctuated over the years. However, the long run number of veterinarians employed in the system has fluctuated around the 40 mark for over a decade. The original basis of this number was that every Rural Lands Protection Board, with some exceptions such as the Western Division, employed a veterinarian. The logic as to this is not clear and it is not clear whether there were means of changing the number and location of veterinarians amongst the different boards then operating.

Possible criteria for determining the optimum level of resources could include:

- number of animals
- number of herds and flocks
- location of herds and flocks
- the composition of ratepayers such that smaller farms may try and utilise the resources of the veterinarians more than larger commercial scale farms.

No information was provided on what methods of assessment were used in determining if any of these factors influenced the number and location of veterinarians for animal health surveillance. As an indicator of the potential fluctuations in requirements, the following table shows the variation in herds and flocks per veterinarian over the last few years. This is only a partial indicator as there are other animal surveillance requirements such as for pigs and horses.

Herds and flocks per veterinarian in LHPA system

	2005	2007	2010
Veterinarians	44	39	42
Herds and flocks per veterinarian	1989	1990	1312

No information was provided in public submissions or at public meetings as to what the potential requirements could be and what criteria should be used in determining their numbers and location.

There are also dedicated animal health Rangers and Rangers to undertake animal health functions in a supplementary capacity.

The questions that are not able to be answered because of the lack of information include:

- what is the appropriate level of resources (veterinarians and dedicated livestock Rangers) required for normal surveillance activities?
- What is the appropriate level of reserve resources (other veterinarians, multi-skilled Rangers who can be dedicated to livestock health) in the case of an emergency animal disease outbreak? There will be a range of answers to this depending upon the risks and costs and benefits of various scenarios, but there is no information available to determine how these requirements are assessed, if at all.

Where should the vets be?

In using a risk return approach for the allocation of resources, it is necessary to understand where the risks are likely to arise and what the appropriate level of resources should be for the different risk categories. Appropriate level of resources can mean simply where should the veterinarians be or where should be livestock Rangers be and what should be the mix between them.

The current location of professional resources appears to be very similar to that which applied under previous arrangements of the Rural Lands Protection Boards and even the Pastures Protection Boards. The existing structure of the 14 authorities does not appear to allow effective re-allocations of people to meet changing requirements in demographics, risks and agricultural production profiles. As an example, the Cumberland LHPA has one Senior District Veterinarian and one District Veterinarian. This LHPA encompasses the major ports of Sydney, Newcastle and Wollongong and the international airport at Sydney. The Beale report identified peri urban areas as high risk areas for exotic animal disease outbreaks because of location and the demographics of the many smallholdings. The demographic characteristics included relatively higher risk landholders who are part-time, if not generally absentee, with greater exposure to potential biosecurity risks from the international trading and transport activities concentrated in these areas.

Allocating two veterinarians to this region appears to be a misallocation of resources relative to the potential risks in this region. As the Beale report noted:

"Peri-urban areas represent a biosecurity risk that will remain a challenge to address, but one that justifies greater effort to tackle given the potential risk posed. Individuals and businesses in peri-urban areas may not be members of industry groups nor signatories to cost sharing arrangements and therefore will remain distanced from developments in biosecurity preparedness and response"

The only conclusion that can be drawn from this example is that there is no process in place within the LHPA system for determining an absolutely crucial answer for achieving efficient use of resources and providing value for money for ratepayers.

It is also an indication that there are failures having the decentralised model for the animal health function. Numbers and location of veterinarians and other professional support personnel appear to be based upon historical reasons and not taking account of modern industry requirements.

Attachment 7. Pest animals

The pest animal functions currently being undertaken by the LHPAs fit into the first three categories of the hierarchy of assessment. Of the declared pests, rabbits are the most localised and affect individual farmers specifically but can cause problems for neighbours, pigs are also territorial but have a bigger range and wild dogs can traverse significant distances. Submissions and public meetings made the point that wild dogs could travel up to 20 km per night. The declared mammal pests are regional in their impact and therefore local knowledge and local actions are required to control them.

The LHPA undertakes many advisory functions and coordinates control or eradication programs of these pests throughout New South Wales. They have built up a skill base that has been utilised by many landholders and they have had successes and support from many ratepayers. However, there were a number of submissions that doubted the effectiveness of the LHPA in pest animal controls in different regions of New South Wales. The question of effectiveness primarily arose from the alleged reliance of the LHPAs on the use of 1080 poisoning as its chief control measure. In many peri urban areas it was difficult to use 1080 because of the proximity of many small landholdings and the need for consent from all.

In NSW, the LHPA have a monopoly on the use of 1080 poisons. This is not the case in Victoria where rural supplies merchants can provide the poisons to landholders. Both the merchants and the purchasers of the 1080 poisons have to have met the appropriate regulatory certifications and approvals. There is scope to investigate whether New South Wales can adopt a similar system and not be subject to a monopoly arrangement that could hinder efficiency in control programs.

In some regions alternative arrangements for pest animal control have been implemented. For example, Byron Shire Council has engaged a private professional wild dog and fox and feral cat trapper to assist landholders to fulfil their responsibilities. Council pays a financial retainer to a professional trapper who uses soft jaw traps and landholders pay \$100 per scalp for wild dogs.

The Australian Environmental Pest Managers Association in their submission stated that there are already private suppliers of pest control and eradication services and the scope for an increasing private supply throughout NSW. To ensure the most efficient delivery of services for ratepayers, these advisory, control and eradication services should be made contestable.

The primary functions of pest animal control should be compliance and regulation. This is landholders paying for the enforcement of the biosecurity requirements for themselves, neighbouring landholders and other landholders within their biosecurity region. Though most landholders try to do the right thing and keep pests and other biosecurity risks under control, there is a small group, who through ignorance do not achieve the biosecurity control requirements required by all others. The compliance function can be said to be a means of protecting landholders from potentially less

thoughtful neighbours. The benefits of these functions would accrue to all landholders.

This compliance role internalises the cost of protecting the activities of landholders rather than having taxpayers or others fund them when the prime beneficiaries of this function are the landholders themselves. If this role is not undertaken for a region wide function it would lead to higher costs in total because of the actions of a minority as there would be higher costs of control or eradication for the landholders within the proximity range of any weeds or pests on uncontrolled properties.

To ensure the most efficient and least cost means of controlling these biosecurity risks from spreading amongst landholders, all lands should be treated equally. Any exemptions from meeting the compliance requirements could have the effect of creating incubators of biosecurity risks amongst compliant landholders. Therefore the regulatory/compliance functions should be tenure neutral. Public lands therefore should be subject to this compliance/regulatory function.

A concern raised in submissions was that in many cases the LHPAs were currently the regulators and the supplier of services. This especially applied to pest animal baiting. There would be a conflict of interest in being the regulator and supplier of services if the existing arrangements were transferred directly to the new regional biosecurity delivery organisation. The provision of these services should be on a contestable basis to ensure there is no use of monopoly supply backed up by a compliance function.

In NSW, the LHPA have a monopoly on the use of 1080 poisons. This is not the case in Victoria where rural supplies merchants can provide the poisons to landholders. Both the merchants and the purchasers of the 1080 poisons have to have met the appropriate regulatory certifications and approvals. There is scope to investigate whether New South Wales can adopt a similar system and not be subject to a monopoly arrangement that could hinder efficiency in control programs.

For some specific pests, further comments and analysis are provided.

Wild dogs

The problem of wild dogs is primarily related to landholders bordering public lands such as National Parks and State Forests. The pest animal control functions being undertaken would generally be on the properties closest to these public lands, though not exclusively. There is a cross subsidy from other landholders at greater distances from these public lands. However, farmers can adapt to wild dogs by measures such as changing enterprises from sheep to cattle where the impact of wild dogs is much less. If this happens and there is lesser control requirements by those landholders, then the wild dog frontier can move to affect landholders at

greater distances from the public lands. With wild dogs there is a benefit to landholders throughout the region over the long term for effective control measures at the source of the problem.

Pest Insect Levy

Submissions from the LHPAs and the public meetings raised the issue of the LHPAs collecting the Pest Insect Levy from LHPA ratepayers across New South Wales. . The PIL is collected on behalf of the NSW DPI of which a large proportion is paid annually to the Australian Plague Locust Commission as the NSW contribution to its activities such as detecting any beds and aerial spraying of locusts. The LHPA in their submission said "LHPA staff has successfully and efficiently run this program". It is not an LHPA program. They are the collection agency for it.

Many landholders, especially on the coast and tablelands, object to the Levy as the three declared plague locust insects rarely affect coastal almost tablelands areas in any density. There is a 50% discount for ratepayers in coastal regions.

Another objection made by the LHPA is that NSW DPI requires LHPAs to pay in full an amount it deems to be payable, regardless of whether landholders have paid their special rate to the LHPA. From public meetings, some ratepayers made the comment that they were on the coast and plague locusts have never affected them and therefore they paid all their other LHPA rates but not the PIL. The LHPA is still deemed liable for the payment of these rates even if landholders have objected and it is up to the LHPA to chase the arrears in rates. The LHPAs are not reimbursed for the costs they incur in collecting these rates on behalf of the DPI.

In the hierarchy of assessment used in analysing the different interventions plague locusts are a pest that will travel from its initial location of hatching and cause damage to landholders well away from those areas. There are benefits to landholders in all agricultural activities and home gardens from the control and eradication activities of these pests. However as pointed out by many ratepayers they rarely reach the coast or most areas of the tablelands. Risks and returns from combating should be focused on, who are the beneficiaries of any actions in dealing with these biosecurity problems.

There should be a process to identify the areas likely to be impacted by plague locusts and those regions should be the ones paying the full costs of the Pest Insect Levy. Currently there is a cross subsidy from regions not affected by plague locusts to other regions. There is also a cross subsidy from ratepayers to non-ratepayers in the affected regions. The costs of this program should be related to the beneficiaries so that those who obtain the benefits pay for the costs. This internalises this biosecurity risk to the landholders most likely to be affected.

Cattle ticks

An issue raised in submissions and previous reports on the Rural Lands Protection Boards was funding cattle tick control on the North Coast of NSW.

The general view of the submissions was that if the LHPAs were to undertake this function, then they should be paid for it by the DPI as it was already being paid for by them.

Cattle ticks being an arthropod rather than an insect are excluded from the declared pest animal categories.

An issue raised regularly in the public meetings was that at saleyards on the North Coast there would be two sets of government inspectors at the sales, LHPA Rangers undertaking their functions and at the same time NSW DPI inspectors checking for cattle ticks. Many of the comments at the public meetings and submissions raised this as an inefficiency in the animal inspection system where there could be the savings, "having one set of boots only at the saleyards".

Conceptually, cattle ticks are just another animal health issue, no different to recognised problems which LHPA Rangers check on already, such as sheep lice. The regulation of sheep lice is paid for by the LHPAs. The benefits of this accrue to the industry. The benefits of cattle tick control accrue to the producers in the regions affected.

NSW Farmers Association and other submissions raised the issue of what they termed "cost shifting". This refers to the DPI moving additional functions and consequently costs, currently paid for by the taxpayer. This "cost shifting" is not necessarily deleterious if the costs are directly attributable to the requirements of an industry or group of ratepayers, as they are costs imposed upon the rest of society that can be internalised to the industry or group of ratepayers. In other words, they see the true cost of conducting their operations without a subsidy from taxpayers.

The regulation and control of cattle tick infestations should be paid for by the industry and regions as they bear the costs and gain the benefits from these functions.

The historical legacy costs of cleaning up cattle dips should not be part of the cost function attributed to ratepayers. These are sunk costs, which if charged for would act as a tax on the industry rather than an internalisation of the costs. They would change the cost function and supply curve of producers without reflecting the existing cost structure the industry should face.

Attachment 8. Travelling Stock Routes and Reserves (TSRs)

The management of TSRs by LHPAs is an historical artefact inherited from the previous organisations of Pastures Protection Boards and Rural Lands Protection Boards. They have a long history deriving from pre-modern transport infrastructure. Currently very few, if any, are used for their original purpose of moving livestock from farms to markets or railheads. Livestock are now moved by trucks on the road. Their usage in more recent times has primarily been as a fodder resource in drought conditions and for some as refuges for livestock in times of flood in specific areas. They comprise 600,000 ha of New South Wales and the cost of management and maintenance of TSRs is a significant component of LHPA expenditure. As a fodder resource for a widespread drought in NSW, the area of TSRs relative to private grazing lands in NSW is insignificant. They are not an effective reserve for drought and depending upon how usage of them is allocated and utilised, they could be providing a subsidy to users in competition against private sector suppliers of fodder or agistment opportunities in NSW.

The management of TSRs by the LHPAs are an example of policy inertia. In the Richard Bull report of 2007 found:

"disconcerting to learn that some boards that have a shortfall of well over \$200,000 per year in funding for TSR maintenance. This shortfall has to be made up by payments from general rate income. It was ascertained that many landholders are irate when they learn that part of the general rate payments is expended on TSR maintenance."

And

"there is unquestionably a large number of TSRs that are of no current use for board related purposes, and the cost of their maintenance is unfairly adding to the rate burden of some landholders."

The full costs of maintaining TSRs are unknown as the LHPAs do not undertake full cost centre accounting, though recommended to do so in 1995 and again in 2008. The previous IMC report into the Rural Lands Protection Boards estimated that there was a cost of \$3.1 million per annum for ratepayers in maintaining the existing network. This estimated saving is disputed by the LHPA. Though the extent of the costs to ratepayers is not fully determined they can be substantial. For example, one authority currently spends \$300,000 a year in maintaining its TSRs and another one provided information at a public meeting that they employed three Rangers full time on TSR maintenance. An indicative estimate provided by one LHPA indicated that the losses on the management and maintenance of their TSRs were costing ratepayers over \$500,000 a year currently.

To estimate the full costs to ratepayers from the TSRs requires a comprehensive cost centre accounting with appropriate allocation of overheads and a multi-year perspective as there will be significant differences in income received from usage of according to climatic conditions.

It is also unclear if grazing rights on TSRs are allocated on a commercial agistment basis. On an economic efficiency approach, the usage of TSRs should not only cover the costs of maintenance and any improvements but also deliver a return on the capital values of the lands being used.

The IMC report recommended that TSRs be reviewed by the appropriate LHPAs to determine which ones to keep and which ones to surrender to the Crown. This has been put on hold while this review is being undertaken. One submission noted that this review *"has been going on for years (with further wasted time and money) and needs to be completed urgently"*. At the public meetings, many of the local LHPA representatives indicated that they were well advanced in drawing up their business plans for the TSRs under their control.

There were a large number of submissions drawing attention to the fact that there were many other attributes of TSRs other than for use by livestock. These included environmental remnant vegetation, wildlife corridors, inland fishing, Aboriginal heritage and cultural heritage values that benefited the community generally. Many of these submissions were supportive of the TSR network remaining with the LHPAs and being managed appropriately to safeguard these other values as well.

The issue of who should fund TSRs was raised at the public meetings, especially for their benefits of a non-agricultural nature. There was a general acceptance by all participants in the public meetings discussing this issue that ratepayers alone should not be expected to pay for these public benefits.

As a policy principle, the question should be asked as to why ratepayers to the LHPA should pay for these community benefits rather than the general community who receive these benefits. It is imposing a tax specific to ratepayers to undertake these maintenance and management functions on TSRs which they would not undertake themselves because they provide no additional benefits to ratepayers other than what they receive to cover the costs. This principle applies not only to the TSR network as a whole but also to every individual piece of land that does not produce enough income to cover the costs of its maintenance. This is a cross subsidy from ratepayers to the general community.

The question then should be "why should the LHPAs continue to have anything further to do with TSRs as they are rarely providing any support for the grazing industries of NSW?" They are a cost and they are not large enough to be effective drought reserves and the benefits of their use are accruing to sections of the community other than ratepayers.

In developing plans for the TSRs, submissions argued there is scope to receive funding from other sources to ensure that these wider community benefits are paid

for by those who benefit either directly or indirectly. Examples have been provided of other users of TSRs, such as a bow hunting club, undertaking the maintenance costs such as for fencing and weed control and preserving the remnant vegetation environmental values. Other examples have been provided and there is the possibility of obtaining novel sources of revenue for their maintenance.

Significant work has already been undertaken for the National Parks and Wildlife Service, National Parks Association and other organisations on methodologies for assessing usages and values of TSRs of a non-agricultural purpose.

It is unlikely that there will be no interest in TSRs. In some public meetings, landholders made claims that neighbouring TSRs to them were a "pipeline for the spread of weeds and diseases". In one case the landholder said his neighbouring TSR was extremely rundown and would be uneconomic for him to utilise but he would consider leasing it as a means of ensuring his own farm biosecurity is not compromised by travelling stock bringing in new weeds or potential livestock diseases. It is accepted that the Rangers do inspect stock for diseases before providing permits. However the landholders concerns were that it could not always be guaranteed to be 100% accurate all the time.

There were other subsidiary issues raised in submissions and public meetings which should be addressed for the TSRs. Parkes Shire Council raised a problem with legal access to private property across TSRs and various inland fishing organisations also raised concerns as to their access for fishing.

As noted there were many competing claims as to the usages of TSRs by various groups. It is therefore extremely likely that alternative usages can be found for the TSR network and the appropriate caveats could be imposed on potential users of the TSRs to ensure the non-pastoral values are protected.

The Terms of Reference require an analysis of the distribution of public and private benefits from the activities of the LHPAs. The TSRs are one identified area where there is significant potential for the benefits to the public and other interests are greater than the benefits received by the ratepayers. This means the benefits to ratepayers are less than the costs they incur in maintaining the TSR network. Detailed information is not available to state categorically the extent of the benefits and costs accruing to different usages of the TSR network, but the indicative estimates noted previously are that they are a net cost to ratepayers.

The responsibility for all TSRs should be devolved to appropriate NSW Government agencies. The regional biosecurity delivery organisations should have the opportunity to put business cases for them to retain and manage TSRs. However, the primary default position should be devolvement unless appropriate business cases can be mounted.

It should be an immediate priority is to devolve the TSRs to the Crown as there is likely to be little benefit for ratepayers in ensuring a focus on core biosecurity issues if resources are continuing to be diverted to their management.

Views from submissions

No TSRs have been ceded back to Crown Lands as a result of the 2008 review. Resulting from the Hunter TSR pilot project, Crown Lands does however have the methodology to assess TSRs to determine their optimal use and management if they are ceded back in future.

We object to the disposal of any TSR by way of sale or long term lease. Where a TSR is shown to not meet the core functions of the LHPA it should be return to Crown Lands as part of their reserves system

Licencing of TSRs for short term uses should be considered where compatible and longer terms negotiable under certain conditions. There should always be public access conditions in any tenure proposed.

There should be no disposal by sale/long term lease of any TSR where that TSR contributes socially, culturally, recreationally or economically to the local community.

The cost of maintenance of Travelling Stock Routes / Reserves (TSRs) should be borne by the wider society because of the range of environmental, cultural, heritage and social benefits that they provide for all members of society

Many people also use the TSRs on a regular basis and to apply for a permit many times per year are not only spending considerable amounts of their own time but also that of LHPA staff

TSRs frequently follow historical routes, which local Aborigines established as they trekked from waterhole to waterhole. The routes are still significant to Aboriginal communities. Stockmen subsequently followed the routes and established the droving industry. Such cultural and historical values of TSRs are valuable to rural and urban communities in NSW and beyond

Maintain TSRs on the North Coast? Truck are used not drovers

Attachment 9. LHPA rates

History of rate reviews

There have been an extensive series of reviews concerning the rating mechanism for the RLP boards.

In 1987 there was the Lowing report, Report from a Working Party Established to Review Pastures Protection Board's Minimum Rates. This enquiry included a number of public meetings and endorsed the previous rating system that still basically applies.

In 1995 Coopers & Lybrand undertook a Review of Rural Lands Protection Boards and one of its conclusions was *"despite numerous rate reviews the rating system is perceived to be inequitable, where the level of awareness of benefits received from rates paid is extremely low. Minimum ratepayers, especially those in coastal boards comprised a disproportionate number of those expressing concern regarding the rating system"*. That review also concluded that rates should be calculated on the basis of assessed carrying capacity. That review received 413 submissions. They also recommended that there be further work on how the RLP levy is calculated, such as by type of land use or some other measure of ratepayer perception.

In 1996 a Ministerial Task Force was commissioned to review the recommendations in the Coopers & Lybrand study. The Task Force rejected the above recommendations and instead suggested that *"the government should conduct an independent review of alternative rating mechanisms that would lead to greater community acceptance of the payment of rates to RLPBs."*

Following on from the Task Force recommendation, A review was commissioned on the rating mechanism used by the RLP Boards and reported in 1999. That review was prompted in part because *"smaller landholders... consider themselves as being treated unfairly by the rating mechanism used by the Boards"*.

That review concluded *"that the objections from smaller landowners arise from a perceived lack of service from Boards to individual ratepayers and a broad lack of understanding about RLP board functions which requires better communications from boards to their ratepayers"*.

It also concluded that *"there was acceptance of the view that landowners retain responsibility to fund RLP Boards" and "on the animal health rate, there was agreement that the existing mechanism isolated the costs and that there was no substantive evidence of any subsidisation of the animal health functions by non stock owning ratepayers"*

In justifying the boards and the problems of equity that review made the finding that the RLP rates funded the infrastructure *"to maintain a surveillance network and the resources to identify and tackle potential disease and pest threats to an area before the threat eventuates. This over the horizon protection is a key role of the boards -- and is its most poorly understood role."*

The first two recommendations of that review were

- *"there is no alternative rating mechanism available to the RLP Boards that delivers a better result;*
- *there needs to be a recognition that there are practical cost constraints on Boards levying rates on all landowners because of the small amounts of money involved and that Boards should continue to set minimum levels as at present"*

The review panel was not unanimous in supporting these recommendations.

In 2004 there were two reviews undertaken which included examination of the rating provisions for RLPBs. The criteria for rating relating to the land having a notional carrying capacity of at least 50 stock units was deleted so that rateable land was based solely on land area.

In 2007, the Review of the RLPB Rating System in NSW was presented by Richard Bull. This was a comprehensive review of the rating arrangements and was undertaken with extensive public consultation in an open and transparent process.

That review recommended a new rating system with the following features:

- a base charge applicable to all ratepayers
- all rates, special-purpose levies and the meat industry levy assessed by land area
- an environmental rate applicable to all ratepayers
- ability to apply a differential rate for anomalous situations over certain areas or land-use types
- reductions in rates for voluntary conservation agreements and for pensioners
- reduction in minimum livestock threshold to 30 stock units
- a standard animal health charge to all eligible ratepayers
- a return to a minimum 10 ha threshold for rating eligibility
- exemptions to no longer apply to sugarcane growing and intensive poultry production
- changes to the annual return to simplify compliance and to increase accuracy in livestock declarations

The Bull Report considered the effectiveness of the rating system applying at that time. Some of their conclusions included

- *"the income from the animal health rate is sufficient to meet animal health expenditure"*
- *"minimum ratepayers are more prone to complain about the rating system"*

Following that Report, the Government introduced legislation changing the way in which Rural Lands Protection rates are calculated in 2008. The legislation provided for rates to be levied on a per hectare basis. The new authorities created in this legislation could also apply general, animal health and special-purpose rates differentially across different zones with the zones being determined largely on land types which is primarily whether it is productive or unproductive land. The regulations under the Act were to be amended so that the minimum rateable area for a district would increase to 10 ha.

The government also undertook the implementation of major structural changes with 47 Rural Lands Protection Boards and amalgamated into 14 Health and Pest Authorities. In some of these authorities there were major concerns with the level of rate increases implemented under the new structure.

Amending legislation was passed in 2009 giving the Minister for Primary Industries the authority to approve all rates set and to defer replacing the rates set on a notional carrying capacity with an amount payable per hectare. This amendment was to provide ratepayers and the authorities more time to adjust to the significant changes to the system.

Current position

A large number of submissions concerned the issue of the rates applied by the LHPAs to landholders. They covered a range of views from arguing that they were an illegal tax to objecting to paying them as they were a tax on benefits provided to the entire community, such as for food security, to arguing that they should apply to even smaller landholders than the current 10 ha minimum as those landholders received benefits without paying rates and impose costs, such as the pest animals, that could have an impact on ratepayer neighbours. There were also many other arguments such as comparing NSW to other states that did not have the same mechanisms for paying for biosecurity.

A number of submissions demonstrated disputes with LHPAs and their predecessor organisations over the determination of the rates. Apart from the previous enquiries and reports on the rating system the correspondence provided in submissions should have indicated that the rating system was an issue that was of concern to a proportion of their ratepayers and therefore should be addressed as an issue.

The scale of the issue can be demonstrated in the case of one LHPA.

This LHPA had budgeted to collect approximately \$1.9 million in rates for the current year. In September of this year there was approximately \$300,000 in outstanding rates debts of which nearly \$280,000 was more than 120 days overdue. In the same period it had spent over \$80,000 in legal and debt collection costs. This was very nearly matched by payments of over \$80,000 in recoveries of legal fees. This is not to say that all the legal fees were for collecting rates. However, in terms of court cases initiated by the specific LHPA, other than local Land Board hearings, there were none and there were no warnings issued under the Rural Lands Protection Act, other than for rates or annual return matters. It is therefore assumed that most of the legal costs incurred were for the collection of rates. These legal costs are another overhead and should be factored in to the accounts for the cost of collection of rates.

There was recognition that the rates issue is a problem and the State Policy Council resolved to undertake an investigation into the issue in August 2010. Four authorities discussed the issue and provided written submissions to the investigation in August to October 2010. In the responses, the Board of one authority moved "that it is considered that changes to the rating system are outside the Charter of State Policy Council".

According to the LHPAs submission, the working party on rates began its activities early in 2011. A discussion paper covering the issues was developed by April 2011. There are no indications of any further progress. The LHPA submission recommended that the current rating methodology be maintained.

The submission from the LHPA to this review recommended the status quo and submissions from individual authorities recommended reducing the threshold sizes of land holdings eligible for rates and also reducing the number of stock units eligible for the animal health rate.

As seen from the number of enquiries involving rates from the LHPAs and predecessor organisations over the years they are of great concern to many ratepayers. It has been noted in previous enquiries and many submissions to this review that the current methodology for rate assessment using notional carrying capacity is "akin to talking a foreign language to ratepayers without any stock." The basis of using notional carrying capacity was said to be well understood in traditional agricultural areas but for new landholders on lifestyle blocks, it was not understandable at all. Therefore there were many protest against using something that they did not fully understand and doubting the methodology for determining the notional carrying capacities.

The previous State government imposed a cap on rate increases for individual landholders in the merged LHPAs regions. Many of the former RLPBs appeared to have very different notional carrying capacities, on average, than neighbouring RLPBs. Under the merged arrangements, the process of delivering a similar

treatment of all properties in an authority area was proving difficult and as stated at a public meeting, some of the Western division areas did not think that they could get similar treatment on rates and notional carrying capacities for decades.

Notional carrying capacities are under challenge from many ratepayers and the requirement to review them every five years, even with desktop analysis and research rather than physical inspection, could lead to major administrative and procedural problems if there is further disagreement from a significant number of ratepayers. The notional carrying capacity basis for levying rates is likely to be challenged by many ratepayers in administrative and procedural forums in the future.

The LHPA in their submission recommended that because the work of their working party reviewing the rating system had not been finalised that *"the current rating methodology based on notional carrying capacity be retained"*.

In seeking rate increases, the LHPAs have generally pursued annual increases based upon the CPI. Ideally, the funds required should be based on an assessment of the costs of the risks they are being asked to combat compared to the potential returns from carrying out their functions effectively. This would require a detailed assessment of the investment required in their capabilities relative to their returns. There does not appear to be a process in place to achieve this efficient allocation of resources.

A potential measure for ensuring efficiency and that the rates are set appropriately is to have IPART investigate and approve of the processes that they put in place to justify their investment. This would not require IPART approving every individual rate increase but ensuring discipline in the process of determining what are efficient measures for determining rate changes.

Alternative models used in other jurisdictions for funding animal health biosecurity functions such as the stamp duty arrangements applying in Victoria and South Australia have not been benchmarked against the existing rating systems.

Analytical framework

Biosecurity risks do not respect property boundaries, property sizes or types of activities on rural lands. Exemptions from funding these biosecurity requirements should be minimal. It is accepted that in some cases the administration costs of collection of revenues may be higher than the revenues received. Exemptions in these cases should only be granted on practical grounds not on the grounds that they do not provide a biosecurity risk.

The sugar industry has an exemption, claimed on the basis that they already have arrangements for undertaking their own biosecurity functions. The macadamia industry in their submission to this review also sought an exemption on the basis that they too undertake their own biosecurity functions. The biosecurity functions of these industries would generally be different to those undertaken by the LHPAs, in terms of pest animals in particular. These industries would still have lands which could be traversed by or used by the prescribed pest animals. Therefore they should make a contribution to the biosecurity function.

As the regional biosecurity delivery organisations develop there is scope for particular industries, especially if located regionally, such as sugar and macadamia nuts to use these organisations to levy and fund specific localised biosecurity risks that impact upon them and their regions.

A number of submissions raised the fact that they had entered conservation agreements on their properties that excluded them having any livestock. They objected to paying rates based upon notional carrying capacities when they had no stock and were prohibited from having any. They did not pay the animal health rate but there was discontent and misunderstanding of the pest animal functions of the LHPAs.

It was raised at all public meetings that "if you contribute to the costs you should pay a contribution reflecting your potential cost profile". There was an acceptance of this framework and the hierarchy of assessment on dealing with risks but the concerns were then more focused on the efficiency of the delivery of the pest animal functions. Pest animals can traverse across all kinds of properties and therefore there is some potential contribution to costs from landholders with conservation agreements. This is not to dispute that many are very diligent in undertaking their own pest and weed control functions. The National Parks and Wildlife Service in their submission supported the levying of the general rate on these landholders with conservation agreements.

From the limited information available, there are a significant number of cross subsidies operating within the LHPA funding and function framework. These cross subsidies do not allow the transparency for ratepayers and other land holders to see the true costs that accrue and impact upon them.. Though it may not be possible to remove all these cross subsidies because of the costs of collection and other administrative factors, they should be made transparent for all ratepayers to be aware of them and to assist in determining priorities and resource allocation within regions.

Alternative rating schemes

The LHPAs use their own rating system, which is similar to and uses much of the local government rating database for property ownership. However, a significant difference is that they use a notional carrying capacity for determination of rates and the requirement that landholders inform the LHPAs that their numbers of stock are above the prescribed 50 stock units. A stock unit is based upon a dry sheep equivalent (DSE) or wether and the appropriate multiples of them for cattle and horses. For many lifestyle landowners, rather than farmers, there is very little understanding of notional carrying capacity. Submissions raised the difficulties in assessing the notional carrying capacities and the objections to them by many landholders. The lack of understanding and the objections to the system was put in many submissions and public meetings.

Another distinction between local government rating systems and the LHPA rating system is that the LHPAs levy the occupiers of land rather than the owners.

No data was provided on the costs of maintaining the LHPA system but a first-hand observation would be that it would be more costly than subcontracting out and using an already existing system. There should be significant savings in administration from switching to the local government rating base rather than trying to build their own. The issue of knowing the occupiers or livestock owners compared to the landholders should be worked through by the regional biosecurity delivery organisations and appropriate local government representatives as to finding an alternative means of ensuring the information on meeting compliance requirements is met.

Biosecurity risks will vary between regions due to industry composition, climatic conditions and many other environmental and other factors. Relating risks to the costs and returns of specific biosecurity issues will help ensure an efficient allocation of resources in dealing with the problems. Therefore there should be flexibility in determining priorities and the consequent funding for meeting those priorities across regions.

For animal health funding in some regions there is a cross subsidy to that function from general ratepayers. According to information provided some regions have the other functions subsidised by the animal health rate. The most economically efficient policy is to ensure that the benefits of the animal health surveillance function and exotic disease preparedness are paid for by participants in the industry. They are the beneficiaries of the insurance component of these functions. The current system based upon notional carrying capacities and minimum stock units to be liable has many inequities, such as noted in the Bull Report "six head of cattle and 1000 ha of crop and the full animal health rate is paid over the entire property." The efficiency aspects are reduced because of this non-direct linkage between the functions undertaken for the benefit of the industry and the funding of those functions. This is

not to disregard the limitations imposed upon the forms of taxation that state governments may levy because of High Court interpretations of the Constitution.

Other jurisdictions are moving to systems where the animal health functions in their jurisdictions are paid for by livestock owners but in different ways to those applying to the land rating system in NSW. Victoria and South Australia have moved to stamp duty arrangements on livestock financial transactions for their biosecurity funding.(Attachment 16)

It would be appropriate for the NSW system to investigate alternative methodologies for matching the benefits to the industry with the costs incurred in ensuring those benefits.

Attachment 10. Performance

10.1 Administrative overheads

The LHPAs have an extremely high administrative overhead relative to equivalent organisations such as similarly sized local governments.

A study undertaken for the Independent Inquiry into the Financial Sustainability of NSW Local Government on Corporate Overheads of Local Governments provides a benchmark for comparison with equivalent sized LHPAs. If the LHPAs are treated as a single organisation, according to the local government study they should have corporate overhead benchmarks of between 12 and 14%. If they are treated as 14 independent authorities then the benchmark corporate overhead percentage rises to a range of 14% to 16%.

There are a variety of ways of determining the level of corporate overhead relative to functional expenditure. Detailed accounts for allocating overheads are not undertaken by the LHPAs as they do not have cost centre accounting.

From the LHPAs submission, attributing directors' costs and the cost of State Management Council as overheads alone accounts for 17% of their expenditure.

Attributing directors costs and specific salary components such as General Managers, the Orange Central office and proportions of the other staff time and salaries, as provided to the Review, to corporate overheads comes to a percentage of 31% of total expenditure is overhead.

Case studies for two LHPAs indicate that overheads account for 42% of net expenditure for one authority and 57% for another one.

Composition of LHPA overheads: Case studies

	LHPA	LHPA B
Wages & On-Costs	37%	41%
Motor Vehicle Expenses	2%	3%
Other Employee Expenses	1%	2%
Centralised Services Expenditure	22%	18%
Office Expenses	20%	15%
Occupancy Expenses	8%	11%
Directors' Expenses	10%	9%
Financial Administration Expenditure	1%	3%
Total	100%	100%

Livestock health subsidised by general rates: Detail: Case studies

	Total	Overheads	Livestock health	Pest animals	TSRs
LHPA A					
Net expenditure (Direct expenditure less direct income (services etc): \$	\$1,514,396	\$866,592	\$268,887	\$378,905	\$11
Net expenditure: %	100%	57%	18%	25%	0%
Functional expenditure with overheads allocated (Allocated using functional areas direct wages) \$	\$1,514,396		\$641,125	\$875,815	-\$2,544
Functional expenditure %	100%		42%	58%	0%
Rates income \$	\$1,490,542		\$380,200	\$1,112,886	-\$2,544
Rates income %	100%		26%	75%	0%
Functional surplus/deficit	\$23,853		\$260,925	-\$237,072	\$0
LHPA B					
Net expenditure (Direct expenditure less direct income (services etc): \$	\$2,212,500	\$936,694	\$630,127	\$543,233	\$102,447
Net expenditure: %	100%	42%	28%	25%	5%
Functional expenditure with overheads allocated (Allocated using functional areas direct wages) \$	\$2,212,500		\$999,241	\$776,652	\$436,607
Functional expenditure %	100%		45%	35%	20%
Rates income	\$2,201,387		\$710,044	\$1,054,736	\$436,607
Rates income %	100%		32%	48%	20%
Functional surplus/deficit	\$11,113		\$289,197	-\$278,084	

There are other partial indicators demonstrating a very high overhead. Currently there is one director for every three staff in the organisation. There are 118 directors, all paid, for approximately 350 staff. Excluding the staff of approximately 30 in the

Orange Central office increases the ratio of directors to staff in the individual authorities.

Each authority has a General Manager for approximately 20 staff. There are other senior management personnel in the Orange Central office. There is also a Senior District Veterinarian in charge of district veterinarians in 12 of the authorities. The number of district veterinarians under each senior district veterinarian can vary from 1 to 4 according to the individual authorities. This can vary over time according to vacancies and dynamic changes in the labour market. There is also one Senior Ranger in each of the 14 authorities in charge of approximately 150 Rangers and field assistants.

Though the individual authorities are relatively small organisations, they have a directors meeting every month. This is mandated in the legislation, but can be varied as the Western division authorities have demonstrated by moving to a two monthly meeting arrangement to try and save on costs.

10.2 Governance – Directors

Governance of the LHPAs and predecessor organisations has been based upon directors elected by ratepayers to ensure the efficient functioning of the organisations and that "value for money" was provided to the ratepayers. This structure was implemented in historical times when transport and communication links were nowhere near as extensive as currently. The boundaries of these boards were based upon then Police Districts. The Tom Bull report of 1976 reduced the numbers of the then predecessor organisation, Pastures Protection Boards, from 61 to 47. The IMC report of 2008 reduced the numbers of then Rural Lands Protection Boards from 47 to 14 renamed Livestock Health and Pest Authorities. The number of directors per board was usually eight. This remains the same for 12 of the 14 authorities but now six are elected and two are usually appointed with appropriate director qualifications for assisting in running the board functions of the authorities. The two authorities located in the Western division have 10 directors for Darling LHPA and 12 directors for Western LHPA.

Currently there is one director for every three staff in the organisation. There are 118 directors, **all paid**, for approximately 350 staff. Excluding the staff of approximately 30 in the Orange Central office, increases the ratio of directors to staff in the individual authorities.

From the LHPA submission, directors' costs as a percentage of rates collected (General and Animal Health) accounts for 5% of the total of those rates collected over the 14 LHPAs. Apart from the two Western division authorities they are in the range of 4% to 7% of the rates collected. The two Western division authorities are 14 and 16% respectively. This is not the full cost of directors as there are additional costs for items such as directors training, meeting expenses and travel expenses for various meetings.

The direct costs to ratepayers are only a component of the current governance arrangements. The indirect costs from administration requirements of the local staff servicing the boards are potentially much greater.

The frequency of board meetings requires significant work to be undertaken by the General Manager and other senior staff in preparing papers and reports for the meetings. An analysis of the business papers for various LHPAs indicates that some boards were getting involved in operational matters rather than undertaking appropriate board functions. For example, one LHPA was provided with a significant amount of paperwork and analysis of determining an appropriate GPS system for their staff. This was analysis requested by the board and undertaken by the staff. They did not undertake such simple approaches as asking other appropriate organisations within their region such as local governments, Telstra or the Rural Fire Service what systems they used and the prices. Even after the presentation of the paper, consideration of which GPS system to use was deferred until a later meeting. Another example from the same LHPA was the raising of the issue of the provision of a home phone for a staff member. The board made the decision that it was an operational matter and should be dealt with by the General Manager. The correct decision was made but it was an indication that there is still confusion amongst directors as to their appropriate role in the organisation. The question can also be asked as to why the individual authorities need to have their own systems and not be part of a bulk purchasing arrangement and ensure a consistency of equipment across the State as in an emergency animal disease outbreak it would be expected that staff would have to be mobile according to the requirements of dealing with the outbreak.

There is also the problem of function creep, whereby authorities get involved in issues beyond their official responsibility. An example of this is provided by one LHPA providing a submission into an inquiry into Coal Seam Gas mining in agricultural lands. LHPAs do have responsibility for the management of TSRs and therefore they do have an interest in the policy outcomes involving Coal Seam Gas on the reserves that they control. The authority for which the submission is available extended its recommendations beyond the implications for TSRs to those involving all agricultural lands. This is well beyond the remit of the organisation and it can also be asked as to why there is not a state-wide policy involving TSRs rather than the individual authorities formulating policy positions.

In the smaller board operations, previous to the creation of the LHPAs, there was a geographical concentration and much smaller electorates for the election of board members. It was stated in various submissions and public meetings that the local representation model at that time did allow for local knowledge and contacts of directors by ratepayers much more easily than under the current much larger authority areas.

In all cases, elected directors have been the major form of accountability to ratepayers. Previous to the creation of the Livestock Health and Pest Authorities, the directors were only eligible for sitting fees and expenses and many did not claim them. Under the Livestock Health and Pest Authority model directors are now paid an annual remuneration of \$10,000 and chairman of the 14 authorities are paid \$20,000. They are also eligible for expenses. This is not to discount the dedication and hard work of current directors. At a public meeting, one current director of an LHPA, who had previously been an RLPB director, made the comment that under the previous arrangements he never claimed sitting fees as the local directors organised their meetings on a common sense basis to occur at a common time when they generally all had to travel to their local shopping or service centre at the same time. The additional travel and time costs of RLPB meetings were only marginal additions to the travel being undertaken anyway. However, under the new LHPA scheme, he said he had significantly more time taken in travelling and absence from his farming operation, up to 4 days absence at a time, and therefore the director's fees were only a small remuneration relative to the costs he incurred.

The larger Authority areas compared to the previous Rural Lands Protection Board areas make it more difficult for the elected directors to physically travel the extent of their area and to have this closer communication with ratepayers that applied in the past.

Commuting time across areas was raised as an issue of difficulty and the example of Cumberland provides a case study of the difficulties, common to many areas, where it takes five hours according to a member of the Authority to travel from the southern end to the northern end. This makes it difficult to ensure effective communications and interactions between ratepayers and directors. In public meetings, attendees regularly stated that they did not know who their local director was any more. According to some submissions, the new model of the LHPA has broken with the past associations of localism and local directors available to consult with local ratepayers. This is not to defend the previous arrangements that were changed because of other deficiencies or problems.

Attachment 11. Board meetings

There is strong evidence to suggest that the current board structure and meeting requirements running in several LHPAs are inefficient. This inefficiency comes as both a direct cost resulting from the expense associated with unnecessary board meetings, but more importantly it arises from the tedious administrative necessities required to effect actions which should be vested in managerial figures and exercisable without authorisation.

In general Board meetings are run once a month unless a significant event necessitates further meetings. The meetings themselves often cover few substantive issues raised by management and several more administrative issues either attached to addressing the substantive issues, or authorising minor actions. Despite the narrow range of issues covered, the formal nature of board meetings means these meetings will generally run for between three to four hours.

The minutes of one LHPA serves as a good example of this inefficiency. The meeting ran from 10:20am to 2:25pm. During this time an error in the spelling of one director's name from the previous minutes was corrected, a motion was passed that a contract be signed by the chairman, and General Manager; a motion was passed to approve the draft for the subdivision of land owned by the LHPA; it was held that an issue regarding the sale of timber on TSRs be carried forward to November; and finally an administrative matter regarding the status of financial reports was resolved.

While these achievements are positive, they serve to illustrate how few substantive issues are addressed at board meetings and suggest that fewer meetings could serve the same purposes.

As for the administrative inefficiency, there is evidence that the board requirements have resulted in (or come from) the disempowerment of managerial figures within LHPAs so that the board takes on the function of authorising minor actions. While there are examples of unnecessary administrative actions being undertaken in many LHPA boards, another LHPA provides some examples.

The meeting ran from 10:10am until 1:00pm and achieved the following:

Business Arising From Minutes:

Action– this instructed the Senior Ranger to investigate whether risk assessment policy for sheep on TSRs exists and report back in the September Board Meeting

Action– instructed SDV to obtain scientific information regarding shedding sheep and present to the September Board meeting.

Elections were held for Chairman and Deputy Chairman

Report on Actions from Previous Meeting:

Resolution– deferred consideration of GPS system pricing documents until a later meeting.

Action - That GM to send a copy of the 2011-2014 Strategy papers to all directors by 2 September, 2011.

Officer's Report:

Resolution - That the General Manager's report be accepted as read

Resolution - That the issue of home phones are an operational matter and will be dealt with by GM.

Resolution - That the Asset Register be dealt with by the GM.

Action - That Director and GM meet to analyse the discrepancies in the financial figures.

Action - That GM contact FSU re the discrepancies in the financials.

Resolution - That the financials be received.

Resolution - That GM to clarify with FSU the discrepancies in the financials and will not be adopted until the financials are satisfactorily clarified.

Action - All Directors to email questions regarding the financials to GM prior to the Board Meeting.

These were followed by the District Vets report and Senior Ranger's reports

The Reports from the Senior Ranger and District Vet dealt with substantive Issues and were the most worthwhile contributions/results from the meeting. These were succinct and constructive, but only formed a small portion of the meeting, and about half of the matters addressed in the Officer's Reports (Vet and Ranger submissions resulted in four resolutions and five actions passed out of the 17 arising in the section).

The resolutions and actions passed in the above meeting deal too heavily in administrative matters or the authorisation of actions which should be exercisable by powers vested in managers. This level of board dependence and subdivision of broad instructions into individual components, each to be authorised, is an additional administrative burden. Substantive topics (such as TSRs) were raised in the meeting, but discussion on these topics took the form of an update, and no substantive action was taken.

In terms of time allocation, an LHPA meeting was proposed to start at 9:00am and run until 1:40. The officer's report was to begin at 11:00am with the general

manager's report, the District Vet's at 11:15am, the Senior Ranger at 11:30am, and the corporate report at 11:45am.

This was a proposed time allocation of 15 minutes each to the GM, District Vet and Ranger out of a four hour and 40 minute meeting. This seems a poor allocation of time given the important roles of these individuals.

As has been noted, the narrow range of substantive achievements resulting from board meetings suggests that these meetings are occurring too frequently and/or running for too long.

Attachment 12. Weeds

Weeds were initially categorised in the options paper as being under the first two categories of the hierarchy of assessment. However submissions indicated that in many cases they could travel through sheep flocks, transport vehicles and waterways. The impact of weeds is primarily on the landholder. The costs and benefits of control and eradication of weeds are primarily for the individual landholder. The current arrangements are where local governments directly or through weeds councils, maintain a compliance function on landholders to control or eradicate weeds in the Schedule of Noxious Weeds. The public meetings and submissions demonstrated that there was a general lack of knowledge among many landholders on how the Schedule of Noxious Weeds operates. In some cases there was an assumption that it was the responsibility of the councils to control or eradicate weeds, even on private lands. There is a need for landowners to be better informed of the requirements of control of weeds under the schedule and how the schedule makes a distinction on the impact of weeds in specific regions.

There was also a misunderstanding of the role of LHPAs in weeds control. Their formal role is only to control weeds on the lands that they manage, the TSRs. They have the same obligations as all other landholders.

Some of the LHPAs have recognised that many landholders want additional services on advisory functions on weeds. Some are providing this and are training or recruiting staff with the appropriate skills to provide advice on these functions. This is currently not part of their role and is an example of function creep.

In the longer term plant and animal biosecurity requirements can be incorporated into the one functional organisation. This primarily relates to regional rather than a state-wide or industry wide biosecurity functions.

This will help deliver economies of scope in the long term as with appropriate training of staff there are likely to be synergies compared to the current arrangements of what was termed in submissions "multiple boots over the same paddock".

Attachment 13. Catchment Management Authorities

The option of folding the functions of the LHPAs into existing organisations such as the CMAS or a new service delivery model was raised in the options paper and discussed at many of the public meetings.

NSW CMAs recommended combining "weed and pest animal management by creating a single entity for pest and weed coordination and management in NSW, harnessing the resources and expertise of LHPAs along with regional weeds committees."

And

"Pest and weed management should take place on a tenure neutral basis and therefore this entity should have the coordination and on ground action function over all land; private, public, government reserves (SRA, RTA, SCA etc), forestry and national parks."

The CMAs supported the regional delivery and governance of services "where it proves to be the best model as it generally allows more creativity and innovation in delivery of services as well as direct contact with landholders and a better appreciation of local issues "

However, in supporting the regional service delivery model, they stated that CMAs' ability to work with and in the community to improve NRM outcomes on private land would be significantly compromised by any compliance/enforcement role and therefore CMAs strongly recommend that these roles be carried out by other agents.

CMAS have the ability to levy rates and indicated that they suggested that a funding model for the functions would be by a rate or environmental levy on all landholders where action occurs, both public and private, in order to achieve efficiencies.

Their submissions did not indicate who should be the levying authorities.

At the public meetings in discussing option4, there were a significant number of criticisms of the operations of CMAs and their fitting with the functions of the LHPA. There was criticism raised of the Catchment Management Authorities undertaking short term weed control and other activities and not being involved in long-term programs where the chances of success would be greater. One question at Dubbo was about "how could CMAs be involved in farm production issues when they were primarily running on a green natural resource management agenda". This question was regularly raised at subsequent meetings.

NSW CMAs see this “as critical given the intrinsic linkages between biosecurity, animal health and pests and weeds, along with the need to maximise public and private investment through alignment.”

In their submission, “NSW CMAs explored the questions of regulation and compliance and the need to keep compliance activity at arm’s length from organisations whose key activity is to work with private land managers to build their capacity, trust and to manage their land sustainability.”

And

“This organisation could provide the compliance function for native vegetation, weeds, pest animals and water.”

And

“Regional pest management strategies should be developed by the most appropriate agency in consultation with other stakeholders to complement the Regional Weeds Strategies already developed by CMAs and stakeholders.”

CMAs, as structured and functioning, currently do not provide an appropriate vehicle for merging levying and compliance functions into them.

Attachment 14. Other issues

Staffing

To minimise disruption to staffing and other organisational arrangement arrangements, current employment arrangements whereby staff report to the CEO of the state wide LHPA should continue. This will assist in ensuring the effective meeting of a functional requirements and ensuring a smoother transition to the long term model.

In the longer term, employment arrangements should reflect market conditions for regionally dispersed skills rather than relying on a state wide scale of payments. This will assist in ensuring a more efficient allocation of staff resources and a generally more efficient outcome as the true costs of the functions are seen by ratepayers and producers.

Payroll tax

Only 13 of the former 47 Rural Lands Protection Boards paid payroll tax because of their size. When the 47 previous Boards were amalgamated into the 14 LHPAs, 13 of the authorities are above the threshold and became liable for payroll tax. They now pay payroll tax of the order of \$800,000 per year.

The LHPA in their submission have requested that they not be liable for payroll tax, similarly to local government and other governmental authorities such as departments and other similar bodies such as Catchment Management Authorities. They stated "the roles and functions of local government and LHPA are similar in that their main focus is supplying services to landholders and being responsible for administering regulatory functions."

And

"both LHPA and local government were established to carry out their roles pursuant to State government acts. They are controlled by elected directors or councillors in a local area and both are ultimately responsible to their respective State Minister."

The LHPAs are progressing their own processes seeking an exemption from payroll tax. The review does note an inconsistency in approach on how LHPA expenditure is treated in other government programs.

The contribution of LHPAs in dealing with any emergency animal disease outbreak is treated as a State Government cost under the Emergency Animal Disease Response Agreement between the Commonwealth and the jurisdiction governments.

On the basis that there should be consistency in policy approach for the treatment of all government bodies, the fact that LHPAs are State government instrumentalities under one set of criteria provides a justification for exemption from liability for payroll tax.

If the LHPA contribution to an exotic disease outbreak is treated as an industry contribution in the future under EADRA, then the same consistency and neutrality principles should apply and the organisation could then be liable for payroll tax.

Attachment 15. Queensland Biosecurity Draft Legislation

All jurisdictions are reviewing and revamping their biosecurity preparedness and arrangements. Queensland has published a draft bill on biosecurity that indicates the parameters other jurisdictions are following. NSW is in the forefront in having an established structure and funding arrangements that other jurisdictions are now working through.

Queensland has been in a process of negotiations and discussions on their new biosecurity arrangements for the last 2.5 years and expect another 18 months to have it finalised. At this stage of their process they have not worked through the appropriate funding arrangements for contributions from landholders and industry.

The new Queensland legislation addresses biosecurity risks to human health, social amenity, the environment and the economy by:

- providing a framework that helps minimise biosecurity risks, and facilitates timely and effective responses to biosecurity events
- aligning responses to biosecurity risks in the state with national and international obligations, and requirements for accessing markets that deal with animal and plant produce, including live animals and plants
- ensuring the safety and quality of animal feed and fertilisers.

It will enhance responsiveness to emergency disease outbreaks by:

- clarifying the roles of all stakeholders through shared obligations and responsibilities
- ensuring that the scope of obligations placed on people is directly proportional to the risk posed, and determined through a risk assessment and management framework of risk identification, analysis and evaluation
- providing scalable instruments to be used across the biosecurity continuum.

It will secure Queensland's national and international reputation in biosecurity standards by:

- maintaining best practice biosecurity standards within agricultural and food production industries.

Differences between previous arrangements and proposed arrangements.

Shared responsibility and regulatory instruments

The key policy principles that underpin the exposure Bill are:

- shared responsibility between the risk owner and the government

- risk-based decision-making in managing risks
- scalable instruments that enable decision-makers to be responsive and measured in both taking action during biosecurity incidents and preventing potential incidents.

Traditional legislation has been mostly limited to directing obligations towards government and primary producers.

Under this legislation, people will be required to actively identify and mitigate risks associated with pests, diseases and contaminants.

Precautionary approach and risk-based decision-making

The exposure Bill adopts a precautionary approach and recognises that a lack of scientific certainty should not be a reason for postponing action to prevent a biosecurity event or to postpone a response to a biosecurity risk.

The exposure Bill will apply to biosecurity risks that are known or can be identified, as well as those that are not specifically listed or declared in the legislation.

This provides the regulatory capacity to be highly responsive in an environment of ever-changing risks and uncertainty.

Sound risk analysis and cost-benefit considerations will guide the best approach to preventing or managing a biosecurity risk, including the duration of a response, and the roles of government and other stakeholders.

Improved emergency response

The new legislation will allow for improvements in timeliness and capacity in the mounting of an emergency response in an animal or plant disease outbreak or pest animal or plant incursion.

Partnership arrangements

The exposure Bill will provide the legal framework to support the Queensland Government and Queensland primary production industries function as part of the national biosecurity system.

It will also enable the state to enter into arrangements with other entities for biosecurity purposes. The role of local government in pest management will continue to be an important feature of Queensland's biosecurity system.

Attachment 16. Victorian Stamp duty arrangements for funding biosecurity.

Victoria funds its biosecurity arrangements through stamp duties on livestock and carcass sales. The revenues are placed in a trust fund relating to disease control.

The current rates applying to livestock and carcass sales are attached in the table.

Victorian Biosecurity stamp duty rates

Livestock	Stamp duty rate
Cattle	\$0.05 for every \$20 or part thereof to a maximum of \$5
Cattle carcasses – up to 250 kg	\$0.90 per carcass
Cattle carcasses – over 250 kg	\$1.30 per carcass
Calves	\$0.15 per head
Sheep and goats (including carcasses)	\$0.12 per head
Swine	\$0 .02 for every \$5 or part thereof

Attachment 17. Cost shifting and goldplating

NSW Farmers Association and other submissions raised the issue of what they termed "cost shifting". This refers to the DPI moving additional functions and consequently costs, currently paid for by the taxpayer, to the ratepayer. This "cost shifting" is not necessarily deleterious if the costs are directly attributable to the requirements of an industry or group of ratepayers, as they are costs imposed upon the rest of society that can be internalised to the industry or group of ratepayers. In other words, they see the true cost of conducting their operations without a subsidy from taxpayers.

"Cost shifting" is therefore an appropriate mechanism if it sends appropriate price signals for the conduct of economic activities. If it should be used to artificially or inappropriately price inputs to these economic activities which are not based upon market economic functions then it could be termed a tax that distorts markets signalling prices. There can always be judgements required in certain activities but as a fundamental, getting the prices right is or should be the prime target. As an example of the economic analysis of this function see the paper on cattle ticks.

However, there are functions of government that should be funded by government. Imposing the requirements to perform governmental functions on the LHPA would be a detrimental "cost shift", not delivering efficient prices, for the functions being undertaken.

"Goldplating" is a euphemism for where one economic principal can impose the costs of undertaking their function on other economic activities without having a market discipline. Excessive resources are devoted to a function beyond what is the optimal economic level relative to the risks and returns. A possible example of this would be allowing the DPI alone to determine the Animal Health Plan and consequent resource requirements. There is not the same incentive for the DPI to undertake a thorough analysis of the relative risks and returns from different levels of resourcing to fulfil the functions that satisfy the funders, the ratepayers, of that function. The incentive structure could encourage excess resources from the monopoly supplier, the DPI, unless there is a countervailing incentive to ensure "value for money" for the ratepayers.

"Goldplating" is a potential consequence of all monopolies using their power and in a nonmarket situation, there needs to be a check on the problems that can be created through the use of the monopoly power. This is not to say that there would be deliberate intention to do so but there needs to be a process to ensure the most efficient outcome in this situation and a bilateral check is a balancing mechanism.

Attachment 18. State Policy Council

There were a series of confidential submissions on the operations of the State Policy Council and discussions with directors and staff of the LHPA. Documentation from one LHPA requested that State Policy Council must have a minimum number of agenda items before any meetings were called as the individual authorities had to incur the additional expense of sending directors to those meetings and if there is limited agenda, there was a perceived waste of time and finance. Another observation made was that though two directors were sent from every LHPA, they were not bound to follow their own individual authority positions and regularly split on votes on issues.

Another failing noted was the lack of any veterinary input into the deliberations of the State Policy Council unlike the State Management Council where there was expertise available on it.

The review did not attend any SPC meetings but submissions were dismissive of the effectiveness of that organisation.

Comments from submissions

The State Policy Council (SPC) structure was created and incorporated into the RLP Act as a result of recommendations from the IMC Review. I have never been to an SPC meeting, but from comments made by SPC members and general observations over the last two years, it is my view that the SPC has been a failure and should be replaced by a different policy making structure.

The authorities, who are affected by the determinations of the Policy Council, have representations(sic) on that Council. The Management Council, who are also affected by the determinations of the Policy Council, has no representation on the Policy Council. Although they are required to comply with the requests of the Policy Council, the Management Council has no input into the deliberations of the Policy Council and does not hear the debate on the issues that they have to comply with.

The decisions of the Policy Council are conveyed to the Management Council by correspondence, some time after the end of the Policy Council meeting. The minutes of the meeting are not available for some time thereafter. Therefore, the Management Council does not have the benefit of hearing – face to face – the debates on the matters before the Policy Council, which they have to administer.

This seriously hinders the understanding by the Management Council of the different points of view presented at the Policy Council meetings.

The IMC review of the system recommended that the Annual Conference be replaced by the Policy Council. But, although they provided input from authorities, they forgot to provide input by the Management Council into the deliberations of the Policy Council. The result is that Management Council members have to rely on 'policy by correspondence' coming from the Policy Council, and only the final resolutions of that Council, and none of the debates that prefaced it.

It is a matter of conjecture whether Management Council members understand the reasons why they are required to implement some of the policies coming from the Policy Council.

The review mentions that there is in existence a State Management Council and a State Policy Council. The web site, as and at to-days date, only mentions the State Management Council and makes no mention at all of the State Policy Council. I simply do not have the time to look further into this considerable discrepancy but do have to query why there are two such bodies. It would seem to me that the functions of both could be combined into one body.

State Policy Council is not a value adding body and the whole governance model on developing policies is driven more by ego than sound strategic thinking

Attachment 19. Determining the regions

The formation of the 14 LHPA regions out of the 47 RLPBs and some of the consequent problems show why there needs to be a process to allow adaptation and change for regions for any reason. Mistakes can be made on the initial setup of boundaries and other factors can also make change desirable, such as change in the hinterlands for towns and transport networks. The LHPA model has not worked effectively in rectifying problems of changing boundaries of the authorities either for efficiency reasons or for public support for changes. There does not appear to be a process to deal with these problems and a case study of the former Maitland Rural Lands Protection Board, which was split between Cumberland LHPA and Mid Coast LHPA provides a demonstration of the need for a process of change.

Maitland RLPB

As part of the formation of the LHPA, the former Maitland RLPB was partitioned on the Hunter River between Cumberland LHPA and Mid Coast LHPA. No details have been published as to why the Maitland RLPB should have been divided between LHPAs unlike other RLPBs in the state.

Notwithstanding the lack of clarity in the determination of the boundaries, problems for stockowners in the former Maitland RLPB due to the splitting quickly became evident after the formation of the LHPAs. The one set of Property Identification Codes (PICs) was split between the Cumberland and Mid Coast LHPAs. The saleyards were in a different LHPA to which many livestock owners consigned their animals, which caused a great deal of administrative confusion at the sales. After many complaints the LHPA organised special administrative arrangements and staff for facilitating efficient sales.

There had been many complaints at the initial creation of the LHPAs on the new boundaries as to what could happen to administrative efficiency. The locals wanted to merge the two component parts of the old Maitland RLPB back into a single organisation. They proposed moving the bisected component into either Cumberland or Mid Coast or creating a 15th LHPA made up of the former Maitland RLPB.

Cumberland LHPA in their submission recommended that there be no changes to the boundaries of the LHPAs. After the public meetings and the airing of the problems at them and in numerous public submissions, Cumberland LHPA proposed creating a working group with mid Coast LHPA and representatives from the region to see if they could organise a solution to the problem.

The localism that existed in the former RLPBs was lost, according to submissions and meetings and discussions with officials, as it is a five-hour trip from the southern end and major offices of the Cumberland LHPA to the northern end of the authority.

The review was told that informal arrangements had been put in place to facilitate effective cooperation between mid Coast and Cumberland in the animal health surveillance role. This appeared to be due to the cooperative workings of staff in the authorities rather than from formal arrangements to ensure administrative effectiveness.

This is another example of policy inertia in the LHPA framework which does not allow adaptation is to changes or recognition of problems.

Western and Darling LHPAs

The creation of the two LHPAs in the Western Division from the nine former RLPBs has not led to the creation of economically viable units. For the very limited number of ratepayers in the two smallest, by number of ratepayers, LHPAs are not capable of maintaining the current level of administrative overhead without extremely significant increases in rates. Submissions and comments from the public meeting in Wilcannia were that at the creation of these two authority regions, ratepayers warned that they would not be able to finance the additional costs that they were likely to incur. The LHPA in their formal submission asked for state government funding to help maintain the viability of these two authorities. Local comments in the Western division recognised that it would be difficult to continue with taxpayer funding and they proposed their own alternatives of creating three authority regions, based upon travel to 3 major service towns which they said would lead to lower costs of governances as they would surrender being paid directors fees and they would be able to share resources, such as one General Manager, for all three authority regions. There have been other proposals to merge the two LHPAs with the Western Lands Commission.

The Western Division LHPAs have recognised their very high cost structure and have undertaken other measures to reduce costs such as reducing the frequency of their board meetings to every two months rather than every month common to other LHPAs. There is an anomaly with the Western Division LHPAs in that they have higher numbers of paid directors, of 10 and 12, compared to 8 for all the other 12 LHPAs in NSW. The review was unable to find any supporting logic for this anomaly.

The review is unable to say what is the most appropriate and economically efficient organisation of the Western Division LHPAs. There is a need for a process to ensure that in the construction of regions, there should be the identification of minimum efficient scale is to reduce costs to ratepayers and taxpayers. The functions of the costs of the LHPAs should be internalised to the ratepayers as they are the beneficiaries and should not be met by general taxation revenues.

Though the Western Division LHPAs are attempting to address their severe financial problems, there is no apparent process in place to overcome the framework which causes policy inertia.

Attachment 20. Public Meetings on the LHPA Review

Monday 24 October 2011

9.00am Tenterfield

6.00pm Tamworth

Tuesday 25 October 2011

6.00pm Dubbo

Wednesday 26 October 2011

9.00am Forbes

6.00pm Yass

Thursday 27 October 2011

9.00am Wagga Wagga

6.00pm Deniliquin

Friday 28 October 2011

12.30pm Wilcannia

Monday 31 October 2011

9.00am Bega

6.00pm Cooma

Tuesday 1 November 2011

9.00am Moss Vale

Wednesday 2 November 2011

9.00am Singleton

6.00pm Kempsey

Thursday 3 November 2011

6.00pm Grafton

Friday 4 November 2011

9.00am Casino

Monday 7 November 2011

10.00am Orange

Acknowledgements

I would like to thank all those who participated in meetings and provided submissions to the Review. The comprehensive scope and details provided were invaluable in preparing this report.

Greg Martin deserves special thanks for his contributions to this Report and his participation in the extensive series of consultations throughout NSW..Nick Milham, Robert Jannisen and Brett Jannisen also made valuable contributions.

All errors and omissions are my responsibility.