APVMA CRIS Consultation Webinar – Meeting Recording

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On this page

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HANSEN, Scott

Welcome and housekeeping

Afternoon all.

I think we have most of our guests from our lobby now online which means we might get started.

My name's Scott Hansen. I'm the CEO of APVMA and with the support of some of the APVMA team online, I'm going to walk through the proposed cost recovery implementation statement or CRIS that's out for consultation and feedback for proposed commencement 1st of July 2025.

Let me, however, start by acknowledging the traditional owners of Australia, the oldest continuous living cultures in the world, we recognise their continuing connection to land and sea, waters, environment and community. Today I'm on the lands of the Anaiwan people and as a national regulator, however, our work takes place on Aboriginal land across all Australia and with many of you today, dialling in from many different lands across the country. I'd like to pay my respect to elders past and present and I'd also like to extend that respect to Aboriginal and Torres Strait Islander peoples joining us today.

Ok. So before we get too far into the presentation we might move over to housekeeping. You'll have noted that this session has been recorded and will be published on the APVMA website at the end of the session. You'll also note that your cameras and microphones are disabled during the course of the session this

afternoon. However, questions can be submitted using the Q&A function at the top of your teams window.
We'll be consolidating those questions over the course of this afternoon and handling them at the end of our session.
We will endeavour to answer all the questions we can, and a summary of questions, including those that we don't get to today, if there are any we don't get to, will be published up on the APVMA website.
Shortly in that Q&A chat, there'll be instructions on how to enable closed captions if you require them for this afternoon session as well.
I'll just highlight the fact that consultation on the CRIS closes at 5:00 PM on Friday the 18th of October.
You'll find all the information on the consultations page of the APVMA website and the team will also post a link into the Q&A feed as well to help you navigate to our part of the website to be able to keep informed on the consultations.

Agenda

OK. Moving from housekeeping to the agenda for this afternoon.
So what we're hoping to do in today's webinar on the Cost Recovery Implementation Statement is firstly do a bit of a quick refresh on APVMA and what the CRIS is. Then we'll look at some of the data of the key drivers, assumptions and projections behind the three scenarios that have been put forward for your feedback. I'll try to step through those three scenarios including what's the same and what's the difference between them all, and then we'll move to questions and a wrap up.

Our role

So let's jump into our role at APVMA, and we are the independent regulator of agricultural and veterinary chemicals up to the point of retail sale. We evaluate all agvet chemicals before they're sold in Australia and we play a really critical role in ensuring that the public can have confidence in the agvet chemical industry, the products that they buy and use in their homes, their yards, the medicines they give their pets, the food that they eat, providing confidence that it is safe and effective.

Might move to a snapshot of what that translates to in terms of actual activity on the ground. And I'm going to say when you look back over what the team has been able to achieve in 2023-2024 [corrected], and I continue to be incredibly impressed by staff across all areas of APVMA and their dedication to delivering that goal that we have on behalf of the Australian community. The sheer volume and quality of the work that APVMA delivers is a testament to that dedication, and on this slide, you can see some of the numbers delivered in the last financial year and that's only a small snapshot of our work.

Not included up on that screen are the 490 permits that were issued during that period of time, the 395 active constituent approvals, the 752 import consents, the 407 certificates of export that were issued. Nor does it capture in the compliance space, activities such as federal court declarations and injunction relief brought by the APVMA regarding unlawful supply of unregistered veterinary chemicals.

You know, the more you delve into the numbers, the more you get a picture as to the incredible amount of work that's being performed across the agency, as they continue to deliver for the Australian industry and the Australian community.

Cost recovery framework

So turning our attention to the cost recovery framework.

APVMA is almost fully cost recovered agency. I say almost, there's around about a $2m contribution from consolidated revenue funds on an annual basis to the agency. But we are almost a fully cost recovered agency. We recover our costs of our operations through a series of fees and levies and we're required by government to apply the cost recovery policy and charging framework. We also operate to a number of approved policies that dictate the level of cost recovery for various regulatory activities that we undertake.

So these policies for example, provide the rationale for there being no fees charged for emergency use permits, item 22s. The cost of these applications are instead met by levies. It also provides the reason and rationale for nominal fees being charged for minor use permits, item 21s. A remainder of the costs of processing item 21s are funded by levies as well. It also provides the reasons for charging a full direct fees for certain programs, such as the hormonal growth promotants schemes' activities.

In table six of the CRIS discussion paper, you'll see what we tried to do there is capture the application items and the cost recovery mechanism for each of those, for those who are interested in details on an item by item line assessment. Now the last time we did a big update to our fees and levies was in 2019. So there's been a bit of change and a bit of movement since that point in time.

Revenue

Let's start looking with some of the underlying data about what has changed and what has moved over that period of time, and we'll start with revenue.
So before we look at the scenarios, what the scenarios look like, I want to give some data on the key drivers, some of the assumptions and projections that sit behind the three scenarios we're putting forward for feedback. So this graph shows what our revenue has been since 2019 and what it would look like if we did not implement any of the three scenarios being put forward.
While this shows that product application feed revenue has been relatively static since 2019 and renewal fees have been slowly increasing over the period, but only marginally, it's really been the growth in levies between 2021 and 2023, that's been a key feature of the funding story over this period.
But you'll see how it was that we expect that to return back to the long term average from this year going forward.

Now our next slide shows you a bit of the rationale for our projected drop.
And that rationale is represented in these two graphs. They show the strong correlation that exists between our income from levies and the value of agricultural production in the country. Now, remember, coming out of the worst drought in a generation in 2020, the agricultural industry has seen record years of gross value production over the last three years.

That's unlikely to continue, and indeed ABARES and for that matter, a number of ASX listed rural suppliers, all forecast a drop in the value of our cultural production for 2024. And the dry conditions we're seeing in many parts of the country would suggest decreases in both crop and livestock production levels going forward, are more likely than not. Hence our budgets are taking into account, a return to long term averages for levy returns.

Expenditure

I'm turning from our revenues to our expenditure and then putting those two together to show the impacts of that long term, the return to long term averages.
What you can see on our expenditure side is the comparison of expenditure versus revenue and then a picture of our expenditure mix.

With the drop off in levies I just talked about and the flat line of revenue from registration fees, the result is we're projecting an overall deficit for 25-26, as well as for 24-25. Now I'll go into a bit more of that in a moment and what impact that has on our reserves, but first, a quick comment on the increasing expenditure levels, because you'll note that expenditure has grown from around $35m in 2020 to around $51.5m this year.

Our single biggest expenditure item is staff.
Knowledgeable staff with specialist skills are at the core of what APVMA is. And our staff costs have gone from about 23 million in 2020 to about 33 million this year. Now the biggest driver of that increase has been an additional 42 staff that were added to the 180 staff head count we had in 2019 when we last came out and spoke around a CRIS.

Now these were additional staff that were added to meet the increased workloads and timeframe expectations over that period.

Independent assessment of timesheets during that period showed an additional 35 FTE equivalent of full time staff equivalent in unpaid overtime being performed by staff across the authority to try to keep up with those expectations. That was just unsustainable and resulted in the additional staff being added to try to address that. These additional staff and that staff cost along with the rest of the expenditure at APVMA have then also been subjected to that 17% CPI increase over the period from 2019 through to 2024.

Now there's been efficiencies brought into play to try to dull some of the impact of that CPI increase on the bottom line. But it's been those two drivers of the additional staff to meet expectations and increase workloads, and the increase in costs of doing business since 2019-2020, that are the two key drivers with regards to our expenditure increases.

Now, if you have a look at that breakdown of our expenditure mix, you'll see it remain relatively consistent in terms of the splits between. You'll also see that going forward we have also held staffing levels steady. We've factored in an 11% increase in wages over the forward three years as picked up and factored in in our enterprise agreement. We have also seen an increase in ICT expenditure to try to address systems improvements and that continues forward as we continue to move into a more cybersecure environment, for our data, for our information and to meet expectations around that cybersecurity.

Now one of the big differences in our CRIS of this year to last year, is the fact that in 2019 our assumptions were based off the best estimations we had at the time. This year we have a higher degree in confidence in our projections since we've implemented activity based costing.

That activity based costing is the reason why some items have moved backwards in cost despite what we just talked about in terms of cost drivers, whilst others have increased more significantly, because we now have better records of the costs associated with each of those individual activities.

Section 6.5 of our CRIS discussion paper covers the details of the costing methodology for this CRIS. For those again who want to delve into more detail around our costing methodology and our costing buckets.
So when you put those two combined stories together, the story of revenue and the story of expenditure, you can see the impact it has on reserves.

The graph that's coming up now shows our cash reserve impact or the cash, the impact on our cash reserves, all of the operating deficits that we're currently talking about.

Now when you look backwards though, what it also shows is the surpluses of 2020 and of 2021 remedied the previous deficit position the APVMA found itself in at that period.

The surpluses of the last three years have built those cash reserves up to ensure that there is a buffer to cover contingencies and liabilities, and to provide a safe operating buffer for the Authority.

But the budgeted deficit of this year combined with the forecast budget deficit for next year, in the absence of any increase in fees, leads to either a complete erosion of that reserve or the significant reduction in expenditure that would be required to prevent the erosion of the reserves. And given the fact that our largest single expenditure line item is staff, that would result in a reduction in staff resources which has a corresponding impact on timeliness and our ability to meet expectations of the community and of the industry.

Overview of scenarios

Which leads me to our scenarios that we are wanting to stimulate conversation and discussion around over this coming month.
This slide shows the high level comparison of the three scenarios.
So option 1 basically sees us maintain our current operations and our current operating level. We keep our current head count where it is at the moment and we just adjust the fees to budget for a break even position for 25-26, so our next financial year. And that's our minimum option.

That is also our preferred option and the preferred option of the APVMA board.
I'll go into a bit more detail on that in the moment but let me just quickly summarise options 2 and 3. Option 2 expands our operations for increasing staffing levels and increased ICT expenditure to improve efficiency. And it increases fees to accommodate that increasing staffing level and increased ICT expenditure.
Option 3 looks like, looks at a strategic reform. It looks a lot like option 1 in that it looks to raise fees to maintain current operations and current levels, but then creates an increased reserve through an adjustment of levies.

That adjustment of levies would raise additional funds for expenditure on major operational or technology reforms at the relevant point in time at which they present themselves.

It basically allows us to meet current operating costs and build a buffer of reserves which could quickly be deployed to seize any opportunities in operational technology reforms arising over coming years.

Now there's a couple of commonalities across all three scenarios.
In the first instance we're proposing in all to move to a yearly update cycle.

This means we can better respond to market conditions and avoid large fee increases by 5-6 year gaps between CRISs. It also opens the door for reductions if seasonal conditions turn and provide greater revenues and predicted through levies, then we can respond quickly and with confidence on an annual basis. It allows us to take a more active role in monitoring and adjusting fees to reflect the real expenses of running the agency and as we continue to enhance and refine our activity based costing, allows us to better represent that in individual items fees.

So turning to each of the scenarios in a bit more detail. Scenario 1, as I said, is our lowest fee increase option and it proposes no change to the levy tiers or the levy rates. What it allows us to do is maintain our current resourcing level with the fee increase covering the cost of current operations and providing us with a break even end point in our budgets against current expenditure levels.
So we would see our current expenditure profile maintained around that $50 million dollar mark. And as I said, this is management and the board's preferred option, it best aligns with the business cycle by focusing on us actually recovering the actual cost of operations rather than trying to project or predict potential future costs.
For that reason, it's also most closely aligned to the government's cost recovery framework.

So scenario 2, the fee increase in scenario 2 is actually double that of scenario 1.
What it looks to do is add additional staff resources to ensure that the pace of registration and the pace of reassessments are maintained over the longer term.
It makes no changes to levy tiers or levy rates and only addresses fees and charges.
What it does allow us, it gives us increased expenditure to try to address the fact that we know our ICT is dated in many areas and we'll make sure we're spending a suitable amount of money on improving it, both the customer facing side of it as well as the cybersecurity elements of it.

Now I need to point out that we believe that there is a very strong chance that the additional needs reflected in this option are actually likely to be realised.
However, we're not in a position at this point in time to be able to clearly identify what an efficient resourcing level is to be able to meet those needs, nor whether that resourcing level is most appropriately collected pre market via fees and charges, post

market via levy or via public funding appropriation, and hence this option is not our preferred option.

Scenario 3 is essentially option 1 as I've said, but with a change to the levy tiers, resulting in an increase in levies revenue.
We foresee that the opportunity for major reforms, operational reforms off the back of the many years of reviews into the ag and vet chemical regulatory system in Australia and into APVMA will present itself over the coming years. What this scenario seeks to do is to build a reserve through increased levies to enable quick investment in those strategic reforms when the opportunities arise.

As per option 2, we believe that those additional needs reflected in this option, proposed in this option, are actually likely to be realised.
However, also like option 2, we're not in a position at this point in time to be able to clearly identify even what the highest priorities in these reforms might be,
what government's position on those reforms might be, and therefore we can't clearly identify the most efficient resourcing level that may be required for them, nor whether it is most appropriately to be funded via pre market fees, post market levies, or again via public funding appropriation.

Because of that uncertainty, again, this option is not our preference.
Now that's been a very quick walkthrough of our three scenarios and the underpinning assumptions that we make in being able to arrive at those.

Questions

Very conscious that with your microphones and your cameras off, I'm sure many of you have questions at some things that have been said and some of the things have been raised.
Over the course of the afternoon, we've actually been accumulating those questions and I believe the team's been answering those as we've gone through.
And so there's still a few questions left to address, so let's do that now.

I'm seeing that the first question that I've got here is, "Is the APVMA or any other organisation responsible for monitoring the short and long term negative user public and environmental impacts of agricultural pesticides and veterinary chemicals?"

I guess a great question, the, I mean APVMA does maintain an adverse experience reporting program that assesses reports of adverse experiences associated with registered chemical products or those on permit.
And reports of those adverse experiences are closely monitored by our staff.
However, you know, there has been numerous recommendations out of reports and reviews over the last number of years that have talked about taking that assessment piece and monitoring piece in a completely broader and wider field than merely responding to adverse reports coming in. And that's one of those reform pieces that we're yet to see what government's response to recommendations around broader monitoring and surveillance activities might be. And so, in the absence of knowing what their views and thoughts around an ongoing monitoring program are, or what shape or size that might be, we're unable to predict what an efficient program might look like, what the funding might need to be for that, how it ties into existing programmes such as the NRS or the National Residue Survey, nor whether it's more appropriately funded via pre, post market recovery cost recoveries or funded by public funding through a public allocation of funds through the Commonwealth budget.

"So is scenario 3 a 12% or 26% increase?"
So scenario 3 is the same increase in fees as scenario 1 but in increasing levies. Now that that combination of the scenario 1 increase in fees to break even on current expenditure levels and return us to the 40% cost recovery for those fees and charges for registration combined with the increasing levies gives us at 20% increase in total revenues.

"Would the payment of fees and levies into consolidated revenue with the APVMA funded from those resources help to ensure that APVMA is more independent of and at arm's length from the industry it regulates?"
Well I guess there's a couple of pieces to that. My knee jerk response would be I don't see it makes much of a difference in terms of which bank account the money goes into.
Our budget appropriations, our budget expenditure is set and approved in partnership with the board, reporting on what we spend our money on is in our annual report, and which bank account we draw those funds from to cover those costs and then report about the expenses of those costs, really doesn't make a

difference with regards to you know, whether it's an account held by us or an account held by DAFF or an account held by consolidated revenue and Treasury. What it might do is require us to have to take some extra steps to ensure that we're able to quarantine or protect those for the purposes from which they were being raised, and make sure they don't disappear into consolidated revenue at the end of reporting periods. But that's not something we're contemplating in this CRIS, nor is it something that we've had raised with us at this point in time as part of the reform discussions with DAFF.

I'm just looking off to the side to see if there's any more questions that have come through.
In the absence of any more coming in at the moment what I might just do is highlight what next steps look like. So thanks again for your time today. As I said earlier, this was going to be a very quick step through of what our Cost Recovery Implementation Statement looks like and what it is that we're seeking your views and are looking to have a conversation with you on.
The consultation on CRIS closes at 5:00 PM on Friday the 18th of October. You'll find all the information on the consultations page on the APVMA website, and hopefully the teams posted up an easy link to that so that you can find your way there.
If you've got any other further questions or feedback, don't hesitate to send them through to the email up on screen now at costrecovery@apvma.gov.au.
We'll make sure that all of the questions that we've addressed here today, as well as any other questions that were addressed during the course of the presentation this afternoon, can post up on the website as well.
Thanks again for your time. Thanks for your participation. Look forward to catching up with many of you over the coming month in consultation on this and on other consultations that we're currently undertaking.
Enjoy the rest of your day. Thanks again. See you.