Annual Review 2025: Proposed changes to MPI's cost recovery settings

Decision sought	Final Cabinet policy decisions to increase several fees and levies and make a range of 'design changes' to fix relatively small issues.
Agency responsible	The Ministry for Primary Industries (MPI)
Proposing Ministers	The Minister for Food Safety
Date finalised	27 March 2025

The Minister seeks to make a range of changes as part of the annual review of MPI's cost recovery settings. The proposals are to:

- increase the Large Dairy Standards Processor Levy
- increase the Large Dairy Exporter Levy
- increase veterinary service fees for Establishments (red meat processors)
- increases veterinary services fees to support live animal imports and exports (including germplasm)
- increase the raw milk and homekill levies, and
- six 'design changes' that fix relatively small flaws in other cost recovery settings.

The Ministry of Regulation has determined that increased raw milk and homekill levies and the six design changes have minor or limited impacts. The Ministry for Regulation has provided an exemption from Cabinet's RIS requirements, including from independent quality assurance.

This cost recovery impact statement (CRIS) covers increases to dairy levies, and veterinary fees for Establishments and live animal imports and exports.

Summary: Problem definition and options

What is the policy problem?

Each of the levies and fees proposed to increase are in deficit.

Expenditure has been reviewed and, in most cases, been assessed as sufficiently meeting Transparency and Justifiability principles. Together these principles help judge whether expenditure is reasonable – that necessary food safety and international market access services are being delivered cost efficiently. In some cases, the expenditure has not been assessed as sufficiently meeting the Transparency and Justifiability principles – at least not without further assessment – and so these costs are not proposed to be recovered at this time.

If the deficits aren't addressed, the cost would need to be met via public funding or risk not meeting food safety standards or not maintaining or expanding international market access.

What is the policy objective?

Legislation requires Governments to take reasonable steps to recover the costs of MPI's services where Crown funding is not provided.

MPI's cost recovery principles of Transparency, Justifiability, Efficiency and Equity are set out in guidelines and in legislation and help determine whether cost recovery is appropriate. The principles to be met can be summarised as follows:

- To be cost recoverable, expenditure must be transparent and reasonable.
- Cost recovery methods and settings must be efficient and fair.

MPI monitors cost recovery accounts against two tests to show if cost recovery settings need review. These tests are:

- if a deficit or surplus becomes material – either more than four months (33%) of annual revenue or more than $1 million, or
- if a deficit would be written-off because of statutory recovery deadlines (four years), or if a surplus has existed for four years.

When an account meets either of the tests, review of the income and expenditure is triggered. The approach of frequent reviews to settings is favoured by industry as it mitigates against large swings in fees or levies.

There may be other circumstances, such as wider economic settings or seasonal fluctuations, where a review is not immediately undertaken and would be deferred if appropriate, or there is no write off risks. Big fluctuations in the memorandum accounts can also occur due to other changes such as inflation.

The Transparency and Justifiability principles require MPI to consult about service levels and give users the opportunity to test that MPI is spending money wisely.

MPI prepares an 'annual package' covering cost recovery settings proposed to change. This CRIS is for the 2025 annual package.

What policy options have been considered, including any alternatives to regulation?

Options considered were, in general:

- retain the status quo, keeping fee and levy rates unchanged,
- full cost recovery.

Options to not fully recover costs until after further review were considered for the dairy levies and the veterinary service fees for import and export. Options that do not include expenditure where questions remain on whether expenditure sufficiently meets the Transparency and Justifiability principles are included for the dairy levies, the import and export veterinary fee rate.

Options not considered were:

- Recovery of costs by private contract and price negotiation because of increased administrative costs and decreased public and Cabinet oversight of the cost recovery principles.
- Crown funding – The Government has not sought to explicitly support any industry through the fees and levies covered by this CRIS. Partial recovery would not be appropriate in these circumstances ad it would undermine New Zealand's trading obligations. The levies and charges relating to export or import are limited to the approximate cost of services rendered and do not represent an indirect protection to domestic products.

What consultation has been undertaken?

MPI generally consults on service levels and expenditure through industry forums and regular industry reports.

A consultation document was released for a four week consultation on 5 February 2025. MPI notified 6,900 industry bodies and businesses that MPI deals with and MPI met with interested stakeholders such as the Meat Industry Association. The document proposed changes to:

- the Dairy Standards Processor levy,
- the Dairy Exporter levy,
- veterinary service fees for establishments,
- veterinary services fees for live animal exports and exports,
- raw and homekill levies, and
- small minor and technical changes to cost recovery settings;

Submitters views on the dairy levies were mixed.

- Dairy New Zealand noted that most of its members supported the preferred option at consultation (the preferred option in this CRIS),
- Fonterra Cooperative Dairy Company preferred a smaller interim increase in the levies, and
- the Tatua Co-operative Dairy Company preferred no increase until a full review of expenditure is complete.

A common theme was that MPI needed to provide more information about expenditure. The proposed dairy levy increases are interim increases until a fuller review of expenditure can be undertaken. MPI will also look to improve the regular reporting to industry. Submitters supported (or conditionally supported) the proposed rate changes.

A small exporter questioned the basis for calculating the small dairy levies. After review MPI has changed their preferred option to increase the levy and now propose to leave the small dairy levies unchanged and reconsider them as part of the future, fuller review.

Submitters also requested more moderate future increases and increased transparency. As a result of consultation MPI recommends implementing all proposals as consulted except for updates to the levies for small dairy processors and exporters.

MPI proposed three options for the veterinary service fees for establishments. In addition to the status quo, Options (2) and (3) proposed cost recovery for different numbers of relief vets to cover for the number of fulltime vets agreed with Establishment premises. Option 2 proposed five relief vets and Option 3 proposed ten. Relief vets absences among fulltime vets due to annual leave and holidays, sickness, training and for unpredictable absences.

MPI did not have a preferred option. The Meat Industry Association was the sole submitter, expressing support for Option (2). MPI supports industry's choice of preferred option.

No submissions were received on the vet fees for live animal work.

Is the preferred option in the Cabinet paper the same as preferred option in the RIS?

Yes, the preferred options are the same.

Summary: Minister's preferred option in the Cabinet paper

Costs (Core information)

Outline the key monetised and non-monetised costs, where those costs fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

The proposals are expected to have negligible impact on business, households and markets.

The total cost of the proposals is $10.0 million per annum. The cost increases per annum are listed below along with a comparison to export revenue:

- $1.3 million under the Large Dairy Standards Processor Levy and $0.7 million under the Large Dairy Exporter Levy | Dairy levy increases are in total less than 0.01% of export revenue
- Veterinary service fees for establishments $7.6 million, less than 0.1% of export revenue
- Veterinary service fees for live animal imports and exports $0.4 million, 0.1% for exports. Less than 0.002% for imports.

The CRIS contains detailed information about the distribution of cost increases across businesses. Total cost per business is based on how much they produce or use the services.

Benefits (Core information)

Outline the key monetised and non-monetised benefits, where those benefits fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

The key benefit to the Crown is that it will not fund the deficits as they are progressively written-off over time. The additional $10 million recovered via these levies is funding that does not have to be found from public funding. Using Treasury's deadweight loss assumption of 20%, this public funding would carry a deadweight loss of $2 million per annum.

Balance of benefits and costs (Core information)

Does the RIS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?

The economic benefits of the preferred options outweigh the economic cost. Increasing recovery of the reasonable costs of MPI's services reduces the distortion (deadweight loss) that arises from using public funds / taxes, and the distortion of business decisions that arises from providing subsidised services.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

MPI is responsible for implementing the proposals. There are negligible implementation risks. MPI needs to update its finance and charging systems and make sure staff and businesses are aware of the changes. It does this through internal and external communication channels.

Changes to the dairy levies and vet fees would occur on 1 July 2025.

Limitations and Constraints on Analysis

The CRIS contains background analysis of how each relevant sector is performing. This analysis is based on Statistics New Zealand and MPI data available up to September 2024. Statutory deadlines for making cost recovery changes means that this analysis has not been refreshed with data released after September. However, data and trends often stretch back decades so long-term trends will be unaffected. Short term trends might be slightly different, but there hasn't, for example, been a large scale shock to any industry which might give reason to consider whether to proceed with increases to fees and levies.

As above, some expenditure and accounts need further review before MPI can have confidence that the Transparency and Justifiability principles have been sufficiently met. This is directly factored into the analysis and constrained the range of feasible options in the case of the dairy processor and exporter levy. MPI does not propose to fully address these account deficits until further review can establish that the expenditure and deficit data is robust.

Policy decisions require considering the Efficiency and Equity principles. Determinations about what is fair under the Equity principle is ultimately a matter for Government.

I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager(s) signature:

Bruce Arnold

Director Cost Recovery

27/3/2025

Quality Assurance Statement

Reviewing Agency: Ministry for Primary Industries	QA rating: partially meets

Panel Comment:

The Ministry for Primary Industries Regulatory Impact Analysis (RIA) Panel has reviewed the 'Annual Review 2025: Proposed changes to MPIs cost recovery settings' cost recovery impact statement (CRIS) partially meets the RIA criteria. The proposals in the CRIS have been consulted, and the CRIS is the complete. The RIA panel considers that the some of the analysis of the proposed options could be strengthened and that not all of the conclusions are clearly linked to the analysis or the risks identified.

Annual Review 2025: Proposed changes to MPI's cost recovery settings

Cost Recovery Impact Statement

March 2025

Disclaimer

While every effort has been made to ensure the information in this publication is accurate, the Ministry for Primary Industries does not accept any responsibility or liability for error of fact, omission, interpretation or opinion that may be present, nor for the consequences of any decisions based on this information.

This publication is also available on the Ministry for Primary Industries website at

http://www.mpi.govt.nz/news-and-resources/publications/

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1 Navigating this document

1.1 Background

Cost recovery plays an important role in funding MPI's services. These services help ensure the food New Zealand produces is suitable and safe for consumption and export. In 2023/24 MPI's total cost recovered revenue across all sectors was $262 million, which comprises around 30% of MPI's operating expenditure.[1] The Ministry for Primary Industries generally recovers the costs from industry and individuals who benefit from the related services.

To ensure cost recovery settings remain appropriate, MPI reviews the settings every year as part of an 'Annual Package'. Annual packages cover two types of review:

Revenue and expenditure reviews address accumulated deficits or surpluses. The primary purpose of these reviews is balancing the accounts, whether by changing revenue or changing expenditure.

Design reviews address typically small errors, gaps or inconsistencies in regulations, or other small issues in how costs are recovered. The primary purpose of design reviews is not about balancing the accounts, but making the way we recover costs more efficient and complete.

1.2 What this document covers

This cost recovery impact statement (CRIS) covers three expenditure and revenue reviews, including options for changing fee and levy rates, around the Dairy Processor Levy and the Dairy Exporter Levy, and veterinary service fees for Establishments and for work supporting live animal imports and exports.

This year's design changes along with revenue and expenditure reviews around the raw milk and homekill levies have been determined by the Ministry of Regulation to have minor or limited impacts and have been exempted by the Ministry for Regulation from Cabinet's RIS requirements. These additional reviews were consulted on as part of MPI's legislative transparency obligations. While these reviews have been excluded from this version of the CRIS for Cabinet, to ensure MPI meets its legislative transparency obligations, will be included in another version of this RIS covering all of this year's reviews.

This CRIS dedicates chapters to each of the above reviews. Each chapter sets out background to services, identifies problems and options, and analyses those options against MPI's cost recovery principles of Transparency, Justifiability, Efficiency, and Equity.

1.3 Terms used in this document

Term	Description
CRIS	Cost Recovery Impact Statement. This document.
Cost recovery principles	Four principles that underpin MPI's approach to recovering costs from third parties. These are Transparency, Justifiability, Efficiency and Equity.
CPI	Consumers Price Index.
Establishments	Veterinarian services based at red meat processing facilities.
FTA	Free trade agreement.
Homekill	Slaughter and processing of a customer's own animal meat by a butcher for a customer's personal consumption, not sale.
IRG	Cost Recovery Industry Reference Group.
Live animal imports and exports	This term should be read as including germplasm. 'Live animal imports and exports' is used for short.
Memorandum account balance	A measure showing the sum of revenue from MPI's fees/levies and expenditure. Can be in deficit or in surplus. MPI aims to balance

[1] MPI Annual Report 2023/24, p. 14.

	memorandum accounts so that there are not excessive surpluses (an unlawful tax) or excessive deficits (a subsidy).
MPI	Ministry for Primary Industries.
PPI	Producer Price Index
Raw milk	Unpasteurised milk sold under raw milk requirements.

1.4 Goods and Services Tax

The fees and levies in this document are GST-exclusive. This is for a couple of reasons.

First, GST-exclusive fees and levies ensure that regulated charges will still be valid in the event of any changes to the rate of GST.

Second, GST is paid on final consumption while MPI's services are generally[2] an input into businesses' taxable supply. GST is claimed back by businesses and is not, therefore, a part of the price businesses pay for MPI's services.

[2] Individuals or households use some MPI services that counts as final consumption, such as veterinary inspections prior to taking a pet overseas.

2 Executive summary

The 2025 Annual Package includes proposals to increase:

- The Large Dairy Standards Processor Levy and the Large Dairy Exporter Levy; and
- Veterinary service fees for Establishments and for live animal imports and exports.

2.1 Dairy Standards Processor Levy and the Dairy Exporter Levy

The Dairy Standards Processor Levy and the Dairy Exporter Levy recover costs for services such as monitoring activities, standards setting, and maintenance of market access standards.

The levy rates were reduced in 2021 to address a surplus, partly due to a reduction in service levels as MPI redirected resources to manage the impacts of COVID-19. Levy funded services have now been restored and deficits have arisen.

Best currently available data that suggests it is likely that:

- Under the Dairy Standards Processor Levy, there was an accumulated deficit of at least $0.2 million by June 2024, which is expected to rise to at least $0.9 million by June 2025 and to at least $3.9 million by June 2028, and
- Under the Dairy Exporter Levy, there was an accumulated deficit of at least $0.4 million by June 2024, which is expected to rise to at least $0.8 million by June 2025 and to at least $2.1 million by June 2028.

As MPI has not undertaken a comprehensive review of assumptions around resource/effort under these levies for several years, there is a level of uncertainty around the numbers. MPI is committing to undertaking a comprehensive assessed effort review in 2025 which would feed into the 2026 Annual Package.

To be able to recover costs, MPI must sufficiently demonstrate that expenditure is reasonable. The lack of a comprehensive 'assessed effort' review means that MPI is not currently able to do this and, so, expenditure is not automatically eligible for cost recovery.

The dairy industry has, however, regularly (including as part of consultation on the 2025 Annual Package), expressed a desire for frequent resets of levies to avoid larger swings.

With industry's preference in mind, MPI consulted with industry about whether they would prefer to have an interim increase in levies to avoid a larger increase in levies that would likely result if an increase in levies waited until MPI completed a full assessed effort review.

2.1.1 The Large Dairy Standards Processor Levy and the Large Dairy Exporter Levy

MPI consulted on three options.

Option (1) kept the current levy rates for the 2025/26 year, deferring any increases to 1 July 2026. The deferral results in deficits accumulating further and, so, bigger increases in the levy required. On the best currently available data, the increases would be at least 39.9% and 104.4% respectively.

Option (2) fully recovered expenditure according to MPI's best currently available data. This option sees the Large Dairy Standards Processor Levy increase by 30.3% and the Large Dairy Exporter Levy increase by 84.7% on 1 July 2025. A further review of levies would take place after an assessed effort review is completed in 2025. This was MPI's preferred option at consultation.

Option (3) offered industry the opportunity to suggest a level of increase in the levy they were happy to pay.

Submissions on the dairy levies were mixed. Dairy New Zealand said that most of its members MPI's proposed interim increase (Option (2)), while Fonterra preferred a smaller interim increase in the levies (Option (3)) and the Tatua Co-operative Dairy Company preferred no increase until a fuller view of expenditure can be completed (Option (1)).

MPI puts greatest weight on Dairy New Zealand's submission as it is the industry representative organisation and canvassed a range of members. MPI recommends proceeding with Option (2).

The median increase in the annual levy paid by large processors under Option (2) would be $4,300. While the percentage increases in the levies appear to be large, the proposals would restore levies the cover expenditure similar to 2021 levels in real, inflation-adjusted, terms. The levies were reduced in 2021 to address a surplus, partly due to a reduction in service levels as resources were reallocated to respond to COVID-19.

The median increase in the annual levy paid by large exporters under Option (2) would be $3,200. Overall, the interim increases would see the dairy levies as a proportion of export revenue rise by 0.07 percentage points from 0.019% to 0.026%. This increase is unlikely to materially change businesses decisions or the industry overall.

2.1.2 The Small Dairy Standards Processor Levy and the Small Dairy Exporter Levy

MPI consulted on the same three options for the small levies. The preferred option at consultation was for a 30.3% increase in the Small Dairy Standards Processor Levy and an 84.7% increase in the Small Dairy Exporter Levy, matching the preferred option for the large levies.

One small exporter raised questions about questions about the proper basis for calculating the small dairy levies. MPI has investigated and agrees that the basis of the small levy is different from the large levy and, so, simply increasing the small levies by the same percent as the large levies is not appropriate.

As MPI did not consult on options that reflect the proper basis for calculating the small levies, MPI's preferred option now is to leave the levies unchanged and reconsider them as part of the upcoming fuller review. The financial impact of not changing levies is small. If the preferred option was continued with, it would raise $43,000 compared to the $2.0 million additional under the large levies.

2.2 Veterinary service fees for Establishments

For Establishments, the deficit was $3.0 million in June 2024 and is expected to rise to $5.1 million by June 2025 and to $21.1 million by June 2028.

The CRIS considers two options (Options (2) and (3)) other than the status quo (Option (1)). Option (2) provides the number of fulltime vets agreed with Establishment premises, plus enough relievers needed to cover relatively predictable absences among fulltime vets due to annual leave and holidays, sickness, and training. Option (3) provides an additional five relievers to provide greater contingency for services in the event of less predictable absences such as vacancies and unplanned shift changes.

The median increase in the fees paid per annum by Establishment premises would be $121,000 under Option (2) and $137,000 under Option (3). Overall, the fee increases under the highest cost option (Option (3)) would see costs recovered as a percentage of total export revenue increase by about 0.09 percentage points from 0.40% to 0.48%. This increase is unlikely to materially change businesses decisions or industry overall.

MPI did not have a preferred option at consultation and sought industry feedback to guide the choice. The Meat Industry Association was the sole submitter, expressing support for Option (2). MPI supports industry's choice of preferred option.

2.3 Veterinary service fees for live animal imports and exports

For live animal imports and exports, the fee has not been reset since 2015 and no longer fully recovers costs. Under MPI's preferred option, the fee would be increased by 16.4% to recover forecast costs including a forecast accumulated deficit by June 2025 of $0.4 million. An alternative option considered would increase the fee by 20.0% to recover a further $0.2 million of accumulated deficit. MPI does not prefer this alternative option because recovering this deficit would not be reasonable at this time as the robustness of the $0.2 million has not yet been validated.

For median importers, the fee increases amounts to about $540 per annum with the top 25% of importers' costs increasing by at least $2,000 per annum. These fee increases are expected to have negligible impacts on households, businesses, markets and exports.

No submission was made on this proposal.

3 Overview of MPI's services, charges, and the regulatory framework

3.1 Cost recovery in general

MPI provides a range of services across the Biosecurity, Food, Fisheries, Forestry and Animal Product systems. These services help protect New Zealand from biosecurity risks, ensure that food is safe to eat, and manage the sustainability of our natural resources. The exclusion of pests and diseases, and safety assurance, also improves trading partners' willingness to accept New Zealand products. Services include biosecurity inspections to prevent pests from entering the country, developing and maintaining domestic and overseas standards for food and other products, and monitoring and testing products to ensure consumer safety. Improved market access enables the primary sector to grow the value of its production, including exports.

Cost recovery helps ensure the provision of these services. Approximately 30% of MPI's departmental funding typically comes from cost recovered revenue.

3.2 How are cost recovery charges regulated?

Primary legislation enables the Government to recover costs, with regulations setting out specific charges.

The Government may contribute funding for services, legislation generally requires all reasonable steps to be taken to recover remaining costs. Reasonable steps include recovering costs where this aligns with the cost recovery principles of Transparency, Justifiability, Efficiency, and Equity. These principles also appear in MPI's cost recovery guidance[3] and in the Office of the Auditor General's guidance[4]. The principles are discussed further in chapter 4.1.

3.3 How are cost recovery regimes reviewed?

MPI uses the cost recovery principles for revenue and expenditure reviews, and in addressing design issues.

3.3.1 Revenue and expenditure reviews

MPI constantly monitors accounts and whether they are falling into deficit or surplus. Revenue and expenditure reviews may be undertaken following 'assessed effort reviews', if charges have a statutory review date, if industry requests a review, or if one of three brightline tests are met.

Frequent and timely reviews, including resetting fees and levies where required, help ensure that revenue and expenditure are balanced and are preferred by industry as they help avoid large swings in charges.

3.3.1.1 Assessed effort reviews

To establish and analyse deficits or surpluses, MPI's takes data from its cost allocation model, checks the data for errors, and, with input from MPI business units that provide services, explores and explains expenditure line-by-line by expenditure type (personnel, support costs, overheads etc). A requirement for this work is robust financial data.

To maintain quality financial data, MPI undertakes 'assessed effort reviews'. These reviews update assumptions about how much MPI resource is spent on different programmes, for example Team A spends 30% of time on cost recoverable activity 1, 40% on cost recoverable activity 2 and 30% on Crown-funded activity. This information is fed into MPI's cost allocation model to generate expenditure

[3] *Ministry for Primary Industries Cost Recovery Policy Guidance*, MPI Information Paper No: 2018/08, https://www.mpi.govt.nz/dmsdocument/30855-Ministry-for-Primary-Industries-Cost-Recovery-Policy-Guidance

[4] *Setting and administering fees and levies for cost recovery: Good practice guide*, https://oag.parliament.nz/2021/fees-and-levies.

data and the assumptions and results are considered for approval within MPI's financial system including by MPI's Investment and Finance Committee.

The final revenue and expenditure data is then used to inform revenue and expenditure reviews and fee and levy setting within MPI's Cost Recovery Annual Package.

In line with guidance by the Office of the Auditor-General for 'regular monitoring' of memorandum accounts and underlying costs and services[5], MPI aims to undertake assessed effort reviews every three years or sooner if material changes occur.

3.3.1.2 'Bright line' tests

Fees and levies may be updated if a material surplus or deficit arises. Materiality may exist if any of the following three tests are met:

- an accumulated deficit or surplus is more than four months (33%) of annual revenue;
- the accumulated deficit or surplus is $1 million or more; or
- a deficit is due to be written-off (due to time limits in legislation on the recovery of deficits), or a surplus has existed for an equivalent amount of time such that it would be written-off if it was a deficit.

3.3.2 Design issues

Reviews of cost recovery settings can also address 'design issues'. Design issues are typically small changes relating to who pays and how, and often have no or negligible financial impacts. This year's design changes are small and have been exempted from Cabinet's regulatory impact analysis requirements.

[5] Setting and administering fees and levies for cost recovery: Good practice guide, p. 26.

4 Cost recovery principles and overall approach to cost recovery

This chapter summarises MPI's cost recovery principles and the overall approach to cost recovery.

4.1 MPI's cost recovery principles

MPI's cost recovery principles are as follows:

- Transparency – costs are transparent
- Justifiability – costs are reasonable
- Efficiency – costs are recovered in a way that net benefits are maximised
- Equity – costs are recovered in a way that is fair.

These principles are set out in MPI's cost recovery guidelines,[6] and most of the legislation MPI administers.

The principles build on each other with Transparency and Justifiability providing a foundation to the consideration of, and sometimes trade-offs between, Efficiency and Equity. MPI can only cost recover if it has sufficiently met the Transparency and Justifiability principles.

Once the Transparency and Justifiability principles have been met, the Efficiency and Equity principles state that the beneficiaries of a service should generally pay for that service. That is, beneficiaries pay 100% of the costs unless there is a strong efficiency or equity reason why they should not.

A more comprehensive description of the principles and how they relate to each other can be found in Appendix D.

4.2 Determining who should pay

MPI uses the principles to identify and assess options around who should pay.

4.2.1 Beneficiaries generally pay

Beneficiaries should *generally* pay for the services they demand and use. If the costs of services are subsidised by others, beneficiaries will demand more and higher quality services than if they faced the full cost. The higher demand is an inefficiency, as it leads to more resources being used in the provision of services than their beneficiaries actually value or are willing to pay for.

Charging beneficiaries gets beneficiaries to reveal whether they truly consider the benefits of the service to be worth the cost, and ensure that the quality and volumes of MPI services are not higher than is economically efficient.

4.2.2 When beneficiaries might not pay

Beneficiaries *might* not pay full costs in four situations.

4.2.2.1 Costs are not reasonable

The first situation is where MPI has not sufficiently demonstrated that it is doing all it reasonably should to keep costs low (i.e. that it cannot meet the Transparency and Justifiability principles).

If MPI has not sufficiently demonstrated that past expenditure is justified, then write-offs might occur.

If the Ministry has not sufficiently justified expected future expenditure, it may be appropriate for MPI to:

- change the fees or levies to a level that can currently be justified, and

[6] Ministry for Primary Industries Cost Recovery Policy Guidance, MPI Information Paper No. 2018/08, https://www.mpi.govt.nz/dmsdocument/30855/direct

- cover the remainder of costs, or
- recover the deficit from a future time period after further work has been undertaken

- guarantee that fees/levies will not exceed a certain level over the next period, or
- charge fees at a fixed level, rather than variable charges, to encourage efficient service delivery.

4.2.2.2 Administration costs are excessive

The second situation is where the administrative costs of charging (e.g. invoicing, collection) are excessive compared to the revenue raised and the efficiency gain of precisely charging beneficiaries.

4.2.2.3 Externalities

The third situation is where there are externalities. Externalities are positive or negative impacts on third parties that result from the demand and supply of a good or service. MPI primarily deals with negative externalities. An example of a negative externality is when consumers demand, and importers supply, overseas products that create a biosecurity risk from the pest incursions on domestic farmers. In this example, charging importers for MPI activities around managing the negative externality encourages importers to reduce risk at their end and, therefore, the need for MPI services.

Consideration of externalities is complicated. Further detail is provided in Appendix D.

4.2.2.4 Equity reasons

The fourth situation is where the Government determines that there are equity (fairness) reasons as to why the Government, or some other party, should pay or contribute to costs. Equity involves value judgements. It will normally be considered fair that beneficiaries or exacerbators pay (in line with the Efficiency principle), but there may be reasons why Government might want to make a contribution, e.g. because Government wants to support small businesses or emerging industries, or because parties cannot afford to pay and the Government would rather not see parties stop operating.

4.3 Charges are generally calculated over periods of three years

Where fees and levies are set with the intention of fully recovering costs, charges are generally[7] calculated by summing expected expenditure over three years, adjusting that sum up or down for any accumulated deficit or surplus, and dividing by expected volumes for the next three years:

$$charge = \frac{expected\ costs\ for\ the\ next\ 3\ years\ +\ the\ accumulated\ deficit\ or\ -\ the\ accumulated\ surplus}{expected\ volumes\ for\ the\ next\ 3\ years}$$

A three-year period is used as that is a length of time over which fixed costs become variable costs, for example, the period over which lease agreements would expire, or the period for an agency to reassess its asset requirements and sell unused assets. If MPI could only recover fixed costs in the year in which they were recovered, fee/levy payers in that year would be charged more than fee/levy payers in other years despite all fee/levy payers benefitting from the services enabled by those fixed costs. Spreading the fixed costs over a longer time provides a truer reflection of cost to fee/levy payers across a longer period and better information to MPI about whether service users are willing to pay for MPI services.

The Acts that authorise cost recovery usually require deficits to be written off after three years. This means some fixed costs cannot be spread over a longer time.

Capital costs are recovered via depreciation and a capital charge (interest charge) over the lifetime of the asset, which may be longer than three years.

The above formula is the general approach. There may be times where other options are considered, including the following:

- Looking at whether charges should vary within a three-year period because costs truly differ between years. For example, if providing services in one year requires particular resources not required for users in other years.

[7] Exceptions in this CRIS are the dairy levies which are calculated annually to recover a regulated total amount.

- Looking at whether there should be graduated increases in the charge within the three-year period (e.g. $50 in year 1, $75 in year 2, $100 in year 3) under the Equity principle due to an economic downturn in a sector, or for other reasons such as an agreed phased introduction.
- If there is an accumulated surplus, considering removing it from the formula above and refunding the surplus directly to those past users that contributed to the surplus instead.

4.4 How problems are analysed

Expenditure and revenue reviews are undertaken when a material deficit or surplus arises.

Deficits are always the result of either expenditure that is too high, revenue that is too low or a combination. Similarly, surpluses are always the result of expenditure that is too low, revenue that is too high, or a combination.

Expenditure being too high or too low is an efficiency problem. When expenditure is too high it is either because too much service is being provided (e.g. there is over-regulation) or it is not being provided cost effectively. When expenditure is too low, there are net benefits to industry or to New Zealand from more services. Both situations mean resources are not being used efficiently.

If expenditure is at the efficient level, a deficit will arise if revenue is too low. That is, the optimal level of service is being provided but industry is being subsidised. As in chapter 4.2.1, this can result in excess demand for services and more services being provided than the efficient level. The use of public funds in subsidising the services also results in deadweight losses[8].

If expenditure is at the efficient level, a surplus will arise if revenue is too high. That is, the optimal level of service is being provided but industry is being overcharged. This can result in an under-demand for services and less service being provided than the efficient level. This distortion is also called a deadweight loss.

The expenditure and revenue reviews in this document identify where deficits and surpluses have arisen. The chapters then note the nature of the problem – that either revenue is too high or low, or expenditure is too low or high, or both – and what has caused the problem.

The problem chapters of each expenditure and revenue review do not apply the Justifiability principle to determine whether expenditure is reasonable. Problem chapters will, for example, state that higher-than-expected expenditure has contributed to the deficit without forming a view about whether that higher expenditure is reasonable. Applying the cost recovery principles is left to the 'Options' and 'Assessment against the cost recovery principles' chapters. If applying the principles was done in the problem chapter, the problems chapter would contain almost all the analysis, provide little space to set out the entirety of MPI's analysis and, for consultation documents, opportunities for submitters to provide feedback, and give an appearance of pre-determining preferred options.

4.5 The process of identifying options

Conceptually, there are infinite possible options for setting fees and levies as they can be increased or decreased to any value. To tease out choices without providing an overwhelming number of options, we need a way to reduce the full range of feasible levies to a smaller range of fees and levies.

MPI uses the Cost Recovery Principles and canvasses stakeholders to identify options that are plausibly consistent with the Cost Recovery Principles.

Typically, this process results in a few options (sometimes up to a dozen depending on how many cost recovery features are changing).

For example, there may sometimes be a strong case for beneficiaries paying provided the Transparency and Justifiability principles are met, but reasonable differences in views about whether the Transparency and Justifiability principles have been sufficiently met. In this case options would include the status quo, full cost recovery, and an option from the perspective of the Transparency and Justifiability principles not being sufficiently met (e.g. partially recovering costs).

Other options may be considered during the policy development process, and ultimately discarded as not plausibly consistent with the Cost Recovery Principles.

[8] Deadweight loss is how much taxes to provide the public funding distorts taxpayer decisions to work, invest and spend.

This process means that much of the policy analysis occurs in identifying plausible options. Though sometimes this results in only one option other than the status quo, this is not intended to pre-judge preferred options, only to generate a set of plausible options.

We encourage submitters to let us know if they think we have got this analysis wrong or if other options should be considered.

After options are identified, the impacts on industry and markets are analysed and the options are assessed against the Cost Recovery Principles to identify preferred options.

4.6 Constraints on the analysis

There are some constraints on the analysis. The data constraints in chapter 4.6.2 are material with uncertainty feeding into the choice of the preferred option.

4.6.1 Industry performance data

A significant amount of data has supported the analysis contained in this document and data limitations have been identified in a few areas. The preparation of this analysis has occurred over a number of months. During that period, MPI published the December 2024 *Situation and Outlook for Primary Industries* (SOPI) report. Some of the data used in this document – particularly for analysing industry performance – is based on the September 2024 report and timing means it has not been updated to reflect the December 2024 report. Similarly, Statistics New Zealand data has been used. This has also typically been up to September 2024. Due to statutory deadlines for changing cost recovery settings, this analysis has not been updated to include data since then.

4.6.2 Expenditure data

There are also some data limitations around the expenditure relating to the dairy levies (Chapter 5). MPI aims to undertake assessed effort reviews every three years to be confident that expenditure is on highest priority activities and that expenditure data is robust. A comprehensive assessed effort has not been undertaken for several years. This means there is uncertainty around the accuracy of the dairy expenditure data. This uncertainty is addressed in the relevant chapters and influences the identification of options, and the selection of a preferred options.

4.7 Cost recovery principles and preferred options

Options have been developed and assessed in accordance with MPI's cost recovery principles.

MPI is confident in the factual analysis in this document, though whether the principles have been sufficiently met involves a level of judgement.

Additional judgement is required around the Equity principle. Equity involves consideration of fairness and, therefore, value judgements. As such, views about what is fair can differ and it is ultimately up to the Government (and Parliament) to decide.

5 The Dairy Standards Processor Levy & Dairy Exporter Levy

5.1 Summary

The Dairy Standards Processor Levy and the Dairy Exporter Levy recover costs for services such as monitoring activities, standards setting, and maintenance of market access standards.

The levy rates were reduced in 2021 to address a surplus, partly due to a reduction in service levels as MPI redirected resources to manage the impacts of COVID-19. Levy funded services have now been restored and deficits have arisen.

Best currently available data that suggests it is likely that:

- Under the Dairy Standards Processor Levy, there was an accumulated deficit of at least $0.2 million by June 2024, which is expected to rise to at least $0.9 million by June 2025, and to at least $3.9 million by June 2028, and;
- Under the Dairy Exporter Levy, there was an accumulated deficit of at least $0.4 million by June 2024, which is expected to rise to at least $0.8 million by June 2025, and to at least $2.1 million by June 2028.

As MPI has not undertaken a comprehensive review of assumptions around resource/effort under these levies for several years, there is a level of uncertainty around the numbers. MPI will undertake a comprehensive assessed effort review in 2025 which would feed into the 2026 Annual Package.

To be able to recover costs, MPI must sufficiently demonstrate that expenditure is reasonable. The lack of a comprehensive 'assessed effort' review means that MPI is not currently able to do this and, therefore, expenditure is not automatically eligible for cost recovery.

The dairy industry has, however, regularly (including as part of consultation on the 2025 Annual Package), expressed a desire for frequent resets of levies to avoid larger swings.

With industry's preference in mind, MPI consulted with industry about whether they would prefer to have an interim increase in levies to avoid a larger increase in levies that would likely result, if an increase in levies waited until MPI completed a full assessed effort review.

5.1.1 The Large Dairy Standards Processor Levy and the Large Dairy Exporter Levy

MPI consulted on three options:

- Option (1) kept the current levy rates for 2025/26, deferring any increase to 1 July 2026. This results in deficits accumulating and leading to bigger increases in the levy. On the best available data, the increase would be at least 39.9% for large processors and 104.4% for exporters.
- Option (2) would fully recover expenditure. This option sees the Large Dairy Standards Processor Levy increase by 30.3% and the Large Dairy Exporter Levy increase by 84.7% on 1 July 2025. A further review of levies would take place after an assessed effort review is completed in 2025. This was MPI's preferred option at consultation.
- Option (3) offered industry the opportunity to suggest a level of increase in the levy.

Submissions on the dairy levies were mixed. Dairy Companies Association of New Zealand (DCANZ) stated that most of its members preferred an interim increase (Option (2)), while Fonterra preferred a smaller interim increase in the levies (Option (3)), and the Tatua Co-operative Dairy Company preferred no increase until a fuller view of expenditure can be completed (Option (1)).

Greatest weight is placed on DCANZ's submission as it is the industry representative organisation and canvassed a range of members. Therefore, MPI recommends proceeding with Option (2).

The median increase in the annual levy paid by large processors under Option (2) would be $4,300. While the percentage increases in the levies appear to be large, the proposals would restore levies which cover expenditure similar to 2021 levels in real, inflation-adjusted, terms. The levies were reduced in 2021 to address a surplus, partly due to a reduction in service levels as resources were reallocated to respond to COVID-19.

The median increase in the annual levy paid by large exporters under Option (2) would be $3,200. Overall, the interim increases would see the dairy levies as a proportion of export revenue rise by 0.07

percentage points from 0.019% to 0.026%. This increase is unlikely to materially change businesses decisions or the industry overall.

5.1.2 The Small Dairy Standards Processor Levy and the Small Dairy Exporter Levy

MPI consulted on the same three options for the small levies. The preferred option at consultation was for a 30.3% increase in the Small Dairy Standards Processor Levy and an 84.7% increase in the Small Dairy Exporter Levy, matching the preferred option for the large levies.

One small exporter raised questions about the proper basis for calculating the small dairy levies. MPI has investigated and agrees that the basis of the small levy is different from the large levy. Therefore, simply increasing the small levies by the same percent as the large levies is not appropriate.

As MPI did not consult on options that reflect the proper basis for calculating the small levies, MPI's preferred option now is to leave the levies unchanged and reconsider them as part of the upcoming fuller review. The financial impact of not changing levies is small. If the preferred option was pursued, it would raise $43,000 compared to the $2.0 million additional under the large levies.

5.2 Problem

This chapter uses financial tables with shading of explanatory text and corresponding cells in tables to help explain how revenue and expenditure has tracked over time.

5.2.1 Revenue and expenditure data

Figure 1 and Figure 2 show MPI's best available data on revenue and expenditure data. MPI has not undertaken an assessed effort review since 2015.[9] Levels of expenditure may change following MPI's assessed effort review that is expected to take place next year.

Figure 1: Dairy Standards Processor Levy revenue and expenditure, 2018/19 to 2027/28

	Actual						Forecast			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Opening balance	-$0.59m	$0.14m	$1.18m	$2.25m	$1.19m	$0.47m	-$0.21m	-$0.92m	-$1.78m	-$2.76m
Revenue[10]	$4.96m	$4.95m	$4.96m	$4.31m	$4.28m	$4.28m	$4.28m	$4.28m	$4.28m	$4.28m
Expenditure	$4.24m	$3.91m	$3.90m	$4.04m	$4.51m	$4.96m	$4.99m	$5.14m	$5.26m	$5.41m
Surplus/deficit	$0.73m	$1.05m	$1.06m	$0.27m	-$0.23m	-$0.68m	-$0.71m	-$0.86m	-$0.98m	-$1.13m
Closing balance	$0.14m	$1.18m	$2.25m	$2.50m	$0.96m	-$0.21m	-$0.92m	-$1.78m	-$2.76m	-$3.89m
One-off changes[11]	$0.00m	$0.00m	$0.00m	$1.31m	$0.49m	$0.00m	$0.00m	$0.00m	$0.00m	$0.00m

Figure 2: Dairy Exporter Levy revenue and expenditure, 2018/19 to 2027/28

	Actual						Forecast			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Opening balance	$0.07m	$0.39m	$0.74m	$1.17m	$1.26m	-$0.11m	-$0.43m	-$0.81m	-$1.22m	-$1.65m
Revenue[12]	$1.40m	$1.39m	$1.39m	$0.88m	$0.83m	$0.83m	$0.83m	$0.83m	$0.83m	$0.83m
Expenditure	$1.08m	$1.03m	$0.97m	$0.78m	$1.06m	$1.15m	$1.21m	$1.24m	$1.27m	$1.30m
Surplus/deficit	$0.32m	$0.36m	$0.42m	$0.09m	-$0.22m	-$0.32m	-$0.38m	-$0.41m	-$0.44m	-$0.47m
Closing balance	$0.39m	$0.74m	$1.17m	$1.26m	$1.04m	-$0.43m	-$0.81m	-$1.22m	-$1.65m	-$2.12m
One-off changes	$0.00m	$0.00m	$0.00m	$0.00m	$1.15m	$0.00m	$0.00m	$0.00m	$0.00m	$0.00m

[9] Assessed effort reviews update assumptions about how much effort is spent on different programmes. This information is fed into MPI's cost allocation model to generate expenditure data that is used to inform fee and levy setting. Refer to chapter 3.3.1.1 for more information.

[10] Revenue shown for 2022/23 to 2023/24 is slightly lower than actual as it only includes the large processor levy. For the 2024/25 year, for example the small processor levy revenue is $26,000.

[11] Surpluses returned at the end of the 2021/22 and 2022/23 years.

[12] Revenue for 2022/23 to 2023/24 is slightly lower than actual would be as it only includes the large exporter levy. In the 2023/24 year, the small exporter levy revenue totalled $42,000.

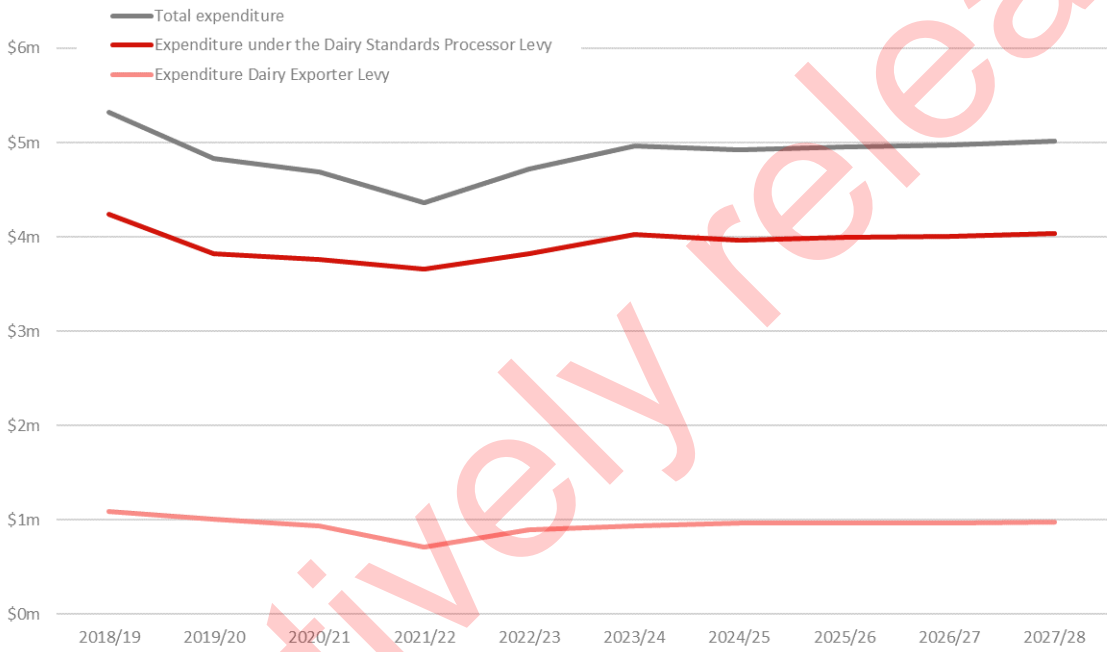
5.2.2 Accumulating deficits

MPI is certain that dairy expenditure has increased since the levies were reduced in 2021, due to an increase in staff salaries, inflation in the cost of contracts to deliver residue testing, and correcting a previous under-recovery of market access and overhead costs. Expenditure is expected to increase in the forecast period with salary increases following the recent period of high CPI inflation.

Actual expenditure may be higher than current data suggests due a shift in MPI resource from Crown-funded activity to cost recoverable activity. An example is overseas market access where Crown funding was initially provided but, now this capacity has been established, MPI may look to recover costs from industry. However, whether actual expenditure is higher or lower than current data suggests won't be understood until a comprehensive assessed effort review is completed. It is anticipated this will be done in 2025.

Overall expenditure levels for CPI inflation gives some confidence that expenditure increases have not been unreasonable. Expenditure fell for a period during Covid-19 with resources being deployed elsewhere, but has returned close to pre-pandemic levels.

Figure 3: Real, CPI-adjusted, expenditure under the dairy levies



Based on the best available data in Figure 1 and Figure 2:

- Under the Dairy Standards Processor Levy, there was an accumulated deficit of at least $0.2 million by June 2024, which is expected to rise to at least $0.9 million by June 2025 and to at least $3.9 million by June 2028
- Under the Dairy Exporter Levy, there was an accumulated deficit of at least $0.4 million by June 2024, which is expected to rise to at least $0.8 million by June 2025 and to at least $2.1 million by June 2028.

5.2.3 When to address deficits

Industry representatives have said they prefer frequent moderate levy adjustments, over infrequent larger levy adjustments.

MPI will undertake an assessed effort review in 2025 which would feed into the 2026 Annual Package.

The problem, then, is whether to wait until the assessed effort review is completed and consider resetting levies from 1 July 2026, or instead to have an interim reset of the levy from 1 July 2025 followed by another reset from 1 July 2026 after completion of the assessed effort review.

5.3 Options

The options discussed in this section are for large processors and large exporters. The option for small processors and exporters is not pursued and discussed later in this chapter.

5.3.1 Options at consultation

MPI consulted on three options:

- Option (1) kept the current levy rates for 2025/26, deferring any increases to 1 July 2026. This results in deficits accumulating leading to bigger increases in the levy. On current data, the increase would be at least 39.9% for large processers and 104.4% for large exporters.
- Option (2) fully recover expenditure. This option sees the Large Dairy Standards Processor Levy increase by 30.3% and the Large Dairy Exporter Levy increase by 84.7% on 1 July 2025. A further review of levies would take place after an assessed effort review is completed in 2025. This was MPI's preferred option.
- Option (3) offered industry the opportunity to suggest a level of increase in the levy. One submitter – Fonterra – suggested levy rates as they were in 2021. This proposal is included as an option in the final post-consultation options.

5.3.2 Final options for the large levies

Figure 4 and Figure 5 set out the key features of the large levy final options.

Figure 4: Large Dairy Standards Processor Levy options

Option	Total levy amount per financial year
Option (1)	2025/26: Current levy amount. 2026/27 onwards: Likely increase of at least 39.9% from $4,279,580 to at least $5,988,698.
Option (2)	2025/26: Interim increase now of 30.3% from $4,279,580 to $5,576,268 on 1 July 2025, 2026/27: A potential further reset on 1 July 2026.
Option (3)	2025/26: An interim increase of 15.3% from $4,279,580 to $4,935,867 2026/27: A potential further reset on 1 July 2026.

Figure 5: Large Dairy Exporter Levy options

Option	Total levy amount per financial year
Option (1)	2025/26: Current levy amount. 2026/27 onwards: Likely increase of at least 104.4% from $834,567 to at least $1,705,619.
Option (2)	2025/26: Interim increase now of 84.7% from $834,567 to $1,541,334 on 1 July 2025.2026/27: A potential further reset on 1 July 2026.
Option (3)	2025/26: An interim increase of 62.4% from $834,567 to $1,355,100, followed by a reset on 1 July 2026.

5.4 Estimated financial and economic impacts

This chapter sets out the immediate financial impact of options at the industry and business-level, and then considers how the financial impact feeds through to changes in prices and volumes over the medium- to long-term.

5.4.1 Immediate industry-level impacts

If adopted across both levies, Option (2) would see an increase in the levies across industry by $2.0 million (from $5.1 million to $7.1 million) from 1 July 2025, while Option (1) would see no increase in 2025 but a likely increase of at least $2.6 million (from $5.1 million to $7.7 million) from 1 July 2026. It

is likely that if Option 2 is pursued by the Cabinet, the increase from 1 July 2026, may be an additional $0.6 million.

5.4.2 Immediate business-level impacts

Immediate business-level impacts have been estimated using latest reviewed data which is the processor levies charged for the 2024/25 year and the exporter levies charged for the 2023/24 year.

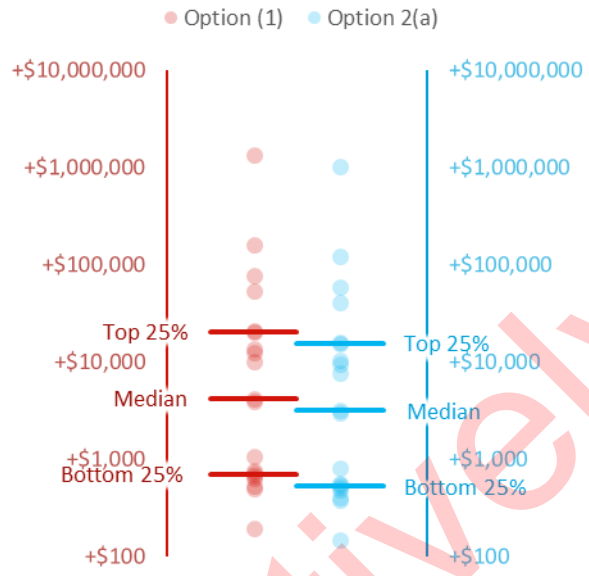
5.4.2.1 Dairy Standards Processor Levy

In 2024/25, 66 processors paid the small processor levy and 19 paid the large processor levy.

For the large processor levy, increases would range from $190 to $1.3 million from 1 July 2026 under Option (1) and from $150 to $1.0 million from 1 July 2025 under Option (2). The median increase would be $4,200 under Option (1) and $3,200 under Option (2).

Figure 6 shows the distribution of cost increases under Options (1) and (2) for the large processor levy. Due to the wide differences in cost increases, it uses a logarithmic scale.

Figure 6: Distribution of cost increases for the large processor levy

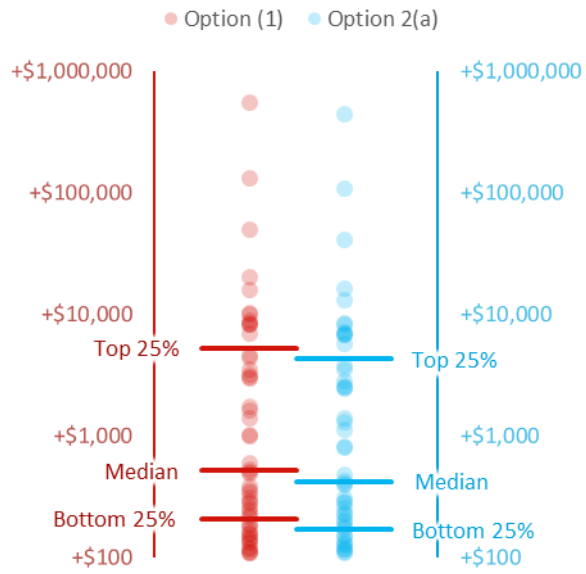


5.4.2.2 Dairy Exporter Levy

In 2023/24, 209 exporters paid the small exporter levy and 51 paid the large exporter levy.

For the large exporter levy, increases would range from $210 to $870,000 for 1 July 2026 under Option (1) and from $170 to $710,000 under for 1 July 2025 Option (2). The median increase would be $5,300 under Option (1) and $4,300 under Option (2). Figure 7 shows the distribution of cost increases under Options (1) and (2) for the large exporter levy. Due to the wide differences in cost increases, it uses a logarithmic scale.

Figure 7: Distribution of cost increases for the large exporter levy



5.4.3 Medium- to long-term market-level impacts

Changes in fees are changes in business costs. This feeds through to business margins and, over the medium- to longer-term, to market prices and quantities.

Total cost recovery under the processor and exporter levies would increase by $2.6 million under Option (1) and $2.0 million under Option (2). This compares to around $27.3 billion of dairy export revenue in 2023/24. Total costs recovered as a percentage of total revenue would increase by about 0.009 percentage points from 0.019% to 0.028% under Option (1) and 0.007 percentage points from 0.019% to 0.026% under Option (2).

As the increase is small, we have not sought to estimate the impact on demand for New Zealand dairy exports.

5.5 Consultation

5.5.1 The Large Dairy Standards Processor Levy and the Large Dairy Exporter Levy

Dairy Companies Association of New Zealand (DCANZ), Fonterra Co-Operative Group Limited, and the Tatua Co-operative Dairy Company made substantive submissions. The New Zealand Food and Grocery council submitted but stated that others would be making substantive points. There were mixed views about the options, with MPI ultimately putting greatest weight on the submission by DCANZ as the industry representative group.

Submitters expressed the need for improved transparency and reporting from MPI. This is acknowledged and MPI will engage with industry on how to improve information. As flagged at consultation, MPI intends to conduct a full assessed effort review in 2025.

5.5.2 Small Dairy Standards Processor Levy and Small Dairy Exporter Levy

MPI consulted on options that would increase the small processor and small exporter levies by the same proportion as the increases in the large processor levies.[13] Following consultation the proposals to increase levies for small operators have been dropped.

As the small levies are set on a different basis to the large levies, it is not clear that the small levies should automatically increase or decrease in line with the large levies. The large and small export levies funds standards work for safety and market access. Large and small exporters both benefit from these services and generate risk that standards mitigate, but small exporters have greater risk. The

[13] A 30.3% from $400 to $521 for the small processor levy and an 84.7% increase from $200 to $369 for the small exporter levy.

different weightings on risk between large and small exporters would suggest different increases and decreases in levies over time.

Additionally, the small levies were not increased when the large levies were increased in 2018 or decreased when the large levies were decreased in 2021. The reduction in the levies that happened in 2019 were the result of the shift to the current risk-focussed approach to cost recovery.[14]

MPI proposes to leave the small levies unchanged until the fuller review. The financial impact of not changing levies is small. If the preferred option at consultation was continued with, it would raise $43,000 compared to the $2.0 million additional under the large levies.

5.5.3 General feedback

Submitters were also concerned at the size of the levy increases. The size of the increases is a result of the resumption of services following COVID-19 and MPI has responded as soon as deficits became apparent. The levy accounts only moved into a small deficit in 2023/24 and the bright-line tests that MPI uses to determine whether to review fees and levies were not yet triggered at the point of consultation. MPI moved quickly to consult on interim options in anticipation that the bright line tests would be triggered in 2025 and 2026.

Submitters were also concerned about the timing of consultation. Submitters say that the time between first learning of potential levy increases in February and levy increases coming in in July is too short as many contracts with suppliers and customers will be agreed before February. This makes it hard for cost increases from levies to be shared across the value chain, meaning levy payers have to carry costs until the next year.

Consultation timing is a product of several factors including data availability internally and political decisions about the priority of advice to Cabinet. MPI is able to control internal factors like data availability. It may be possible to consult earlier in future but at a trade-off of less time validating the data and testing the reasonableness of expenditure. Future consultation would contain more data caveats, including that final levy rates may differ somewhat from those consulted on.

5.6 Assessment against the cost recovery principles

Recovering justifiable expenditure from the dairy industry would satisfy the Efficiency principle as costs would be recovered from those that generate them. Additionally, we have not identified any reasons under the Equity principle, and none have been suggested by the Government or by industry during consultation, for why the dairy industry would not pay. However, there is a question about the extent to which expenditure has been justified.

MPI is not able to meet the Transparency and Justifiability principle to the normal extent in this Annual Package. While MPI is certain that expenditure has increased we are not able to do a robust line-by-line revenue of expenditure until the assessed effort review is completed in 2025. As noted earlier, however, our best currently available data suggests that expenditure will be about where it was pre-pandemic in real, CPI inflation-adjusted terms.

Submitters agreed that there is a lack of transparency on the costs. Submitters are unanimous in the view that sufficient information has not been provided for them to assess whether the services and associated costs are justified. MPI acknowledges this and will be working with industry to provide greater transparency on the services provided and their associated costs.

The question at consultation was whether, despite not sufficiently meeting the Transparency and Justifiability principles, industry would prefer an interim increase in the levies now to avoid a likely larger increase in levies later.

Feedback on this was mixed. Submissions on the dairy levies were mixed. Dairy New Zealand said that most of its members MPI's proposed interim increase (Option (2)), while Fonterra preferred a smaller interim increase in the levies (Option (3)) and the Tatua Co-operative Dairy Company preferred no increase until a fuller view of expenditure can be completed (Option (1)).

MPI considered which submission to put greatest weight on. Consideration was given to placing greatest weight on the Fonterra submission as the company with the greatest amount of milk processed and exported. Ultimately MPI decided to place greatest weight on puts greatest weight on

[14] https://www.mpi.govt.nz/dmsdocument/31677-Proposals-to-improve-cost-recovery-in-MPIs-food-system-Discussion-document, p. 55.

Dairy New Zealand's submission as it is the industry representative organisation and canvassed a range of its members. MPI recommends proceeding with Option (2).

5.7 Conclusion

In line with industry representatives' requests for frequent, moderate, rate changes to levies to minimise the risk of larger swings in levies, and Dairy New Zealand's submission in favour of Option (2), MPI prefers Options (2) for the large dairy levies:

- An interim increase to the large processor levy now of 30.3% from $4,279,580 to $5,576,268 on 1 July 2025, followed by a potential further reset on 1 July 2026.
- An interim increase to the large exporter levy now of 84.7% from $834,567 to $1,541,334 on 1 July 2025, followed by a likely further reset on 1 July 2026.

MPI prefers to keep the small levies unchanged until the fuller review can be completed.

5.8 Monitoring and review

Chapter 3.3.1 sets out how MPI monitors accounts to ensure that significant deficits and surpluses do not arise. In this instance, for example, the first and second bright-line tests around the size of accumulated deficits would be close to being met by June 2025 for the processor levy and the second condition is expected to be met for the exporter levy by June 2026.

As has been the focus of this chapter, MPI will undertake a review of assessed effort in 2025 to feed into consideration of levy resets on 1 July 2026, including a review of the small dairy levies.

6 Veterinary service fees for Establishments

6.1 Summary

'Establishments' involves vet staff being based at a meat processing premises due to requirements from export markets for a continuous veterinary verifier presence onsite.

The deficit for Establishments was $3.0 million in June 2024 and is expected to rise to $5.1 million by June 2025, and to $21.1 million by June 2028. The deficit has arisen mainly due to increasing salaries to retain and attract vets.

This CRIS considers two options other than the status quo (Option (1)).

- Option (2) provides full cost recovery of the number of fulltime vets agreed with Establishment premises, plus enough relievers needed to cover predictable absences among fulltime vets due to annual leave and holidays, sickness, and training. Option (2) would increase fees from $128.15 to $152.42 per hour for vets and from $136.45 to $169.89 per hour for supervising vets from 1 July 2025 – about a 22.4% increase.
- Option (3) fully recovers costs for the number of vets in Option (2) plus an additional five relievers for contingency in the event of less predictable absences such as vacancies and unplanned shift changes. Option (3) would increase fees to $155.80 per hour for vets and to $173.71 per hour for supervising vets – about a 25.2% increase.

The median increase in the fees paid per annum by Establishment premises would be $121,000 under Option (2) and $137,000 under Option (3).

The Meat Industry Association expressed support for Option (2) noting that it would continue to monitor risks from vet staff absences. As industry is best placed to judge its own appetite for risk, MPI supports industry's preference of Option (2).

6.2 Problem

This chapter uses financial tables with shading of explanatory text and corresponding cells in tables to help explain how revenue and expenditure has tracked over time.

6.2.1 How has revenue and expenditure tracked over time?

Figure 8 sets out historical revenue and expenditure and currently forecast revenue and expenditure, along with a breakdown of expenditure.

To help understand what has happened over time, **Error! Reference source not found.**Figure 9 shows what was forecast in 2023 when Establishment fees were last reset. At the time, the increase to Establishment fees was forecast to bring the account into balance by 2025/26.

Figure 8: Revenue and expenditure under current fees, 2017/18 to 2027/28

	Actual							Forecast			
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Billed hours[15]			287,569	287,740	269,514	255,081	258,481	266,437	262,707	261,657	261,395
Opening balance	$0.58m	$0.00m	-$0.92m	-$1.12m	-$1.13m	-$0.85m	-$1.81m	-$2.80m	-$5.12m	-$9.53m	-$13.74m
Revenue	$32.08m	$31.59m	$30.90m	$30.82m	$32.21m	$31.33m	$34.19m	$34.46m	$33.97m	$33.84m	$33.80m
Expenditure	$31.47m	$32.51m	$31.11m	$30.83m	$31.93m	$32.93m	$35.38m	$36.79m	$38.38m	$39.66m	$41.21m
Surplus/deficit	$0.61m	-$0.92m	-$0.20m	-$0.01m	$0.28m	-$1.60m	-$1.19m	-$2.33m	-$4.40m	-$5.82m	-$7.40m
Closing balance	$1.19m	-$0.92m	-$1.12m	-$1.13m	-$0.85m	-$2.45m	-$3.00m	-$5.13m	-$9.53m	-$15.34m	-$21.15m
One-off changes	-$1.19m	$0.00m	$0.00m	$0.00m	$0.00m	$0.63m	$0.21m	$0.01m	$0.00m	$1.60m	$1.19m

[15] Actual billed hours are not readily available for 2017/18 and 2018/19.

	Actual							Forecast			
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Expenditure breakdown	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Personnel	$19.73m	$21.56m	$21.20m	$21.67m	$21.74m	$22.58m	$23.76m	$24.73m	$25.92m	$26.85m	$28.01m
Travel	$1.00m	$0.74m	$0.38m	$0.16m	$0.28m	$0.54m	$0.75m	$0.75m	$0.76m	$0.78m	$0.79m
Other	$0.42m	$1.22m	$1.03m	$0.76m	$0.62m	$0.73m	$0.92m	$0.99m	$1.01m	$1.03m	$1.05m
Support costs	$10.31m	$5.68m	$4.24m	$3.97m	$4.18m	$3.88m	$4.15m	$4.18m	$4.37m	$4.52m	$4.70m
Corporate overheads	$0.00m	$3.31m	$4.26m	$4.27m	$5.07m	$5.20m	$5.80m	$6.14m	$6.32m	$6.47m	$6.65m

Figure 9: Revenue and expenditure under current fees in the 2023 Annual Package, 2017/18 to 2025/26

	Actual at the time of the 2023 Annual Package					2023 Annual Package forecast			
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Billed hours[16]			287,569	287,740	269,514	269,514	269,514	269,514	269,514
Opening balance	$0.58m	$0.00m	-$0.92m	-$1.12m	-$1.13m	-$0.85m	-$1.52m	-$0.25m	$0.24m
Revenue	$32.08m	$31.59m	$30.90m	$30.82m	$32.21m	$31.66m	$35.05m	$35.05m	$35.05m
Expenditure	$31.47m	$32.51m	$31.11m	$30.83m	$31.93m	$32.96m	$33.78m	$34.56m	$35.30m
Surplus/deficit	$0.61m	-$0.92m	-$0.20m	-$0.01m	$0.28m	-$1.30m	$1.27m	$0.49m	-$0.25m
Closing balance	$1.19m	-$0.92m	-$1.12m	-$1.13m	-$0.85m	-$2.15m	-$0.25m	$0.24m	-$0.01m
One-off changes	-$1.19m	$0.00m	$0.00m	$0.00m	$0.00m	$0.63m	$0.00m	$0.00m	$0.00m

Since then, billed hours have reduced with red meat production falling from a peak in 2021[17], forecast declines in bovine, sheep, and deer meat[18], and resulting closure of some operators. Billed hours across 2022/23 and 2023/24 have been 4.7% lower than were previously forecast and are expected to be 1.8% lower than previously forecast across 2024/25 and 2025/26. Declining hours have contributed to revenue being 1.8% lower across 2022/23 and 2023/24 and forecast to be 2.4% lower across 2024/25 and 2025/26. The reduction in revenue has been less than the reduction in hours because vet shortages and resulting staff vacancies mean vets have been working longer hours, including overtime, call-outs and penal hours which have higher fees. Prolonged additional hours are not sustainable for vet welfare and exacerbate staff shortages through resignations.

Despite hours being lower than previously forecast and lower than past levels, expenditure is increasing and is higher than previously forecast: expenditure in 2022/23 was about the same as forecast despite lower hours; expenditure in 2023/24 was about 4.7% higher; and forecast expenditure across 2024/25 and 2025/26 is expected to be 5.6% higher.

6.2.2 What is the nature of the problem?

The deficits that have arisen under the fees are an efficiency problem – either the fees are too low for a desired level of service, or expenditure is too high, or a combination of both. The identifying options section sets out further detail on the nature of the problem. Applying the cost recovery principles, the primary drivers of cost increases are salary increases for vets.

[16] Forecast hours for the 2023 Annual Package (p. 29) were reported on a different basis than they are now so have not been included. The forecast hours are based on what they would have been if reported on the same basis. https://www.mpi.govt.nz/dmsdocument/56104-Appendix-One-Annual-Review-Proposed-2023-Changes-to-MPIs-Cost-Recovery

[17] See Figure 28 and the associated discussion in Appendix E.

[18] See Figure 30, Figure 32, and Figure 34 respectively in Appendix E.

6.2.3 What is the size of the problem?

From Figure 8, there was a $1.2 million deficit by June 2024 despite the increase to fees agreed by Cabinet in the 2023 Annual Package. The annual deficit is forecast to be $2.3 million by June 2025 and $7.4 million by June 2028.

The $1.2 million deficit contributes to a $3.0 million accumulated deficit which is forecast to grow to $5.1 million by June 2025 and $21.1 million by June 2028. Without change, $1.6 million would need to be written off in 2026/27 and $1.2 million would need to be written off in 2027/28 at a cost to public funds.

6.2.4 What is the cause of the problem?

This section identifies the contributors to the deficit. It does not determine whether causes of the deficit involve reasonable levels of expenditure (this is covered in chapter 6.3.3).

The biggest contributors to increasing expenditure is higher personnel expenditure required to attract and retain veterinarians in a globally competitive market. These higher personnel costs are also the main driver in the previous period deficit.

Travel expenditure has also increased, but make up a relatively small amount of expenditure and is expected to be around where they were pre-pandemic ($0.79 million in 2027/28 versus $0.74 million in 2018/19 in Figure 8, for example). Support expenditure and other expenditure are lower than previously expected and, while increasing in recent years, are also lower than pre-pandemic levels.

Figure 10: Difference between 2023 Annual Package and 2025 Annual Package

	$ million difference			Percentage difference		
Expenditure type	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Personnel	+$0.11m	+$0.82m	+$1.31m	+0.5%	+3.6%	+5.6%
Travel	+$0.33m	+$0.54m	+$0.35m	+160.3%	+250.1%	+158.9%
Other	-$0.30m	-$0.14m	-$0.10m	-28.9%	-13.1%	-9.3%
Support costs	-$0.47m	-$0.38m	-$0.49m	-10.8%	-8.3%	-10.5%
Corporate overheads	+$0.92m	+$1.40m	+$2.35m	+21.4%	+31.8%	+52.2%

Note: The reported growth in corporate overheads is an artifact of reporting methodology changes as outlined. Actual growth in corporate overheads between 2022 and the current package as identified in chapter 5.3.2 is approximately $1.2 million.

6.3 Identifying options

The process of identifying options using the Cost Recovery Principles is set out earlier in section 4.5. There are infinite possible options for setting fees and levies. To tease out the choices, we need a way to reduce the full range of feasible levies to a smaller range of fees and levies. MPI uses the Cost Recovery Principles and canvasses stakeholders to identify options.

Typically, this process results in a few options (sometimes up to a dozen depending on how many cost recovery features are changing). This process means that much of the policy analysis occurs in identifying plausible options. Though sometimes this results in only one option other than the status quo, this is not intended to pre-judge preferred options, only to generate a set of plausible options.

After options are identified, the impacts on industry and markets are analysed and the options are assessed against the Cost Recovery Principles to identify preferred options.

6.3.1 Summary

MPI has engaged with Establishment premises to identify the number of fulltime vets required. MPI is confident that this resource and the accompanying indirect costs have been sufficiently detailed and analyses such that the Transparency and Justifiability principles are met.

There are choices, however, around how many relievers MPI should retain. This chapter identifies two options other than the status quo. One option provides and charges for the agreed number of fulltime vets and the number of relievers needed to cover relatively plannable absences among fulltime vets

such as holidays, sickness and training. The other option provides an additional five relievers as contingency in the event of less predictable absences such as vacancies and unplanned shift changes. In practice, either option will not expose the industry to any greater risk than there is at present.

We have not identified any Equity reasons, and none have been suggested by the Government, that would mean options that do not fully recover costs should be considered.

6.3.2 Transparency

The information in this CRIS is very similar to the information consulted on with industry. MPI considers that the level of information provided, along with ongoing reporting through MPI's annual report to the red meat sector, sufficiently meets the Transparency principle.

6.3.3 Justifiability

6.3.3.1 Costs per hour

To help analyse whether costs are reasonable, Figure 11 shows total cost per hour billed, along with expenditure type. Note that support and overheads costs make up the programme charge component of the fee. Figure 11 then indexes the cost per hour to the 2019/20 year (the earliest year data about hours is readily available). Indexing allows us to see how much costs per hour have changed since 2019/20 and to compare this to other cost indexes to see whether MPI cost increases are out of line with, for example, cost increases by private veterinary services.

Appendix F provides detail about the comparator price indexes. For Establishments, the best comparator appears to be the producer price index (PPI) veterinary services. As covered in Appendix C, forecasts of this index are not available, but two scenarios are included: one where inflation in the PPI veterinary services index is 75% higher than the consumers price index (CPI) and one where it is 50% higher.

Figure 11: Costs per hour and comparator price and cost indexes

	Actual					Forecast			
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Costs per hour									
Total cost	$108.17	$107.13	$118.47	$129.10	$136.88	$138.08	$146.08	$151.55	$157.65
Personnel	$73.74	$75.32	$80.68	$88.53	$91.91	$92.83	$98.67	$102.63	$107.15
Travel	$1.31	$0.55	$1.05	$2.10	$2.90	$2.15	$2.22	$2.27	$2.32
Other	$3.57	$2.62	$2.30	$2.85	$3.57	$3.73	$3.85	$3.95	$4.03
Support	$14.74	$13.80	$15.50	$15.23	$16.06	$15.68	$16.62	$17.26	$17.98
Overheads	$14.82	$14.83	$18.82	$20.40	$22.44	$25.74	$26.91	$27.73	$28.57
Total cost excluding overheads	$93.35	$92.30	$99.66	$108.70	$114.44	$112.34	$119.17	$123.82	$129.08
Change since 2019/20									
Total cost	0.0%	-1.0%	+9.5%	+19.4%	+26.5%	+27.7%	+35.1%	+40.1%	+45.7%
Personnel	0.0%	+2.2%	+9.4%	+20.1%	+24.6%	+25.9%	+33.8%	+39.2%	+45.3%
Travel	0.0%	-58.0%	-19.8%	+59.9%	+120.5%	+63.3%	+69.0%	+73.0%	+76.7%
Other	0.0%	-26.5%	-35.6%	-20.3%	-0.0%	+4.3%	+7.9%	+10.5%	+12.8%
Support	0.0%	-6.4%	+5.2%	+3.3%	+9.0%	+6.4%	+12.8%	+17.1%	+22.0%
Overheads	0.0%	+0.1%	+27.0%	+37.7%	+51.5%	+73.7%	+81.6%	+87.2%	+92.8%
Total cost excluding overheads	0.0%	-1.1%	+6.8%	+16.4%	+22.6%	+20.3%	+27.7%	+32.6%	+38.3%

	Actual					Forecast			
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Comparator price and cost indexes									
CPI	0.0%	+1.5%	+8.0%	+15.5%	+20.5%	+23.2%	+25.9%	+28.5%	+31.0%
MPI cost index	0.0%	+1.5%	+4.7%	+9.1%	+14.1%				
CPI veterinary services | forecast 75% higher than CPI	0.0%	+4.4%	+13.0%	+24.3%	+32.8%	+38.1%	+43.4%	+48.4%	+53.6%
CPI veterinary services | forecast 50% higher than CPI	0.0%	+4.4%	+13.0%	+24.3%	+32.8%	+37.3%	+41.9%	+46.1%	+50.5%
PPI veterinary services | forecast 75% higher than CPI	0.0%	+3.6%	+9.5%	+18.2%	+24.8%	+29.7%	+34.7%	+39.4%	+44.3%
PPI veterinary services | forecast 50% higher than CPI	0.0%	+3.6%	+9.5%	+18.2%	+24.8%	+29.0%	+33.3%	+37.3%	+41.4%

6.3.3.2 Personnel costs

From the section above we have determined that the main contributors to the deficits are personnel costs and overhead costs so we start with these.

Personnel costs are forecast to have increased by 45.3% by 2027/28. Personnel costs are a factor of salaries and the number of staff.[19]

Figure 12 sets out vet salaries over time. There has been a recent increase in vet salaries which is expected to continue through the forecast period, but this only returns salaries to the same pre-pandemic levels in real (inflation-adjusted) terms. This is natural – real salaries may fall during an inflationary period, but salaries return to normal paths over the medium-term as employers must pay sufficient salaries to retain and attract staff.

Veterinary recruitment continues to be pressured by a global shortage of vets and a shortage of qualified vets within New Zealand, in part due to graduating vets leaving New Zealand. There are limited candidates across the countries MPI has historically hired from.[20] Additionally, the increase in demand from operators to cover increasing shifts on plants and increasing competition from overseas authorities as well as clinical practice both domestically and internationally is putting substantial upward pressure on salary ranges.

Figure 12: Vet salaries over time

	Actual[21]								Forecast[22]		
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Nominal											
Supervising vet	$119,700	$120,100	$122,200	$123,100	$123,900	$128,500	$130,700	$143,500	$150,400	$155,800	$162,500
Vet	$100,300	$103,200	$103,200	$104,900	$104,500	$108,400	$109,400	$121,300	$127,100	$131,600	$137,300
Weighted average	$108,300	$110,100	$110,700	$112,300	$112,200	$116,500	$118,600	$129,300	$135,500	$140,400	$146,400
CPI-adjusted											
Supervising vet	$119,700	$118,100	$117,600	$116,800	$110,400	$107,000	$104,400	$112,000	$115,100	$116,900	$119,500
Vet	$100,300	$101,500	$99,300	$99,400	$93,100	$90,300	$87,300	$94,600	$97,200	$98,800	$101,000
Weighted average	$108,300	$108,300	$106,500	$106,500	$99,900	$97,100	$94,700	$100,900	$103,700	$105,300	$107,700

[19] Personnel costs also include relocation costs and recruitment costs, and additional relief costs that arise if it takes a long time to fill a vacancy (it can take 6 months from a vacancy being notified to having a new vet arrive, and longer for more remote Establishment premises).

[20] Countries with New Zealand Vet Council recognised qualifications.

[21] Data may be based on an extract at a point in time during the financial year rather than an averages throughout the year.

[22] Forecast salaries are based on collective agreement settlements and CPI forecasts.

The Cost Recovery Impact Statement[23] accompanying the 2023 increase to Establishment fees noted that 'the expenditure on vets appears to be reasonable with a risk that it is on the low side' and that expenditure increases were 'significantly lower than past inflation' and that MPI was still carrying vacancies which was not sustainable long term. The forecast expenditure in this document seems to be more realistic.

6.3.3.3 Fulltime vets

MPI provides agreed levels of veterinary services to Establishments to match levels of production required by each operator. If MPI is unable to provide services/vets, premises may become vulnerable to being unable to fulfil their overseas market requirements and obligations in terms of verification and certification of product.

The number of vets required on site is determined by Establishment operators in discussion with MPI. The industry-agreed total number of vets is currently 117.75, made up of 62.25 vets and 55.50 supervising vets. This number varies regularly in negotiation with operators.

Overall, with the number of vets determined in discussion with Establishment operators and the increase in salaries not seeming to be excessive, personnel costs around fulltime vets appear to be reasonable. As a result, it is appropriate to consider options that fully recover these costs.

6.3.3.3.1 Relievers

MPI retains relievers to cover for when regular vets are training, on leave, or sick. These absences are relatively predictable and requires 31 relievers. This figure assumes 22 days annual leave, 15 days of statutory holidays, Ministry holidays and time in lieu, ten days of sick leave, 6 days of shift leave, and 10 days of training per year.

Relievers are also regularly used to fill vacancies until a permanent replacement is hired, and provide cover for short-notice shift changes and rostered days off, or other operating requirements. These demands on reliever time are less predictable, and a level of judgment is required in determining how many relievers would be required to provide cover for these events. In MPI's judgement, an additional five relievers (in addition to the 31) would provide cover for these events.

MPI did not, at consultation, have a view about whether retaining an additional five relievers as contingency would be a valuable use of industry money and sought industry views on this. The rationale for this is because industry is best placed, as the user and payer of the service, to determine to weigh up risk versus cost. As a result, this CRIS includes two options: one with the status quo number of relievers and once with the higher number of relievers.

6.3.3.3.2 Overall

Two options are included other than the status quo (Option (1)). Option (2) fully recovers the costs of the vets in establishments and the 31 relievers needed to cover for absences due to training, leave, and sickness. Option (3) fully recovers the costs of the vets in establishments plus 36 relievers (five additional to option one to cover for less predictable absences such as vacancies, short notice shift changes and rostered days off).

6.3.3.4 Overheads

Overheads are corporate costs that support MPI including, among other things, property, IT infrastructure, personnel (HR), finance, and operating costs.

Overall, overheads are expected to be around 16% of total costs during the forecast period. This is a low share for overheads compared to other MPI services, or services in other markets generally which vary between 19 and 23%. The lower overhead reflects the absence of property costs as establishment Vets are accommodated without charge in red meat premises.

[23] https://www.mpi.govt.nz/dmsdocument/58507-Appendix-1-Stage-2-Cost-Recovery-Impact-Statement-Package-of-cost-recovery-changes-2023 (pp. 18-19).

An increase in corporate overheads of 9.7% per annum is expected between 2022/23 and 2025/26 (from $20.40/hr to $26.91/hr), followed by smaller increases thereafter of about 3% per annum. This reflects expected wage inflation as a significant share of overheads is people costs which are forecast to increase more rapidly than general CPI.

A longer term comparison of overheads appears to show a large growth in overheads. This large increase in overheads is due to a changes in reporting overheads. For example overheads across the three years 2018/19 to 2020/21 were around 13% of total costs, which is very low. Service users were being undercharged for overheads. This has been corrected for the forecast period, but not the 2018/19 to 2020/21 period.

As a result of the correction in the reporting of reported overhead costs have increased by more than 50% between 2019/20 and 2023/24 and are expected to have almost doubled between 2019/20 and 2027/28. Overheads increase from $5.07 million in 2021/22 to a forecast $6.65 million by the end of the forecast period in 2027/28 or 31% over six years.

An average increase of around 5% is still slightly higher than expected inflation over the same period. This higher-than-expected increase in overheads is partly a result of a reduction in FTEs (full-time equivalent employees) in MPI due to the completion or downsizing of programmes like M. bovis along with general downsizing of staff numbers as part of the Government's desire to reduce expenditure. Fewer FTEs means less activity over which to spread overhead cost meaning the average overhead cost per FTE or hour increases. This should only have an impact over the short- to medium-term, however, as MPI responds by reducing overheads such as property to match the number of FTEs.

6.3.3.5 Support costs

Support costs include staff providing technical support to frontline staff (including training and warranting), calibration and operational support (including scheduling staff to ensure continuous presence service requirements are met), and performance support.

These have only increased by 9.0% between 2019/20 and 2023/24 at an annual average rate of 2.2%, and are expected to be 22.0% than 2019/20 levels by 2027/28. These increases do not appear to be excessive when compared to other indexes and total support expenditure is forecast to remain below pre-pandemic levels. At a forecast $4.70 million in 2027/28, support costs would be lower in nominal terms (even before accounting for inflation) than pre-pandemic levels, such as $5.68 million in 2018/29 (see Figure 8).

6.3.3.6 Travel costs

Travel costs include such things as fuel, vehicle maintenance, and accommodation for vets, including relievers travelling to premises to provide cover for fulltime vets. While Figure 11 shows that travel costs are expected to have increased by 76.7% between 2019/20 and 2027/28, this is largely the result of the 2019/20 year with pandemic lockdowns and remote verification causing travel costs to reduce dramatically. Forecast expenditure on travel is expected to be around where it was pre-pandemic ($0.79 million in 2027/28 versus $0.74 million in 2018/19 in Figure 10, for example).

6.3.3.7 Other costs

Other costs capture miscellaneous costs like for equipment. These are only forecast to have increased by 12.8% between 2019/20 and 2027/28, equal to an annual average increase of 1.5% per annum. Total expenditure remains below pre-pandemic levels.

6.3.3.8 Total costs

Between 2019/20 and 2023/24, MPI's cost per hour increased by 26.5%. This compares to 24.4% in private sector veterinary services.

By 2027/28, MPI's cost per hour is expected to have increased by 45.7% since 2019/20. This compares to 44.3% in private veterinary service inflation if it runs 75% above CPI inflation and 41.4% if it runs 50% above CPI inflation.

Part of the reason MPI's cost inflation appears to run a bit higher than that for private sector veterinary services may relate to overhead costs.

MPI expects to have an increase in the average cost of overheads due to staffing reductions across the Ministry. While the reduction in staff numbers pushes up the average cost of overheads, the reduction in staff numbers follows a period of increased staff numbers which would have had downward pressure on the average cost of overheads. It would not be appropriate to cite a reduction in FTEs as a reason why MPI's cost inflation is higher than private sector veterinary services and ignore past increases in FTEs.

To account for this, Figure 11 shows MPI's total costs per hour excluding overheads. Costs per hour excluding overheads increased by 22.6% between 2019/20 and 2023/24 and are forecast to have increased by 38.3% between 2019/20 and 2027/28. This is slightly below expected inflation in private sector veterinary services.

Additionally, travel cost inflation is largely an illusion due to remote verification during the pandemic. If travel costs in 2019/20 were the same as in 2018/19, the 22.6% increase in cost per hour would reduce to 21.0% and the 38.3% increase would reduce to 36.4%.

A final point is that one of the main contributors to the increase in MPI costs is salary increases. These have been explicitly modelled and included in the costings. If private sector salaries are also yet to adjust, then private veterinary service inflation may be higher than CPI inflation to a greater degree than the 50% and 75% used in this analysis.

Overall, it appears that increases in MPI costs are in line with price inflation in private sector veterinary services.

6.3.4 Efficiency and Equity

Efficiency requires full cost recovery of reasonable costs from appropriate parties, in this case Establishment premises as beneficiaries of the service. Full cost recovery options are included in this CRIS.

We have not identified any Equity reasons, and none have been suggested by the Government, that would mean options that do not fully recover costs should be considered.

6.4 Final options and their key features

It appears that MPI's costs are in line with private sector costs and that expenditure on individual types of expenditure appears to be reasonable and justified.

The one area where there is remaining uncertainty is in the number of relievers MPI should retain. As a result, two options are included other than the status quo. The first option fully recovers the costs of the establishment vets and the 31 relievers needed to cover for absences due to training, leave, and sickness. The second option fully recovers the costs of the establishment vets and 36 relievers (five additional to option one to cover for less predictable absences such as vacancies, short-notice shift changes and rostered days off).

Figure 13 shows the options applied to the different Establishment fees for normal time hours. Option (2) would increase Establishment fees by 18.9% for vets and 24.5% for supervising vets. Option (3) would see 21.6% and 27.3% increases respectively.

Figure 13: Options for normal time Establishment fees

Option	Direct costs		Programme charge	Total	
	Supervising vet	Vet		Supervising vet	Vet
Option (1): The status quo	$88.10	$79.80	$48.35	$136.45	$128.15
Option (2): Full cost recovery including of 31 relievers	$116.03	$98.56	$53.86	$169.89	$152.42
Option (3): Full cost recovery including of 36 relievers	$118.98	$101.07	$54.73	$173.71	$155.80
Dollar change					
Option (1) to Option (2)	+$27.93	+$18.76	+$5.51	+$33.44	+$24.27
Option (1) to Option (3)	+$30.88	+$21.27	+$6.38	+$37.26	+$27.65

Option (2) to Option (3)	+$2.95	+$2.51	+$0.87	+$3.82	+$3.38

The hourly rates for vets and supervising vets takes personnel, travel, other costs, and the accumulated deficit and allocates them according to the difference in salaries between vets and supervising vets. The accumulated deficit is only recovered from the vet components, not the programme charge. These costs are allocated across all hours: hours spent working, holidays, sick leave, training. Establishments effectively pay for FTEs (plus work done after-hours).

The level of service provided to Establishments is influenced by the level of demand they have for vet services. Option (3) was offered as an alternative choice during consultation, which costs 2% more than Option (2). MPI did not have a stated preference at consultation, and was very clear that it would be guided by the industry, which sets the level of demand for these services.

MPI calculates the programme charge component based on forecast support and overhead costs for the 2025/26 to 2026/27 period. These costs are only allocated across hours worked, not holidays, sick leave, training or being on standby.

Figure 14 shows the corresponding after-hour rates. Detail about how after-hours rates are calculated can be found in Appendix G.

Figure 14: After-hour Establishment rates

	Option (1): Status quo		Option (2): Full cost recovery		Option (3): Full cost recovery with five additional relievers	
	Supervising vet	Vet	Supervising vet	Vet	Supervising vet	Vet
Normal time	$136.45	$128.15	$169.89	$152.42	$173.71	$155.80
Overtime						
Time and a half	$180.50	$168.05	$227.91	$201.70	$233.20	$206.34
Double time	$224.55	$207.95	$285.92	$250.98	$292.69	$256.87
Call-outs						
Time and a half	$169.08	$149.18	$227.91	$201.70	$233.20	$206.34
Double time	$209.33	$182.79	$285.92	$250.98	$292.69	$256.87
Public holidays and Ministry holidays						
Per day	$643.91	$537.77	$928.24	$788.48	$951.84	$808.56
Plus per hour	$128.84	$115.57	$169.89	$152.42	$173.71	$155.80
Penal rates						
0.50	$44.00	$39.90	$58.02	$49.28	$59.49	$50.54
1.00	$88.10	$79.80	$116.03	$98.56	$118.98	$101.07
2.00	$176.20	$159.60	$232.06	$197.12	$237.96	$202.14

6.4.1 Discarded options

While the red meat industry is experiencing a downturn, this is largely off historic highs, and cycles in economic activity are natural. Sheep meat is experiencing a more long-term structural decline due to lower economic returns from sheep meat and higher returns in other activities (e.g. forestry). We have not identified any Equity reasons to consider any options that do not fully recover costs and none have been suggested by the Government. Options that do not fully recover costs on Equity grounds have been discarded.

We have also discarded options that would recover only future costs and not the accumulated deficit. MPI has an internal policy produced in response to industry interest which sets out when MPI will investigate deficits and surpluses and consider undertaking an expenditure and revenue review. In undertaking this review, MPI has operated in line with the policy. At 8.8% in 2023/24 compared to the policy's 33% threshold, the accumulated deficit is small as a proportion of total revenue and, while the accumulated deficit first exceeded $1 million threshold in 2022/23, salary negotiations with vets did not conclude until the 2023/24 financial year. It was prudent to wait until those negotiations concluded before undertaking this expenditure and revenue review. If MPI had been unreasonably slow in addressing the deficits, then options that don't fully recover historical deficits would be considered.

6.5 Estimated financial and economic impacts

This chapter sets out the immediate financial impact of options at the industry and business-level, and then considers how the financial impact feeds through to changes in prices and volumes over the medium- to long-term.

6.5.1 Immediate industry-level impacts

Figure 15 shows total costs recovered from industry under each option and how much cost recovery would increase by under each option. For example, the total cost recovery in 2025/26 is expected to be $34.5 million under the status quo and this would increase by $7.8 million under Option (2).

Figure 15: Immediate industry-level impacts

Option	2025/26	2026/27	2027/28	Total
Option (1): The status quo	$34.0m	$33.8m	$33.8m	$101.6m
Option (2): Full cost recovery	$41.5m	$41.4m	$41.4m	$124.4m
Option (3): Full cost recovery with five additional relievers	$42.5m	$42.4m	$42.3m	$127.2m
Change				
Option (2): Full cost recovery	+$7.6m	+$7.6m	+$7.6m	+$22.7m
Option (3): Full cost recovery with five additional relievers	+$8.5m	+$8.5m	+$8.5m	+$25.6m

6.5.2 Immediate business-level impacts

MPI provides services to around 57 Establishment premises. The cost impact on individual premises depends primarily on how many FTEs each premises requires for the hours of the operation. With wide variation in the number of FTEs per premises – from 0.5 to 4 – there is wide variation in cost increases per Establishment.

Based on current demand, cost increases are estimated to be as follows:[24]

- For Option (2), a median increase of $121,000 per annum, with the top 25% increasing by at least $150,000 and the bottom 25% increasing by at most $76,000. The smallest increase would be around $35,000, and the largest would be around $221,000.

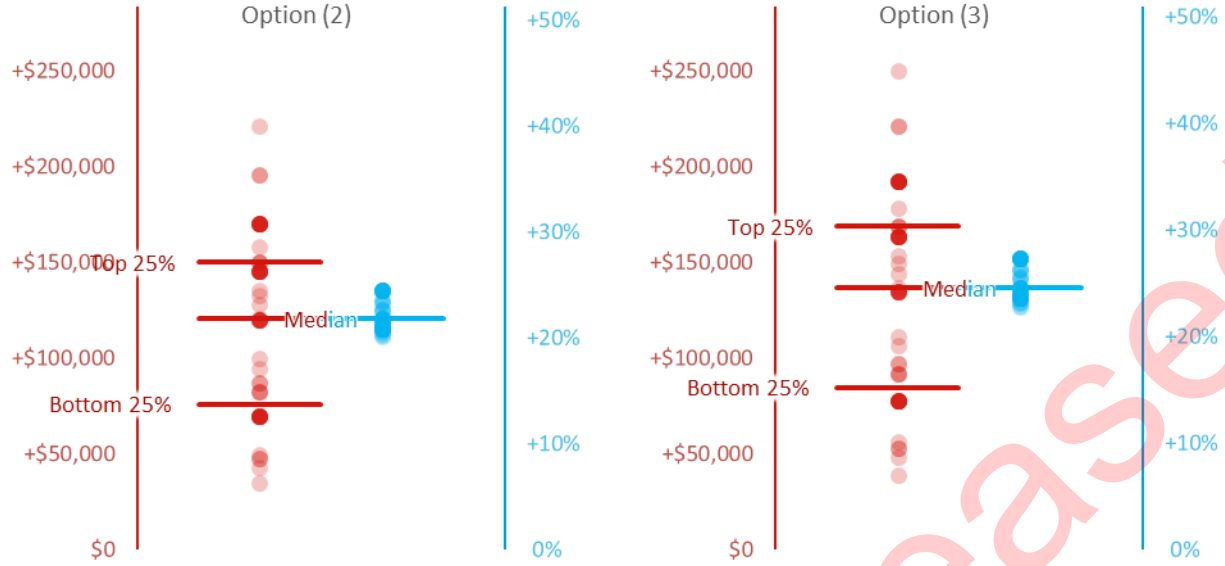
  The percentage increases are similar per Establishment, ranging from 20.1% to 24.5% with a median of 21.8%.

- For Option (3), a median increase of $137,000 per annum, with the top 25% increasing by at least $169,000 and the bottom 25% increasing by at most $85,000. The smallest increase would be around $39,000, and the largest would be around $250,000.

  The percentage increases range from 22.8% to 27.3% with a median of 24.5%.

[24] Estimates exclude work done after-hours.

Figure 16: Distribution of Establishment premises cost increases under Options (2) and (3)



6.5.3 Medium- to long-term market-level impacts

Changes in fees are changes in business costs. This feeds through to business margins and, over the medium- to longer-term, to market prices and quantities.

Under Option (3) – the highest cost option – annual cost recovery would increase by $8.5 million. This compares to around $8.6 billion of red meat export revenue in 2023/24. Total costs recovered as a percentage of total export revenue would increase by about 0.09 percentage points from 0.40% to 0.48%.

As the increase is small, we have not sought to estimate the impact on demand for New Zealand red meat exports.

6.6 Assessment against the cost recovery principles

6.6.1.1 Transparency

MPI considers that the level of information in this CRIS and in the consultation document, along with ongoing reporting through MPI's annual report to the red meat sector, sufficiently meets the Transparency principle. The Efficiency and Equity principles are considered together as there are sometimes trade-offs between them.

6.6.1.2 Justifiability

Justifiability requires that costs are reasonable. Overall, the cost per hour of Establishment services have, and are expected to increase, at a similar rate to private sector veterinary services.

The primary drivers of cost increases are personnel cost increases and overhead cost increases. Personnel costs have increased due to salary increases needed to retain and attract vets to MPI. Real, inflation-adjusted, salaries are expected to be where they were before the pandemic and resulting inflation by 2027/28.

The impact of overhead costs needs to be discounted, however. Overhead costs have increased due to the conclusion or downscaling of major programmes like M. Bovis and general staffing reductions due to the desire by Government to reduce government expenditure. Fewer staff means the average cost of overheads like property and IT infrastructure rises. Section 6.3.3.4 ultimately sets aside the change in overhead costs from the comparison to private sector veterinary service prices as, while overhead costs per hour have risen recently, there would have been downward pressure in previous years with increases in MPI staffing. Comparing a large organisation with staff numbers that vary

greatly over time is unlikely to be comparable to private sector veterinary services that, on average, are likely to have a more stable number of staff.

The difference between Options (2) and (3) is the number of relievers MPI retains. The cost difference between the two options is 2.3%. MPI has not estimated the value of reduced risk of interrupted services and the resulting impact on Establishment premises. While MPI has not failed to provide vet coverage within current resource in the past, a lower number of relievers will come with a greater risk.

The Meat Industry Association submitted in favour of Option (2) with the lower number of relievers and noted in that it would monitor the risk. MPI considers that industry is best placed to weigh up the risk against the cost and supports industry's preference.

6.6.1.3 Efficiency

Keeping the fee unchanged under Option (1) would see the accumulated deficit continue to rise and be progressively written-off over time at a cost to public funds. Under-recovering costs denies the public the use of that money for other purposes. Under-charging also distorts businesses decisions about how much of the service to demand, resulting in more use of the service to the point where benefits of additional hours/FTEs are exceeded by the cost of additional hours/FTEs. Option (1) does not meet the Efficiency principle.

Options (2) and (3) fully recover costs through to 2027/28. Both are efficient ways of funding the level of service that Options (2) and (3) provide.

6.6.1.4 Equity

MPI has not identified any Equity reasons, and none have been suggested by the Government, that would mean costs should not be fully recovered.

6.7 Consultation

The Meat Industry Association submitted in support of Option (2), full cost recovery of the number of fulltime vets agreed with Establishment premises, plus 31 relievers to cover relatively predictable/anticipated absences. MPI supports industry's preferred option.

The submitter was also of the view that the increase will impact the sector negatively and would prefer more frequent and moderated increases in the future. MPI notes that the proposed increases are modest and MPI acted as soon as the bright-line test was triggered. MPI also notes that the last substantive reset of Establishment fees was only two years ago in 2023.

The Meat Industry Association also encouraged MPI to undertake a fuller review of the programme charge component of the fees. MPI will look at what additional information can be provided in future reviews, but notes that, as discussed in section 6.3.3.4, overheads are expected to be around 16% of total costs during the forecast period. This is a low share for overheads compared to other MPI services, or services in other markets generally which vary between 19 and 23%.

6.8 Conclusion

We consider that all options sufficiently meet the Transparency and Justifiability principles. Keeping the current fee and allowing annual deficits and the accumulated deficit to increase does not meet the Efficiency or Equity principles.

MPI did not have a preference at consultation between Options (2) and (3) at the consultation stage as neither option exposes industry to any greater risk than at present and MPI will continue to provide sufficient vet coverage in this area. Following consultation, MPIs preferred option is Option (2), in line with industry feedback.

No reasons have been identified under the Equity principle that would suggest costs should not be fully recovered.

Figure 17 shows expenditure and revenue under the status quo and under Option (2), with the balance reaching zero by the end of 2027/28 under Option (2).

Figure 17: Revenue and expenditure under Option (2) and Option (3) versus the status quo

	Actual		Forecast			
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Billed hours	255,081	258,481	259,939	259,939	259,939	259,939
Option (1): Status quo						
Opening balance	-$0.85m	-$1.81m	-$2.80m	-$5.12m	-$9.53m	-$13.74m
Revenue	$31.33m	$34.19m	$34.46m	$33.97m	$33.84m	$33.80m
Expenditure	$32.93m	$35.38m	$36.79m	$38.38m	$39.66m	$41.21m
Surplus/deficit	-$1.60m	-$1.19m	-$2.33m	-$4.40m	-$5.82m	-$7.40m
Closing balance	-$2.45m	-$3.00m	-$5.13m	-$9.53m	-$15.34m	-$21.15m
One-off changes	$0.63m	$0.21m	$0.01m	$0.00m	$1.60m	$1.19m
Option (2): full cost recovery | 22.4% increase in fees						
Opening balance	-$0.85m	-$1.81m	-$2.80m	-$5.12m	-$1.96m	-$0.19m
Revenue	$31.33m	$34.19m	$34.46m	$41.54m	$41.42m	$41.39m
Expenditure	$32.93m	$35.38m	$36.79m	$38.38m	$39.66m	$41.21m
Surplus/deficit	-$1.60m	-$1.19m	-$2.33m	$3.17m	$1.77m	$0.19m
Closing balance	-$2.45m	-$3.00m	-$5.13m	-$1.96m	-$0.19m	$0.00m
One-off changes	$0.63m	$0.21m	$0.01m	$0.00m	$0.00m	$0.00m

6.9 Monitoring and review

Chapter 3.3.1 sets out how MPI monitors accounts to ensure that significant deficits and surpluses do not arise. In this instance, for example, the second bright-line test around the size of accumulated deficit was met.

7 Veterinary service fees for live animal imports and exports, including germplasm

7.1 Summary

The fee for live animal imports and exports[25] has not been reset since 2015 and deficits have accumulated to a point where they need to be addressed. Under MPI's preferred option, the fee would be increased by 16.4% to recover forecasts costs, including a forecasted accumulated deficit by June 2025 of $0.4 million. The other option would increase the fee by 20.0% to recover a further $0.2 million of accumulated deficit. However, recovering this deficit would not be reasonable at this time as MPI is still working to validate the costs included in the deficit.

For the median importer, the fee increases amounts to about $540 per annum. For the top 25% of importers, it amounts to at least $2,000 per annum. These fee increases are expected to have negligible impacts on households, businesses, markets and exports.

7.2 Veterinary service fees for live animal imports and exports, including germplasm

Veterinary work covered by this chapter includes biosecurity, animal product, and welfare assessments around live animal imports and exports (including germplasm). It also covers associated work done by vets such as providing replacement certificates and auditing of transitional facilities.

The base hourly rate for live animal imports and exports was last reset in 2015 to $186.30 per hour. figure 18 sets out the history of fees excluding GST. Until 1 July 2015, fees were listed as including GST. The reduction in the fee on 1 October 2010 did not come from a change to the regulations but an increase in the rate of GST from 12.5% to 15.0%.

Figure 18: Live animal imports and exports fee history

Date	Fee
1 July 2015	$186.30
1 October 2011	$88.87
1 October 2010	$83.57
1 July 2008	$85.42

MPI consulted on two options other than the status quo:

- Option (2) recovers all costs including accumulated deficits prior to 2022/23; and
- Option (3) only recovers costs from 2022/23 onwards.

No submissions were received on the proposal to increase veterinary service fees for other work.

7.3 Problem

This chapter uses financial tables with shading of explanatory text and corresponding cells in tables to help explain how revenue and expenditure has tracked over time.

This chapter identifies the contributors to the deficit. It does not determine whether causes of the deficit involve reasonable levels of expenditure (this is set out in Appendix B). The deficits that have arisen under the fees are due to the increase in costs for vets causing growing expenditure over time while the fee has not been updated since 2015.

Figure 19 sets out the historical revenue and expenditure and currently forecast revenue and expenditure, along with a breakdown of expenditure. Data is only available from 2022/23 due to

[25] For the purposes of this document, 'live animal imports and exports' in this document should be read as also including germplasm.

changes to MPI's financial models and a lack of confidence in data from before 2022/23. The short time series means that there isn't much to be said about how revenue and expenditure has changed over time, except that expenditure on personnel, other direct costs, and overheads is forecast to increase over time from 2023/24's actual expenditure.

From Figure 19, there was a $0.3 million deficit by in 2023/24. The annual deficit is forecast to be $0.1 million be 2024/25 and $0.3 million in 2027/28. The $0.6 million deficit contributes to a $0.6 million accumulated deficit which is forecast to grow to $0.7 million by June 2025 and $1.3 million by June 2028.

Figure 19: Revenue and expenditure under current fees, 2022/23 to 2027/28

	Actual		Forecast			
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Billed hours						
Imports	8,193	7,248	8,339	8,481	8,619	8,619
Exports	3,694	3,256	3,256	3,256	3,256	3,256
Total	11,887	10,504	11,595	11,737	11,874	11,874
Opening balance	-$0.24m	-$0.37m	-$0.63m	-$0.72m	-$0.86m	-$1.05m
Revenue	$2.21m	$1.96m	$2.16m	$2.19m	$2.21m	$2.21m
Expenditure	$2.35m	$2.22m	$2.24m	$2.33m	$2.40m	$2.49m
Surplus/deficit	-$0.13m	-$0.26m	-$0.08m	-$0.14m	-$0.19m	-$0.27m
Closing balance	-$0.37m	-$0.63m	-$0.72m	-$0.86m	-$1.05m	-$1.32m
One-off changes						

Expenditure breakdown	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Personnel	$1.57m	$1.54m	$1.50m	$1.57m	$1.63m	$1.70m
Other	$0.26m	$0.25m	$0.33m	$0.34m	$0.34m	$0.35m
Support costs	$0.04m	$0.00m	$0.00m	$0.00m	$0.00m	$0.00m
Corporate overheads	$0.49m	$0.42m	$0.41m	$0.42m	$0.43m	$0.44m

7.4 Options

7.4.1 Options at consultation

MPI consulted on two options other than the status quo Option (1):

- Option (2) recovers all costs including accumulated deficits prior to 2022/23; and
- Option (3) only recovers costs from 2022/23 onwards.

MPI's preferred option at consultation was Option (3). Most of the expenditure under these fees appear to be reasonable. There are, however, questions about one line of expenditure (around 'interbranching'[26]). MPI has not been able to sufficiently review and validate this line within this Annual Package, and so MPI does not propose to cost recover it as part of this Annual Package. As a result, option (3) does not recover the accumulated deficit and has a lower than the first option ($216.84 per hour versus $223.58 per hour) and Option (2) has been discounted in the final consideration. Further analysis is set out in Appendix C.

No submitters provided feedback on the proposal to increase veterinary service fees for other work.

[26] 'Interbranching' refers to the transfer of resources from one MPI service to another. In this case, vets from MPI's Circuit verification services transferred to verification services for live animal imports and exports.

7.4.2 Final options

MPI currently prefers Option (3) which would increase the fee by 16.4%. Figure 20 shows expenditure and revenue under the status quo and under Option (3), with the balance reaching zero by the end of 2027/28 under Option (3).

Figure 20: Revenue and expenditure under Option (3) versus the status quo

	Actual		Forecast			
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Billed hours	11,887	10,504	11,595	11,737	11,874	11,874
Option (1): Status quo						
Opening balance	-$0.24m	-$0.37m	-$0.63m	-$0.72m	-$0.86m	-$1.05m
Revenue	$2.21m	$1.96m	$2.16m	$2.19m	$2.21m	$2.21m
Expenditure	$2.35m	$2.22m	$2.24m	$2.33m	$2.40m	$2.49m
Surplus/deficit	-$0.13m	-$0.26m	-$0.08m	-$0.14m	-$0.19m	-$0.27m
Closing balance	-$0.37m	-$0.63m	-$0.72m	-$0.86m	-$1.05m	-$1.32m
Option (3): Fee increase of 16.4%						
Opening balance[27]	$0.00m	-$0.13m	-$0.39m	-$0.48m	-$0.26m	-$0.09m
Revenue	$2.21m	$1.96m	$2.16m	$2.55m	$2.57m	$2.57m
Expenditure	$2.35m	$2.22m	$2.24m	$2.33m	$2.40m	$2.49m
Surplus/deficit	-$0.13m	-$0.26m	-$0.08m	$0.22m	$0.17m	$0.09m
Closing balance	-$0.13m	-$0.39m	-$0.48m	-$0.26m	-$0.09m	$0.00m

7.5 Estimated financial and economic impacts

Immediate industry-level impacts Figure 21 shows total costs recovered from industry by option and how much cost recovery would increase by under each option. For example, total cost recovery in 2025/26 is expected to be $2.2 million under the status quo and this would increase by $0.4 million under Option (2).

Figure 21: Immediate industry-level impacts

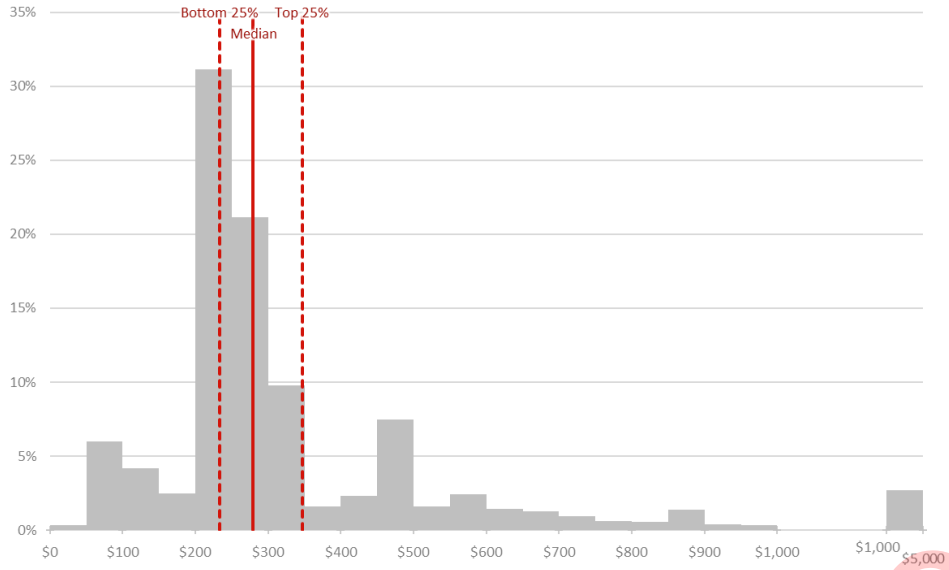
Option	**2025/26**	**2026/27**	**2027/28**	**Total**
Option (1): The status quo	$2.19m	$2.21m	$2.21m	$6.61m
Option (3): Costs from 2022/23 recovered	$2.55m	$2.57m	$2.57m	$7.69m
Change				
Option (3): Costs from 2022/23 recovered	+$0.36m	+$0.36m	+$0.36m	+$1.08m

7.5.1 Immediate business-level impacts

Business-level impacts have been estimated using 2023/24 data on veterinary services provided to importers. This data suggests that the value of each transaction is relatively small at a median of $280, with the bottom 25% of transactions at $230 or less and the top 25% at $350 or more.

[27] Option (3) sees the opening balance in 2022/23 set to zero due to a high likelihood that it was caused by mistakenly allocated costs.

Figure 22: Distribution of veterinary service invoices for live animal import work



There is greater variation in the amount each importer pays in total per year where, in 2023/24, the median was $3,300, with the bottom 25% of importers paying $1,000 or less and the top 25% paying $12,000 or more. Six of the 114 importers in 2023/24 paid between $100,000 and $220,000.

Figure 23: Distribution of total cost by importer in 2023/24

Using the same data,[28] for Option (3), a median increase of $540 per annum, with the top 25% increasing by at least $2,000 and the bottom 25% increasing by at most $170. The smallest increase would be around $8, and the largest would be around $34,700.

7.5.2 Medium- to long-term market-level impacts

Changes in fees are changes in business costs. This feeds through to business margins and, over the medium- to longer-term, to market prices and quantities.

Under Option (3), annual cost recovery would increase by $0.36 million.

Using the breakdown of hours between imports and exports, and data on the value of live animal imports and exports from Infoshare, costs as a proportion of export value would increase by 0.1

[28] Estimates do not account for any work done after-hours. Some of the transactions in 2022/23 would have involved work charged at after-hour rates. Transactions have not been identified and separated based on the time of day for service delivery.

percentage points from 0.9% to 1.0% and as a proportion of import value by 1.0 percentage points from 6.3% to 7.4%.

The animal imports percentages are high. Animal imports, however, are an input into other activity such as meat and dairy production so a more reasonable comparison is to the total value of animal product production. If we assume, for simplicity, that all imports relate to dairy and red meat sectors, then fees as a proportion of export revenue rise by 0.002% from 0.015% to 0.017%. This should have a negligible impact on markets.

The impact on animal exports is likely to be bigger as, from the perspective of New Zealand producers, the animals exported are the final product. Increases in costs will have a bigger impact as overseas countries can source animals from countries other than New Zealand. The impact is expected to still be small, however, as the fee increase as a proportion of export revenue is about 0.1 percentage points. We have not undertaken detailed estimates of the impact on trade, but from analysis done around germplasm levy increases in 2021[29] suggests that a 1% change in price corresponds to around a 1% change in volume of exports. On this basis, the fee increase could be expected to reduce live animal exports by around 0.1%.

7.6 Assessment against the cost recovery principles

7.6.1 Transparency

As discussed, MPI considers that the level of information in this CRIS, and in the consultation document sufficiently meets the Transparency principle.

7.6.2 Justifiability

Justifiability requires that costs are reasonable. MPI considers that expenditure from 2022/23 onwards is reasonable. Personnel and non-personnel costs appear to be reasonable.

Around $600,000 to $700,000 of expenditure has not been included in Figure 19 because MPI has not yet been able to establish its validity or, if some or all of it is valid, whether it should be recovered using this fee. Additionally, there is a strong likelihood that the 2022/23 opening deficit is largely or entirely the result of the same type of currently-unvalidated expenditure.

As this expenditure type has not been validated, MPI considers that Option (2) would not be sufficiently aligned with MPI's cost recovery principles. MPI is proposing not to recover either these costs or the 2022/23 opening deficit. If the planned review for 2025 partly or fully validates these costs, MPI may consider options for recovering them as part of a future Annual Package.

A final piece of evidence of the reasonableness of costs is in comparing fees to private sector vets. Statistics New Zealand provided data on the average price of 15-minute consultations at residential vets. Like MPI's service, residential vets taking bookings on demand which are processed by administration staff while vets carry out veterinary inspections. The average GST-exclusive price for private clinic consultations was $70.67 ($282.68 per hour)[30] as at June 2024. MPI's quarter-hour price under Option (3) is much lower at $54.21 ($223.58 per hour).

7.6.3 Efficiency

Keeping the fee unchanged under Option (1) would see the accumulated deficit continue to rise and be progressively written-off over time at a cost to public funds. Under-recovering costs denies the public the use of that money for other purposes. Under-charging also distorts businesses' decisions about how much of the service to demand, resulting in more use of the service to the point where benefits of additional hours are exceeded by the cost of additional hours. Option (1) does not meet the Efficiency principle.

[30] Medicines are charged separately and are not included in these fees.

Option (2) has already been ruled out as not sufficiently meeting the Justifiability principle. Option (3) fully recover costs / does not under-recover costs through to 2027/28. This provides importers and exporters the right price incentives around service use and means public funds can be used for other purposes.

7.6.4 Equity

We have not identified any Equity reasons, and none have been suggested by the Government, that would mean costs should not be fully recovered.

7.7 Conclusion

We consider that all options sufficiently meet the Transparency principle, but Option (2) does not sufficiently meet the Justifiability principle. Keeping the current fee and allowing annual deficits and the accumulated deficit to increase does not meet the Efficiency or Equity principles.

MPI currently prefers Option (3) which would increase the fee by 16.4% Figure 20 shows expenditure and revenue under the status quo and under Option (3), with the balance reaching zero by the end of 2027/28 under Option (3).

7.8 Monitoring and review

Chapter 3.3.1 sets out how MPI monitors accounts to ensure that significant deficits and surpluses do not arise. In this instance, for example, the first bright-line test around the size of accumulated deficit was met.

In addition to ongoing monitoring, MPI plans to further investigate the interbranching expenditure which could not be validated as part of this Annual Package. If the robustness of that expenditure is established and that it should be recovered from this fee, a further review of the fee may be required in the 2026 Annual Package.

Appendix A: Additional information to Chapter 5 - The Dairy Standards Process Levy & Dairy Exporter Levy

Fee and service background

High-level service description

The Dairy Standards Processor Levy funds development and maintenance of New Zealand standards, performance monitoring, and dairy residue monitoring.

The Dairy Exporter Levy funds development and maintenance of market access standards, the market access programme, and development and maintenance of export standards.

Service performance

MPI's annual report to the dairy industry provides the opportunity to view the two levies and request further reporting, outputs and outcomes, and plans for the levies as well as other matters.

The report provides information on performance. This transparency helps to provide opportunity to test how efficiently MPI manages levy revenue.

Feedback from industry was that they want more information about services and expenditure. MPI will engage with industry on how to do this.

Dairy Standards Processor Levy services

The 2023 Dairy Report[31] outlines completed projects and provides updates on ongoing projects undertaken using these levies, examples are:

- updates to the Animal Products Notice: Production, Supply and Processing
- implementation of a new procedure for the approval of dairy maintenance compounds
- implementation of the residue sampling regimes animal products notice
- improvements to, and maintenance of, the E-STAR monitoring database
- detail about a wide range of residue sampling and systems audit work.

Dairy Exporter Levy services

Examples of work covered by the 2023 report include:

- the work of the Approved Halal Forum
- management of critical exceptions[32] and export non-conformance.[33]

What other consultation and reporting takes place with industry?

MPI consults with the dairy industry on dairy standards and policies through the Dairy Products Safety Advisory Council (DPSAC).

[31] Dairy Report to June 2023

[32] Where dairy product does not meet requirements or has not been processed in accordance with requirements in the Animal Products Act 1999, e.g. the detection of foreign matter such as metal in the product.

[33] Where export product is not fit for its intended purpose, is refused entry by the foreign government, does not meet export requirements, or does not have official assurances.

MPI consults on cost recovery through the Cost Recovery Industry Reference Group (IRG). IRG meets three times a year with members from across the primary industries. Dairy industry members include Dairy New Zealand and the Dairy Companies Association of New Zealand.

Industry representatives have signalled they prefer more frequent, moderate changes to the levies over less frequent, larger changes.

How are these services funded?

Dairy Standards Processor Levy

The amount each processor pays varies each year depending on volumes processed. Dairy processors are categorised as large or small. Large dairy processors collected more than 151,000 kg of milk solids from farmers in the previous financial year. Small dairy processors collected 151,000 kg or less of milk solids in the previous financial year, or are any other person with a farm dairy risk management programme.

Regulations set out the total revenue to be raised from large dairy processors. The current total was set in 2021 at $4,276,288 per year. Each large processor's levy is proportional to its share of total collection volume. Processors are invoiced early in the financial year based on the collection volumes from the previous year.

Each small dairy processor pays a set amount. This was set at $400 in 2019.

Figure 24: Dairy Standards Processor Levy history

Date	Large processor total	Per small processor
1 November 2021	$4,276,580	$400
1 July 2019	$4,935,867	$400
1 July 2018	$4,935,867	$465
11 May 2015	$3,441,944	$465

In 2024/25, 66 processors paid the $400 small processor levy and 19 paid the large processor levy. A small number of processors pay large amounts (reflecting the amount of milk solids they process): While the average amount paid by large processors was $225,400, the median amount was $10,500.

Dairy Exporter Levy

Dairy exporters are categorised as large or small. Large dairy exporters exported more than 466,000 kg of dairy products in the previous financial year. Small dairy exporters exported 466,000 kg or less of dairy products in the previous financial year.

Regulations set out the total revenue to be raised from large dairy exporters. The current total was set in 2021 at $834,567 per year. Each large exporter's levy is proportional to its share of total export volume. Processors are invoiced early in the financial year based on the export volumes from the previous year.

Each small dairy exporter pays a set amount. This was set at $200 in 2019.

Figure 25: Dairy Exporter Levy history

Date	Large exporter total	Per small exporter
1 November 2021	$834,567	$200
1 July 2019	$1,355,100	$200
1 July 2018	$1,355,100	$310
11 May 2015	$1,258,824	$310

In 2023/24, 209 exporters paid the $200 small exporter levy and 51 paid the large exporter levy. A small number of exporters pay large amounts (reflecting the amount of milk solids they export): While the average amount paid by large processors was $16,400, the median amount was $500.

Regulations

Levy rates are set in Part 1 of the Schedule of the Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015.[34]

Are the current methods of cost recovery appropriate?

Dairy standards processor levies

The dairy standards processor levies include a levy on large processors in proportion to the volume of milk they process and a fixed levy per small processor.

Food safety standards, performance monitoring, and residue testing are about mitigating the harm to consumers and the risk to consumer confidence in the market.

One bad event can risk harming consumers and undermining consumer confidence in the market. This harm is an externality. The externality section of Appendix D sets out the framework for considering externalities.

The risks of harm that generates the need for these services increases roughly in proportion with the volume of milk product processed. That is, the risk is higher if something goes wrong in processing a large amount of milk than in processing a small amount of milk. The exception is very small processor which generate disproportionate risks (and costs to MPI) relative to the volumes of milk they collect and process.

Allocating cost to risk exacerbators would, therefore, involve costs largely being allocated in proportion to volumes, with relatively greater cost allocation to smaller processors. Allocating cost to industry in proportion to volumes encourages reduce risk and the need for MPI action, and to undertake other actions to mitigate the harm to themselves in case of an event (e.g. being able to clearly demonstrate to their own customers that they comply with standards).

The benefits of these services accrue to industry in proportion to the economic value[35] of product at risk. The more value a processor handles, the greater the potential harm.

Allocating cost to beneficiaries would involve costs being allocated according to the total net value to consumers and producers. This is not observable. Even individual business profits, which might be closely related to the benefit to consumers and producers, is not typically observable. Volumes of milk processed are observable, however, as a proxy for economic value.

The metric we use, then, is milk volumes processed. This closely relates to risk and, absent being able to observe benefits to consumers and producers or profit, is the metric most closely related to value.

The overall structure of the levies involves levying large processors in proportion to the volumes they process and a fixed minimum levy for small processors reflecting the disproportionate risk they create.

Dairy exporter levies

The dairy exporter levies include a levy on large exporters in proportion to the volume of milk they exporter and a fixed levy per small exporter.

Standards

The development and maintenance of standards under the exporter levies are about mitigating the harm to overseas consumers and the risk to overseas confidence in New Zealand products.

The risk of harm increases roughly in proportion with the volume of milk exported. Like with processors, the risk is elevated for small exporters but not to the same degree as with processors.

[34] https://www.legislation.govt.nz/regulation/public/2015/0095/latest/DLM6444706.html

[35] Net value. Benefits in excess of costs.

The benefits of these services accrue to industry in proportion to the economic value of product at risk. The more export value, the greater the potential harm.

Allocating cost to beneficiaries would involve costs being allocated according to the total net value to overseas consumers and domestic exporters. This is not observable. Even individual business profits, which might be closely related to the benefit to consumers and producers, is not typically observable. The next best proxies, in order, are gross export revenue[36] and export volumes. Both are observable using Customs data. While gross export revenue is more closely aligned to total economic value than volumes on paper, they are likely to be similar in the case of large exporters. Large exporters exporting similar products like milk powder in large quantities are likely to be receiving similar world export prices. If export prices are similar for large exporters, then the volume of exports is an important variable in determining gross revenue.

Volume is, then, the best metric for risk and the close second-best feasible metric for benefit for large exporters. Similarly, gross export value would be the best metric for value and a close second-best feasible metric for risk for large exporters.

While there is little difference between using volumes or gross export revenue as the metric for large exporters, small exporters have an elevated risk justifying a higher level of cost recovery. That risk varies with export volumes rather than export value.

Market access

Separate from the standards themselves, MPI negotiates market access. Market access is a 'club good' rather an externality.

A 'club good' is one where businesses across the industry benefit rather than just an individual business. Services where only individual businesses benefit are charged under fees. Crown funding would be appropriate if benefits accrued to wider society rather than particular businesses or industry as a whole.

The economically efficient way of recovering the costs of a club good is according to the share of net benefit each business receives. As above, the closest feasible metrics are, in order, gross export revenue and volumes.

Overall

Gross export value is the best metric for market access and for the benefits exporters receive from standards, and less good for allocating according to risk, particularly for small exporters.

Volumes is the best metric for allocating according to risk, particularly for small exporters, and less good for allocating according to the value of standards and market access, particularly for small exporters where products are likely to be more variable in uniqueness and value per volume.

The best way of paying for export standards and market access is not obvious with more investigation and, even then, there would likely be considerable uncertainty around the analysis. Industry views about the best approach would be very important.

There are metrics are, in MPI's view, reasonable and it is reasonable to continue to use export volume for the time being. MPI did not explicitly seek feedback on the appropriate metric as part of this year's review, but intends to do so as part of a future fuller review of the levies.

While MPI did not seek explicit feedback, one small exporter took the opportunity to ask whether using export value as the metric would be better. The exporter was concerned that the fixed amount per small exporter was a relatively large burden on what is often small amounts exported.

The above discussion is a result of that exporter's submission. The discussion in the consultation document was not as comprehensive and would have led the exporter to think that levies were purely related to the benefit of exporting, rather than also being related to the risk generated.

[36] Excluding costs involved in production and export.

Industry background

The value of dairy exports has increased sharply over the past twenty years and is expected to almost triple over the next few years compared to 2004.

Most of the increase in export value is from higher volumes. Somewhat higher prices and greatly increased volumes suggests growth in value has been the result of demand and supply increases. Supply increases are evident in increased productivity. Although herd size remained stable at an average of 6 million dairy cows nationwide between 2004 and 2023, export volumes increased by 80% over the same period.

Dairy export revenue is forecast to have declined by 7% between 2023 and 2024 due to a weakening of demand and more domestic milk production in China.[37]

Longer-term growth is expected due to several factors:

- increases in milk production through further productivity gains driven by advances in genetics, technology, and farm management practices.
- new free trade agreements being signed, for example the FTA with the European Union and the United Kingdom.
- a rebound in demand from China, with economic growth in China expected to average 2.4% annually between 2023 and 2032.

Data and forecasts are year ending June and comes from MPI's *Situation and Outlook for Primary Industries*.[38] Prices and values in this chapter have been inflation-adjusted using the consumer price index, with past CPI data coming from Statistics New Zealand's Infoshare[39] and forecast CPI data coming from the Reserve Bank's August 2024 *Monetary Policy Statement.*[40] Forecasts are marked with circles in in the figures.

[37] Time constraints mean we haven't updated the industry background section to account for latest data.

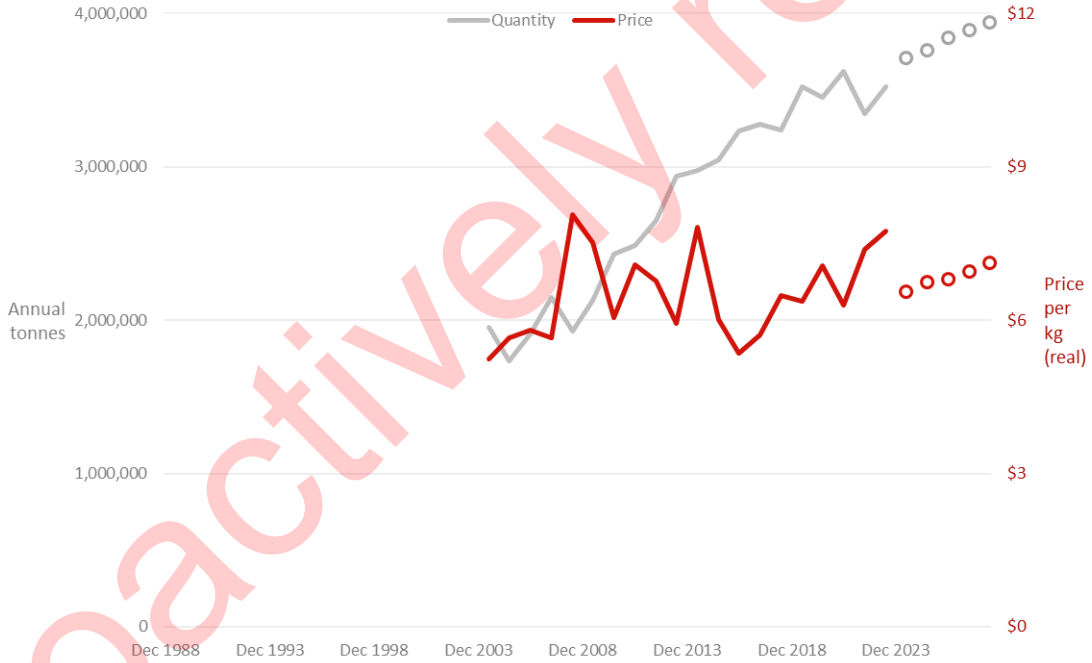
[38] Ministry for Primary Industries, *Situation and Outlook for Primary Industries* (Wellington, 2024), https://www.mpi.govt.nz/dmsdocument/62637-Situation-and-Outlook-for-Primary-Industries-SOPI-June-2024

[39] Stats NZ Infoshare, https://infoshare.stats.govt.nz/

[40] Reserve Bank of New Zealand, *Monetary Policy Statement* (August 2024), https://www.rbnz.govt.nz/hub/publications/monetary-policy-statement/2024/aug-140824klc/monetary-policy-statement-august-2024

Figure 26: Dairy export value

Figure 27: Dairy export quantity and price



Revenue and expenditure data

Figure 28 shows MPI's best available data on revenue and expenditure data. MPI has not undertaken an assessed effort review since 2015.[41] Levels of expenditure may change following New Zealand Food Safety's assessed effort review that is expected to take place next year.

Figure 28: Dairy Standards Processor Levy revenue and expenditure, 2018/19 to 2027/28

	Actual						Forecast			
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Opening balance	-$0.59m	$0.14m	$1.18m	$2.25m	$1.19m	$0.47m	-$0.21m	-$0.92m	-$1.78m	-$2.76m
Revenue[42]	$4.96m	$4.95m	$4.96m	$4.31m	$4.28m	$4.28m	$4.28m	$4.28m	$4.28m	$4.28m
Expenditure	$4.24m	$3.91m	$3.90m	$4.04m	$4.51m	$4.96m	$4.99m	$5.14m	$5.26m	$5.41m
Surplus/deficit	$0.73m	$1.05m	$1.06m	$0.27m	-$0.23m	-$0.68m	-$0.71m	-$0.86m	-$0.98m	-$1.13m
Closing balance	$0.14m	$1.18m	$2.25m	$2.50m	$0.96m	-$0.21m	-$0.92m	-$1.78m	-$2.76m	-$3.89m
One-off changes[43]	$0.00m	$0.00m	$0.00m	$1.31m	$0.49m	$0.00m	$0.00m	$0.00m	$0.00m	$0.00m

Expenditure breakdown	Actual						Forecast			
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Personnel	$1.43m	$1.26m	$1.39m	$1.41m	$1.44m	$1.62m	$1.63m	$1.71m	$1.77m	$1.85m
Contracts (incl. Residues)	$1.79m	$1.80m	$1.72m	$1.84m	$2.12m	$2.32m	$2.31m	$2.36m	$2.41m	$2.45m
Other	$0.27m	$0.22m	$0.29m	$0.27m	$0.34m	$0.31m	$0.31m	$0.32m	$0.32m	$0.33m
Support costs	$0.29m	$0.24m	$0.21m	$0.13m	$0.17m	$0.17m	$0.17m	$0.17m	$0.18m	$0.18m
Corporate overheads	$0.46m	$0.39m	$0.29m	$0.38m	$0.44m	$0.55m	$0.56m	$0.57m	$0.59m	$0.60m

Expenditure by programme[44]	Actual					Forecast		
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Domestic standards & technical resources	$0.86m	$0.79m	$0.91m	$0.92m	$0.99m	$1.15m	$1.18m	$1.21m
Performance monitoring	$2.92m	$2.72m	$2.70m	$2.74m	$3.10m	$3.14m	$3.22m	$3.29m
Corporate overheads	$0.46m	$0.39m	$0.29m	$0.38m	$0.44m	$0.56m	$0.57m	$0.58m

[41] Assessed effort reviews update assumptions about how much effort is spent on different programmes. This information is fed into MPI's cost allocation model to generate expenditure data that is used to inform fee and levy setting. Refer to chapter 3.3.1.1 for more information.

[42] Revenue shown for 2022/23 to 2023/24 is slightly lower than actual as it only includes the large processor levy. For the 2024/25 year, for example the small processor levy revenue is $26,000.

[43] Surpluses returned at the end of the 2021/22 and 2022/23 years.

[44] Sourced from previous annual dairy reports with forecasts from the 2023 dairy report. Totals may not equal current best data on total expenditure.

Figure 29: Dairy Exporter Levy revenue and expenditure, 2018/19 to 2027/28

	Actual						Forecast			
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Opening balance	$0.07m	$0.39m	$0.74m	$1.17m	$1.26m	-$0.11m	-$0.43m	-$0.81m	-$1.22m	-$1.65m
Revenue[45]	$1.40m	$1.39m	$1.39m	$0.88m	$0.83m	$0.83m	$0.83m	$0.83m	$0.83m	$0.83m
Expenditure	$1.08m	$1.03m	$0.97m	$0.78m	$1.06m	$1.15m	$1.21m	$1.24m	$1.27m	$1.30m
Surplus/deficit	$0.32m	$0.36m	$0.42m	$0.09m	-$0.22m	-$0.32m	-$0.38m	-$0.41m	-$0.44m	-$0.47m
Closing balance	$0.39m	$0.74m	$1.17m	$1.26m	$1.04m	-$0.43m	-$0.81m	-$1.22m	-$1.65m	-$2.12m
One-off changes	$0.00m	$0.00m	$0.00m	$0.00m	$1.15m	$0.00m	$0.00m	$0.00m	$0.00m	$0.00m

Expenditure breakdown	Actual						Forecast			
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Personnel	$0.45m	$0.51m	$0.52m	$0.39m	$0.60m	$0.54m	$0.62m	$0.64m	$0.67m	$0.70m
Contracts	$0.11m	$0.12m	$0.11m	$0.15m	$0.04m	$0.05m	$0.03m	$0.03m	$0.03m	$0.03m
Other	$0.12m	$0.04m	$0.04m	-$0.02m	$0.07m	$0.10m	$0.10m	$0.10m	$0.10m	$0.10m
Support costs	$0.20m	$0.18m	$0.21m	$0.14m	$0.19m	$0.31m	$0.31m	$0.32m	$0.32m	$0.32m
Corporate overheads	$0.20m	$0.18m	$0.10m	$0.12m	$0.16m	$0.15m	$0.15m	$0.15m	$0.16m	$0.16m

Expenditure by programme[46]	Actual					Forecast		
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Export standards	$0.06m	$0.07m	$0.09m	$0.11m	$0.10m	$0.11m	$0.11m	$0.11m
Market access team	$0.71m	$0.67m	$0.64m	$0.42m	$0.61m	$0.61m	$0.62m	$0.64m
Market access counsellor	$0.12m	$0.12m	$0.14m	$0.13m	$0.23m	$0.21m	$0.21m	$0.22m
Corporate overheads	$0.20m	$0.18m	$0.10m	$0.12m	$0.16m	$0.19m	$0.20m	$0.20m

[45] Revenue for 2022/23 to 2023/24 is slightly lower than actual would be as it only includes the large exporter levy. In the 2023/24 year, the small exporter levy revenue totalled $42,000.

[46] Sourced from previous annual dairy reports with forecasts from the 2023 dairy report. Totals may not equal current best data on total expenditure.

Appendix B: Additional information to Chapter 6 – Veterinary service fees for Establishments

Fee and service background

Service performance

MPI's annual report to the red meat sector provides industry with the outputs, outcomes and future plans relating to Establishments. The report provides industry with the opportunity to provide feedback and request further reporting.

The 2023 Red Meat Report[47] covered such matters as:

- the service's financial position
- a successful audit of MPI's Verification Services by the United States Department of Agriculture
- shifting verification focus from individual deviations from the risk management plan to a systems-level focus as part of the Optimising Operator Ownership programme
- continued improvement in compliance under the on-farm verification programme (see Figure).

Figure 30: Acceptable compliance outcome rates under the on-farm verification programme

Year	Compliance
2019	57.5%
2020	Not readily available
2021	73.5%
2022	75.2%
2023	75.7%

What other consultation and reporting takes place with industry?

MPI consults with the industry three times a year through the Cost Recovery Industry Reference Group (IRG). IRG members include the Beef + Lamb New Zealand, the Meat Industry Association, New Zealand Pork, and Deer Industry New Zealand.

How are these services funded?

Fees are made up of two components. The first component covers the cost of the time vets or supervising vets spend on verification activities. Services may be provided by a vet or a supervising vet. Supervising vets have managerial and verification responsibilities and, so, a higher salary which translates to a higher hourly fee.

The second component is a 'programme charge' covering both support costs for technical calibration, training development and support, and overheads such as IT, HR, finance and legal costs.

Higher or additional fees are charged for after-hours work like call-outs, overtime, public holiday and Ministry holiday[48] work, or working unsociable hours such as very early mornings. The after-hour fees can be found in Figure 14 in chapter 6.4.

The last major change to Establishment fees was on 1 October 2023 when the vet component and the programme charge had substantial increases.

There was a relatively small reduction in the programme charge on 1 July 2024 when it was extended to be charged on all hours worked (normal hours and after-hour work). Before 1 July 2024, the

[47] https://www.mpi.govt.nz/dmsdocument/60823/direct

[48] The three days between the Boxing Day and Day After New Year public holidays.

programme charge was only applied to normal hours. The change was aimed to be fiscally-neutral – that is, it aimed to recover the same amount of cost but over a wider base of work.

The current fee structure is $48.35 per hour for the programme charge, plus $88.10 per hour for supervising vets or $79.80 per hour for vets. The table below shows the history of Establishment fees excluding GST. Until 1 July 2015, fees were listed as including GST. The reduction in Establishment fees on 1 October 2010 did not come from a change to the regulations but an increase in the rate of GST from 12.5% to 15.0% which reduced the GST-exclusive amount.

Figure 31: Establishment fee history

Date	Direct costs		Programme charge	Total	
	Supervising vet	Vet		Supervising vet	Vet
1 July 2024	$88.10	$79.80	$48.35	$136.45	$128.15
1 October 2023	$88.10	$79.80	$51.40	$139.50	$131.20
1 July 2015	$75.10	$70.30	$41.04	$116.14	$111.34
1 October 2010	$63.04	$59.23	$35.69	$98.73	$94.92
1 July 2010	$64.44	$60.55	$36.48	$100.92	$97.03
1 July 2009	$64.44	$60.55	$33.81	$98.26	$94.36
1 July 2008	$62.01	$58.14	$32.75	$94.76	$90.89

Regulations

Establishment fees appear in Part 7 of Schedule 1 of the Animal Products (Fees, Charges, and Levies) Regulations 2007[49] and in Part 7 of the Schedule of the Animal Products (Dairy Industry Fees, Charges and Levies) Regulations 2015.[50]

Why are fees appropriate?

Verification services are a ‘private good’. A private good is one where a person/business can be excluded (e.g. don’t receive the service if they don’t pay), and where the benefits accrue to the person/business (the benefits are ‘non-rival’) rather than to the whole industry or to society. Verification services are a private good because they are only provided by MPI when paid for and the benefits accrue to the business that receives the service. For example, individual businesses receive benefits of higher revenue from being able to export when verified. Industry or society as a whole does not benefit from any individual business exporting.

A fee is charged to businesses to recover costs of private goods. If industry as a whole benefitted rather than particular businesses, then a levy across industry would be appropriate. Crown funding would be appropriate if benefits accrued to wider society rather than particular businesses or industry as a whole.

Industry background

Information about how industry is performing can be relevant to the Equity principle as Governments sometimes opt to not fully recover costs or defer full cost recovery when there is a slump in economic activity.

Over the long term, the picture for the meat industry as a whole is one of growth, though this is due to the dominance of bovine meat. Real, inflation-adjusted export values for other meats is generally static or declining.

In the last couple of years there has been a sharp fall in red meat export value as prices have fallen due to economic weakness in China, and perhaps prices reverting to more normal levels after disruption due to the pandemic.

[49] https://www.legislation.govt.nz/regulation/public/2007/0130/latest/DLM437410.html

[50] https://legislation.govt.nz/regulation/public/2015/0095/latest/DLM6444706.html

Appendix E contains more detail about how red meat sector has performed. Overall, the gradual long-term decline in some industries, with shifts in land use from low demand meats to higher demand meats, and some short term volatility in prices during, and after, the pandemic don't appear to raise particular concern. There doesn't appear to be any acute issues, with shifts in production from products in low demand to products in high demand.

Appendix C: Additional information to Chapter 7 – Veterinary service fees for live animal imports and exports, including germplasm

Fee and service background

High-level service description

Vet work covered by this chapter includes biosecurity and animal product and welfare assessments around live animal imports and exports (including germplasm). It also covers associated work done by vets such as providing replacement certificates and auditing of transitional facilities.

Service performance

MPI has previously provided industry, via the Animal Trade Advisory Council (ATAC), with reports on revenue and relating to imports and exports. The reports did not cover non-financial performance measures and have not been provided since the 2021/22 report.

What other consultation and reporting takes place with industry?

MPI consults on import and export matters via ATAC which has representatives from many sectors.

MPI also consults with the industry three times a year through the Cost Recovery Industry Reference Group (IRG). IRG members include the Poultry Industry Association of New Zealand, the Meat Industry Association, and Deer Industry New Zealand.

How are the services funded?

Level of the charge

The base hourly rate for live animal imports and exports was last reset in 2015 to $186.30 per hour. Figure 32 shows the history of fees excluding GST. Until 1 July 2015, fees were listed as including GST. The reduction in the fee on 1 October 2010 did not come from a change to the regulations but an increase in the rate of GST from 12.5% to 15.0%.

Figure 32: Live animal imports and exports fee history

Date	Fee
1 July 2015	$186.30
1 October 2011	$88.87
1 October 2010	$83.57
1 July 2008	$85.42

7.8.1.1 Regulations

Fees around live animal imports and exports appear in the Biosecurity (Costs) Regulations 2010,[51] the Animal Products (Fees, Charges, and Levies) Regulations 2007,[52] and the Animal Welfare (Cost Recovery) Regulations 2015.[53]

[51] https://www.legislation.govt.nz/regulation/public/2010/0135/latest/whole.html#DLM3000501

[52] https://www.legislation.govt.nz/regulation/public/2007/0130/latest/whole.html#DLM437294

[53] https://www.legislation.govt.nz/regulation/public/2015/0089/latest/whole.html#whole

Why are fees appropriate?

Verification services are a 'private good'. A private good is one where a person/business can be excluded (e.g. don't receive the service if they don't pay), and where the benefits accrue to the person/business (the benefits are 'non-rival') rather than to the whole industry or to society. Verification services are a private good because they are only provided by MPI when paid for and the benefits accrue to the business that receives the service. For example, individual businesses receive benefits of higher revenue from being able to export when verified. Industry or society as a whole does not benefit from any individual business exporting.

A fee is charged to businesses to recover costs of private goods. If industry as a whole benefitted rather than particular businesses, then a levy across industry would be appropriate. Crown funding would be appropriate if benefits accrued to wider society rather than particular businesses or industry as a whole.

Industry background

Information about how industry is performing can be relevant to the Equity principle as Governments sometimes opt to not fully recover costs or defer full cost recovery when there is a slump in economic activity.

Live animal imports and exports are a component of trade within other industries. Live animal imports support domestic production for domestic consumption and for export in the red meat sector, for example.

This chapter does not attempt to outline how all industries that live animal trade complements have been performing, but information about how the red meat sector has been performing can be found in chapter in Appendix E. Information about all sectors can be found in MPI's Situation and Outlook for Primary Industries[54].

Overall, there don't appear to be any acute issues that would need to be factored into consideration of the Equity principle.

Identifying options

Summary

The process of identifying options using the Cost Recovery Principles is set out in Chapter 4.

Most expenditure under these fees appear to be reasonable. There are, however, questions about one line of expenditure (around 'interbranching'[55]). MPI has not been able to sufficiently review and validate this line within this Annual Package, and so MPI does not propose to cost recover it as part of this Annual Package.

Two options are identified other than the status quo. The first option recovers all costs (other than the unvalidated component), including the accumulated deficit. While we haven't been able to confirm things at this stage, the accumulated deficit is likely to be strongly or entirely the result of the same expenditure line. As a result, a second option does not recover the accumulated deficit and has a lower than the first option ($216.84 per hour versus $223.58 per hour).

MPI intends to investigate the expenditure line further, and it may become cost recoverable as part of a future Annual Package.

[54] https://www.mpi.govt.nz/resources-and-forms/economic-intelligence/situation-and-outlook-for-primary-industries/

[55] 'Interbranching' refers to the transfer of resources from one MPI service to another. In this case, vets from MPI's Circuit verification services transferred to verification services for live animal imports and exports.

Transparency

The information in this CRIS is very similar to the information consulted on with industry. Though it would be desirable to have more historic revenue and expenditure data[56] and that annual reporting to industry had not stopped[57], MPI considers that the level of information in this CRIS and the consultation that was undertaken means the Transparency principle has been sufficiently met.

Justifiability

Costs from 2022/23 onwards

MPI considers that costs from 2022/23 onwards that have been included in Figure 19 are reasonable.

Personnel costs are a product of the number of staff and staff salaries, vet salaries are increasing but only back to pre-pandemic levels in real, inflation adjusted terms. MPI maintains a team of around 10 vets for live animal imports and exports. Around 70% of vet time is spent on billable activity. This is a little lower than the typical rate for other MPI services of 75%. Live animal work is largely 'on demand' meaning that MPI has very little ability to control the type, quantity, location or timing of the work and have very little advance notification of upcoming work, including regular after-hours work. There may be significant consequences if MPI is not able to provide the required services to facilitate the import and export of live animals, including risks to animal welfare, biosecurity, MPI's reputation, and consequences for the customer. Sufficient resourcing, therefore, needs to be available to provide the requested services at peak demand and across a 24/7 timeframe. In addition, the live animal team must ensure that services can continue to be delivered while enabling staff to take planned and unplanned leave as required.

Non-personnel costs include other direct costs like management support, and corporate overheads such as building leases.

Efficiency requires full cost recovery of reasonable costs from appropriate parties, in this case those that need MPI's veterinary services for live animal import and export reasons as beneficiaries of the service.

As costs from 2022/23 appear to be reasonable, an option that fully cost recovers these costs is included in this CRIS.

Some costs have not been included in 2022/23

In interrogating and validating costs from 2022/23, we identified $600,000 to $700,000 of cost which needs further review to validate and then consideration about whether it is appropriate to recover from these fees. These costs relate to 2022/23 and involve 'interbranching' of vets from other MPI services to live animal imports and exports. Inclusion of these costs would have resulted in a very high cost per hour in 2022/23.

These costs have not been included in the numbers that appear in Figure 19 MPI plans to undertake further investigation of these costs in 2025.

Pre-2022/23 costs

Timelines and resourcing limitations for the 2025 Annual Package and changes to financial models mean we have not been able to validate costs prior to 2022/23. There is a strong likelihood that the costs of the type referred to in Chapter 7 were included pre-2022/23. This would potentially account for all of the -$0.2 million opening balance in 2022/23.

For this reason, an option that does not recover any of the $0.2 million is included in this CRIS.

[56] See chapter **Error! Reference source not found.**.

[57] See chapter **Error! Reference source not found.**.

Costs per hour

To help analyse whether costs are reasonable, Figure 33 shows total cost per hour billed, along with by expenditure type. Figure 33 also shows the annual change[58] and how this compares to other cost indexes to see whether MPI cost increases are out of line with, for example, cost increases by private veterinary services. Descriptions of the comparator price indexes are in Appendix F.

Figure 33: Costs per hour and comparator price and cost indexes

	Actual		Forecast			
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Costs per hour						
Total cost	$197.63	$186.34	$188.73	$195.98	$202.02	$209.21
Personnel	$131.73	$129.60	$126.31	$132.37	$137.14	$143.04
Other	$21.89	$21.21	$27.73	$28.29	$28.85	$29.43
Support	$3.08	$0.00	$0.00	$0.00	$0.00	$0.00
Overheads	$40.93	$35.53	$34.68	$35.32	$36.03	$36.75
Total cost excluding overheads	$156.71	$150.81	$154.04	$160.66	$165.99	$172.47
Annual change						
Total cost		-5.7%	+1.3%	+3.8%	+3.1%	+3.6%
Personnel		-1.6%	-2.5%	+4.8%	+3.6%	+4.3%
Other		-3.1%	+30.8%	+2.0%	+2.0%	+2.0%
Support		-100.0%				
Overheads		-13.2%	-2.4%	+1.8%	+2.0%	+2.0%
Total cost excluding overheads		-3.8%	+2.1%	+4.3%	+3.3%	+3.9%
Comparator price and cost indexes						
CPI		+4.3%	+2.3%	+2.2%	+2.0%	+2.0%
MPI cost index		+4.6%				
CPI veterinary services | forecast 75% higher than CPI		+6.8%	+3.9%	+3.9%	+3.5%	+3.5%
CPI veterinary services | forecast 50% higher than CPI		+6.8%	+3.4%	+3.3%	+3.0%	+3.0%
PPI veterinary services | forecast 75% higher than CPI		+5.6%	+3.9%	+3.9%	+3.5%	+3.5%
PPI veterinary services | forecast 50% higher than CPI		+5.6%	+3.4%	+3.3%	+3.0%	+3.0%

Personnel cost

Personnel costs make up 68% of total costs. Most of this is vet salaries. From the vet salary analysis in the Establishments chapter, actual and forecast vet salary increases appear to be reasonable following the recent period of high-inflation. Salary increases return vet salaries to where they were pre-pandemic in real, inflation-adjusted terms.

At around $137 per hour, personnel costs are noticeably higher than, for example, Establishments where personnel costs were around $98 per hour over the same time period. The difference here is due to the nature of the service. For Establishments, vets work full time at premises. For live animal imports and exports, vets work on demand. The administration time to take and process bookings is

[58] Note that the equivalent table for Establishments, looked at the cumulative change in inflation. This is because there is a longer time series for Establishments. Comparing annual changes over a long time period is difficult and, as there may be differences in the timing of inflation in the public and private sector, cumulative inflation makes more sense. We only have a short time series for the live animal imports and exports fee – only two years of actual data, and then four years of forecast data. In a short time series where data may be noisy, annual comparisons make more sense.

done by administrative staff. Administrative staff salaries are lower than vets, but contribute to personnel costs and are spread over only billable vet hours.

Salaries for administration staff are also assumed to increase by 4.8% in 2025/26, 3.6% in 2026/27 and 4.3% in 2027/28 following the recent period of high inflation and to be competitive with the private sector. The analysis suggests that personnel expenditure is reasonable.

Non-personnel costs

MPI forecasts that other direct costs and overhead costs will increase by around 2.0% per year – around the rate of CPI inflation and long-term inflation in MPI costs.

Overheads are 22.8% of total costs which is fairly typical in producing goods and services in the private sector. The above suggests that non-personnel expenditure is reasonable.

Efficiency and Equity

Efficiency requires full cost recovery of reasonable costs from appropriate parties, in this case importers and exporters as the beneficiaries of the service.

We have not identified any Equity reasons, and none have been suggested by the Government, that would mean options that do not fully recover reasonable costs should be considered.

Final options and their key features

Some historical expenditure that contributes to the -$0.2 million opening balance in 2022/23 contains expenditure has not been validated and may not be appropriate to fully recover using this fee. It may be considered to be unreasonable to recover this amount. Therefore, in addition to the status quo fee level and the fee which would fully recover costs in Figure 36, we include an option that does not recover the $0.2 million.

Figure 34: Options for normal time fee for live animal imports and exports

Option	Hourly fee
Option (1): The status quo	$186.30
Option (2): Full cost recovery including accumulated deficits prior to 2022/23	$223.58
Option (3): Only costs from 2022/23 onwards are recovered	$216.84
Dollar change	
Option (1) to Option (2)	+$37.28
Option (1) to Option (3)	+$30.54
Option (2) to Option (3)	-$6.74
Percentage change	
Option (1) to Option (2)	+20.0%
Option (1) to Option (3)	+16.4%
Option (2) to Option (3)	-3.0%

Figure 35 shows the corresponding after-hour rates. Detail about how after-hours rates are calculated can be found in Appendix G.

Figure 35: After-hour rates

Time	Option (1): Status quo	Option (2): Full cost recovery	Option (3): Costs from 2022/23 recovered
Normal time	$186.30	$223.58	$216.84
Overtime			

Time and a half	[59]$236.67	$229.61	$222.69
Double time	[60]$287.04	$271.81	$263.62
Call-outs			
Time and a half	$198.89	$229.61	$222.69
Double time	$236.67	$271.81	$263.62
Public holidays and Ministry holidays			
Per day	$604.44	$675.23	$654.88
Plus per hour	$161.11	$187.41	$181.76
Penal rates			
0.50	$50.37	$60.29	$58.47
1.00	$100.74	$120.58	$116.94
2.00	$201.48	$241.15	$233.88

Discarded options

While primary industries are currently experiencing a downturn, this is largely off historic highs and cycles in economic activity are natural. We have not identified any Equity reasons to consider any options that do not fully recover costs and none have been suggested by the Government. Options that do not fully cost recover costs on Equity grounds have been discarded.

[59] $236.67 was the intended rate from a review in Annual Package 2023. Errors in preparing regulations means the actual rate charged for import and some export work is $198.89. If no adjustment is made to the normal time fee, these mistakes would be corrected.

[60] $287.04 was the intended rate from a review in Annual Package 2023. Errors in preparing regulations means the actual rate charged for import and some export work is $236.67. If no change is made to the normal time fee, these mistakes would be corrected.

Appendix D: MPI's cost recovery principles

MPI's four Cost Recovery Principles are:

- Transparency – costs are transparent
- Justifiability – costs are reasonable
- Efficiency – net benefits are maximised
- Equity – costs are fair.

These four principles appear in much of MPI's legislation.[61]

The legislative definition and interpretations of each principle are set out below.

Transparency

Legislation

'Costs should be identified and allocated as closely as practicable in relation to tangible service provision for the recovery period in which the service is provided.'

Policy interpretation

'Transparency' means providing adequate information to people such that they can understand charges and have an opportunity to input into their calculation and setting.

'Identified and allocated…' means presenting the costs in a way that people can see what services generate what costs, and when. 'Allocated' does not mean 'charged'. How costs are charged is a result of consideration of all the principles.

Justifiability

Legislation

'Costs should be collected only to meet the reasonable costs (including indirect costs) for the provision or exercise of the relevant function, power, or service.'

Policy interpretation

'Reasonable costs' are those necessary to deliver the service at the demanded quantity and quality[62], acknowledging that small inefficiencies may occur from time to time. Large, persistent inefficiencies would not be justifiable costs.

Efficiency

Legislation

'Costs should generally be allocated and recovered to ensure that maximum benefits are delivered at minimum cost.'

[61] This includes Agricultural Compounds and Veterinary Medicines Act 1997 and the Animal Products Act 1999

[62] The quality of service is sometimes determined by overseas requirements, sometimes by New Zealand Government requirements (e.g. to address public health risks), and sometimes by users (e.g. how much effort to expend to maintaining market access to countries). The use/quantity of those services is determined by users when deciding how much to produce and export and whether to operate in particular markets.

Policy interpretation

Efficiency is about how to recover the justified costs and is made up of several elements:

Costs should be charged to those who benefit from the service or who can otherwise reduce the need and cost of the service:

- Those who benefit from the service – if the customer pays, they have the incentive to demand only those services that provide them benefit compared to other things they might purchase. If parties other than the beneficiary pays, then the beneficiary will demand more services than otherwise.
- Those whose behaviour can reduce the need and cost of the service – this factor covers situations where there are externalities. In these cases, it may be efficient to charge the third party as well, or instead of, charging the customer/beneficiary.

Charges should account for administrative costs – for instance, sometimes it will be administratively prohibitive to charge according to precisely charge those that benefit or those that can reduce costs, so a simplified approach is warranted.

Charges should be competitive neutral – MPI should not use any dominant market position to charge inflated prices and make more than a fair economic return.

Types of costs

All relevant costs are potentially recoverable, including:

- direct costs associated with services, such as staff time, travel costs, systems and equipment used in delivering the specific service, and
- support costs associated with delivery of the service, such as training and development costs for staff, administrative support costs, management costs, project costs and capital costs, and
- a proportion of wider business support or common costs, for example costs associated with corporate functions like finance, human resources management, information technology, and costs of property and utilities.

It is administratively impractical to precisely allocate wider business support or common costs to the wide range of MPI services. Instead, staff hours are used as a proxy on the assumption that the more staff hours are part of a service, the more property, human resources and other wider support and common costs the service will use.

Types of services

If costs are to be recovered from beneficiaries, the appropriate type of charge to use depends on whether the service is a private good or club good.[63]

Fees are used for private goods – services that are of direct benefit to individual businesses. Levies pay for club goods – services that benefit sectors or groups of businesses as a whole.

If costs are to be recovered from exacerbators, the appropriate type of charge is a levy on the activity, or proxy for the activity, that causes the risk.

Externalities

MPI primarily deals with negative externalities. Here is an example of a negative externality: Consumers demand, and importers supply, overseas products. A negative externality on a third party is biosecurity risk from pest incursions on domestic farmers.

Externalities add an additional dimension. Costs can still be allocated to beneficiaries of services, but consideration should also be given to whether some or all of the costs should be allocated to those whose behaviour creates risks that services address.

[63] There is also a category of merit goods – services which the community as a whole desires more of than would be provided if charged for at full cost.

An added complication is that externalities are reciprocal. The parties primary to the demand and supply of the good or service, and the third party, are all beneficiaries *and* exacerbators:

- Exacerbators – The primary parties and the third party together generate the impact. The primary parties and the third party are both 'exacerbators'. For example, the trade between the consumer and importer results in a pest incursion, but pest only creates harm if there is a crop susceptible to the pest. Importers can reduce risk by sourcing product from locations with fewer pests, and domestic farmers can reduce risk by surveillance and pest management (e.g. spraying).
- Beneficiaries – The existence of third parties widens the number and types of beneficiaries. For example, if customers have the right to import products, the beneficiary of a biosecurity service is the farmer. If farmers have the right to freedom from biosecurity risk, the beneficiary of a biosecurity service is the customer/importer.

The costs of services that address externalities can be charged to either the primary parties or third parties or a mix of both.

Beneficiaries

In chapter 4.2.1, the key concept is that MPI does not have perfect information about how much service to provide and that charging the beneficiaries of services encourages beneficiaries to reveal whether services are worthwhile. Imperfect information is also the key concept with determining who should pay when there are externalities.

If MPI has good information, it should be able to independently determine that a service or intervention is worthwhile. Typically, however, determining service/intervention levels requires information from affected parties. A complication is that incentives exist for parties to overstate their case.

In the biosecurity example, importers might overstate the benefits of their activities to help ensure that imports are not prohibited, or overstate the costs of complying with an intervention to make the intervention look worse than no intervention.

Similarly, domestic industries might overstate the harm from pest incursions to make interventions or bans more likely.

To increase the confidence around the accuracy of the assessment of benefits and costs, costs should be allocated where there is greater potential for incorrect information about benefits to sway decisions about the appropriate intervention. If we had high confidence in the benefits to importers, but low confidence in the benefits to domestic farmers, then costs should be allocated more to domestic farmers than to importers. If we had high confidence in the benefits to domestic farmers, but low to importers, then costs should be allocated more to importers.

Exacerbators

Like beneficiaries above, risk exacerbation must be looked at from at least two angles.

In the simple example with only importers and domestic farmers, importers aren't the only parties in control of risk and, therefore, aren't the only risk exacerbator. It takes both parties for the risk to arise. Both parties can also reduce risk: Importers can reduce risk by sourcing products from locations with fewer pests, and farmers can reduce risk by surveillance and spraying.

It is not sufficient to identify importers, in this example, as the only risk exacerbators. The best mix of actions should be taken that reduce risk most cost efficiently. This includes choosing the best regulatory intervention and the best allocation of costs to financially incentive reductions in the need for the service or in the delivery of the service. For example, allocating costs of biosecurity actions at the border to farmers would encourage farmers to take action on-farm to reduce the risk and need for biosecurity actions, while allocating costs to importers would encourage importers to source product from low-risk locations and to interact with the border activity in a way that the cost of undertaking the border activity.

Overall

MPI cannot over-recover costs so cannot charge the same costs to both all beneficiaries and exacerbators. Analysis must be undertaken to determine the best allocation of costs between these

parties, balancing the relative benefits of each. The best outcome may be charging one party or another, or sharing the costs between multiple parties.

Equity

Legislation

'Funding for a particular function, power, or service, or a particular class of functions, powers, or services, should generally, and to the extent practicable, be sourced from the users or beneficiaries of the relevant function, power or service at a level commensurate with their use or benefit from the function, power, or service.'

Policy interpretation

The Government will usually deem it fair that beneficiaries pay.

On other occasions, the Government will determine that other fairness considerations mean that another party contributes to the costs. For example, sometimes industry will be happy to support parts of its industry. Other times, Governments will want to provide additional support.

Relationship between the Cost Recovery Principles

The principles build on each other with Transparency and Justifiability providing a foundation to the consideration of Efficiency and Equity.

Figure 24 summarises the relationship between the principles.

Transparency and Justifiability come before considering Efficiency and Equity

Around Justifiability, MPI legislation says that MPI can only recover reasonable costs.

While the Transparency principle itself doesn't have a similarly strong statement, the very next clause says that costs should not be recovered unless there's been adequate consultation with affected parties including 'sufficient time and information to make an informed contribution'. Adequate consultation can only happen if MPI has been transparent.

With language of 'should not' and 'only', Transparency and Justifiability require[64] some minimum standard to be met. In contrast, Efficiency and Equity are to be achieved 'generally'.

This sequential approach to the principles, rather than considering the principles simultaneously, makes sense. It is not possible to be confident that the efficient way of cost recovering has been identified if costs have not been sufficiently justified, or affected parties have not had a reasonable opportunity to test the costs.

There will sometimes be trade-offs between Efficiency and Equity

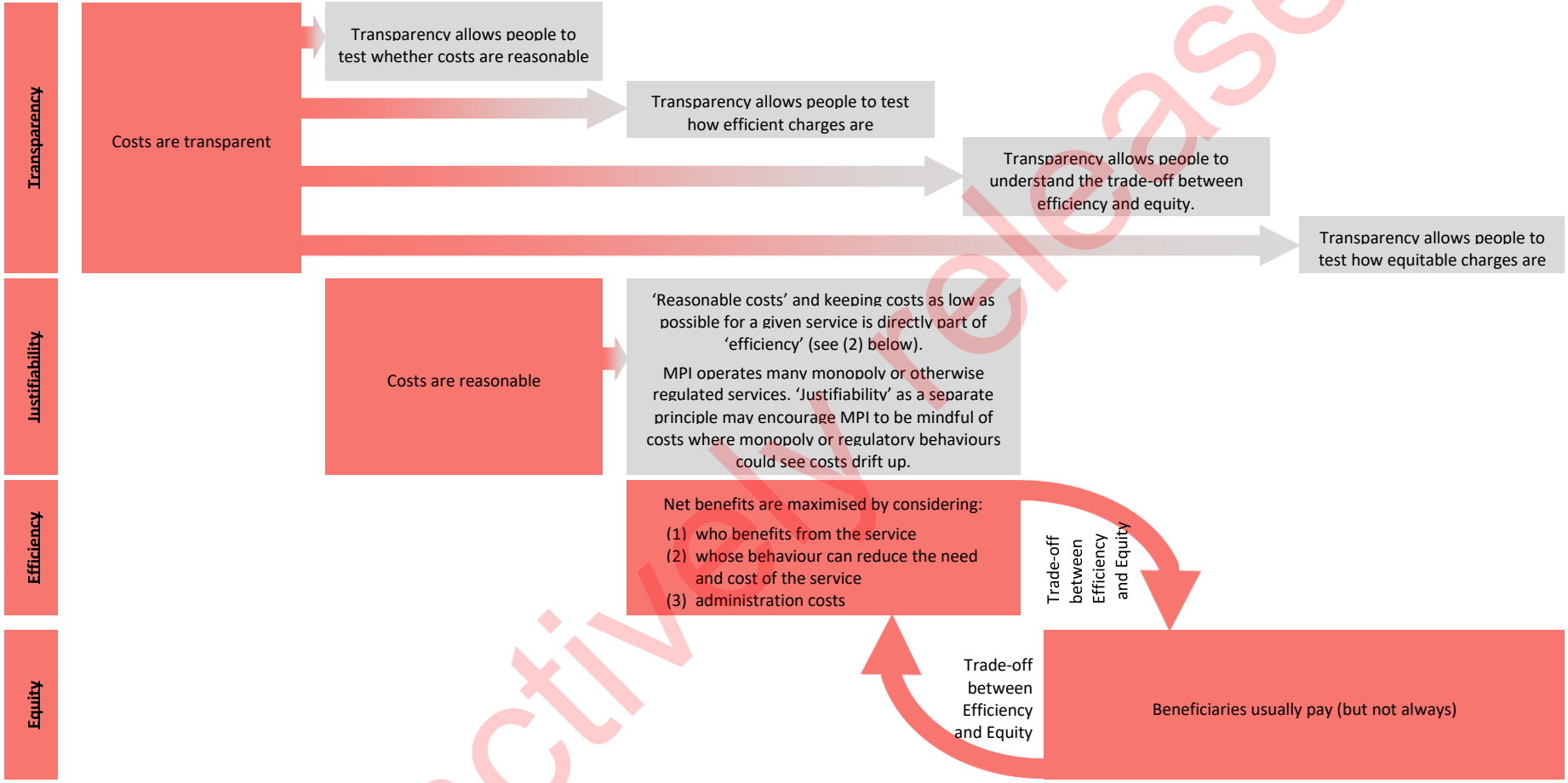
The 'generally' in the Equity principle means that a Government might decide to charge someone other than the beneficiary. The 'generally' in the Efficiency principle means that cost recovery settings will not always maximise benefits and minimise costs.

This also makes sense. If the Government determines that it is more equitable to pay for a service through Crown funding rather charging beneficiaries or those whose behaviour can reduce the need for the service, then the cost recovery setting will not be maximising net benefits.

The two 'generally' allow for trade-offs to be made between Efficiency and Equity.

[64] Legislation, such as the Animal Products Act 1999, however, also say that failure to consult sufficiently does not affect the validity of cost recovery charges.

Figure 24: Relationship between the Cost Recovery Principles



Appendix E: Meat industry performance

Data is quarterly and comes from Statistics New Zealand's Infoshare,[65] except for MPI's forecasts[66] which are annual and domestic food prices which are the quarter-ending months of March, June, September and December. Prices and values in this chapter have been inflation-adjusted using the consumers price index, with past CPI data coming from Statistics New Zealand's Infoshare and forecast CPI data coming from the Reserve Bank's August Monetary Policy Statement.[67] Forecasts are marked with circles in figures.

Red meat sector

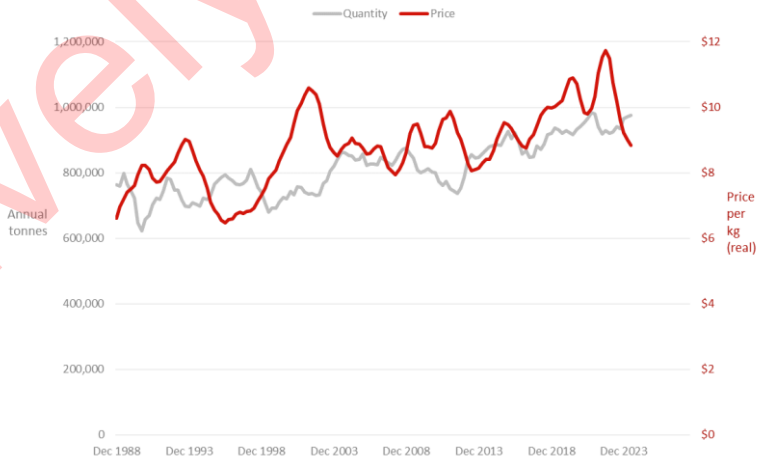
At an overall level, there has been growth in volumes and prices suggesting growth in demand for New Zealand red meat.

In the June 2024 Situation and Outlook for Primary Industries (SOPI),[68] MPI puts the recent decline in value due to weakening demand due to a softening Chinese economy. The decline in value is driven by a price fall. If prices over the past few years were a temporary spike in order to ensure access to NZ meat during the pandemic, some of the price reduction may be a return to more normal price levels after constraints and cost increases due to the pandemic pass.

The current price is about where it was in 2017.

Figure 25: Red meat export value

Figure 26: Red meat export quantity and price



[65] https://infoshare.stats.govt.nz/

[66] https://www.mpi.govt.nz/resources-and-forms/economic-intelligence/data/

[67] https://www.rbnz.govt.nz/hub/publications/monetary-policy-statement/2024/aug-140824klc/monetary-policy-statement-august-2024

[68] https://www.mpi.govt.nz/dmsdocument/62637-Situation-and-Outlook-for-Primary-Industries-SOPI-June-2024

Bovine

The bovine meat export value has increased since 2014. Prior to that, there was 15 or more years of no growth.

Long-term increases in export price and volume suggests long term growth in demand.

The price fall of the past couple of years reflects a weaker Chinese economy, and perhaps a return to more normal price levels post pandemic.

Prices are currently where they were in 2019.

Figure 27: Bovine meat export value

Figure 28: Bovine meat export quantity and price

Sheep

Recent years have seen some increase in value after 18 years of no increase. This is not forecast to last, however, with export value returning to typical post-2000 levels.

Forecast modest declines in volumes and modest increases in price are consistent with reducing supply due to afforestation, urbanisation and freshwater regulations.

Prices are currently where they were in 2017.

Figure 29: Sheep meat export value

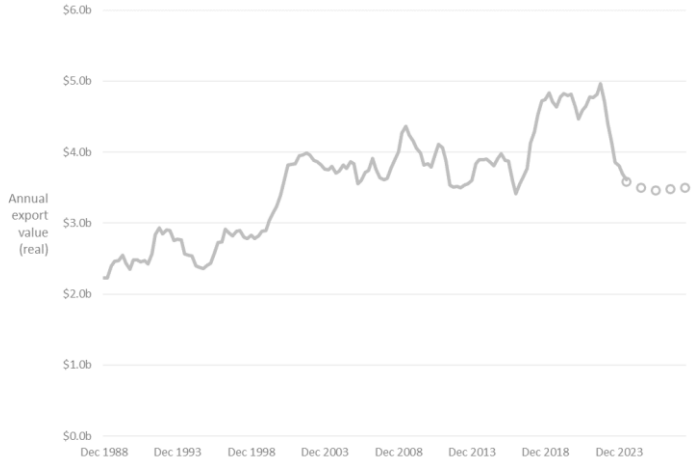
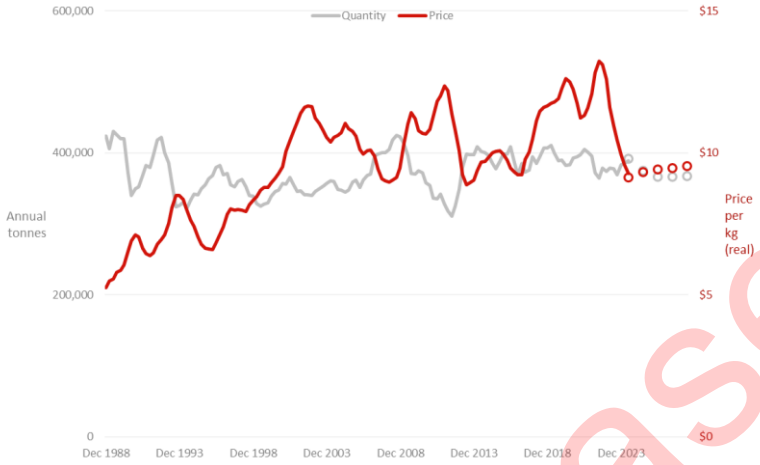


Figure 30: Sheep meat export quantity and price



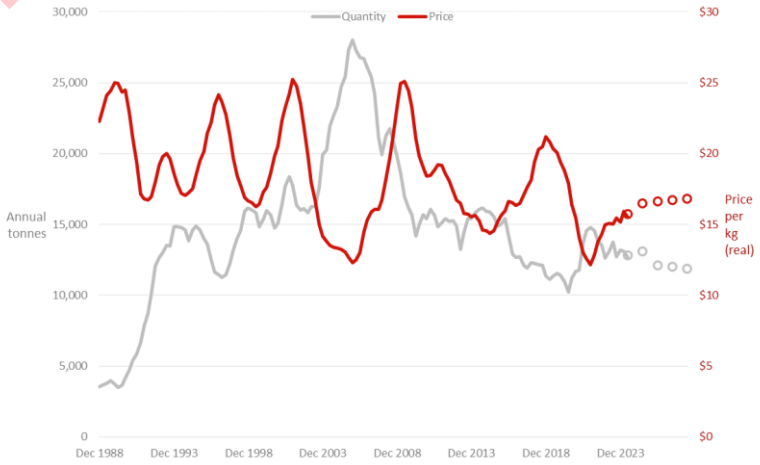
Deer

Deer export value has declined for the past 15 years. Long-term falling volumes and prices suggest that this is due to falling long-term demand.

The sector did not experience the recent sharp price drop that bovine and sheep experienced which the June SOPI put down to market diversification and recent strong demand. The recent increase in price was, however, accompanied by flat or falling volumes, suggesting supply contraction as well.

Figure 31: Deer meat export value

Figure 32: Deer meat export quantity and price



Pig

Almost all pig meat is produced for domestic consumption.

Domestic volumes have been falling since around the mid-2000s. Price data is limited to final consumer prices that appear in the food price index. This data only starts around 2007 and suggests prices have been falling at least that long. Falling volumes and prices is consistent with reduced demand over the long-term. Total market value will also have fallen.

Export value and volume has increased sharply in the last ten years, but from a low base. Except for the past couple of years where prices have fallen with a very sharp increase in volume, prices have been stable or slightly increasing. These results are consistent with increasing demand (though, again, from a very low base).

Figure 33: Pig meat production

Figure 34: Pig meat domestic quantity and price

Figure 35: Pig meat export value

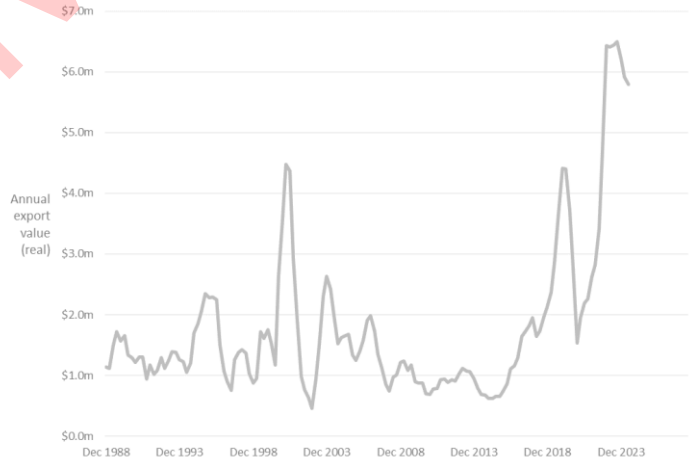
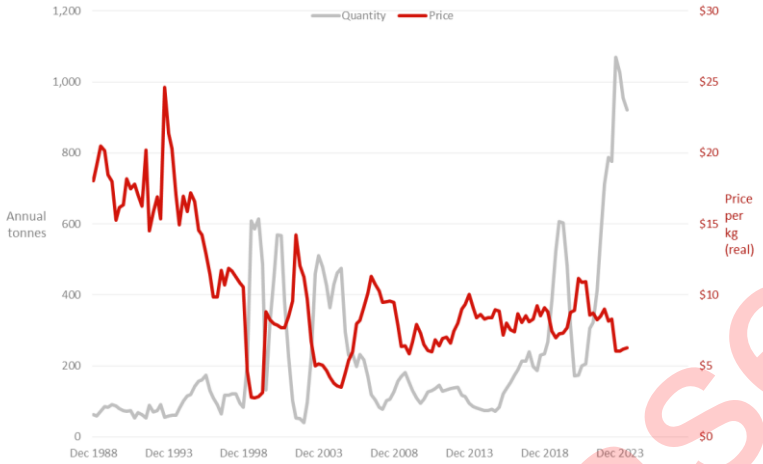


Figure 36: Pig meat export quantity and price



Poultry

Almost all poultry meat is produced for domestic consumption.

Domestic price data is limited to final consumer prices that appear in the food price index. This data only starts in 2014. The general trend has been one of falling prices accompanying increased volumes. This is consistent with increased supply driving volume rather than increasing demand.

The fall in price is likely to be somewhere between the two red lines in Figure 38 – somewhere between around a 15% fall and a 30% fall. The fall in price since data starts in 2014 likely exceeds the growth in volume since then, meaning total volume is likely to have fallen modestly.

Export value increased sharply from a low base between 2003 and 2015, and has been flat since. Recently, there has been substitution from meat to live animal (day old chicks) exports with producers following demand (lower prices for meat and high prices for live animals). The drop in demand for meat being partly a result of the IBDv incursion in 2019 which closed some export markets.

At a total level, the sector hasn't changed much in recent years with perhaps a modest decrease in total value.

Figure 37: Poultry meat production

Figure 38: Poultry meat domestic quantity and price

Figure 39: Poultry export value

Figure 40: Poultry meat export quantity and price

Figure 41: Poultry live animals export quantity and price

Appendix F: Comparator price and cost indexes for veterinary services

The price and cost indexes we compare MPI cost increases to are the consumers price index (CPI), an MPI cost index, the veterinary services index within the CPI, and the veterinary services output commodities index from the producer price index (PPI). Data for the CPI and two veterinary services indexes come from Statistics New Zealand's Infoshare[69].

As the CPI measures changes in the price of goods and services consumers buy rather than goods and services needed to provide veterinary services, the CPI is not the best comparator. The CPI is included for reference because readers may be accustomed to seeing it used as a comparator in many documents, even if it is used inappropriately. Forecast data comes from the Reserve Bank's August Monetary Policy Statement[70].

The MPI cost index is an MPI-constructed index. It estimates cost inflation across MPI as a whole by taking Statistics New Zealand's *Labour cost index - Central Government Administration, Defence and Public Safety* and *Producers price index (inputs) - Central Government Administration, Defence and Public Safety* and weighting them by MPI's personnel and non-personnel expenditure. We do not have forecasts for the MPI cost index, but from Figure 42 it appears to broadly follow the CPI over the long-term, with a lag. This makes sense as about half of MPI's costs are personnel and, over the long-term, salaries should at least maintain real (CPI-adjusted) value.

The CPI veterinary services index measures price inflation in services provided by residential vet clinics. This index appears to be most comparable for analysing MPI's veterinary services for live animal imports and exports. Residential vet clinics and MPI's service both take bookings on demand and have administrative staff to assist with the relatively high amount of administration work.

The PPI veterinary services index measures inflation in the prices charged by veterinary services generally. MPI's veterinary services for Establishments are closer to general veterinary services than to residential vet clinics, so this index appears to be most comparable.

Forecast data for the two veterinary service indexes does not exist, but we expect veterinary service inflation to be higher than general CPI inflation. From Figure 43, past price inflation in the CPI veterinary services index has been around 75% higher than general CPI inflation – around 90% higher between 1994 and 2009, and around 60% higher since 2010. For the PPI veterinary services index, price inflation since 2010 has been about 50% higher than general CPI inflation.

The PPI veterinary services index's 50% is close to the CPI veterinary services index's 60%. This raises the possibility that the longer-term inflation in the PPI veterinary services between index might also have been close to the CPI veterinary service index's 75%. As a result, Figure 11 in the Establishments Chapter presents two scenarios for both indexes: one where inflation runs 50% above CPI inflation and one where inflation runs 75% above inflation.

[69] https://infoshare.stats.govt.nz/

[70] https://www.rbnz.govt.nz/hub/publications/monetary-policy-statement/2024/aug-140824klc/monetary-policy-statement-august-2024

Figure 42: Inflation in consumer prices versus the MPI cost index

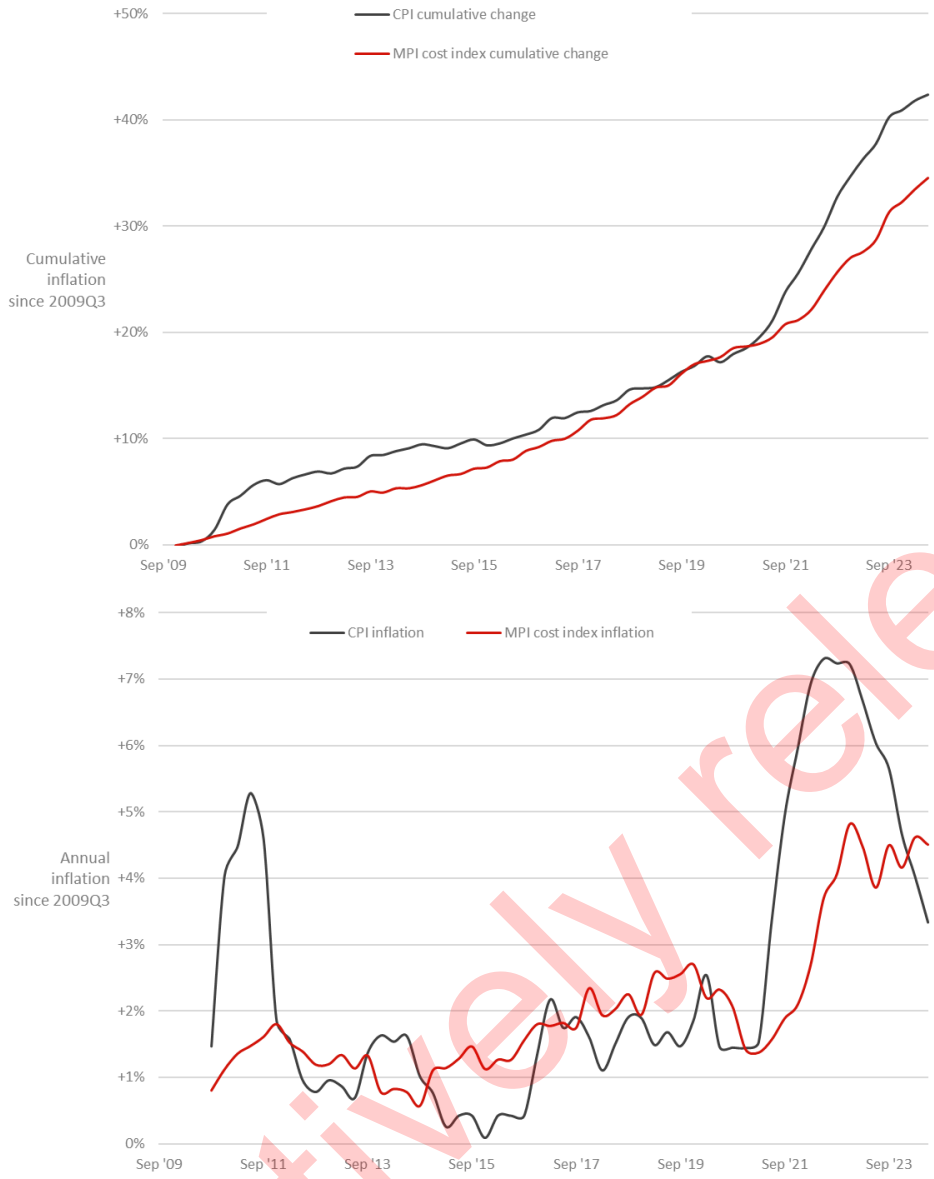
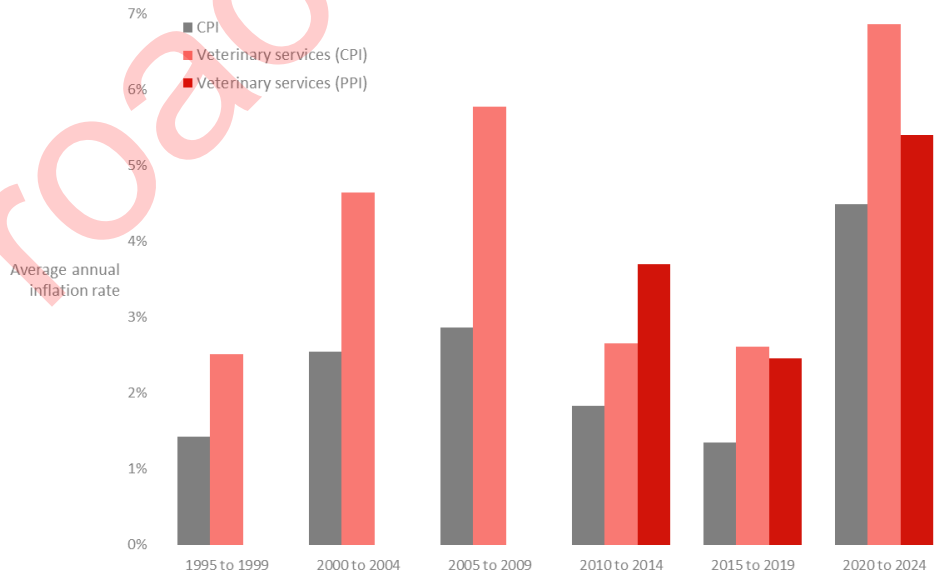


Figure 43: Inflation in consumer prices versus veterinary services



Appendix G: How after-hour rates are calculated

Normal time rates

After-hour rates are based off normal time rates. Figure 44 shows the normal time rates for the preferred options[71] for Establishments and for live animal imports and exports, along with a breakdown between direct labour costs and other costs.

Figure 44: Normal time rates

	Establishments				Live animal imports and exports
	Option (2)		Option (3)		Option (3)
	Supervising vet	Vet	Supervising vet	Vet	
Normal time hourly rate	$169.89	$152.42	$173.71	$155.80	$216.84
Direct labour cost component	$116.03	$98.56	$118.98	$101.07	$116.94
Other costs component	$53.86	$53.86	$54.73	$54.73	$99.90

Overtime and call-out rates

Establishments pay for supervising vets and vets and full-time rates, that is Establishment vets spend 100% of their time on billable activity.

During normal time, vets doing live animal import and export work spend about 70% of their time on billable activity[72], that is work that can be directly charged to users.

When vets do overtime for a specific service user, e.g. working late for a late-night shipment, 100% of that time should be allocated to the service user rather than the normal time 70%.

Similarly, when vets are called out it is for work for a specific user and 100% of the time should be allocated to that user. Call-outs involve vets working 100% on billable activity, not 70%.

In calculating overtime and call-out rates, then, the direct labour cost should be based on a 100% billable rate. This reduces the hourly cost of labour costs. In normal time, labour costs are spread over 70% of hours. During overtime and call-outs, labour costs are spread over 100% of hours.

Labour costs then need to be scaled up to reflect time and half and double time payments.

Other, indirect, costs are allocated to the actual amount of hours billed so do not need to be adjusted for any change in the proportion of time spent on billable activity. Other indirect costs like management and administration support, HR support, legal support and property costs also should not have time and half and double time payments applied.

Overall, the method for calculating overtime and call-out rates is:

- the direct labour cost component multiplied by the normal time billable rate divided by a 100% billable rate, and multiplied by 1.5 for time and half or by 2.0 for double time
- plus the other costs component.

[71] Options (2) and (3) for Establishments (MPI prefers to increase the fee, but does not have a preference between the two options), and Option (3) for live animal imports and exports.

[72] See chapter **Error! Reference source not found.**.

The calculation for live animal imports and exports, for example, is set out below:[73]

- Time and a half = (($116.94 × 0.70 ÷ 1.00) × 1.5) + $99.90
  = $222.69
- Double time = (($116.94 × 0.70 ÷ 1.00) × 2.0) + $99.90
  = $263.62

Public holidays and Ministry holidays

In addition to public holidays, MPI staff receive three Ministry holidays a year in addition to other leave and holidays. The Ministry holidays are typically the days between Boxing Day and New Years. In addition to a higher hourly payment, staff receive a day off in lieu. The day in lieu allows staff the full day off that they would have had if they had not been called out to work on the public or Ministry holiday.

If the vet doesn't work on the public holiday, MPI would get 8 hours of work from the vet across a normal day and a public holiday. Figure 45 shows different numbers of hours worked on the public holiday and the corresponding number of hours paid (but not worked) compared to that normal 8 hours of work across the two days. The example has the public holiday on a Monday and, if the vet works on a Monday, taking Tuesday off in lieu. Figure 45 then shows:

- the number of normal time hours paid to inspectors calculated as the hours actually worked plus the number of hours paid by not worked
- the number of hours that attract an extra penal rate because they were worked
- the number of hours that attract overhead and support costs (equal to the number of hours worked).

Figure 45: Public holidays and Ministry holidays

	Monday (hours worked on the public holiday)	Tuesday	Total hours worked	Hours paid but not worked	Cost		
					Normal time hours paid	Penal rate hours	Hours attracting overhead and support costs
Inspector doesn't work the public holiday	0	8	8	0	8	0	8
Inspector works the public holiday and takes Tuesday off in lieu	1	0	1	7	8	1	1
	5	0	5	3	8	5	5
	8	0	8	0	8	8	8
	10	0	10	0	10	10	10

For example, if a vet works 5 hours on the public holiday, the vet gets paid for 5 hours for the time they worked, plus effectively 3 more hours via the day off in lieu. The 5 hours actually worked are paid at a higher hourly rate. On top of that, overhead and support costs are allocated to the hours 5 actually worked.

Also, as the vet is being called-out for a specific user, the vet's time should be charged at the 100% billable rates rather than 75% billable rates.

The method of calculating the cost of vet work on public holidays and Ministry holidays, then is:

- a minimum of eight hours at the vet's 100% billable normal rate for direct labour costs

[73] The '÷ 1.00' is redundant in terms of the maths, but is included to show that the steps in the calculation align to the description of how overtime and call-out rates should be calculated.

- plus actual hours worked multiplied by the sum of the 100% billable additional rate[74] and the overhead and support cost rate.

Analysis for the 2024 Annual Package[75] showed no call-outs were greater than eight hours, with the highest being 4.5 hours.

To simplify the calculation of the fee and improve transparency for users, the final rates remove the 'minimum'. The final rates, then, are:

- a daily rate calculated at eight hours of the vet's 100% billable normal rate for direct labour costs
- plus an hourly rate calculated as the sum of the 100% billable additional rate and the overhead and support cost rate.

The calculation for live animal imports and exports, for example, is set out below:[76]

- Daily rate = eight × the normal 100% billable rate for direct labour costs
  = 8 × ($116.94 × 0.75 ÷ 1.00)
  = $654.88
- Hourly rate = additional rate + overhead and support cost rate
  = ($116.94 × 0.75 ÷ 1.00) + $99.90
  = $181.76

Penal rates for shift work

Vets receive penal rates for working particularly unsocial times including late night and early morning shifts. The penal rates are 0.5, 1.0 or 2.0 of normal hourly rates depending on when work is done.

The work is part of normal shifts, rather than called-out to work for specific users. As a result they are calculated on the basis of the normal billable hour rate (70% billable hours in the case of live animal import and export work and 100% billable hours in the case of Establishments).

Examples of the calculations are set out below:[77]

- Establishments | Supervising vet | Option (2):
  - Penal 0.5 = 0.5 × $116.03 = $58.02
  - Penal 1.0 = 1.0 × $116.03 = $116.03
  - Penal 2.0 = 2.0 × $116.03 = $232.06
- Live animal imports and exports:
  - Penal 0.5 = 0.5 × $116.94 = $58.87
  - Penal 1.0 = 1.0 × $116.94 = $116.94
  - Penal 2.0 = 2.0 × $116.94 = $233.88

[74] The amount additional to the normal time rates. Vets are paid double time for public holidays and Ministry holidays. The difference between double time and normal time is the normal time rate.

[75] https://www.mpi.govt.nz/dmsdocument/60883-Annual-Review-2024-Proposed-changes-to-MPIs-cost-recovery-settings, chapter 13.3.5.2.

[76] The '÷ 1.00' is redundant in terms of the maths, but is included to show that the steps in the calculation align to the description of how overtime and call-out rates should be calculated.

[77] All rates are rounded to the nearest cent, so some calculations may appear to out by a cent.