

FORUM DISCUSSION PAPER

Guidance on financial arrangements under GIA

February 2014

Recommendation

The participants of the GIA Biosecurity Forum, as potential Deed Signatories, are asked to consider an approach to finalise the operating framework for the financial arrangements needed to implement cost-sharing under the Deed.

Participants at the **2014/I Forum** in March 2014 are asked to:

- a) **Agree** the establishment of a joint working group (JWG) to develop the framework, principles and guidelines for implementing the financial arrangements for cost-sharing. Immediate priorities are guidelines for:
 - Establishing cost-shares,
 - Determining a fiscal cap;
- b) **Agree** that the JWG will be facilitated by the GIA Secretariat;
- c) **Agree** that the IGB will provide advice and guidance to the JWG on behalf of potential signatories as necessary and appropriate between meetings of potential signatories at the Biosecurity Forum;
- d) **Identify issues**, for discussion and collation, that the JWG should take into account in developing the framework and guidelines;
- e) **Consider** and discuss the draft principles for cost sharing and fiscal caps in [Attachment 1 and 2](#);
- f) **Agree** draft Terms of Reference for the Financial Arrangements JWG in [Attachment 3](#);
- g) **Agree** the time frames and next steps for JWG activities.

Potential signatories that are not able to attend the Forum, and potential signatories wishing to provide their feedback in writing, are asked to send any comments to the Secretariat (secretariat@gia.org.nz) by 19 March 2014.

Introduction

Several industry organisations are likely to sign the Deed in 2014. Each signatory will need to understand their financial commitments when negotiating operational agreements for readiness and response, and they will also inform their engagement with members on signing the Deed. To this end, a joint working group (JWG) is proposed that will develop and produce guidelines for cost-shares and fiscal caps within a framework for Deed financial arrangements. This will ensure negotiations are conducted in a transparent and equitable manner [clause 5.1.3].

Section 5 of the Deed provides high-level guidance for financial arrangements.

Clause 5.1 looks at criteria to be applied when establishing cost-shares for joint readiness and response activities under the GIA. A scenario on which a cost-share is assessed and agreed sits under this clause.

Clause 5.1.11 of the Deed prescribes that industry signatories can set a fiscal cap, which sets a limit on the funding liabilities for cost-shared readiness and response activities. The Deed also states in clause 6.1.3 that the necessary fiscal cap(s) should be considered in operational agreements.

Developing Deed financial arrangements

Joint working groups have been successfully used to draft the Deed and develop the standard contract for Operational Agreements. The IGB proposes that the GIA Secretariat facilitate a JWG of MPI and industry representatives to develop the framework, principles and guidelines for implementing the financial arrangements for cost-sharing. Immediate priorities are guidelines for:

- Establishing cost-shares
- Determining a fiscal cap.

Guidelines developed by the JWG will be considered and agreed by potential Deed signatories through the Biosecurity Forum. The IGB will provide advice and guidance to the JWG on behalf of potential signatories between Forums.

The JWG membership will reflect and represent the range of potential signatories including MPI, large and small industries and production sectors. It will have no more than seven members (excluding the Secretariat) but may access specific expertise that it considers necessary to complete its work.

Issues for JWG consideration

The IGB has identified a number of issues, relevant to the task of the JWG, that it believes will need to be considered and taken into account in the framework, principles and guidance, as appropriate. These include, but may not be limited to:

- Interpretation of the Deed and its application to both readiness and response – is one set of guidance for both readiness and response desirable, appropriate, necessary?
- A high-level framework for transparent and consistent arrangements.
- Principles that support implementation consistent with the Deed requirements.
- Supporting processes – how public and industry benefit is determined and how multi-industry splits can be calculated for signatories and non-signatories.
- Balancing the ability to pay with the willingness to invest and arrive at a fair spending limit or trigger point.
- When and how an agreed cap is applied.
- The role of the Secretariat in the development, management and administration of specific financial arrangements as outlined in the Deed. This will be informed by consideration of the Secretariat operating model.

Principles for cost-share and fiscal cap

The IGB is proposing principles for cost-shares and fiscal caps that will inform guidance on these elements of Deed financial arrangements. They are taken from the Deed and the considerations of the JWG that developed the Deed. Draft principles are in [Attachments 1 and 2](#).

Proposed process and time line

The IGB proposes that Forum participants nominate representatives for the Financial Arrangements JWG at the GIA Biosecurity Forum 2014/1 on 05 March 2014. Several industry organisations have flagged their willingness to be involved in the development of financial arrangements, including Beef+Lamb and Dairy NZ.

The JWG will meet before the end of March 2014. It will develop a work plan for IGB agreement that will allow adoption of the framework and initial guidance at the GIA Biosecurity Forum 2014/II in September 2014.

Terms of Reference for the Financial Arrangements JWG

Draft Terms of Reference are in Attachment 3.

Attachments

Attachment 1 Draft principles for establishing cost-shares

Attachment 2 Draft principles for determining and applying a fiscal cap

Attachment 3 Draft Terms of Reference for the Financial Arrangements Joint Working Group

Draft principles for establishing cost-shares

1. The scenario described in clause 5.1.8 will be used to assess the impact of an unwanted organism, for the purpose of establishing cost-shares.
2. Cost-shares will be determined in a transparent and equitable manner.
3. Relative public and industry benefits are expressed in terms of impacts forgone.
4. Minimal management options reflect normal production practices for the affected host of the unwanted organism existing at the time that cost-shares are established.
5. Non-economic parameters for public benefit are assessed in a qualitative analysis against standard criteria for their impact on human health, the environment, Maori values and socio-cultural factors.
6. Economic impact is a combination of qualitative and quantitative analysis that is directed by availability of credible substantiating data.
7. Non-economic parameters are primarily relevant to defining public benefit.
8. Economic analysis of impact is primarily relevant to defining industry benefit and for establishing relative benefits across a number of industries that may be affected by the same unwanted organism.
9. Government policy establishes boundaries around the acceptance of macro-economic, regional and individual impacts as a public benefit.
10. Determining cost-shares is generally specific to the particular pests and diseases in question, as different pests will impact differently on values the parties wish to protect.
11. Determining cost-shares should use the simplest workable approach to get agreement.
12. Cabinet has agreed the Crown will recognise exacerbators with a 20 percent contribution towards the total joint readiness and response costs. MPI and industry will share the remaining 80 percent of costs. Industry will pay no more than 50 percent of the total cost.
13. Because it is difficult to determine the exact benefit each party receives, cost shares will be categorised in the cost-share categories in Schedule 2 of the Deed.
14. Cost sharing for readiness begins on 1 July 2014 and for response on 1 July 2017. Transitional discounts will apply for readiness until 30 June 2020 and for response until 30 June 2023.
15. New information or new impact assessments may be used to trigger a review of cost share categories for readiness and response programmes if both parties agree.
16. The guidance should provide sufficient detail to allow MPI to determine the portion of a cost-share that is allocated to non-signatory beneficiaries for cost-recovery.

Draft principles for determining and applying a fiscal cap

1. The fiscal cap will be set at a sufficient level to allow industry signatories to have immediate participation and act decisively in a response.
2. The value of the fiscal cap is consistent across industries relative to the value of the industry sector.
3. Government spending is determined through the Government appropriation processes. A spending limit guided by government policy will be applied rather than a fiscal cap. The limit will take into account the nature and magnitude of public impact by the unwanted organism.
4. Any Crown spending must comply with the provisions of the Public Finance Act 1989.
5. A fiscal cap will only apply to responses.
6. The fiscal cap is expressed as a dollar (NZD) amount.
7. The fiscal cap is the spending limit for all responses in one year, and is applied from 1 July each year.
8. An industry is not liable for more than their fiscal cap amount in a response.
9. The designated decision-maker for an industry Signatory must have Delegated Financial Authority, or equivalent, to authorise expenditure up to the fiscal cap set by an industry.
10. To increase a fiscal cap during a response requires agreement in writing from each signatory of the Operational Agreement applying to the unwanted organism that is under eradication.
11. Fiscal caps are not kept confidential from other signatories consistent with being transparent and equitable.
12. Where the analysis of impacts for determining cost shares identifies an industry beneficiary, that affected industry should participate in the response and share costs to the limit of its fiscal cap consistent with its assessed cost-share.
13. An industry involved in multiple responses during any one year period may review its priorities and set, without penalty, a spending limit on each of the responses to the total annual expenditure limit imposed by its fiscal cap.
14. A cap of 2% of industry value will be applied to non-signatories for the recovery of response costs.
15. The fiscal cap is a proportion of the value of the industry sector.
16. Industry value will be calculated using a three year rolling average using standard sources of verified data.
17. The sector represented by an industry organisation is defined in its eligibility submission to the Minister for Primary Industries.

Draft Terms of Reference for the Financial Arrangements Joint Working Group

Purpose

The Financial Arrangements Joint Working Group (JWG) will develop the framework, principles and guidelines for implementing the financial arrangements for cost-sharing. Immediate priorities are guidelines for:

- Establishing cost-shares
- Determining a fiscal cap.

These will be considered and agreed by potential Deed signatories through the Biosecurity Forum. The IGB will provide advice and guidance to the JWG on behalf of potential signatories between Forums.

Outcome

Deed Signatories are able to agree cost-shares and fiscal caps consistent with their Deed obligations and expectations of their stakeholders or members.

Requirements

Using the Deed and considerations from the Deed joint working group as a starting point, the JWG will ensure that the guidance for GIA financial arrangements will:

1. Provide a framework and effective guidance for Deed Signatories to use in order to consistently establish cost-shares and determine and apply fiscal caps.
2. Define the roles and responsibilities of MPI, industry organisations and the Secretariat.
3. Meet the needs of both MPI and industry.
4. Be accessible through the internet.
5. Provide essential information for Deed signatories involved in negotiating operational agreements or for information for mandate purposes (financial commitments).
6. Take into account feedback from potential Deed Signatories from consultation processes.

Process and timeframes

The JWG will meet before the end of March 2014. It will develop a work plan for IGB agreement that will allow adoption of the framework and initial guidance at the GIA Biosecurity Forum 2014/II in September 2014. The JWG will meet monthly, as a minimum.

The JWG may invite subject matter experts to specific meetings where additional knowledge or skill sets are required to support informed discussions and decisions.

The GIA Secretariat will be responsible for facilitating the meetings and for writing up and circulating any agreed actions.

JWG members will be responsible to action items that they have agreed to, and within agreed timeframes.

JWG members will meet their own costs of participation.

Outputs

1. Operating guidelines that clearly set out what Signatories need to know in order to:
 - a. Establish cost-shares.
 - b. Determine and apply fiscal caps.

- c. Apply the Deed in practice (readiness and response scenario).
 - d. Apply principles, reflecting the expectations of signatories.
 - e. Follow process, guidance and tools to ensure consistency
2. Supporting tools, as identified by the JWG, which are required to help signatories understand and fulfil their Deed obligations.
3. A list of questions and answers, to accompany the guidelines, published on the GIA website to help signatories understand how to apply the guidelines.
4. A list of any questions or issues that arise during the process, including proposed resolutions and justification.
5. Recommendations on how the thinking for the financial arrangement guidelines produced could link to determine other guidelines for other specific areas of GIA.

Skills and experience

The JWG membership will reflect and represent the range of potential signatories including MPI, large and small industries and production sectors. It will have no more than seven members (excluding the Secretariat) but may access specific expertise that it considers necessary to complete its work.

The following skills and/or experience are sought:

- Behavioural – constructive, pragmatic, solutions focused, a listener
- Financial acumen – *preferable*
- Problem solving ability – *preferable*
- Familiarity with development of the GIA Deed – *preferable*

References

1. The GIA Deed:
<http://www.gia.org.nz/Portals/79/Content/Documents/Key%20finals/Deed-Final-2013.pdf?timestamp=1391995715909>