

Final Report

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Review of MLA process for registering and determining voting entitlements

Milestone 4 – Final Report

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Executive summary

In May 2015, Meat and Livestock Australia Limited (MLA) commissioned Ardrossi Pty Limited to investigate the MLA process for identifying levy payers and calculating voting entitlements, and to propose alternatives and improvements to enhance automation, transparency and accuracy.

The MLA terms of reference identified the following aims:

- Simplifying the process of identifying levy-payers, membership applications and voting entitlements
- Reducing the administrative burden on producers
- Improving the accuracy of the entitlement calculation, and
- Through this means, improving confidence in the process.

In addition the consultant was asked for a preliminary view on the feasibility of a proposal, being considered by Cattle Council of Australia (CCA), to introduce a value added levy (VAL).

The project consisted of three phases of work. In Phase 1, information was gathered to understand current sources of data for the industry and current systems that may be applied or evolved to automate information flow into a levy payer register and MLA voting entitlements. The history of the VAL proposal and the implications of having data flow to the Australian Tax Office (ATO) were also researched.

In Phase 2, various options for achieving MLA's objectives were generated and then analysed in relation to MLA's current systems and processes. Potential cultural, financial, political and functional barriers for each option were explored. A preliminary assessment of costs, benefits and risks of various approaches was made. The options were discussed with stakeholders with a view to selecting three for further analysis. A summary of the selection rationale is provided in the following table.

Option	<i>Proceed to phase 3 cost benefit?</i>	<i>Rationale</i>
1. <i>National Livestock Identification System (NLIS) / National Vendor Declaration (NVD) leverage</i>	✓	<i>Doesn't require legislation. Potentially would meet MLA objectives for identifying levy payers and automating voting entitlement allocation. Uses an existing system (pro and con due to using a mandatory system to support a voluntary process).</i>
2. <i>Legislated data</i>	✓	<i>Precedent for legislative change in s27 of Levies Collection Act (wool and dairy). Collects information from the point in the supply chain able to supply the highest quality data. Agents may be amenable to the approach, so long as efficiencies can be found or some sort of offset frothier effort. Leads to improved identification of MLA levy payers as well as accurate and automated voting entitlement allocation.</i>

3. <i>Commercial service provider</i>	✓	<p><i>Creation of a new industry-owned database may attract other RDCs to participate.</i></p> <p><i>Commercial approach allows for flexibility and dedicated focus on the project (improved timeliness, appropriate skills and resources).</i></p> <p><i>Don't know what we don't know so going to market calling for an expression of interest may reveal different approaches.</i></p>
4. <i>Custodianship model</i>	X	<p><i>The custodianship model's efficiency lies in the smaller interface between MLA and the representative organisations. This does not achieve MLA's objectives of identifying levy payers and automating voting entitlements.</i></p> <p><i>MLA wishes to service all its levy payers.</i></p> <p><i>A new structure would need to be set up within the red meat industry to ensure wide representation with direct producer membership of qualified councils. This would be costly for industry and introduce confusion into consultation avenues.</i></p>
5. <i>ATO / Value added levy</i>	X	<p><i>Assessed as being unlikely to succeed due to:</i></p> <ul style="list-style-type: none"> <i>• The number of pieces of legislation that would need to be changed</i> <i>• No precedent (wool tax collection was moved out of the ATO)</i> <i>• Large change for a small industry segment</i> <i>• Difficulty (impossibility) of accessing individuals' data collected by the ATO.</i> <p><i>MLA objectives would not be met in that even if ATO provided all services, MLA would not be able to access the data.</i></p> <p><i>Likely to have higher levy collection costs than Dept. of Ag. - Levies.</i></p>
6. <i>Leverage Agricultural Census</i>	X	<p><i>There are similar data access issues with AgCensus (refer to ATO option above).</i></p> <p><i>Too much of a lag in data - AgCensus is completed every 5 years only.</i></p> <p><i>Unable to meet MLA's objectives.</i></p>
7. <i>Commercial data direct from agents</i>	X	<p><i>Seen as potentially being divisive for producers/industry.</i></p> <p><i>Difficult to manage for collection agents if some producers say they don't want their data passed on (has to be pulled out of the data file).</i></p> <p><i>Significant privacy issues arise.</i></p> <p><i>There are 1200 collection agents of which about 280 cover large majority of the levy - still a lot of negotiations.</i></p>

The three options listed below were identified for further analysis including implementation pathways and cost benefit analysis.

1. National Livestock Identification System (NLIS) / National Vendor Declaration (NVD) leverage: Using this source of data to remove the need for producer self-declarations.
2. Legislated data: Legislative change requiring levy collection agents to pass levy-payer data to Department of Agriculture - Levies (Dept. of Ag. - Levies) and to third parties such as the relevant Research and Development Corporation (RDC).
3. Commercial service provider: Commercial arrangements to access levy collection agent data, or an alternative source of data, that is then provided to a commercial services organisation.

In Phase 3, relevant systems and processes of MLA and MLA's suppliers were investigated to provide a point reference from which to evaluate the three options. Research for the cost benefit analysis was collated from MLA, NLIS, Dept. of Ag., Dept. of Ag. – Levies, multiple service providers and other stakeholders. In the analysis, the number of members is held constant in each option for comparative purposes. This is at 63% of the known economically active meat and livestock producers. The actual number of MLA levy payers, including hobby farmers, church groups etc., and therefore the potential membership numbers for MLA remain unknown at this point in time.

The findings have been presented as a financial analysis of operational and implementation costs and a value rating to evaluate the intangible benefits. The proposed models have been evaluated as at July 2019 to evaluate their performance in a fully operational state. Three value parameters were selected to represent MLA's key objectives for improvements to levy payer identification and voting allocation systems:

Transparency	Automation	Accuracy
By July 2019, MLA is able to identify all entities who paid levies to MLA in the previous financial year within 13 months of that levy being paid them (or being paid on their behalf)	By July 2019, the effort (time and number of steps) it takes unpaid industry participants to record voting entitlement is at least 25% less than the current process	By July 2019, there is greater than 95% probability that the voting allocation made by MLA members is 100% accurate

The report details three possible and viable solutions plus a hybrid option that offer improvements against MLA's current process:

- Option 2 – Legislative pathway with agents providing data to Dept. of Ag. - Levies and Dept. of Ag. - Levies providing production data to either MLA or its registry services provider for the purpose of voting allocation.
- Option 2a – Legislative pathway with agents providing data via Dept. of Ag. - Levies directly onto MLA's nominated commercial data services and registry commercial provider (hybrid).
- Option 1 – Leverage NLIS by making technical and cultural changes to allow NLIS to track financial transactions as well as stock movements.
- Option 3 – Use an independent commercial provider and build a bespoke commercial solution.

Key results from the cost benefit analysis are summarised below.

Summary of key findings (estimates) from cost benefit analysis (\$000).

	Improve- ment rating (15 is ideal)	Impleme ntation cost	Annual operating cost for each option	Cost savings on the current system	Net change in operat- ing cost	Pros	Cons
Option 2 - Legislated data	14 / 15	412	400	257	143	Best quality data Current momentum to change	Time consuming Dependent on legislative change Requires Dept. of Ag. – Levies to increase skills & capacity Increases burden on collection agents
Option 2a - Hybrid with commerci al data services & registry provider	14 / 15	400	320	257	63	Best quality data Responsive service provider Shorter implementati on time frame	Requires legislation Increases burden on collection agents
Option 1 - NLIS	10.5 / 15	901	193	247	-54	Doesn't require legislative change Low operating costs Quick to implement No third party consent required	May be resisted by NLIS governance Requires software / agent uptake Creates duplication Bigger challenge for acceptance and uptake

The findings indicate that each of the above solutions could provide MLA with a more automated and transparent voting allocation system than the current levy notice process. The proposed solutions are affordable options, in that the operating cost of each solution is in a similar range to the current cost of running the levy notice process.

The best quality solution is the legislative pathway, as this approach requires agents to provide data at the same time as remitting levies. Data about levy payers from the same source as the levy is remitted is considered to be the most expedient, accurate and efficient data available. Given the opportunity that this option provides for superior quality data to use as a levy payer register, membership register and for allocating voting entitlements for similar operational cost, this option should be given priority consideration. The downside of the legislative solution is the long lead-time to establish a workable service (about four years) and the onus on Dept. of Ag. - Levies to provide

complex data cleansing and assembly that are not in the core competencies or desired service provision of this department.

The lead-time for legislative change assumes that even if the Ministerial response to the Rural and Regional Affairs and Transport (RRAT) References Committee's recommendation 1¹ in their *Industry structures and systems governing the imposition and disbursement of marketing and research and development (R&D) levies in the agriculture sector* report indicates the government's support for legislative change to the Levies Collection Act, that there would still be a period required for industry liaison and assessment of regulatory impact. Therefore the implementation timeline for legislative change presented in this report is conservative, and potentially may be shortened subject to the Ministerial response to the recommendation.

Currently Dept. of Ag. – Levies has its capacity in the levies collection unit honed to collecting and dispersing levies as efficiently as possible, which is a system that excludes capturing individual levy payer information. Capturing levy payer information requires greater emphasis on data processes such as cleansing. Potentially, industry may be better off to source these skills from a commercial provider, particularly if the role of dealing with levy payer data is not seen as core business for the Dept. of Ag. Therefore it is recommended that the legislative option be considered as a hybrid with a commercial service provider to allow MLA more control over the levy payer data solution.

Overall the degree of difficulty in implementing this solution depends on the government's response to the RRAT Committee recommendation 1. If the government supports this recommendation, then the degree of difficulty would be low to moderate, even if it may take a number of years. Threats to this are the risk of Dept. of Ag. – Levies requiring major capital investment into their systems so that they can provide a holistic solution to all RDC levy payers, and potentially the Dept. of Ag. being unable to resource the change. If the government does not support the RRAT Committee's recommendation 1, then the implementation challenge increases.

Leveraging NLIS presents a workable alternative should the legislative solution not come to fruition. The NLIS solution requires a declaration be made at the time of stock transfer rather than time of sale. For this reason and the fact the proposed solution may dilute and confuse the core purpose of NLIS, the NLIS option is considered to be inferior to the legislative solution, however it is still a viable option.

Overall the degree of difficulty in implementing the NLIS solution is moderate to high. It is a somewhat complex change and must separate out the financial 'levy-triggering' transactions from over 2.5 million transactions per month in NLIS. At the core of the complexity is the requirement for both third party software vendors to pick up and roll out the system changes, and the large number of NLIS users required to adopt the additional reporting as business as usual.

Commercial service provision has been included in the final report as an option that is entirely executable within MLA's control; as both Legislation and NLIS require third party approval and cooperation. Commercial service provision in isolation provides no benefit over and above the legislative option or the NLIS solution, therefore in standalone form, it should be considered as a last resort. However as mentioned above commercial service provision could be used to enhance the legislated solution.

Through the course of this project, it became evident that there were opportunities to refine MLA's existing communication processes for voting entitlement allocation and proxy forms.

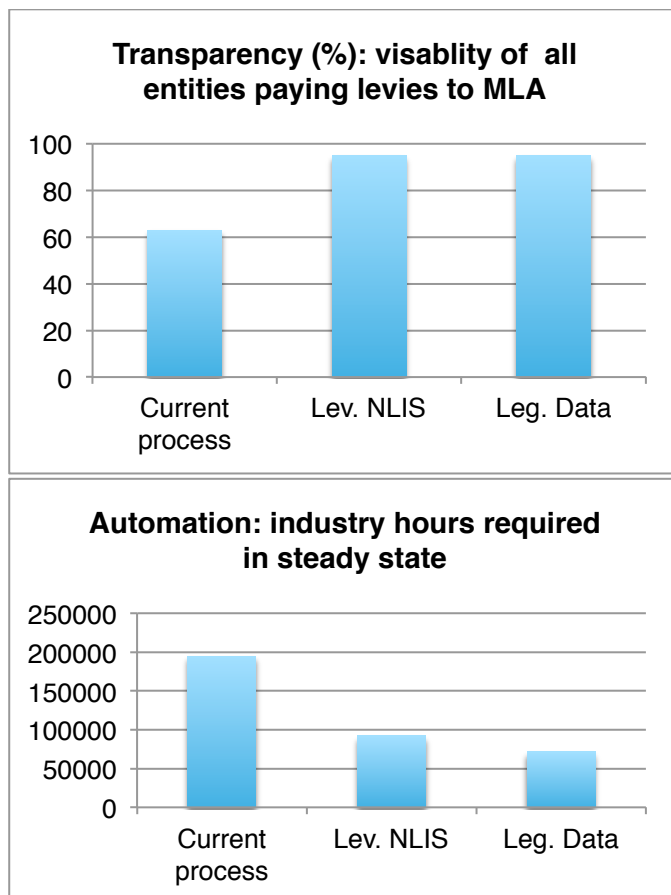
Communication enhancements were provided to MLA at phase 2 of the project and informally at the project conclusion.

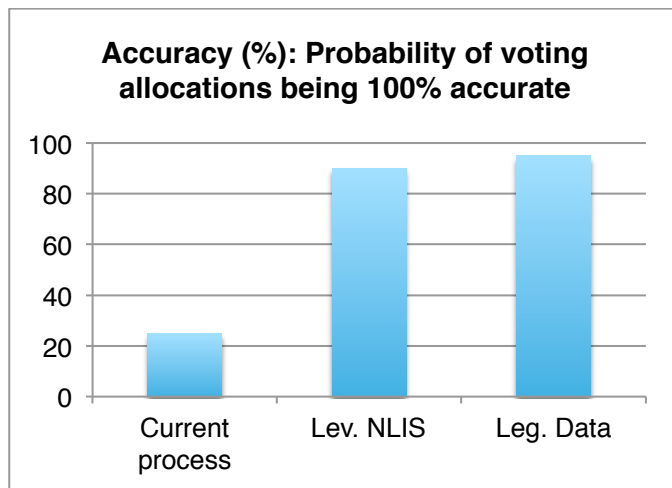
¹ The [RRAT] committee recommends that the *Primary Industries Levies and Charges Collection Act 1991* be amended, consistent with subsections 27(3) and 27(3A), to enable the collection and distribution of levy payer information which will allow the creation of levy payer databases for all agricultural industries that pay agricultural levies.

Conclusion

This project has revealed that while all three final options reviewed would provide a viable and affordable solution to meet MLA's levy payer data needs, the legislated pathway is worthy of priority consideration due to the superior quality of the data it provides, the ability to use this data for identifying levy payers, to assist with membership registration and in automating allocation of voting entitlements. On-going operational costs will be similar to retaining the current MLA process or implementing the NLIS option. In the long run, the legislated pathway provides greater accuracy and transparency leading to increased producer confidence in the voting process for similar operational outlay.

A summary of the performance of the current system and the proposed legislated and NLIS options are provided below against the three value measures of transparency, automation and accuracy.





There may potentially be further efficiencies to be gained in operational costs medium to longer term compared to those presented in this report, particularly as users of the system become familiar with the process and IT systems are refined over time.

When considering this option it may be worth MLA also contemplating a commercial service provision for data and registry services, as Dept. of Ag - Levies may not be ideally positioned to provide a timely and quality data service to the standard desired by MLA and other RDC's.

Failing a legislative or legislative/commercial hybrid solution, NLIS can be considered the next most viable pathway.

Recommendation

It is recommended that MLA weigh these solutions against operational values and priorities, with preference being given to options according to their value ratings:

- High:** Option 2 Legislative data, and
Option 2a Legislative data + commercial service provider hybrid
- Medium:** Option 1 NLIS
- Low:** Option 3 Commercial service provider.

Acknowledgement

The consultant is grateful for the generosity of contribution from MLA staff, the NLIS team, MLA's service providers and the peak industry councils. In addition, the Dept. of Ag.- Levies and the Department's policy division have been highly supportive of this work.

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1. Introduction

Levies are imposed on a range of rural commodities and products. They are collected by the Department of Agriculture (Dept. of Ag.) and appropriated to the relevant Research and Development Corporation (RDC), as well as to Animal Health Australia (AHA), Plant Health Australia (PHA) and the National Residue Survey (NRS), to fund activities that benefit levy paying industries².

Depending on the supply chain segment, red meat industry levies are paid to MLA, LiveCorp or to AMPC, as well as to NRS and AHA. MLA is the declared Industry Services Body for both research and marketing³. Producers' levies, as well as in certain circumstances processor levies, are directed to MLA. Live export levies are directed to Livecorp and slaughter levies paid by processors are directed to AMPC.

MLA receives most of its income from levies paid primarily by producers of cattle, sheep and goats. In the year ending 2014, MLA levies totalled \$106 million. This was made up of grainfed cattle levies (\$10M), grassfed cattle (\$61M), lambs/mutton (\$34M), and goats (\$1M).

There are 15 RDCs of which five are statutory bodies and ten are industry-owned. Over the past 20 years the trend has been for RDCs to move to the industry-owned structure in response to industry desire to have more control over their affairs, increased flexibility and industry representation⁴.

MLA is an industry-owned corporation (IOC). It is a company limited by guarantee and must comply with the provisions of the *Corporations Act 2001* (Corporations Act) which sets out the obligations of companies and their boards of directors.

Industry peak councils provide policy direction, scrutinise budgets and monitor MLA's performance on behalf of the red meat industry and ensure alignment with the Meat Industry Strategic Plan (MISP). The industry peak councils are the Australian Lot Feeders' Association (ALFA), Cattle Council of Australia (CCA), Goat Industry Council of Australia (GICA) and Sheepmeat Council of Australia (SCA).

Membership of MLA is open to all levy-paying cattle, grainfed cattle, sheep and goat producers and is free of charge. MLA had 48,610 members in 2012-13⁵. Industry peak councils are also members of MLA but in a different membership class to producers.

There is no minimum threshold of the amount of levies paid in order to be eligible for MLA membership - it is open to those who have paid any MLA levies in the past three years⁶. As neither Dept. of Ag. - Levies nor MLA can identify who pay levies, it is unknown how many levy payers there are.

According to the Australian Bureau of Statistics (ABS) based on data collected in 2011, there are an estimated 147,000 agricultural establishments with an Estimated Value of Agricultural Operations (EVAO) of \$5,000 or above. An establishment is usually a single physical location which is used for the production of crops and/or for the raising of livestock and the production of

² Department of Agriculture, Levies explained, http://www.agriculture.gov.au/ag-farm-food/levies/publications/levies_explained?wasRedirectedByModule=true (accessed 10 March 2015)

³ Australian Meat and Livestock Industry (AMLI) Act 1997

⁴ Council of Rural Research & Development Corporations, The Rural Research and Development Funding Model, <http://www.ruralrdc.com.au/Page/About/About.aspx> (accessed 17 March 2015)

⁵ MLA Annual Report 2013-14

⁶ MLA Constitution

livestock products⁷. The consultants derived from ABS information that around 75,000 of these establishments may be MLA levy payers. The RRAT Committee report says that ABS statistics reveal that 34,000 out of an estimated 81,000 beef farms or operations in Australia, have a value of output which is less than \$50,000 (amounting to less than 50 steers). These farmers are effectively part-time operators as they are running small numbers of cattle. The ramification of this 'tail' in terms of establishing and using a levy-payer database is that significant resources will be required to engage a large number of small levy payers whose levy payments are only a small percentage of the total levies received⁸.

MLA has indicated they have a strong desire to serve all their levy payers.

The estimated 75,000 EVAO red meat producer establishments does not encompass the full extent of MLA levy payers as there are many life-stylers/hobby farmers and charities with small numbers of livestock that would not be counted in the ABS data. These producers would still pay levies to MLA and be eligible for membership. Therefore the real number of MLA levy payers may be in the order of 150,000-250,000⁹.

In collecting agricultural levies, the Dept. of Ag.- Levies deals primarily with levy collection agents who lodge the levy returns and remit funds to the department. The vast majority of levy payments are collected through intermediaries such as processors, with Dept. of Ag.- Levies receiving aggregated levy information for each commodity.

There are 1,196 unique collection agents for cattle, sheep and lambs and goats¹⁰. These agents collect the levy from the producer, who has the legal obligation to pay the levy. The collection agents pass the levy money on to the Dept. of Ag.- Levies monthly in most instances (780 agents). The remaining agents (417) submit annual returns. Just 162 agents collect 85% of the levy.

Agents collecting agricultural levies are not paid for this role (there is one exception¹¹). They can hold the levies and collect interest on them until they submit their levy returns. Some have expressed concern about the burden this responsibility places on them, particularly where the levies are complex, multiple levies have to be collected, and costs cannot be shifted back to producers or onto processors or those further along the supply chain¹².

When a levy collection agent or intermediary deducts the levy from the proceeds of sale or recovers the levy from the producer, they must provide the producer with a receipt or written statement acknowledging the payment of the levy. Under respective levy legislation, levy collectors are required to keep records of all levy payers they collect the levy from. The collection agents are required to provide these records to departmental officials during record inspections. Therefore the 'gold standard' data on who has paid what levy on which commodity is held by the collection agents.

Levy payers who are members of MLA are entitled to vote at MLA's annual general meeting (AGM) and can also put special resolutions to the AGM provided these resolutions meet the requirements laid out in MLA's Constitution and under Corporations Law. Currently the way MLA determines

⁷ Agricultural Census <http://www.abs.gov.au/AUSSTATS/abs@nsf/>

⁸ Mr Michael Keogh, Australian Farm Institute, *Committee Hansard*, 5 February 2015, p. 26

⁹ Extrapolation from personal communication with Beef and Lamb New Zealand; derivation from information in MLA's answer to RRAT Committee's question on notice, *Committee Hansard*, 20 June 2014, p. 23

¹⁰ Data provided by Department of Agriculture-Levies to the consultants, May 2015

¹¹ In the nursery and garden industry levy collection agents are paid. Such agents are paid at a rate of 2.5 per cent of levies collected.

¹² Home Parliamentary Business Committees Senate Committees Senate Standing Committees on Rural and Regional Affairs and Transport Industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector Report

how much levy has been paid by its members is through a self-declaration process using a levy notice form. Members are still entitled to one vote even if they do not submit a levy notice. The voting entitlements of those submitting levy notices are calculated according to the following scale:

Levies paid	Voting entitlement
\$0 to \$29,088	One vote for each \$1.00 paid
\$29,089 to \$87,263	29,088 votes plus 0.75 votes for each \$1.00 paid
\$87,264 or more	72,719 votes plus 0.5 votes for each \$1.00 paid in excess of \$87,263

The scale is amended every three years in accordance with the formula set out in MLA's Constitution.

In 2014 Computershare (provides registry services to MLA) sent out 49,147 levy notices representing 77,323 different holdings. This effort resulted in ~10,000 valid levy notices being returned. Of these producers, only 3,000-4,000 used their subsequent voting entitlement. This low response rate may be due to:

- Confusion and/or inefficiency around the levy notice / voting allocation process.
- Cultural issues such as lack of interest or trust in influencing how levies are invested through the corporate-level decisions made through AGMs.

Information presented to the RRAT Committee inquiry for grass-fed beef levies indicates there does seem to be an industry perception that decision-making processes within MLA and its voting structure have resulted in levy payers becoming disconnected from levy investment decisions¹³.

The unknown aspects to this situation turn industry attention to whether all levy payers have appropriate awareness to become members of MLA and to use their rights that membership provides.

Being able to identify who MLA's levy payers are does not automatically mean an increase in membership numbers, and an increase in membership does not automatically translate to increased member participation in AGMs. As feedback suggests that this process is cumbersome for producers, MLA will investigate with the aim of improving its processes.

There are multiple data sets collected by the meat and livestock industry. One such set is through the National Livestock Identification System (NLIS). Another set is through the Agricultural Census by ABS, and the supplementary surveys they run such as the Agricultural Survey. These sources of data have been examined for their potential to assist with levy payer identification for MLA and also as a mechanism to automatically attach voting entitlements to each levy payer.

This is not the first time that MLA membership and voting entitlement allocation has been examined to provide improvements. As early as 1991 options for different approaches to charging levies were being canvassed including a 'value-added levy'. It was proposed that this be a levy on a net trading result for producers each quarter or annually, and the collection be through a GST-like process with the Australian Taxation Office (ATO). This prospect has been reviewed in the options paper presented to MLA and MLA's stakeholders on 8 June 2015 and was eliminated for further investigation in the final report.

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http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Beef_Levies/Report/c02 p. 32

2. Terms of Reference

The consultant is to deliver a thorough examination of possible cost effective, beneficial ('value for money') options to improve MLA's process for identifying and registering members and for determining and allocating their voting entitlements.

Objectives

The process improvement has the following aims:

- Simplifying the process of identifying levy-payers, membership applications and voting entitlements.
- Reducing the administrative burden on producers.
- Improving the accuracy of the entitlement calculation.
- Through this means, improving confidence in the process.

To deliver a preliminary view on the possible feasibility of a proposal, being considered by Cattle Council of Australia, to introduce a value added levy (to replace the current cattle transaction levy) and its implication for any automated allocation of voting entitlements.

Terms of Reference

The consultant will identify possible process improvement options that meet the above objectives.

A wide range of options should be considered such as:

- Implementation of an automatic voting entitlement system similar to that used by AWI
- Consideration of possible options (if any) to better obtain and utilise data (including through existing sources, for example National Livestock Identification System) to determine or verify voting entitlements for some or all of MLA members
- Improvements in the way MLA conducts the process.

In uncovering possible improvement options the consultant should have regard to systems used by other industries in Australia and systems used by other like industries overseas.

Each improvement option identified should be costed (with both implementation and operational costs being estimated). These costs should then be assessed against benefits provided. It is recognised that quantitative assessment of benefits may not always be possible - in which case qualitative assessment should occur.

An examination should occur on the feasibility of introducing a value added levy (to replace the cattle transaction levy) and its implication for any automated allocation of voting entitlements.

The assessment of feasibility would involve identifying issues that may impact on the introduction of a value added levy (encompassing an automated voting allocation component) including, but not limited to, legal considerations (including privacy provisions), likely attitudes of the Australian Tax Office and legislators and any practical issues that may affect levy collections using modified ATO GST information.

The consultant will:

- Make a preliminary assessment of the legislative and procedural changes needed to implement a value added levy, including implementing an automated voting entitlement system as part of the implementation
- The likelihood of industry securing the changes required.

The consultant will report to an industry / Government committee comprising all producer representative Peak Councils, the Australian Livestock and Property Agents Association and Department of Agriculture. The consultant will be expected to canvass possible options and the merits of these options widely with stakeholders.

Project output

The output from the study will involve the production of a report identifying possible options for improving MLA's levy-payer identification and member voting entitlement allocation process together with an assessment of merits (in terms of cost / benefits) of implementing each option compared to the existing system.

The report will also contain the consultant's assessment of the feasibility of introducing a value added levy (to replace the current cattle transaction levy) and its implication for any automated allocation of voting entitlements.

3. Method

The work was approached in four phases:

1. Information gathering.
2. Analysis, interpretation and assessment for achieving MLA objectives.
3. Cost benefit analysis for up to three options.
4. Final report.

In phase 1, information was gathered to understand the current situation including:

- What meat and livestock data currently exists and how it is captured
- How other industries nationally and internationally automate accurate data flow for leviable items
- How these models, existing systems or new systems could be applied to create an automated information flow for MLA (up to three options)
- Conduct discussions with National Livestock Identification System (NLIS), also with the Australian Tax Office (ATO), Dept. of Ag. - Levies and Department of Agriculture and any other relevant parties in order to scope the options.

The list of organisations and individuals consulted is provided in Attachment 5. Key documents drawn upon in Phase 1 are listed in Attachment 6. The findings of Phase 1 are contained in Attachment 4.

In Phase 2, information gathered during Phase 1 was drawn upon to generate a series of options. These were:

- Option 1. NLIS / NVD leverage.
- Option 2. Legislated data.
- Option 3. Commercial service provider.
- Option 4. Custodianship model.
- Option 5. ATO / Value added tax.
- Option 6. Leverage AgCensus.
- Option 7. Commercial data direct from agents.
- Additional improvements: Communication redesign.

Each option was evaluated for its effectiveness relative to MLA's current processes. Potential cultural, financial, political and functional barriers were discussed, and a preliminary costs, benefits and risks of each option presented.

Three options (options 1, 2 and 3 from above) were selected for further work and more detailed benefit cost analysis.

MLA's current membership and voting entitlement allocation process was analysed in more detail and its operational costs estimated. Then detailed implementation paths and processes for steady state for options 1, 2 and 3 were described and costs estimated. Further detail and the associated assumptions are provided in the relevant section. The relative value of options 1 and 2 were compared to MLA's current process.

4. Options

4.1. MLA's current process

4.1.1. Overview

MLA jointly manages membership information systems with external service providers: Computershare (company register and related services), Customer 1-to-1 (outsource contract service) and MicroChannel hosting (vendor for in-house CRM). Limited member contact is also handled through the NLIS contact centre.

Information is held over 3-4 unique systems (Computershare, Microsoft CRM, web users database and a file held by Customers 1-to-1) and producers have four points of contact for amending membership data as illustrated below (MLA, Computershare, Customers 1-to-1, NLIS team).

The data held internally by MLA is managed by Membership Services, within the Communications and Stakeholder Engagement business unit, and is limited to customer relationships details. Voting and declaration data is only held by Computershare.

4.1.2. Process

MLA is able to identify levy payers through a self-declaration system where levy payers apply to become a member of MLA. However minimal diligence on the status of a levy payer is obtained at the point of joining.

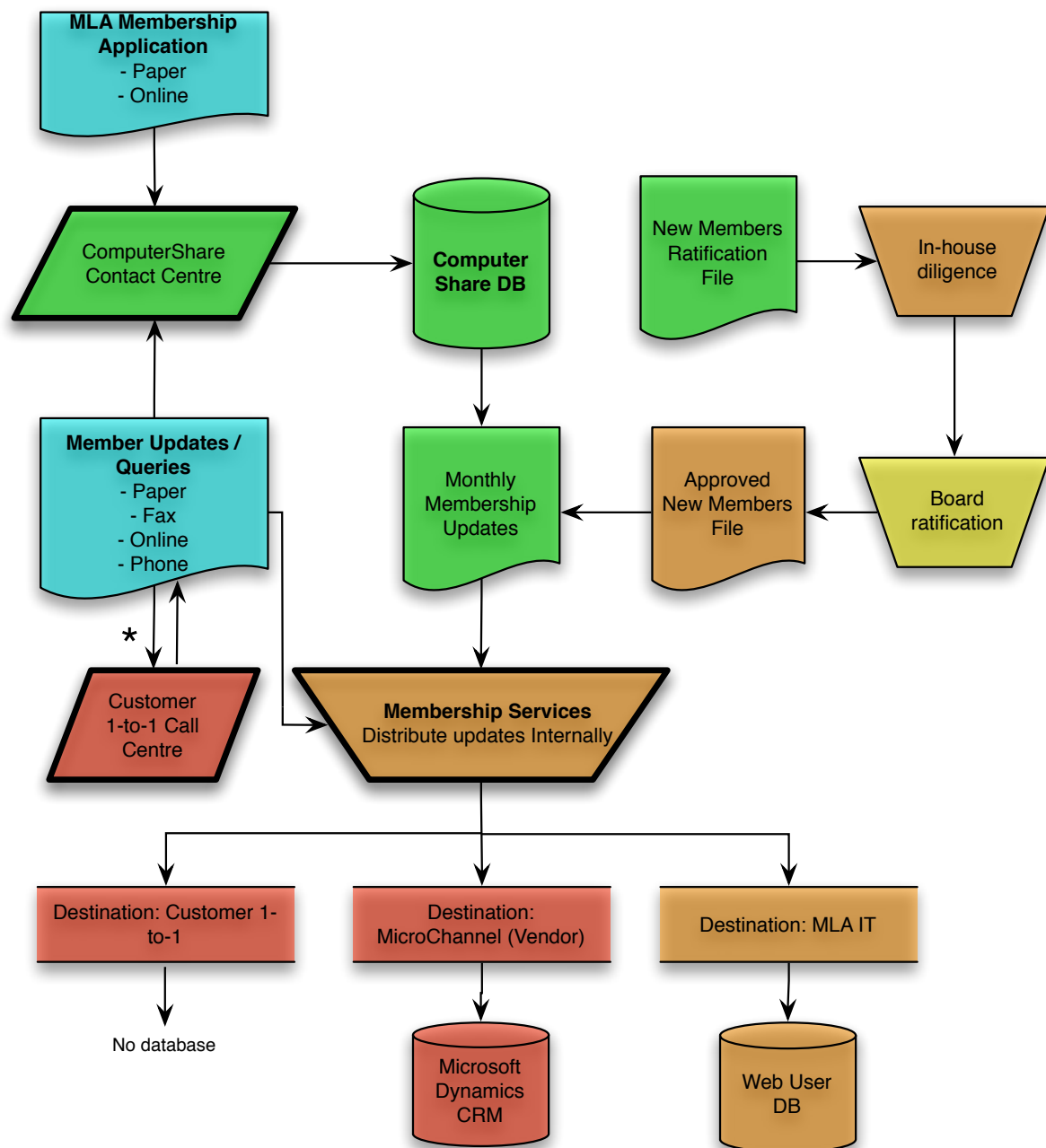
MLA has approximately 50,000 members. The level of membership has grown substantially during the past ten years. MLA members are a sub-set of MLA levy payers. The National Farmers Federation in the Farm Facts 2012 estimated the number of livestock farms in Australia to be in the order of 70,000 (beef 43,763; sheepmeat 10,705; dairy 8,594; plus goat farms), which is an indication that MLA members are a significantly sized subset.

All levy paying cattle producers, lot feeders, sheep producers and goat producers are eligible to apply for and receive MLA membership. Being a member requires an active opt-in on the behalf of the producer and cannot be implied through virtue of levy deduction or other related activities (pursuant to the Corporations Act 2001 Section 231).

Membership is obtained by completing the MLA Membership Application form (online, paper-based) or applying for membership online via www.mla.com.

The form captures name, trading name, ABN (optional), contact details, type of livestock produced (cattle, grainfed cattle, sheep only, sheep and prime lamb, goats).

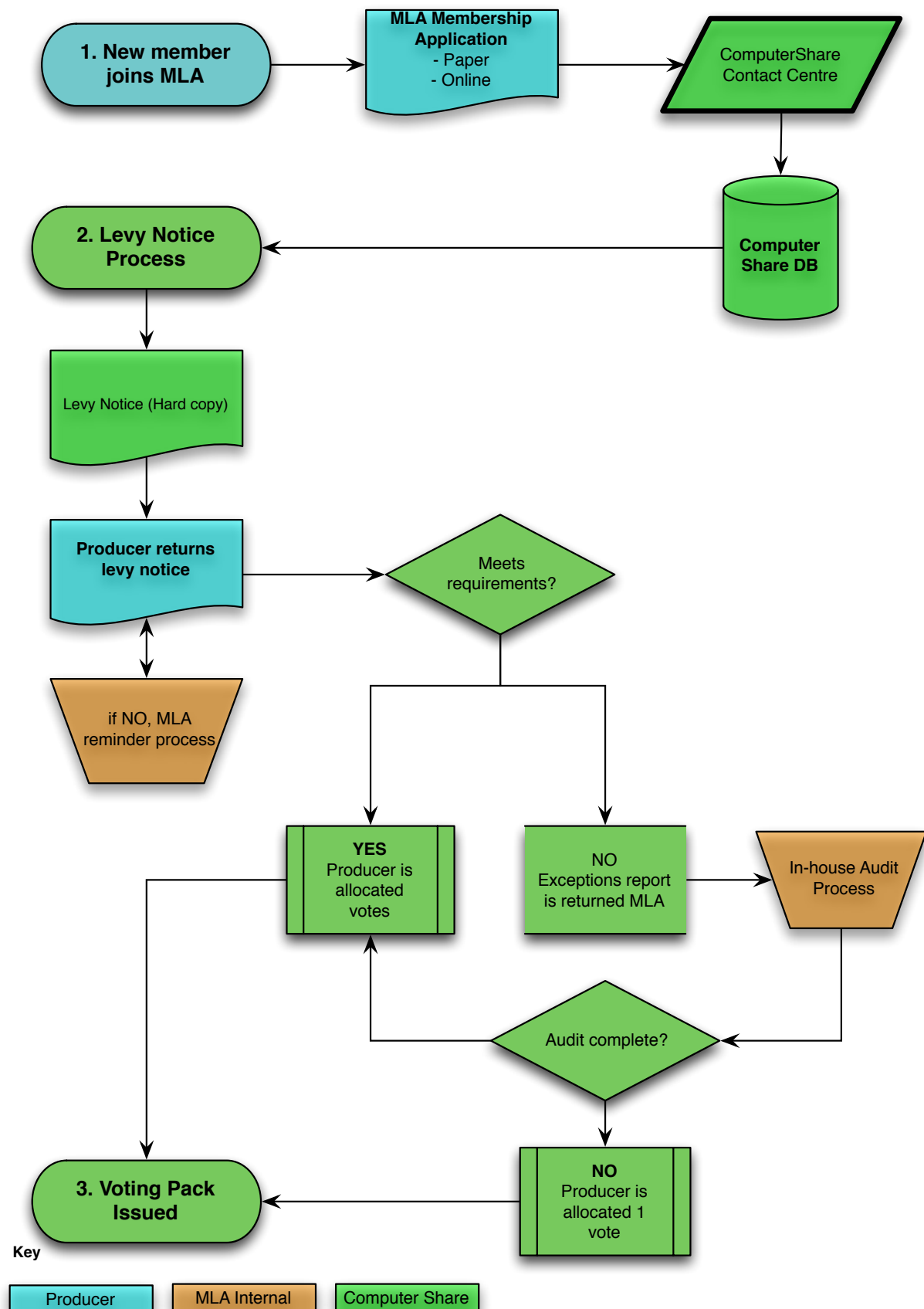
MLA's privacy policy set outs how they deal with and use personal information, in line with the Privacy Act (1988). General uses of membership information includes management of memberships with MLA and reviewing the levy notices in relation to MLA's annual general meeting (for example keeping members informed about member benefits, market news, industry information and other communications from MLA). The policy enables MLA to have certain disclosures, including to 'external service providers (on a confidential basis).

Figure 4.1.2a: MLA membership process and information flow**Key**

NB: Bold boxes are producer facing and data entry points

*** Customer 1-to-1 has no database access of ability to handle updates. Producers with these requests are redirected via Membership Services or online avenues.**

Figure 4.1.2b: Current MLA levy notice and voting process



4.1.3. Estimated operational cost

This information was tabled to MLA.

4.1.4. Value parameters

In addition to a financial analysis of the current system and the options investigated, this report provides a value assessment of less tangible benefits, in particular a rating on three core values central to the MLA terms of reference: transparency, automation and accuracy.

- **Transparency** has been evaluated as the ability for MLA to have visibility over all potential levy payers. MLA's benchmark against the estimated number of potential levy payers has been assessed at 63% and the evaluated options have been evaluated against this measure as zero. A rating between 1-5 points is given for incremental improvements against this measure.
- **Automation** measures both the number of steps for a single participant in the supply chain and also the number of unpaid industry hours required in order to calculate voting entitlements. Unpaid industry effort measures administrative burden on industry such as producers, agents and other parties that do not derive a financial benefit (e.g. effort from NLIS, MLA, Dept. of Ag. - Levies and other providers is accounted for under the financial analysis). Under the current system of levy notices, the average hours per producer has been calculated at 4.1 hours per annum which includes a small allowance for once off MLA membership registration and periodic audit or follow-up to the levy notice. The rating for automation is derived from the quantity of unpaid industry hours (0-3 points) to achieve an accurate voting allocation for every interested producer and the number of steps required by any one party (0-2 points), equaling a maximum of five points to describe the total level of automation achieved. The baseline for automation is zero.

The three current process steps are:

- Applying for membership.
- Producer levy notice.
- Voting entitlement allocation made to members.
- **Accuracy** measure looks at the estimated correctness of the self-declaration system and the subsequent voting allocations made. As only ~25% of members return a levy notice, for the purpose of estimating relative value it is assumed that ~75% of the membership receive an incorrect voting allocation. Further, there is likely a small margin of error within the returned self-declarations although in the absence of verifiably accurate data, this margin is impossible to quantify. This report assumes that 80% returns received are correct. Incremental improvements are once again scored from 1-5 points. The baseline is zero.

	1. Transparency	2. Automation	3. Accuracy
	By July 2019, MLA is able to identify all entities who paid levies to MLA in the previous financial year within 13 months of that levy being paid them (or being paid on their behalf)	By July 2019, the effort (time and number of steps) it takes unpaid industry participants to record voting entitlement is at least 25% less than the current process	By July 2019, there is greater than 95% probability that the voting allocation made by MLA members is 100% accurate
Benchmarks	Currently 63% of estimated possible members, are MLA members *	194,750 industry hours **	Less than 25%***
Values	65% = 0 points 75% = 1 points 85% = 2 points 95% = 4 points >95% probability of 100% = 5 points	> 200,000 hours = 0 points <150,000 = 1 point <100,000 = 2 points <50,000 = 3 points + More than 1 step = 0 points A 1-step process = 1 points Automated = 2 points	80% = 0 points 90% = 2.5 points 100% = 5 points (subjective quantification)
Notes	Maximum attainable value score = 15 points (this is across all 3 objectives) * Assume that there is a possible 75,000 MLA levy payers, of which 47,500 are current MLA members. Refer to the introduction for discussion on meat and livestock producer numbers. ** 4.1 hours per producer (3.5 levy notice, .5 to register spread over five years, 2.5 for possible audit spread over five years) *** Based on return rate and assumption that 80% of returns are accurate.		

4.2. Option 1 - Leveraging NLIS

4.2.1. Overview

This option proposes that the National Livestock Identification System (NLIS) be amended to record financial transactions – in addition to physical movements - in order to derive voting entitlements for MLA.

The objectives of leveraging NLIS for MLA voting entitlements are:

- To uniquely identify the business entity and therefore MLA members involved in each stock and financial transaction, via ABN/MLA membership number.
- To provide a mechanism to flag physical transactions that also have a financial transaction attached.
- To provide a mechanism for recording financial transactions that do not have a physical movement attached.
- To record appropriate species / value data to allow accurate calculation of levies paid from NLIS data (sheep and bobby calves).
- To provide MLA with self-service reporting for voting entitlements data.

In scoping the capacity and likelihood for NLIS to deliver this function, due consideration must be given to the ownership, governance, integrity and technical capability of NLIS as well as industry and producer acceptance of the proposed system.

The NLIS is currently owned by, and operated from MLA's premises in North Sydney. Possible ownership changes of NLIS in the future and the impact on a NLIS solution were discussed in the report tabled to MLA. The activities of NLIS are governed by a well rounded and appropriate suite of stakeholders and committees such as Commonwealth, State and Territory governments, and industry organisations through SAFEMEAT. This governance is expected to continue regardless of NLIS ownership structure.

4.2.2. Description of steady-state process

The NLIS is a movement-based system concerned with tracking livestock. In order to leverage NLIS for MLA voting rights calculations, the system would need to be modified to record change in ownership. Physical and ownership movements can happen independently or in unison, therefore NLIS modifications must be able to identify financial transactions (independent from physical movements) to ascertain all instances where a levy has / should have been paid and voting entitlements should be allocated.

This can be achieved by reporting back to the account holder level, attached to each PIC to PIC transfer.

DEFINITIONS

Account:	The owner of the stock (proposed as the producer, processor and agent account holders in NLIS)
PIC	Property Identification Code
PIC transfer	The recording of a physical stock movement between two unique PICS (some limited exceptions in Victoria).
Account transfer	The transfer of ownership from one entity to another entity (may or may not be a financial transaction).
Financial Transaction	Where stock has been bought and sold and a levy payment and voting entitlements apply to the transaction.

Current and proposed NLIS transfers

NLIS transfer and levy transaction

This is where stock move to a new PIC with an NLIS transfer and levy transaction occurring. Examples include:

- Producer to agent sales (95% of all MLA levy money).
- Producer to producer sales.
- Grass fed to feedlot transfers.
- Sales by producers directly to processing plants.
- Transfers between vertically integrated feedlots with co-located processing plants.

All of these transfers would have an accompanying financial transaction.

NLIS transfer but no levy transaction

This is where stock move to a new PIC (and hence an NLIS transfer occurs) but no levy transaction is undertaken.

Examples include:

- Grass fed cattle producers who custom feed their cattle at an independently owned feedlot (with the cattle going direct to an abattoir afterward). In such an instance, the levy transaction only occurs when cattle arrive at the processing plant.
- Within company transfers where cattle are transferred to another group property but there is no change in ownership.
- Grass fed cattle placed on agistment on another PIC.
- Gifting between family enterprises.
- Gifting for schools or charity auction.
- Service kills.

The proposed treatment in NLIS is to include a financial transaction tick box for these types of transfers. If this box is ticked to confirm a financial transaction took place, the levy is

triggered and the sale contributes to the vendor's voting entitlement. If no financial transaction takes place (e.g. tick box unticked), it is excluded from the levy calculation.

4.2.3. Pathways to achieve steady-state

The pathway to achieve steady-state includes three phrases: a) governance approval, b) technical development, and c) data match and producer / agent roll-out.

a) Governance approval

Pursuant to the NLIS Terms of Use (ed.) 1.1.1. (b) (v), the NLIS is a permanent lifetime traceability system designed to enable Device and corresponding livestock movements to be tracked, for multiple purposes including "other industry related purposes". While the NLIS has the core function of providing device traceability, through this clause NLIS may be used for broader industry purposes.

Under the current NLIS governance structure and changes process the Commonwealth, State and Territory governments establish the regulatory policy framework for the NLIS through the Primary Industries Ministerial Council, and SAFEMEAT advise NLIS on the administration of the system. In order to affect a change of system function in NLIS the following steps would need to be undertaken:

1. A full technical scope and brief with NLIS as lead agency. This is done before the SAFEMEAT process as to understand the full ramifications of the change and to satisfy likely SAFEMEAT queries. Also if the technical scoping uncovers any problems or unforeseen situations the project can be amended / abandoned before conducting a lengthy stakeholder engagement process.
2. SAFEMEAT engagement with MLA as lead agency. While peak holder bodies are likely to support the proposal, other stakeholders in SAFEMEAT may not, given the incongruent purpose proposed. SAFEMEAT as a whole may require additional work be conducted to satisfy the governing bodies that the proposed use of NLIS does not dilute the purpose of or cause any negative outcomes on the status quo NLIS. This additional work may include (but is not limited to) auditing and integrity checks, reception testing and attitudinal surveys and producer / industry consultation. This stage is the most time consuming and complex step of the governance approval process, and has the greatest quantity of unknown factors – allowance has been made for these unknown factors in both time and financial budgets.
3. NLIS Ltd board approval with MLA as lead agency. If the technical scope proves viable and SAFEMEAT approval is given for the changes, the proposal will then need to be approved by the NLIS Ltd board. If MLA, peak representative councils and SAFEMEAT have endorsed the changes in previous steps, it is anticipated that the NLIS Ltd board will likely also support the proposal but may also have some operational questions or diligence requirements for MLA or NLIS to fulfill prior to final approval being given.

b) Technical development

NLIS has a team of in-house developers and it is envisaged that this work (if approved) will be worked in alongside other major rebuild work that NLIS is undertaking over the next few years. The preliminary database changes proposed are:

Changes to account holdings

4. That an ABN (mandatory unless MLA number is present) and MLA number be added

to the account holder area for producers and agents. ABN and MLA numbers should be automatically validated against Australian Business Register look up web service and / or MLA's membership database.

5. That a tick box be added providing an opportunity for producers to consent for NLIS use for MLA voting entitlements calculation.
6. That a tick box be added for opting in and out of voting rights and receiving AGM packs (this development is optional at MLA's discretion based on operational and cultural priorities).
7. A report be created for invalid or missing MLA / ABN numbers for cleansing and data matching purposes.

New Actions

8. That under actions, a new action "record a financial transaction with no stock movement" be added to record vote-attracting financial transactions that have no related PIC movement. This function should replicate the NLIS transfer area, but transfer between ABN / MLA number instead of a PIC (including functions listed below).
9. If full replication is too difficult or clumsy, create a new business rule that allows transfer to and from an identical PIC to capture financial transactions. It is likely this will need a "are you sure" tick box to confirm it is a financial transaction to prevent errors.
10. That on all NLIS transfers (mob and individual), a tick box be added to indicate if the movement also had a financial transaction attached.
11. That on cattle transfers a numerical field be added to record the number of bobby calves in each transaction.
12. That on sheep movements a currency field be added to record the total value of the transaction.
13. If one PIC has multiple account holders attached, and the financial transfer tick box is ticked, a list of related account holders should be produced and the user chooses which entity the transfer was to / from. There are currently ~10,000 PIC's with multiple account holders and ~70,000 PICs with only one PIC attached.

Reporting

14. That a self-service client report be created to allow MLA to extract MLA Number / ABN / Trading name / total number of stock transacted in a date range / total amount of levy paid in a date range (using the sheep values, bobby calf numbers and number of head for other stock).

Third party software

15. That the changes to NLIS be exposed to third party software providers in formats easily consumed by the third party platforms. This will be a supported process and allowance has been made in the estimated expenses for NLIS to provide this support to the third party software suppliers.

c) Data match producer / agent roll-out

In order for successful adoption of the changes there must be a correlation between MLA membership number and recorded ABN on the company register and the account holder details on NLIS. As many producers currently do not use NLIS directly (that is, the agents

perform most NLIS transfers) account information for producers is expected to be poor and there is a reasonable body of work in getting both the NLIS account holders and MLA membership data to correlate.

16. A specialist data service provider washes MLA data and NLIS account data and produces lists of hard matches, soft matches, and no matches.
17. One agency resources a cleaning process (could be the data service provider, NLIS or MLA – but must be centralised). Data matching and data acquisition business rules will be decided upon to ensure quality results.
18. A multi-tiered approach will be executed by the data-cleaning agency to populate both the MLA company register and NLIS with accurate ID information. Producer consent to amended data is critical to this step.

Roll-out of the database changes will likely occur after the data cleansing activities to coincide with NLIS's other development priorities. The build and rollout will likely include development, testing, stage and production stages, and also include consult and testing with third party developers. The need for pilots or test groups will be identified in the NLIS technical scope stage.

4.2.4. Investment required to transition

The following estimation of establishment investment has been derived using figures and timeframes obtained from NLIS, market rates, current MLA services and previous known experience with third party software development.

Assumptions in this estimate include:

- A continuation of professional registry services.
- Coordination of call centre functions into NLIS and MLA (removing Customer 1-to-1 and Computershare).
- No additional requirements are stipulated by SAFEMEAT approval process (see *).
- That development is coordinated with NLIS's current development schedule.
- That agreement is reached with software providers to push out NLIS changes.
- That technical scoping and SAFEMEAT consultation will be resourced from NLIS, MLA and external support.
- That data matching / washing will be performed by a dedicated data specialist (outsourced).

The estimated implementation costs were tabled to MLA.

4.2.5. On-going operational costs

In estimating the on-going costs for option 1, the following assumptions are made:

- Some increase in efficiency for MLA membership management with some levy payers signing up for membership through NLIS preferences.
- Increased diligence and accuracy in membership checks upon joining due to correlation between membership and NLIS evidence of levies paid (contrast to ad hoc current system).
- Increased use of electronic communication with levy payers and MLA members.
- Retention of a hard copy mail out of the AGM pack.
- Option of an opt-out of AGM voting pack and rights via NLIS preferences.
- Continuation of professional registry services only, with data service performed by NLIS or specialist data service provider.

The estimated operational costs were tabled to MLA.

4.2.6. Likelihood of being able to reach steady-state

The key considerations in achieving a successful NLIS centric solution are:

- Reaching an agreement through SAFEMEAT to adopt the change. As this is outside the scope of the original purpose and intent of NLIS, opposition can be expected especially from the government bodies.
- Willingness of third party software providers to adopt and roll-out the changes from the NLIS system.
- Forcing producers to rely on a system where the agent is responsible for recording voting rights presents risk of producers not having a correct vote allocation. Although this will likely increase the accuracy and remove the risk of fraudulent vote claims, it removes power from the producer from directly claiming voting entitlements, and places this power with third party. An alternative vote-claiming system must be made available to the producer (e.g. through vendor declarations or self-declaration levy notice) and a dispute / changes process be available through NLIS.
- Coordination with the NLIS current development schedule (expedited development would result in additional expense and resourcing).
- Agent education and willingness to complete the additional data fields (this can be mitigated with mandatory fields but data accuracy may be compromised if the system is too tightly locked).

Of these considerations, the first – agreement from SAFEMEAT and related industry acceptance - poses the most significant hurdle.

The governance approval and planning phase is expected to take ten months and the technical build is estimated at nine months. After this point, 12 months has been estimated for rollout and third party software take up. Implementation timelines can be found in Attachment 1.

4.2.7. Summary for option 1

NLIS provides a workable solution without significant impact to the greater supply chain. Producers realise a gain through decreased paperwork and effort saving approx. 3.5 hours per annum per producer by removal of the levy notice process. Agents will spend approximately 5-10 additional seconds per transaction.

The strengths include leveraging a system that is business-as-usual and well accepted in the meat and livestock industry currently.

In terms of the intangible values, NLIS transfers the burden of unpaid industry hours from the producer to the agent, however much of the agent burden can be reduced by automation. The following calculation assumes minimal automation and still requires a check box be completed when a financial transaction is recorded. NLIS offers superior accuracy and transparency with near perfect visibility of all levy payers, but with only modest improvements in the area of voting entitlement allocation. The NLIS solution presents intangible benefits that have been rated 10.5 out of a possible score of 15 for value criteria.

	1. Transparency	2. Automation	3. Accuracy
	By July 2019, MLA is able to identify all entities who paid levies to MLA in the previous financial year within 13 months of that levy being paid them (or being paid on their behalf)	By July 2019, the effort (time and number of steps) it takes unpaid industry participants to record voting entitlement is at least 25% less than the current process	By July 2019, there is greater than 95% probability that the voting allocation made by MLA members is 100% accurate
Benchmarks	Currently 63% of estimated possible members, are MLA members	194,750 industry hours	Less than 25% of voting allocations are accurate
Values	65% = 0 points 75% = 1 points 85% = 2 points 95% = 4 points >95% probability of 100% =	> 200,000 hrs = 0 points <150,000 hrs = 1 point <100,000 hrs = 2 points <50,000 hrs = 3 points + More than 1 step = 0 points A 1-step process = 1 points Automated = 2 points	80% = 0 points 90% = 2.5 points 100% = 5 points (subjective quantification)
NLIS rating	5	3*	2.5

** Calculated on the assumptions of 55.2m NLIS transactions per year @ 5-7 additional sec per transactions gives 92k industry hours (assumes modest automation)*

Although the upfront costs of establishing a NLIS solution are significant, on an ongoing basis MLA will realise savings in internal workload, supplier costs and overall operating costs.

A financial impact summary was provided to MLA.

4.3. Option 2 - Legislated data

4.3.1. Overview

In this option it is proposed that Section 27 of the Levies Collection Act 1991 is amended so that levy collection agents for MLA are required to pass levy payer identification and payment data onto Dept. of Ag. - Levies for the purposes of supporting industry activities. The data is then passed onto the meat and livestock Industry Research Body and the Industry Marketing Body for the purpose of membership processes (s68E AMLI Act 1997) as well as for levy-payer registration and company communication purposes (s68E (e)). Examples of company communication processes are membership drives and newsletters/extension material and for conducting a levy poll.

Although data is passed to MLA, Dept. of Ag. - Levies retains the levy-payer membership data as well, and other industry organisations may apply to Dept. of Ag. - Levies to use the information for supporting industry activities (through s68E(e)) - agreement entered into with the Minister). For example, a peak council might apply to Dept. of Ag. – Levies for access to the levy payer data in order to canvass changes to the levy.

The proposed data to be passed from levy collection agents to Dept. of Ag. – Levies and on to the Industry Services Body and the Industry Marketing Body is:

- ABN.
- Producer name.
- Physical address, email and phone contacts.
- Trading name.
- MLA Member number (if the levy payer has one).
- Value of transaction.
- Levies deducted by stock-type.
- Total levies deducted.

Voting entitlement allocation to levy payers who are also members of MLA is automated in terms of MLA members not having to complete an annual levy notice form, and instead being directly advised of their voting entitlement in their AGM voting pack.

Potentially agents would have a role in asking producers if they wish to become members of MLA, however this has not been canvassed with agents as part of this project.

Senate Committee report and potential impact on data

The report¹⁴ from the Senate Rural and Regional Affairs and Transport (RRAT) References Committee on *Industry structures and systems governing the imposition and disbursement of marketing and research and development (R&D) levies in the agricultural sector* was released to the public on the 30 June 2015.

Two of the recommendations made by the RRAT References Committee may impact the data able to be collected and the requirement to automatically allocate IOC members' voting entitlements:

¹⁴ Home Parliamentary Business Committees Senate Committees Senate Standing Committees on Rural and Regional Affairs and Transport Industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector Report List of recommendations

RRAT Committee Recommendation 2

The committee recommends that data collected for the purposes of levy databases and held by the Department of Agriculture should be limited to information sufficient to enable organisations responsible for spending or allocating levy funds to communicate with levy payers and enable votes to be allocated on a production basis. Data should include location, contact details, crop or enterprise type and production volume and/or value. Databases should be held by the appropriate levy-payer owned body, and be available to appropriate authorities under circumstances of biosecurity emergencies.

RRAT Committee Recommendation 3

The committee recommends the establishment of a cost-effective, automated agricultural levy system. The system should identify levy payers against levies paid. The automated system should provide for more immediate settlement of levy fees paid and the allocation of voting entitlements where relevant. It should be subject to regular independent auditing and verification.

4.3.2. Description of steady-state process

Generalised process for the MLA levy payer

- Levy-payer fills in an MLA membership form (once only) to become an MLA member.
- Members indicate either on the membership application form (standing preference) or annually (through text, email or membership portal) whether they wish to vote in the AGM (optional depending on MLA's operational or cultural priorities).
- If 'no', annual voting communication stops for the current year. If 'yes' or no response, the AGM voting pack with the proxy card is sent to the member, including the number of votes they are entitled to.
- AGM vote is then cast (combination of postal voting, electronic voting and voting actually at the AGM).

Generalised process for levy collection agents

- Levy collection agents send data files to Dept. of Ag. – Levies at the same time as levy monies are paid to Dept. of Ag. - Levies.

Generalised process for Dept. of Ag. - Levies

- Dept. of Ag. – Levies receives information (see data listed in the overview section) from the levy collection agents.
- Dept. of Ag. – Levies immediately forwards this data onto the Industry Research Body and the Industry Marketing Body (currently MLA is both).
- Dept. of Ag. – Levies also retains the data it has received from the collection agents.
- Dept. of Ag. – Levies uses that data to assist its reconciliation of levy payments (currently there is significant effort required to reconcile levies paid with aggregated information from collection agents).
- Dept. of Ag. – Levies considers on a case-by-case basis requests from other industry participants to access and use the data collected from levy collection agents.

- Dept. of Ag. – Levies runs the audit process to ensure levies are paid, information received aligns with levies paid and that the nature of the levies (i.e. commodity, processor MLA levies or processor AMPC levies) paid is accurate.

Process in MLA (*note that what MLA does in-house and what the registry services company does can be changed to reflect MLA's needs - initially have placed most of the work with a registry services provider*):

- MLA receives the levy data files from Dept. of Ag. - Levies and forwards these on to a professional and independent share registry service company (for example Computershare). (Alternatively arrangements are put in place where Dept. of Ag. – Levies sends the information directly to the registry services company, at least in the short term while MLA works through the capacity and skills required for data cleansing and value-adding to a CRM system).

Process in professional share registry company

- Services company goes through a data cleansing process where duplicates are aggregated and non-sensical entries are investigated and clarified.
- A register of levy payers for that particular financial year is generated.
- A box is ticked against each levy payer entry to indicate whether they are MLA members or not.
- An MLA membership register is created (a subset of the levy payer register).
- A further box is ticked for MLA members who have opted out of being involved in the AGM voting process.
- Votes are allocated to MLA members who have not opted out of the voting process.
- Voting allocation, proxy form and AGM pack are sent out to those members participating in the voting process.

Audit process

- Dept. of Ag. – Levies would be responsible for the audit on collection of levies and levies being accurately allocated as to type of livestock and whether they are producer levies, >60 day processor levies for MLA, or ordinary processor levies to go to the Australian Meat Processors Corporation (AMPC).
- MLA would run a combination of internal and external audits on accuracy of allocation of voting entitlements (and potentially on whether the votes had been correctly applied in the manner that the member had instructed).

Producer to agent sales (*agents are Dept. of Ag. – Levies levy collection agents*)

The above process would apply. This would capture ~95% of all MLA levy money.

Grass-fed to feed-lot, and feed-lot to processor where there's vertical integration

When there is a transaction triggering payment of levies, the information listed above will need to accompany the payment of levies to Dept. of Ag. - Levies. The only additional information required compared to the current information capture is the MLA member number, should the producer have one.

Producer to producer livestock sales

These transactions generate <5% of MLA's levy income. The producer receiving the livestock would need to provide MLA with the information set out above plus their MLA member number if they have one.

4.3.3. Pathways to achieve steady-state

The pathway to achieve legislated data from involves the whole red meat industry, including:

- Dept. of Ag./ Dept. of Ag. – Levies.
- Producers.
- Levy collection agents and related industry organisations.
- Peak councils (PCs) (suggest having just one PC lead the process).
- Industry Research Body and Industry Marketing Body (i.e. MLA).
- Department of Finance; Treasury and Attorney Generals.
- Parliament.

The suggested path to achieve the legislative change, and implementation steps are:

- 1) Between the four peak industry councils (PCs), work out who will be the lead organisation for liaising with industry and the Dept. of Ag. about the proposed change in levy arrangements. Establish communication protocols to and from 'Lead PC' to the other PCs.
- 2) Lead PC to discuss potential new arrangements with levy collection agents to understand the impact it will have on them, and what could be done to lessen or offset regulatory burden.
- 3) Lead PC to document the 'industry need', desired outcome and the plan to meet that need through change in levy arrangements.
- 4) Lead PC liaises with the red meat policy team in the Dept. of Ag., including Dept. of Ag. - Levies in the conversation, and then prepares the proposal for legislative amendment. The objective is to enable data to be passed from levy collection agents to Dept. of Ag. - Levies and from Dept. of Ag. - Levies to MLA.
- 5) Lead PC to devise consultation plan and lead the industry consultation process.
- 6) Industry consultation process.
- 7) Feedback from consultation to be reviewed by the lead PC and the plan revised to reflect feedback if there are benefits in doing so.
- 8) Lead PC prepares a levy proposal addressing all items under the Levy Principles and Guidelines document (DAFF 2009) - refer to Table 4.3.3 below for more detail (this action assumes similar consultation would be required if the government supports RRAT Committee recommendation 1 – at the time of writing there had been no response from the government to this recommendation).
- 9) MLA to consider implementation aspects and canvass these with registry service provider.
- 10) Lead PC submits a proposal to amend levy legislation to MLA.
- 11) MLA forwards the proposal to the Minister or to the Parliamentary Secretary. The Dept. of Ag. assesses the proposal against the Levy Principles and Guidelines¹⁵.
- 12) Dept. of Ag. considers the proposal for change. Having assessed the proposal, the Dept. of Ag. advises the Minister or Parliamentary Secretary on whether the proposed change is consistent with the principles.

¹⁵ <http://www.agriculture.gov.au/SiteCollectionDocuments/ag-food/levies/documentsandreports/levy-principles-guidelines.pdf>

- 13) If supported by the Minister, the internal governmental approval process begins.
- 14) Dept. of Ag. prepares a Consultation Regulation Impact Statement.
- 15) Dept. of Ag. prepares a Decision Regulation Impact Statement and makes recommendations to the Ministerial Council.
- 16) Ministerial Council decides.
- 17) If the Ministerial Council's decision is to proceed, then Dept. of Ag. drafts legislative amendments.
- 18) Dept. of Ag. consults with the Dept. of Finance (all amendments have to be approved by them), Treasury (just a formality if no change to financial arrangements), and Attorney General's Department.
- 19) Amendments are presented to Parliament - Parliamentary process takes place (may include review by RRAT legislative committee or alike).
- 20) Change is legislated.
- 21) Dept. of Ag. - Levies communication and implementation with levy collection agents.
- 22) PCs and MLA communications with the whole of supply chain about the changes.
- 23) MLA to implement changes in its AGM voting pack.
- 24) MLA to draft changes to its Constitution (mainly around no longer requiring an annual return in the form of a levy notice).
- 25) MLA to review internal and external audit and adapt these where necessary.
- 26) Dept. of Ag. - Levies to review their strategic audit and adapt this where necessary.

A Gantt chart setting out these steps and approximate timing was provided to MLA.

Expansion on Step 8 – Preparing the proposal to address the Levy Principles and Guidelines

Whilst the Levy Principles and Guidelines are written contemplating the introduction of a new levy or change to an existing levy rate, the Department of Agriculture advises that they are to be addressed in the context of the change sought i.e. a change in obligations on producers to supply information to Dept. of Ag. - Levies and MLA. Essentially the Lead PC's proposal must address all aspects that the Minister will be interested in.

Suggested approaches were tabled to MLA.

Senate Committee report and potential impact on pathway

Three of the recommendations made by the RRAT References Committee may impact the composition and/or length of the step above:

RRAT Committee Recommendation 1

The committee recommends that the Primary Industries Levies and Charges Collection Act 1991 be amended, consistent with subsections 27(3) and 27(3A), to enable the collection and distribution of levy payer information which will allow the creation of levy payer databases for all agricultural industries that pay agricultural levies. The committee further recommends that levy payer databases be established within two years of the legislative amendment.

RRAT Committee Recommendation 5

The committee recommends that the Department of Agriculture provide agricultural industries with a timeframe for levy application and amendment decisions.

RRAT Committee Recommendation 6

The committee recommends that the Department of Agriculture, in cooperation with relevant agricultural industries, conduct a review of the process to establish and amend agricultural levies including modifications to levy components. The review should identify methods to provide for a more cost-effective and responsive process while maintaining an appropriate level of accountability.

Should the Minister support these recommendations, then it is conceivable that perhaps not all elements in the Levy Principles and Guidelines will need to be addressed, which would save the Lead PC time and resources. Further, given the precedent of section 27 of the Levies Collection Act already being amended for the dairy and wool industries, and the significant (potentially up to 50% of MLA levy payers also paying levies to wool or dairy) the consultation regulatory impact step may be shortened to focus on levy collection agents.

In contrast to potentially speeding the process up, given the RRAT Committee recommendations apply across all agricultural sectors with levies, the process may equally become more complex and time-consuming. The entire process may need to be led by the Department of Agriculture, with broad consultation across many different supply chains.

4.3.4. Investment required to transition

The time and cost for various parties in the transition phase has been estimated focusing on the Lead PC, MLA, and project costs such as increasing registry services activity and providing assistance to levy collection agents through the eight main software developers. It has been assumed that levy-payers will be educated about changes through Feedback Magazine, e-newsletters, and other normal channels for MLA communication. Costs for the internal governmental process including the Regulatory Impact Statement (RIS) process as well as the Parliamentary process have not been included. The government would pay for these activities. The estimated costs are set out in Table 4.3.4 below.

Estimated implementation costs were tabled to MLA.

4.3.5. On-going operational costs

In estimating the on-going costs for option 2, the following assumptions are made:

- Substantial increases in efficiency for MLA membership with most levy-payers signing up for membership through levy collection agents.
- Substantial numbers of levy payers that are life-stylers/hobby farmers opt out of MLA AGM processes. Whilst there may be around 75,000 economically active enterprises (derived from ABS data) in the red meat sector, there could potentially be more like 200,000 levy payers. The on-going cost estimate has assumed that the number of MLA members actually participating in the AGM process remains around the 50,000 mark (note that all levy payers have the option to participate, which is contrasting to the current situation).
- Increased use of electronic communication with levy payers and MLA members.
- Retention of a hard copy mail out of the AGM pack.
- That post implementation, the professional registry services company has negligible additional cost between managing a register of 50,000 compared to managing a register of 200,000.
- That levy collection agents, having been assisted through the implementation phase with software upgrades, do not require a data handling fee as it is offset by a reduction in the level of compliance activity by Dept. of Ag. – Levies.
- That any MLA levy payer is eligible for membership of MLA (additional costs would be incurred if more than a check against levies paid was required, for example if a minimum threshold on levies paid to qualify for membership was introduced).

Estimated operational costs were tabled to MLA.

4.3.6. Likelihood of being able to reach steady-state

The main hurdles to successfully navigating the change in arrangements for MLA levies are:

- Cooperation and support from levy collection agents.
- Appropriate resourcing so the Lead PC can attend to the matter consistently over time.
- Demonstrating that there has been substantial and effective consultation with MLA levy payers and other key stakeholders, such as levy collection agents and Dept. of Ag. – Levies.
- Ensuring that the new process is less regulatory burden (or indirectly generates less interruption) to red meat supply chain businesses. For example off-setting the burden of additional reporting obligations with lessening the compliance/audit requirements for levy collection agents.

In the absence of a Ministerial response to RRAT References Committee reports, the consultant rates the likelihood of successfully implementing option 2 as moderate. The timeline provided is a four-year process starting late August 2015 with the legislative process taking about eight months.

The consultant considers that the likelihood of success will improve if the Minister's response to the RRAT Committee's report¹⁶ supports all the recommendations. This would see the Levy Principles and Guidelines streamlined in the least, and may even circumvent industry needing to address them directly, however all changes in legislation now require regulatory impact statements which themselves have a two to three month consultation period.

If the Minister is supportive of the above RRAT recommendations, then his expectations for how the change should be led and who should be involved in the process are likely to be contained in the governmental response.'

4.3.7. Placing a relative value on benefits

A subjective analysis of the relative value of option 2 compared to the current MLA process is provided in Table 4.3.7.

¹⁶ Home Parliamentary Business Committees Senate Committees Senate Standing Committees on Rural and Regional Affairs and Transport Industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector Report List of recommendations

Table 4.3.7. Relative value of Option 2 and MLA's current membership and voting entitlement process (maximum benefit attainable in each section is 5 points).

Goal	Likelihood of achieving goal	Comment	Relative value creation score
By July 2019, MLA is able to identify all entities who paid levies to MLA in the previous financial year within 13 months of that levy having being paid (or paid by an agent on the producer's behalf.	√√√	The current process cannot achieve this goal. Option 2 provides the strongest mechanism to identify all MLA levy payers. Estimate that the target of 955 probability of 100% of entities paying MLA levies will be identified by July 2019.	5
By July 2019, the effort (time and number of steps) it takes unpaid industry participants to record voting entitlement is at least 25% less than the current process.	√√	Current system estimate is that the process takes 4.1 hours of each producer's time each year. Option 2 would be the same for the producer other than having to fill in a levy notice. This means a total of 0.6 hours each year. This is an 85% time saving for the producer. Total producer time 28,500. Estimate increased collection agent time 1200 agents by 36 hrs pa = 43,200. Combined time is 71,700 (2 points). No levy notice required and automated voting entitlement allocation (2 points)	4
By September 2019, there is greater than 95% probability that the voting entitlement allocation made to MLA members is accurate	√√√	The current process means there is separation of levy payment from levy payer identification details and therefore also from the vote allocation process. Reconciling occurs on aggregated data. Option 2 provides for data to flow concurrently with the levy payment being made to Dept. of Ag. - Levies making the reconciling process easier. It will be disaggregated so that payments are attached to levy payer identification details, and also to MLA membership status.	5
Additional operational cost per member over and above the current process (assuming memberships stays at ~50,000) (Note excludes implementation costs other than 5 year depreciation figures)	\$2.15 pa	Currently MLA has just under 50,000 members, with between 1,300 and 3,400 members voting. Option 2 increases confidence in voting allocation and relative ease of voting, but it may not necessarily transfer to an increase in participation. Many of the costs for voting would be in place whether there were 10-fold more voting or not. The additional activity provides the benefit of increasing levy-payers' confidence in the process and giving them improved opportunity to participate. Other benefits from Option 2 are MLA understanding the structure of its levy-payer base better to tailor extension / communications. A down-side in terms of effort per vote is that a long tail of very small levy payers may need to be serviced. This has been assumed not to occur in estimating additional cost per MLA member.	

4.3.8. Summary for option 2

Option 2, if successfully implemented, will deliver:

- Improved levy payer identification.
- More efficient MLA membership processes.
- A more rigorous approach to the allocation of voting entitlements.

The value proposition for this model achieves a score of 14 out of 15 possible points in the scoring system used.

The process to implement option 2 is likely to take four years including the legislative change process through Parliament. This time line may well contract if the government supports the RRAT Committee's recommendation to change section 27 of the Levies Collection Act 1991 to *“enable the collection and distribution of levy payer information which will allow the creation of levy payer databases for all agricultural industries that pay agricultural levies.”*

The two main considerations for implementing and operating option 2 are the regulatory impact as part of the legislation change, and the additional burden on levy collection agents. The strengths of the process are that all agents would be required to pass data on, (level playing field), that it opens dialogue with agents about how to improve compliance/audit processes in their businesses without necessarily compromising the effectiveness of audit, and meets MLA's objectives for transparency, automation and effectiveness of audit, and meets MLA's objectives for transparency, automation and accuracy of allocation voting entitlements to members.

A potential drawback of implementing option 2 is establishing the appropriate capability with Dept. of Ag. - Levies and MLA in the short to medium term. The change will need to be resourced. For Dept. of Ag. - Levies, their core capability is built around collecting levies efficiently, which leads them to focus on the narrowest point of the supply chain and on dealing with aggregated data. The Dept. of Ag. has many demands on its resources and so the degree of focus on the implementing the change may be less than what industry desires.

	1. Transparency	2. Automation	3. Accuracy
	By July 2019, MLA is able to identify all entities who paid levies to MLA in the previous financial year within 13 months of that levy being paid them (or being paid on their behalf)	By July 2019, the effort (time and number of steps) it takes unpaid industry participants to record voting entitlement is at least 25% less than the current process	By July 2019, there is greater than 95% probability that the voting allocation made by MLA members is 100% accurate
Benchmarks	Currently 63% of estimated possible members, are MLA members	194,750 industry hours	Less than 25% of voting allocations are accurate
Values	65% = 0 points 75% = 1 points 85% = 2 points 95% = 4 points >95% probability of 100% = 5 points	> 200,000 hours = 0 points <150,000 = 1 point <100,000 = 2 points <50,000 = 3 points + More than 1 step = 0 points A 1-step process = 1 points Automated = 2 points	80% = 0 points 90% = 2.5 points 100% = 5 points (subjective quantification)
Option 2 rating	5	4	5

The transition cost has been estimated (with certain assumptions) at ~\$412 thousand. This includes MLA's and the Lead PC's time contribution. When this is treated as *in-kind*, the cash cost reduces to ~\$295 thousand. The increase in operational cost per annum compared to the cost of MLA's current process has been estimated to be around \$143 thousand. This assumes no charges by levy collection agents.

The major key assumptions in estimating costs are no funding for additional MLA communications around the process and, despite having a levy payer register and an easier membership and automated voting allocation process, the number of MLA members participating in AGMs does not change significantly. This has been assumed to keep the mail out costs for AGM packs similar in each option for comparison purposes.

A financial impact statement as provided to MLA.

4.4. Option 3 - Seeking a commercial solution

4.4.1 Overview

Commercial service provision has been investigated, not from a cost benefit viewpoint (as it is impossible to quantify without going to the marketplace and soliciting proposals and quotes), but rather from a perspective of viability against options 1 and 2.

Although there are several agriculture or company register specialists who may be able to provide a service (see 4.4.3 below for an indication of likely providers), there may be little to no benefit in perusing a commercial solution as a stand-alone solution. The reasons for this are that both options 1 and 2 provide a viable option to leverage an existing information system in a cost and time effective manner. A stand alone commercial system would be highly unlikely to achieve the same result and may create unnecessary duplication.

If option 1 and 2, prove unviable (as they are both dependent on third party approval / actions), a commercial solution could then be considered as it is completely within MLA's control to implement.

The other perspective on commercial service provision is as a hybrid to the legislative pathway. Dept. of Ag. - Levies have indicated a lengthy IT build time and currently have low capacity to deliver registry, voting allocation and data services, therefore there may be an opportunity for MLA and other RDC's to specify a desired service provider who will be flexible and responsive to MLA's information needs. The benefits of having a commercial provider include:

- Shorter development timeframe (expected 6-9 months).
- Lower operating costs (depending the number of RDC's sharing the service and the exact model implemented).
- Responsive, flexible service not constrained by legislative, regulatory or departmental priorities as Dept. of Ag. - Levies would be.

4.4.2 Description of steady-state process

The steady-state process would be defined by MLA and the commercial service provider and possibly other participating RDC's.

One commercial model suggests that a steady-state may be realised as an independent company formed purely as a service provider to RDC using either legislated data of existing sale documents from the supply chain to provide the following benefits and services to RDC's and the industry. An indication of how a commercial model might be executed was provided to MLA.

4.4.3 Pathways to achieve steady-state

The pathway to engaging a commercial supplier would occur in line with MLA procurement process however it is recommended that:

1. Providers such as Computershare, Link Market Services, Sapien Technology, Intense Technologies, Global Compliance and other known providers should be consulted independently to gauge interest and capability.
2. The desired providers should be briefed and invited to provide proposals (for either a full service if a stand-alone option is preferred or to compliment the legislative pathway and provide bespoke data handling on behalf of MLA and Dept. of Ag. - Levies.
3. MLA's usual procurement process takes place with short listed applicants.
4. Service arrangements are put into place and a ~6-9 month IT build takes place
5. MLA and / or service provider manager's rollout, uptake and producer/industry/agent engagement.
6. An operational system is functioning by July 2017.

4.4.4 Investment required to transition

This investment will vary based on:

- If the solution is to be stand alone or part of a legislative solution.
- How the data is to be collected if not part of a legislative solution.
- The service bundle (e.g. does it include registry services?).
- The scope as given by MLA e.g. finding a unique solution will be more expensive than simply providing a development firm with pre-determined specifications.

Estimates of marketplace costs were provided to MLA. These estimates are for guidance only and can only be properly quantified by the marketplace.

4.4.5 On-going operational costs

Estimates of marketplace costs were provided to MLA. These estimates are for guidance only and can only be properly quantified by the marketplace.

4.4.6 Likelihood of being able to reach steady-state

A stand alone commercial solution or complementary service to a legislative pathway have an excellent chance of reaching steady-state as MLA will be controlling the outcome and the project. Commercial solutions are not dependent on third party approval (as both NLIS and legislative solutions are).

The major considerations in achieving steady-state are:

- The quality and experience of the supplier in the area of work.
- An ongoing and sustainable relationship / service level agreement (SLA) with the supplier so as MLA is not held hostage to its own supplier in the future.
- Continuity plans of the supplier.

- A streamlining and re-evaluation of producer facing touch points (currently four and a new supplier could provide a fifth – this should be consolidated and capacity grown in one or at worse two organisations).
- Producer and / or agent acceptance (depending on the data flow) of both the provider and MLA's delegation to the supplier.

4.4.7 Summary for option 3

A stand alone commercial solution is not recommended to MLA, for the reasons of duplication and potential for less accuracy. Any system starting from scratch is likely to receive greater industry resistance and slower uptake for creating accurate data sets.

Commercial solutions offer both trust benefits and risks – in some cases a third party may be seen as impartial and more trusted from MLA / NLIS / Dept. of Ag. - Levies. In others a third party could be seen to have no creditability. In addition to these 'trust' issues, the issue of duplication requires careful consideration. It makes little sense to duplicate existing data streams without full exploration of both the legislative and NLIS pathways.

Commercial solutions may be just as cost effective as NLIS and / or legislative data, however will likely bring a significant producer / agent engagement process and have slower and less accurate uptake in the early years in implementation.

Rather than consider commercial options as a stand alone in the face of leveraging existing systems, an opportunity exists for MLA to leverage the benefits of a commercial system (cost saving, shorter timeframe, greater control and responsiveness) with the benefits of a legislative model (agent level compulsory data) via a hybrid of legislation and commercial services.

As Dept. of Ag. - Levies do not currently have a robust data systems and would have to build these to accommodate the new data responsibilities stipulated in any legislative change, it may be worth considering a model similar to Dairy Australia (DA) whereby the information is obtained under legislative powers and raw data files are forwarded by Dept. of Ag. - Levies to DA (or its nominated representative). This removes the need for the Dept. of Ag. – Levies to have a data processing. A responsive hand picked or custom designed data service provider may better meet MLA's information needs that require Dept. of Ag. - Levies to build this specialised capability in-house. This option also presents the opportunity of working with other RDC's and further reducing duplication and operating costs.

5. Conclusions

MLA has three viable alternatives to the current levy notice process plus a hybrid option for the purpose of identifying levy payers and calculating voting allocations. These are:

- Option 2 – Legislative pathway with agents providing data to Dept. of Ag. – Levies and Dept. of Ag. – Levies providing registry and production of data for the purpose of voting allocation.
- Option 2a – Legislative pathway with agents providing data via Dept. of Ag. – Levies to MLA's nominated registry and data service provider (hybrid).
- Option 1 – Leverage NLIS by making technical and cultural changes to allow NLIS to track financial transactions as well as stock movements.
- Option 3 – Use an independent commercial provider and build a bespoke commercial solution.

Each option appears viable and has a good chance of reaching steady-state with reasonable operating costs. Options 2, 2a, and 1 are all dependent on factors and decisions made outside of MLA's direct control, therefore a stand alone commercial solution has been included in this report to give MLA a viable option should unfavourable decisions be made in relation to amending legislation or leveraging NLIS.

As the legislative pathway offers the most accurate data available in the industry, and the current environment seems geared toward a legislative change, this option should be a high priority for MLA's consideration, even though the operational costs are modestly higher than other models. The operational cost of the legislated option may be reduced through the hybrid model, and engaging a commercial provider with specialist skills and existing capacity.

In comparison to the legislative option, leveraging NLIS offers a poorer quality data and more effort-intensive solution, however in the absence of legislative change, this option performs reasonably well against MLA's objectives of automation, accuracy and transparency and still offers significant improvement over the current system.

A stand-alone commercial solution offers no tangible benefits over and above the NLIS and legislative options, however it does present a viable solution with no third party dependencies or approvals. A key challenge for a commercial provider is obtaining access high quality data. If executed in collaboration with other RDC's, a commercial solution is likely to provide modest gains over the current levy notice and voting allocation system, for an affordable cost.

In conclusion, this report finds that MLA has four viable options available that can be evaluated against operational priorities and values. The options can be ranked in order of overall (values and financial) performance:

- | | |
|----------------|--|
| High: | Option 2 Legislative data, and
Option 2a Legislative data + commercial service provider hybrid. |
| Medium: | Option 1 NLIS. |
| Low: | Option 3 Commercial service provider |

Several supporting attachments were provided to MLA.