
PART TWO

PROPOSED
INFORMATION AGENCY
GUIDELINES

Contents

Proposed information agency Guidelines	1
Overview of the process	4
Cost Recovery Impact Statement (CRIS)	7
Stage 1 Policy review	9
Stage 2 Design and implementation	18
Stage 3 Ongoing monitoring	25
Stage 4 Periodic review	27
Attachment A CRIS process	29
Triggers for the CRIS process	29
Test of significance	29
Consultation	30
Preparation of the CRIS	30
Assessment of the CRIS	30
Decision making	31
Public scrutiny and reporting of the CRIS	31
Attachment B Case study: Information on the Internet	32
Usual case	32
Special cases	32
Attachment C Selected charging issues	34
Charging for non-rival products	34
Charging for products when future demand is unclear	34
Charging for products with large fixed costs	35
Charging for products between agencies	36

Proposed information agency Guidelines

These Guidelines were prepared by the Productivity Commission. Policy makers and agencies applying these Guidelines may wish to consult the Commission's report, Cost recovery by Government agencies (2001) for more detail and background information. The full report is available from AusInfo and on the Commission's website at www.pc.gov.au.

WHAT are these Guidelines?

These Guidelines provide a framework to assist policy makers and agencies to design and implement appropriate cost recovery arrangements.

A key output of applying the Guidelines is a Cost Recovery Impact Statement (CRIS). An independent review body assesses this CRIS. The CRIS and the independent assessment are then forwarded to the body responsible for deciding what action will be taken. Following that, the CRIS and independent assessment become public documents, published on the agency's web site and summarised in the agency's annual report and Portfolio Budget Statements.

WHO should use these Guidelines?

These Guidelines apply to Commonwealth information agencies — that is, agencies whose primary purpose is to collect, compile and disseminate information, as well as 'cultural institutions' and archives. These Guidelines are designed to address cost recovery of information products. Agencies may also wish to draw on these Guidelines, to the extent relevant, when developing inter-agency or inter-governmental charging arrangements. The Guidelines are not written to be applied to government business enterprises.

There is another set of Guidelines for regulatory agencies. Such agencies primarily administer regulations, although they may also collect and disseminate some information.

If agencies are unsure about which Guidelines to apply, then they should consult with the body responsible for independently assessing the CRIS process.

WHAT is cost recovery?

Cost recovery is recovery of some or all of the costs of a particular activity. Commonwealth Government cost recovery charges fall into two broad categories: fees for goods and services; and 'cost recovery' taxes (primarily levies, but also excises and customs duties).

Cost recovery is different from general taxation. Some levies or taxes are used to raise cost recovery revenues, but the direct link — or 'earmarking' — between the revenue and the funding of a specific activity distinguishes such cost recovery taxes from general taxation.

Many payments are not cost recovery for the purposes of these Guidelines. Exclusions include:

- general taxation (but not specific-purpose levies and taxes);
- commercial arrangements by government business enterprises in contestable markets;
- repayments of loans to the Commonwealth under various policies;
- asset sales, including the sale of rights to access resources;
- fines and pecuniary penalties; and
- payments to non-Commonwealth bodies where Commonwealth policies may affect prices (for example, the Pharmaceutical Benefits Scheme and the co-payment of medical fees under Medicare).

If agencies are unsure about whether the charges they impose amount to cost recovery, then they should consult with the body responsible for independently assessing the CRIS process.

WHY have cost recovery?

Cost recovery can provide an important means of improving the efficiency with which information products are produced and consumed. Cost recovery may also improve equity by ensuring that those who request additional information bear the costs.

However, cost recovery may not be warranted where:

- it is not cost effective;
- it would be inconsistent with policy objectives; or
- it would unduly stifle competition and industry innovation.

Information agencies undertake a range of activities and produce a range of products, and cost recovery is not appropriate for all of these. Therefore, a mix of taxpayer funded (basic) products and cost recovered (additional) products would be expected for most information agencies.

WHEN should these Guidelines be applied?

Commonwealth information agencies should apply these Guidelines when:

- undertaking reviews consistent with the Government's five-year review schedule for existing cost recovery arrangements;
- new cost recovery arrangements are proposed;
- significant amendments to existing arrangements are being considered; and
- periodic reviews of cost recovery arrangements are required.

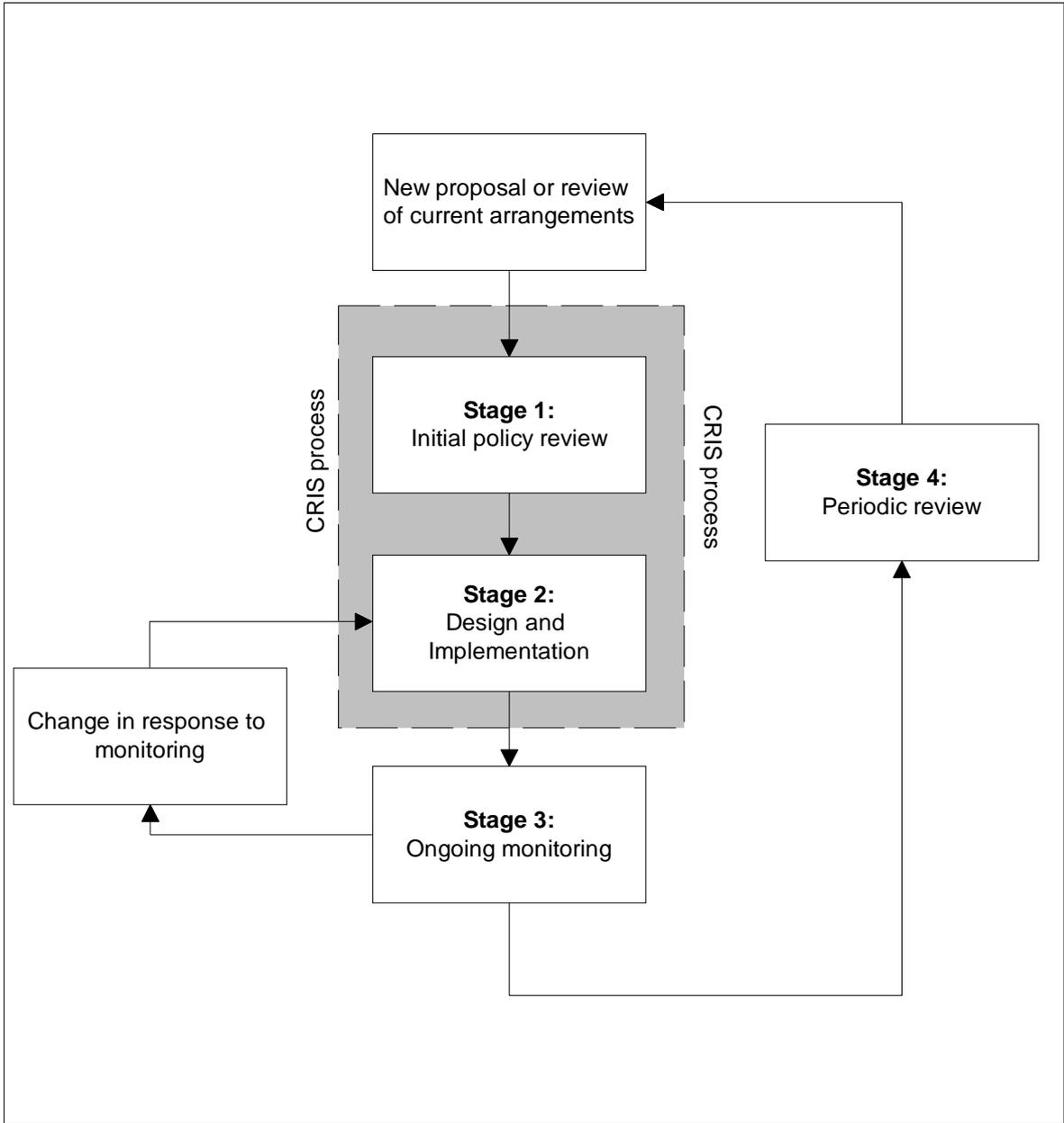
The Guidelines should be applied to all significant cost recovery arrangements. However, minor variations to existing arrangements may be exempted from review.

If agencies are unsure about whether the Guidelines apply to a particular cost recovery arrangement, then they should consult with the body responsible for independently assessing the CRIS process.

Overview of the process

These Guidelines adopt a four-stage process for determining the appropriate approach to cost recovery for information activities and products (figure 1).

Figure 1 **Process for assessing cost recovery**



Stage 1 **Initial policy review**

The stage 1 policy review considers the following questions:

- Which of the agency's objectives are relevant to the information activities or products being considered for cost recovery?
- Should cost recovery be introduced?
- What mechanisms, including consultation, should be used for ongoing monitoring of the efficiency and effectiveness of cost recovery arrangements?
- How long (not more than 10 years) before the cost recovery arrangements should be reviewed again?



Stage 2 **Design and implementation**

If cost recovery is appropriate, stage 2 considers the following questions:

- Who should pay cost recovery charges?
- Should cost recovery charges be imposed using fees or levies?
- What legal authority is necessary to impose the charges?
- Which issues should any legislation address?
- Which costs should the charges include?
- How should charges be structured?
- How should costs be calculated and allocated?

Together, the responses to the questions in stages 1 and 2 form a CRIS (discussed in the following section).



Stage 3 **Ongoing monitoring**

Stage 3 provides for ongoing scrutiny of cost recovery arrangements using the monitoring mechanisms determined as part of stage 1. Ongoing monitoring provides an opportunity for continual improvement in cost recovery arrangements.

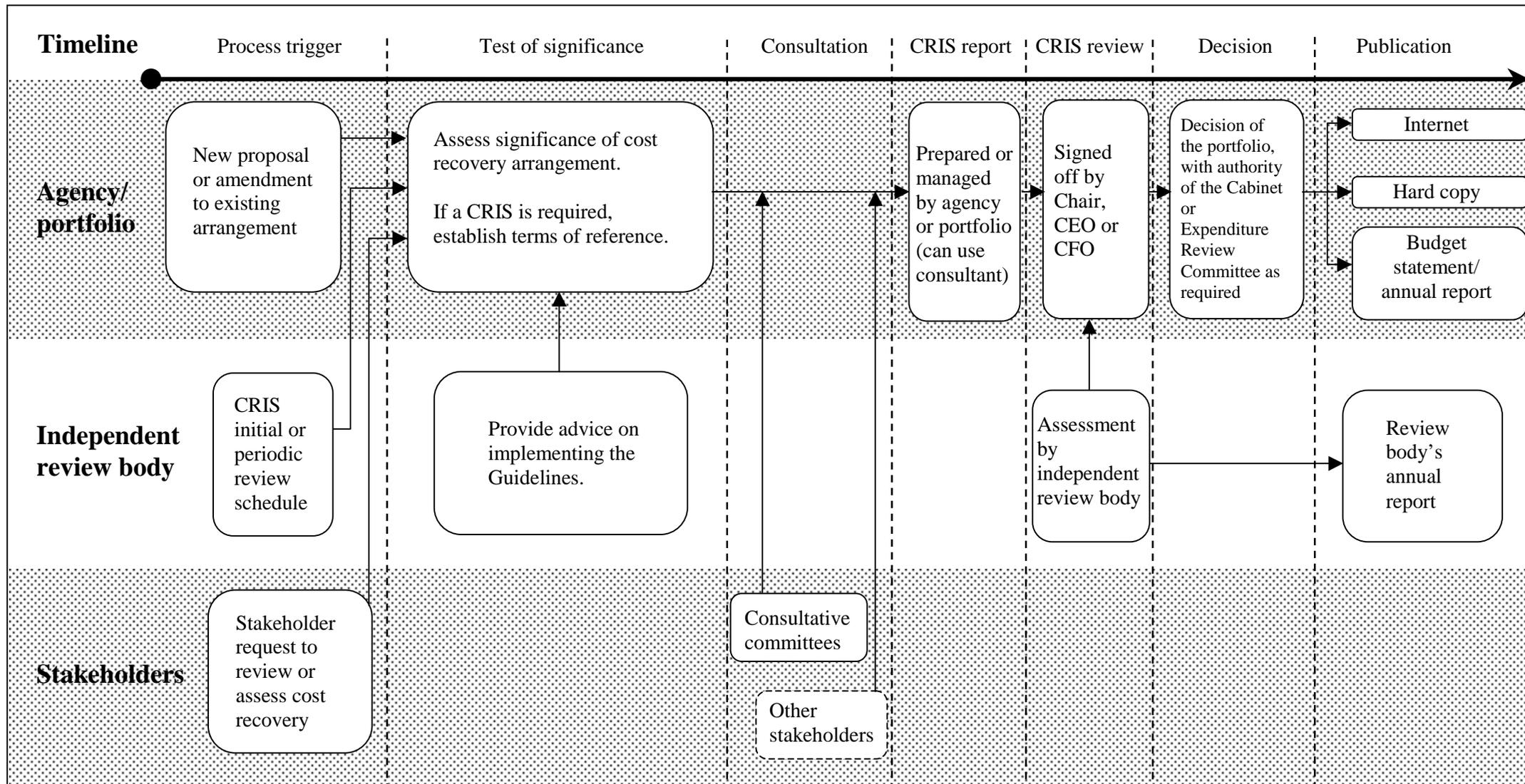


Stage 4 **Periodic review**

At least every 10 years, the appropriateness of cost recovery, the design of any cost recovery charges and the adequacy of monitoring arrangements need to be reviewed, to determine whether changes are necessary.

Stage 4 involves the preparation of a CRIS that reconsiders the issues in stages 1 and 2.

Figure 2 CRIS process summary



Cost Recovery Impact Statement (CRIS)

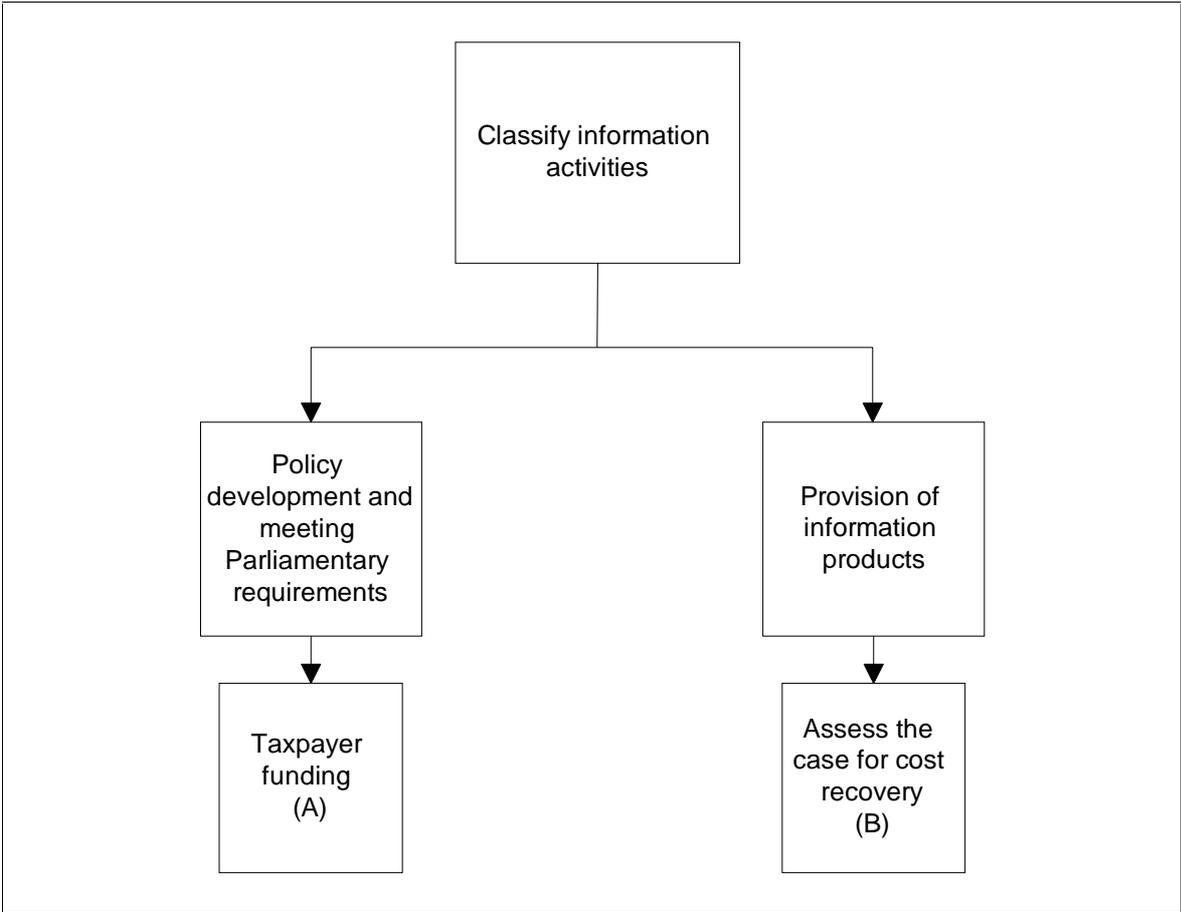
To apply the Guidelines, information agencies need to prepare a Cost Recovery Impact Statement (CRIS). The CRIS is a written report by the agency and/or the policy maker, which addresses the issues discussed in stages 1 and 2 of these Guidelines. The CRIS process is summarised in figure 2 and examined in more detail in attachment A.

The following are the most important characteristics of the CRIS:

- It should normally address all of the issues posed in the Guidelines. If the cost recovery proposal is of lesser significance or some issues are not relevant to an agency, a less comprehensive CRIS could be undertaken, but the reasons for doing so should be explained.
- It should include a consultation statement describing how stakeholders were consulted.
- It should be signed off by the Chair, Chief Executive Officer or Chief Financial Officer of the agency to certify that the Guidelines have been adequately applied.
- It should be assessed by an independent review body.
- It should be made publicly available, along with the independent assessment.



Figure 3 **Classification of information activities and products**



Stage 1

Policy review

It is rare for all of an agency's activities and products to have identical characteristics. It is not possible, therefore, to assess the appropriate level of cost recovery on an agency-wide basis. Rather, an agency should assess the case for cost recovery for each activity or product.

Which of the agency's objectives are relevant to the information activities or products being considered for cost recovery?

It is important for an agency to be aware of the agency objectives relevant to each activity or product to:

- judge whether cost recovery is consistent with these objectives; and
- ensure that cost recovery is not undertaken simply to earn revenue.

When more than one activity or product is being considered for cost recovery, it may be useful to group those with similar characteristics or objectives. These groups need to be small enough so the types of activity within a group have common characteristics and objectives, but large enough to make the review process manageable.

Activities undertaken by information agencies will usually fall into one of two broad classifications: 'Policy development and meeting Parliamentary requirements' and 'Provision of information products' (figure 3).

In general, the products provided by information agencies result from a combination of information collection, compilation and storage, analysis and enhancement, and dissemination.

Should cost recovery be introduced?

The next step is to determine whether the agency should charge for all or some of its activities or products. The following discussion looks more closely at the classifications in figure 3 and outlines how to assess the appropriate level of cost recovery.

A Policy development and meeting Parliamentary requirements

These activities include:

- reporting to Parliament;
- advising Parliament on issues where the agency has expertise;
- answering Parliamentary questions;
- briefing Ministers and responding to their correspondence;
- undertaking financial reporting; and
- complying with international treaties.

They also include policy work such as defining and refining the agency's objectives, and liaising and consulting with international organisations. They do not include providing information products to other Government agencies.

Most of these activities should be taxpayer funded. Providing services to Government results from the need to maintain a strong democratic process, more than from the information needs of customers. The community, through Parliament, benefits from these activities.

Also, the Government sets policies across all areas of the economy. It does not require sectors not subject to cost recovery to pay for policy development directly, so it is inappropriate to impose these costs on areas that are subject to cost recovery.

The CRIS must clearly justify circumstances in which these activities are to be cost recovered.

B Provision of information products

The two steps in considering whether to impose cost recovery for information products are:

- determining which products should be taxpayer funded (basic product set) (figure 4); and

-
- establishing the approach to cost recovery for other products (additional products) (figure 5).

Determining the basic product set

An information agency cannot decide alone what level of taxpayer funding it will receive. This decision is made by the Government, but should be informed by discussions between the Government and the agency. The principles outlined in the Guidelines can help identify products for which taxpayer funding is appropriate.

A useful distinction that may inform this process is that between:

- *general information products produced for the Australian community; and*
- *information products produced at the request of specific groups or individuals.*

Box 1 **Public and private goods**

Public goods exist where provision for one person means the good or service is available to all people at no additional cost. Public goods are said to have two main economic characteristics: they are non-rivalrous (that is, consumption by one person will not diminish consumption by others); and they are non-excludable (that is, it is difficult to exclude anyone from benefiting from the good). Given that exclusion would be physically impossible or economically infeasible, these goods are unlikely to be provided to a sufficient extent by the private market. The nature of public goods makes it difficult to assess the extent of demand for them. It is ultimately a matter of judgment whether demand is sufficient to warrant government provision.

This definition of 'public good' is important in economics. It should not be confused with phrases such as 'good for the public', 'public interest' or 'publicly produced goods'.

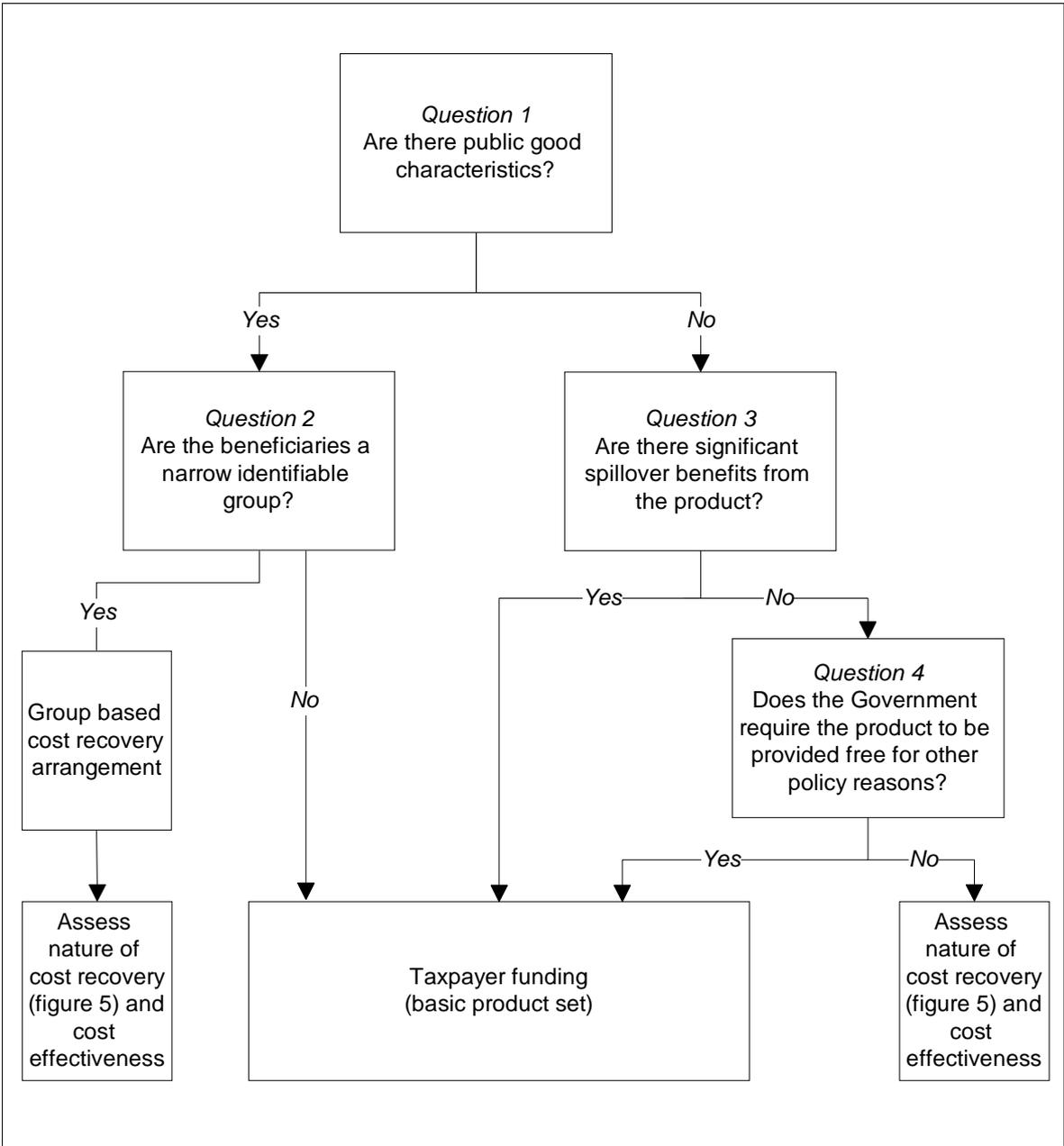
A **private good** is both rivalrous and excludable. If it is physically and economically feasible to identify and charge consumers and to exclude non-purchasers, then a private market will normally develop, providing it is profitable to do so.

There are few 'pure' public goods, but a range of goods have a mix of public and private good characteristics. Many information products, for example, are non-rivalrous (that is, information, once collected and compiled, can be used by many people without affecting the cost of collection and compilation). While it may be technically possible to exclude some people from using this information, it will be neither socially nor economically desirable if charging is likely to unduly deter potential users. Therefore, in assessing the public good characteristics of information products, it is often more important to assess the product's degree of rivalry than to assess the technical ability to exclude.

The questions in figure 4 identify those products that should be taxpayer funded according to three criteria:

- they have ‘public good’ characteristics (box 1);
- they generate significant spillover benefits to the broader community; and/or
- there are other policy reasons for taxpayer funding.

Figure 4 **Assessing funding for information products**



<p>Figure 4, question 1 <i>Are there public good characteristics?</i></p>	<p>The assessment of whether a group of products has public good characteristics is not clearcut. Agencies need to judge whether, on balance, the public good characteristics are significant enough to make it undesirable to charge for those products.</p> <p>Judgements about public goods typically consider two characteristics of the product: its level of rivalness and its level of excludability.</p>
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<p><i>Is the product rivalrous?</i></p>	<p>A product is non-rivalrous when one person using the product has no impact on others' ability to use that product. The number of users can be increased at virtually zero cost. Most general information fits into this category.</p> <p>Information agencies produce a range of products, some of which will be rivalrous and others non-rivalrous. Once information is collected and compiled, many people can use it without affecting the costs of collection or compilation. Such information, distributed via the media, is non-rivalrous. Many people can listen to the radio without affecting others' ability to use the information. The rivalness of information distributed by other methods, such as the Internet, will depend on the level of capacity in the system and the level of demand (attachment B). A publication, however, may be rivalrous, because several people cannot use the same publication simultaneously.</p> <p>In assessing rivalness the key question is whether more users of the product will increase the cost of provision.</p> <p>Yes: If the product is <i>rivalrous</i>, then it is not a public good and the assessment should consider spillover benefits. Go to Q3.</p> <p>No: If the product is <i>non-rivalrous</i>, then the next step is to consider whether it is possible and desirable to exclude users and charge for the product.</p>
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<p><i>Is the product excludable?</i></p>	<p>In the case of a pure public good it is impossible to exclude people from using the product. However, in other cases, exclusion may be technically possible but undesirable. Two factors are important in assessing excludability.</p> <p><i>Is it impossible to exclude people from using the product?</i></p> <p>This occurs in a narrow range of circumstances. For example, once information has been released to the media it is virtually impossible to prohibit others from accessing that information.</p> <p><i>Is it economically efficient to exclude people from using the product?</i></p> <p>This assessment looks at whether the benefits from charging outweigh the reduced use of the information. A number of factors influence the magnitude of these benefits and losses, such as the responsiveness of customers to changes in price, the level of taxpayer funding that would be required to substitute for cost recovery, and the efficiency costs of general taxation relative to those of cost recovery charges.</p> <p>While, in most cases, the collection costs of establishing a cost recovery regime are likely to be small, they should be taken into account, particularly where the case for introducing cost recovery is borderline.</p> <p>Yes: If it is possible and desirable to exclude users from the product, then it is not a public good and the assessment should consider spillover benefits. Go to Q3.</p> <p>No: If it is not possible, or it is possible but not desirable to exclude people from the product, then go to Q2.</p>
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<p>Figure 4, question 2 <i>Are the beneficiaries a narrow identifiable group?</i></p>	<p>Some products with public good characteristics are used only by a small group such as an industry or a specific consumer group. If it is possible to identify the group using the information product, then it may be possible to develop a levy mechanism that applies only to its members. In other cases, an industry association or other representative group may provide another avenue for recovering costs from most or all users of the product.</p> <p>Yes: Go to figure 5 to assess the nature of cost recovery for additional information products, to determine which costs the levy should recover.</p> <p>No: Fund the information product from general tax revenue.</p>
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<p>Figure 4, question 3 <i>Are there significant spillover benefits from the product?</i></p>	<p>The presence of significant spillover benefits strengthens the argument for taxpayer funding even where there are no public good characteristics. An information product will generate spillover benefits if one person having access to the information also benefits other unrelated parties. For example, weather information on storm conditions or fire risks allows the affected groups to prepare for possible problems and substantially reduces the costs to the general community of dealing with the results of storm or fire damage.</p> <p>The spillover benefits need to result directly from the availability of the information, rather than from activities (such as research) that incorporate the information. For example, health data may be used to assess trends in the incidence of specific diseases, and this assessment could have spillover benefits in improved planning of health infrastructure and reduced health costs. However, the Government needs to consider these benefits when it develops policies on funding health research, not on information provision. The benefits do not justify taxpayer funding for the information products themselves.</p> <p>Yes: Fund the information product from general tax revenue.</p> <p>No: Go to Q4 to determine whether any government funding is justified to achieve other policy objectives.</p>
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<p>Figure 4, question 4 <i>Does the Government require the product to be provided free for other policy reasons?</i></p>	<p>Cost recovery may be inconsistent with the Government's objectives for the agency, such as where cost recovery may hinder an objective that requires some forms of information to be disseminated as widely as possible.</p> <p>International agreements too may constrain the ability of Commonwealth agencies to set cost recovery charges. Where appropriate, agencies should consult with the Department of Foreign Affairs and Trade to ascertain whether any international agreements are relevant to the products they are considering cost recovering.</p> <p>When the Government decides to require an agency to provide an information product free of charge, it should articulate the policy reasons behind this decision.</p> <p>Yes: Fund the information product from general tax revenue.</p> <p>No: Go to figure 5 to assess the nature of cost recovery for additional information products.</p>
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Determining the basic product set (continued)

The products that emerge from the above set of questions as being appropriate for taxpayer funding are the *basic product set*. Such products will be taxpayer funded because they have public good characteristics (and the beneficiaries are not a narrow identifiable group), they have significant spillover benefits or they contribute to other Government policy objectives.

Recovering the cost of additional products

An information agency may wish to provide information products outside the taxpayer funded basic product set, consistent with its charter. These additional products should be assessed for cost recovery using the principles outlined below. Assessment should be on a case by case basis, with regard to the efficiency and cost effectiveness of charging. Charges will not be efficient and cost effective if:

- it is difficult to establish a charge that accurately links the cost of a product to the users of that product; or*
- the charge is costly to collect because it is difficult to identify and bill each user of the product.*

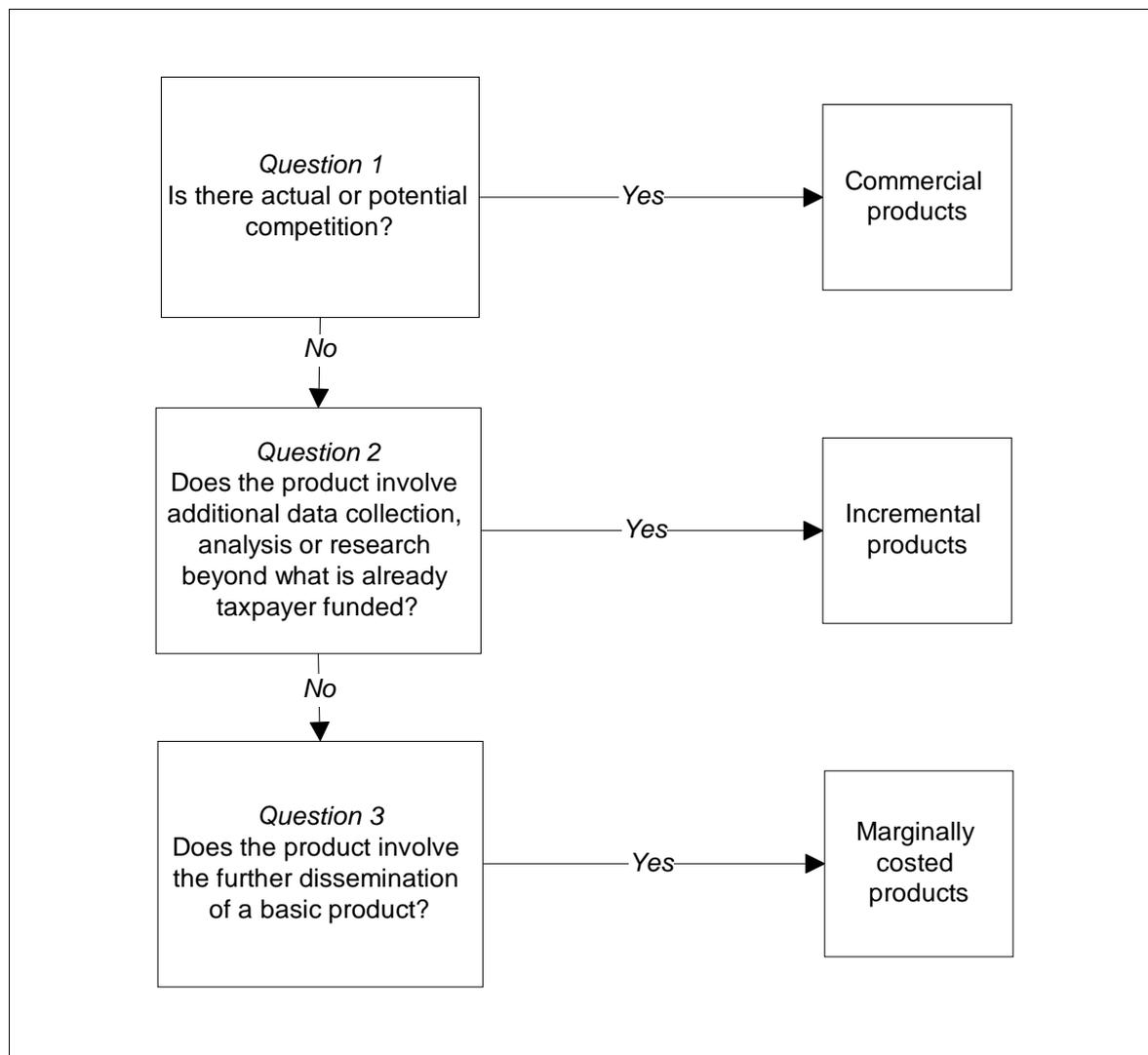
Figure 5 illustrates the questions agencies should answer to determine the extent of cost recovery for additional products.

<p>Figure 5, question 1 <i>Is there actual or potential competition?</i></p>	<p>There is actual or potential competition when the information agency's product is available from private sector providers or when the private sector could provide that product relatively easily.</p> <p>Yes: Cost recovery consistent with the competitive neutrality guidelines of the Commonwealth Competitive Neutrality Complaints Office.</p> <p>No: Go to Q2.</p>
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<p>Figure 5, question 2 <i>Does the product involve additional data collection, analysis or research beyond what is already taxpayer funded?</i></p>	<p>Incremental products are those for which additional work has been undertaken to modify taxpayer funded information to meet the demands of a specific client or group. The additional work could involve:</p> <ul style="list-style-type: none">• extending a data collection;• expanding research to cover new issues; and/or• undertaking additional analysis or manipulation of the information. <p>Yes: Cost recovery based on the incremental cost of the additional products (discussed further in stage 2).</p> <p>No: Go to Q3.</p>
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<p>Figure 5, question 3 Does the product involve the further dissemination of a basic product?</p>	<p>Usually, some dissemination of the basic product set is taxpayer funded. However, users may want additional access to the information either using distribution methods that are not taxpayer funded or having greater access to the information than was intended to be taxpayer funded (for example, people may wish to hold private copies of publications).</p> <p>Yes: Cost recovery based on the marginal cost of distribution (discussed further in stage 2).</p>
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Figure 5 **Assessing the nature of cost recovery for additional information products**



Application of the Guidelines up to this point should result in an agency being able to:

- *classify its activities and products;*
- *distinguish between the basic product set and additional products; and*
- *assess the nature of cost recovery for additional products.*

The next steps in the stage 1 policy review are to determine:

- *what mechanisms should be used for ongoing monitoring (including stakeholder consultation); and*
- *the appropriate period between cost recovery reviews.*

What mechanisms, including consultation, should be used for ongoing monitoring of the efficiency and effectiveness of cost recovery arrangements?

The CRIS should examine and recommend mechanisms for ongoing monitoring that are appropriate for the circumstances of an agency. In all cases, ongoing monitoring is a joint responsibility between the agency, stakeholders and the Government.

The extent of ongoing monitoring will depend on the significance of the cost recovery arrangements. Such monitoring would include the agency's internal information collection and efficiency measures, and appropriate external arrangements. For significant cost recovery arrangements, it would include the appropriateness of the agency's existing consultative mechanisms and their ability to scrutinise cost recovery issues. Ongoing monitoring is discussed further in stage 3.

How long (not more than 10 years) before cost recovery arrangements should be reviewed again?

An agency's circumstances will change. This means that cost recovery arrangements that were once appropriate may no longer be justified. A periodic review of all existing arrangements is therefore required, covering the appropriateness of cost recovery, the design of any cost recovery charges and the adequacy of monitoring arrangements. The CRIS should recommend a date for this review, no later than 10 years from the date of the initial CRIS.

Stage 2

Design and implementation

Charges can be collected in a variety of ways and based on different measures of costs. Agencies should choose the appropriate approach for a particular product by:

- linking the charge or charges as closely as possible to the product to be cost recovered;
- designing a system that is cost effective to calculate, collect and enforce;
- designing a system where the compliance costs of paying the charges are not excessive;
- balancing certainty with the flexibility to modify the approach to cost recovery if ongoing monitoring (stage 3) indicates that this is desirable;
- ensuring all aspects of the charging mechanism are consistent with the policy objectives of the agency; and
- designing a charging mechanism that is not inconsistent with other Government policies.

Who should pay cost recovery charges?

As discussed in stage 1, the basic product set is taxpayer funded. Most other products are funded through a fee charged to the individual or organisation using those products. In some cases, the fee is charged to an organisation that represents the final users of the product (for example, universities may buy data on behalf of their staff). Also, some products may be funded by a levy or other charging arrangement that is targeted at an identifiable group that uses the product.

Should cost recovery charges be imposed using fees or levies?

Cost recovery charges can be introduced using:

- a fee that charges individuals, firms or other users of information products directly for the costs of providing the product; or

Should cost recovery charges be imposed using fees or levies? (continued)

- a levy on a group of individuals, firms or other users of information products (legally a form of taxation). Levies need to be established using a tax Act.

In most cases, information agencies will use fees to charge for their cost recovered products. This is the preferred approach unless the CRIS clearly identifies why a levy would be more appropriate. For instance, a levy could be used for information products that have public good characteristics and are provided to a narrow identifiable group.

What legal authority is necessary to impose the charges?

All cost recovery charges (both fees and levies) should have appropriate legal authority. This not only ensures the validity of the charges, but also provides accountability and transparency. Particular Constitutional requirements govern the introduction of a levy or tax.

Those agencies considering cost recovery arrangements should seek legal advice on appropriate legal authority for their charges.

Which issues should any legislation address?

Agencies should consider the level of specific guidance on cost recovery charges to be included in legislation or any regulations attached to that legislation. Such legislation could either specify the details (level, rates etc.) of the cost recovery charges or provide guidance on the desirable characteristics of the charges.

In designing any legislation, the agency should balance the level of certainty with the need for flexibility. While providing a high degree of certainty, legislated charges may be difficult to change in response to issues raised in ongoing monitoring.

Which costs should the charges include?

As noted in figure 5, agencies may provide three different types of cost recovered product.

- **Commercial products**, which the private sector could provide. These products may draw on the agency's basic product set but also include a substantial enhancement.
- **Incremental products**, that only the information agency can provide. These products build on or enhance the agency's basic product set.
- **Marginally costed products**, which only the information agency can provide. These products involve further dissemination of existing taxpayer funded products.

The basic product set should be taxpayer funded. All products to be cost recovered should recoup at least the additional direct costs incurred beyond those of the basic product set. Capital and overhead costs, on the other hand, should be recovered for only some cost recovered products.

- For commercial products, where there is actual or potential competition, cost recovery charges should be consistent with the competitive neutrality guidelines released by the Commonwealth Competitive Neutrality Complaints Office.
- The charges for incremental products should be based on incremental cost and should include those capital costs and overheads that arise as a result of providing the incremental product (or that would not have been incurred if the incremental product were not provided).
- For marginally costed dissemination (for example, where additional copies of an information product are required), charges should not include any capital or overhead costs, only the direct costs such as labour and materials.

How should charges be structured?

Most charges for information agencies will be direct fees designed to collect the incremental or marginal cost of products. However, in some areas, complex issues may arise:

- How to charge for a non-rivalrous product when the additional cost of others using the product is very low?¹
- How to charge for a new product when the future demand for that product is unclear?
- How to charge for an incremental product that has large fixed costs (such as data collection or storage) and whether pricing differentials should be used to allocate those overheads between customers?
- How to charge for products provided to other Commonwealth agencies and other levels of government?

These matters require a degree of judgement. The guiding principle should be that agencies maximise the community's use of information while minimising their call on taxpayer funding for products outside the basic product set. CRISs should clearly explain how agencies have made these judgements. Attachment C discusses some selected charging issues.

How should costs be calculated and allocated?

Once the agency has decided on the structure of prices, its next step is to calculate and allocate the costs of the products. The full cost of each product is the value of all resources used or consumed in providing that output, and it includes direct, indirect and capital costs (box 2).

The estimation and allocation of costs should follow several key principles:

¹ Many information products are non-rivalrous and often it will be inappropriate to charge for these products, so they form part of the taxpayer funded basic product set. This question arises only after the agency has concluded that taxpayer funding is not appropriate.

**How should costs be calculated and allocated?
(continued)**

- Cost estimates should be based on the efficient costs (box 3), not actual costs.
- Costing systems should be transparent (box 4).

If capital costs and overheads are included in charges, then agencies also need to:

- develop a method to calculate all aspects of capital costs and consider the appropriateness of a capital use charge (box 5); and
- develop a method to distribute capital and overhead costs among activities (box 6).

Box 2 Cost definitions

Direct costs are costs that can be directly and unequivocally attributed to a product. They include labour (including on-costs) and materials used to deliver products.

Indirect costs are costs that are not directly attributable to a product and are often referred to as overheads. They can include corporate services costs, such as the costs of the Chief Executive Officer's salary, financial services, human resources, records management and information technology.

Capital costs comprise the user cost of capital and depreciation. The user cost of capital represents the opportunity cost of funds tied up in the capital used to deliver products. It is the rate of return that must be earned to justify retaining the assets in the medium to long term. Depreciation reflects the portions of assets consumed each period in the production of output.

Fixed costs are costs that do not vary with output. Rent and capital are usually fixed costs in the short run.

Variable costs vary with output and typically include direct labour and materials.

Common or joint costs remain unchanged as the production of different products is varied. These costs are incurred if any one of the products is provided. For example, the cost of a telephone line remains unchanged whether it is used for local or long distance calls.

Source: CCNCO (Commonwealth Competitive Neutrality Complaints Office) 1998a, Cost Allocation and Pricing, CCNCO Research paper, Productivity Commission, Canberra.

Box 3 Efficient costs

While cost recovery can promote efficiency by instilling cost consciousness in the agency and its customers, poorly designed arrangements can create incentives for ‘cost padding’ and inefficiency. Therefore, cost recovery arrangements need to ensure prices are based on the minimum cost necessary to deliver the product and still maintain quality over time.

If products are not provided efficiently, then the agency should reduce cost recovery charges to reflect efficient costs. This applies to direct, capital and overhead costs.

Efficient costs are particularly important when measuring capital costs. Often agencies are accused by users of ‘gold plating’ (that is, installing assets that are unnecessarily large or sophisticated relative to the needs of users). In that event, even a modest rate of return on capital could lead to the agency charging artificially high capital costs.

It is not a simple matter to establish efficient costs. In some cases, it is possible to benchmark the agency, both domestically and overseas, to determine the ‘reasonableness’ of its costs. Market testing or contracting out some aspects of the agency’s activities are also good ways of gauging efficiency.

Box 4 Transparency

Transparency is a key means of improving the efficiency and accountability of agencies. It requires agencies to articulate clearly their broad objectives and to explain how their activities, products and approaches to cost recovery (including costing systems) contribute to those objectives. Transparency also requires consultation with stakeholders.

‘Commercial in confidence’ is not usually a sufficient reason for withholding costing information for most of the products of information agencies. Only a small proportion of the products of these agencies are commercial in nature. Overall, the benefits of transparency greatly outweigh any commercial considerations.

Therefore, to meet their transparency obligations, agencies should be required to: adopt costing models sufficiently detailed to allow the Parliament, the Government and stakeholders to analyse their production costs; make public their costing models and actual costs, and how those costs relate to prices; and provide information on how capital costs are calculated and how capital costs and overheads are allocated among products.

Box 5 **Calculating capital costs**

The appropriate approach to calculating capital costs may differ among agencies. Therefore, agencies need to justify the method used to determine capital costs and depreciation.

In general, the approach chosen needs to balance:

- the costs of implementing the method chosen;
- optimising asset valuations to remove from the asset base facilities or parts of facilities that are not necessary to produce cost recovered products efficiently;
- accounting for increases or decreases in the value of the asset over time; and
- being able to incorporate changes if feedback from the ongoing monitoring process indicates that such changes are necessary.

The Commonwealth Government levies a capital-use charge on agencies that are wholly or partly funded from general taxation revenue. Agencies are then reimbursed for this charge through their appropriations. The Department of Finance and Administration manages these arrangements. In determining cost recovery charges, agencies need to ensure these charges do not include a capital-use charge on assets that the Government is already funding.

Box 6 **Allocating costs**

All information products to be cost recovered should recoup at least their direct costs. Allocating direct costs to products is relatively straightforward. Allocation becomes more difficult where indirect costs are involved.

For many information agencies, the costs of collecting, compiling and distributing the basic product set account for most of their work and, therefore, most of their overhead and capital costs. For these agencies, taxpayer funding should cover the stand-alone cost of providing the basic product set.

When incremental products are a large part of an agency's activities, the agency should look closely at which capital costs and overheads are attributable to the incremental product. Overhead and capital costs can be distributed in a number of ways. For example, under Fully Distributed Costing, they can be allocated on a *pro rata* basis according to the number of staff involved in producing the product or on the basis of the shares of direct costs devoted to that product. One form of Fully Distributed Costing, Activity Based Costing, is more accurate in how it allocates indirect costs. It links an organisation's outputs to activities used to produce those outputs, which in turn are linked to the organisation's costs.

The appropriate approach to distributing capital and overhead costs can vary depending on the characteristics of the agency. The agency should balance accuracy and precision against the costs of particular methods, and justify the method chosen.

Stage 3

Ongoing monitoring

Once a CRIS has been produced and assessed, and the cost recovery arrangements begin to operate, the agency should introduce effective ongoing monitoring mechanisms to:

- give feedback to the agency so it can adapt its approach to cost recovery in response to changing circumstances;
- ensure fees and levies are based on efficient and transparent costs;
- ensure individual firms or industries do not have undue influence over the agency; and
- reduce the frequency of major reviews of cost recovery arrangements by allowing minor issues to be addressed as they arise.

The agency should respond to any CRIS recommendations on ongoing mechanisms to measure and monitor the effectiveness of cost recovery arrangements. Potential mechanisms include benchmarking, market testing and third party competition. They also include the agency's collection of information on the demand for various products and tracking of changes in demand.

The agency should also respond to any CRIS recommendations on consultation arrangements. Agencies with significant cost recovery arrangements should have adequate mechanisms in place to promote meaningful consultation with stakeholders. Consultative committees should include the following characteristics:

- stakeholder representation;
- a chairperson independent of the agency;
- ability to monitor agency efficiency;
- access to adequate information on agency processes and costs; and
- transparent reporting processes.

To be effective, a consultative committee should be provided regularly with sufficient information with which to assess the cost recovery arrangements and the efficiency with which the agency conducts the activities for which it cost recovers. To ensure transparency and accountability, the agency should report the

consultative committee's recommendations widely — for instance on agency web sites and in annual reports.

A number of existing Government mechanisms can supplement agency-specific monitoring arrangements. Parliamentary and budgetary scrutiny can help to reduce incentives for 'gold plating' and 'cost padding', and can encourage efficiency in the provision of information products.

Other Government processes can provide information that assists the agency and the government in monitoring and improving cost recovery arrangements. These processes include Australian National Audit Office performance audits, feedback provided by an agency's audit committee and the outcomes of pricing reviews by the Department of Finance and Administration.

Stage 4

Periodic review

It is suggested that no more than 10 years elapse before an agency conducts another CRIS review of its cost recovery arrangements.

Many factors can change over time and affect the appropriate level of cost recovery for information agencies. The need for change can result from new technology, increased competition from overseas providers of information, new international protocols and changes in the demarcation between the Commonwealth and the States in some areas, for example. New technology could make it easier for the private sector or international competitors to provide products originally supplied by only the Australian government sector. This change would not only affect decisions about the level of cost recovery, but also raise a question about whether Government should continue to provide the product.

Developments in technology have increased the range of options for distributing information and decreased the cost of existing modes of dissemination. This means, at a minimum, that costing information on which an agency's cost recovery charges are based can rapidly become obsolete. In some cases, the rationale for cost recovery may become open to question. This could happen if, for instance, new technologies mean that cost recovery is no longer consistent with an agency's objectives.

Where changes are particularly frequent, an agency will need to review the existing arrangements within a shorter timeframe. However, effective ongoing monitoring processes that facilitate continual improvements in efficiency, along with adjustments in response to changing circumstances, reduce the need for frequent periodic reviews (see stage 3).

Attachment A

CRIS process

The Cost Recovery Impact Statement (CRIS) is a central element of these Guidelines. The CRIS process consists of the steps examined in the following sections.

Triggers for the CRIS process

A CRIS should be undertaken when:

- undertaking reviews consistent with the Government's five year review schedule for existing cost recovery arrangements;
- new cost recovery arrangements are proposed;
- significant amendments to existing arrangements are being considered; and
- periodic reviews of cost recovery arrangements are required.

In some cases, an agency may decide to initiate a CRIS based on stakeholder concerns expressed during ongoing monitoring. If the agency is in doubt about the necessity of a CRIS, it should contact the independent review body for advice.² It should also contact the independent review body if it believes that its arrangement or proposal is of a 'minor and machinery' nature and should therefore be exempted from a CRIS.

Test of significance

As a general rule, an agency should undertake a detailed, comprehensive and transparent CRIS for significant cost recovery arrangements and proposals. Typically, a full CRIS includes both a policy component and a design and implementation review component. Initial and periodic cost recovery reviews automatically attract this high level of scrutiny.

² The role of this body would be similar to that of the Office of Regulation Review, which advises on the degree of significance of proposals for new or amended regulation, and on the level of detail required, as a result, in the Regulation Impact Statement (RIS).

If a cost recovery proposal is of lesser significance, both in terms of the amount of revenue recovered and the impact on the consumers of information products, a less stringent approach may be warranted. This could involve the preparation of a less comprehensive CRIS under which only a selection of the questions set out in the Guidelines would need to be addressed in full. However, the agency would still need to consult with the independent review body to justify this approach. Such a CRIS could apply to proposals where policy issues have been settled and only design and implementation questions remain.

Consultation

The preparation of the CRIS should always involve an appropriate level of consultation with stakeholders. At a minimum, the agency preparing the CRIS document should enter into discussions with existing industry consultative committees. At the discretion of the agency and/or its portfolio, consultation may be extended to other stakeholders and take other forms.

Preparation of the CRIS

Officials of the department, agency, statutory authority or board responsible for a cost recovery proposal are also responsible for ensuring a CRIS is prepared. These bodies may choose to outsource the preparation of a CRIS to an external organisation, such as a specialised consultancy. However, the agency remains responsible for ensuring the questions relevant to the CRIS are adequately addressed in a consultants' report.

As a general rule, a CRIS needs to be prepared *before* any cost recovery measure is introduced.

Assessment of the CRIS

Once completed, the CRIS should be sent to the independent review body for assessment. The independent review body will advise the agency or department in writing on the CRIS's compliance with the Guidelines. The independent review body's assessment and the CRIS should be made publicly available.

If the CRIS does not meet all the necessary requirements, the independent assessment will identify any deficiencies and notify the decision maker. The decision maker may direct the agency to resubmit an amended CRIS.

Decision making

While the agency's management is responsible for implementing the agency's CRIS, the final decision on the suitability of the cost recovery arrangements or proposal may rest with other bodies, such as Cabinet, the Expenditure Review Committee, the board of a statutory authority or the Minister of a portfolio.

Public scrutiny and reporting of the CRIS

The completed CRIS and the independent review assessment should be released for public scrutiny. The public documentation should also include:

- a signed declaration by the agency's Chair, Chief Executive Officer or Chief Financial Officer that the CRIS meets its terms of reference and that the Guidelines have been applied;
- a description and justification of the level of consultation undertaken;
- a summary of the views expressed by those consulted; and
- reasons for any deviation from the Guidelines in the formulation of the cost recovery arrangements.

The CRIS and independent assessment should be made available on the agency websites and in hard copy on request. All the parties that participated in the CRIS process should receive a copy free of charge.

A summary of the contents of the CRIS should be included in the agency's Portfolio Budget Statement and annual report. If Ministerial or Cabinet approval is required for cost recovery by an agency, then evidence of this approval should also appear in the annual report.

In its own Annual Report, the independent review body should report to Parliament on the application of cost recovery by Commonwealth agencies.

Attachment B

Case study: Information on the Internet

The Internet can provide a relatively low cost way of distributing information to a large number of people. It has the added advantage that the data are conveniently available electronically. However, Internet sites are expensive to set up and then to expand as demand increases. The following discussion considers the public good characteristics of information on the Internet.

Usual case

General use clients are low volume, low frequency users. Some will be one-off, but others will visit the site regularly. Most use of the site by these clients will be non-rivalrous. Usually many people will be able to use the site without increasing the cost of delivering the data.

It is technically possible to exclude a person from using an Internet site. Banks, for example, have developed secure Internet sites that restrict access and enable charges to be levied on transactions. For general use clients, charging is not likely to be cost effective because the efficiency gains from charging are likely to be low and, usually, the use of Internet based information by these clients would fall dramatically if charging was introduced. Under these circumstances, distributing information over the Internet has sufficient public good characteristics to warrant taxpayer funding.

Special cases

High volume clients use large amounts of information regularly. They could drive the overall capacity of the Internet site because they will have the greatest effect on the volume of information stored and the speed of processing needed to retrieve and/or manipulate the information. In effect, these clients demand an incremental service, which consists of the extra investment in capacity (beyond what is required by general use clients) needed to meet their demands.

Use of the Internet site by this group may or may not be rivalrous, depending on how the long-term capacity of the site compares with the demands of the users. Charging based on incremental costs may be cost effective if high volume clients can be identified and charged without limiting the availability of information to general use clients.

Time sensitive clients require fast access to new data. This may be the release of new statistical collections or updates on information that changes frequently (such as the weather). If the demand by time sensitive clients results in congestion during peak periods, then the use of the site becomes rivalrous. One person's use of the site may prevent someone else from accessing it or reduce the speed with which they can download information. In these cases, the use of the Internet site does not have public good characteristics. It may be possible to charge for the product by, say, registering clients who want priority access to this information immediately following its release.

Attachment C

Selected charging issues

Charging for non-rival products

For non-rival products, the additional cost of others using the product is low. Thus, it may be difficult to devise a charging approach that recovers the initial cost of providing the service without discouraging subsequent demand. Some ways of structuring prices, such as using access fees or two-part tariffs, will recover costs while minimising the direct charge for the use of additional units of the product.

Policy makers should decide whether, in some cases, it is better to err towards having lower levels of cost recovery, rather than devising the complex and costly charging regimes that may be needed to avoid creating disincentives to requesting and using information.

Charging for products when future demand is unclear

When information agencies are approached to provide a new product, it can be very difficult to estimate the future demand for that product. That is, the request for the product may be a one-off or the first of many such requests. This has implications for the fee that the agency should charge. The charging approach needs to balance:

- recovering the costs of extraction and manipulation;
- not discouraging others from using the information once it has been extracted; and
- not discouraging clients from coming forward with new requests for information that may benefit others.

For one-off requests, the agency should charge the full incremental cost of providing the product. When the request is the first of many, the agency should determine whether it is cost-effective to store the information with a view to meeting subsequent requests. If it is not, the first customer should be charged the full incremental cost of the product and the product should be deleted from the agency's archives.

If the initial request is likely to be followed by many others, then the agency should strive to estimate the size of future demand, possibly using market research techniques. It will then be able to determine whether it is cost effective to store the product for future use (by either other customers or the same customer). Estimates of future demand will also allow the agency to spread the cost over all users and thus to charge more equitably and efficiently.

The charging structure adopted will allocate costs between the client that requests the new product and subsequent users. Different charging structures will have different effects.

- Charges that average costs over all anticipated users of the product may encourage new requests for information products (because charges are less than the incremental cost) but could discourage some subsequent users of that product (because charges are more than the marginal cost of dissemination). The agency also bears the risk that revenues will be too high or too low if its estimates of demand are wrong.
- Charges that reflect the incremental cost of the first client requesting the service and marginal costs for subsequent clients could discourage new requests but will encourage subsequent users of that product. This form of charging provides more certainty in the agency's revenue.

The nature of the information product may help guide the agency on the approach to charging that best suits its circumstances.

Charging for products with large fixed costs

Where there are large fixed costs and hence substantial economies of scale, agencies may be tempted to adopt price discrimination to recover the overhead costs of collecting and compiling information. Price discrimination refers to charging different users different fees for the same product, even though the cost of supply is the same. This pricing policy is made possible by different customers having a different willingness to pay for the same product. This is reflected in their differing reactions to price changes. For instance, airlines charge business travellers more than they charge holiday makers because the former are more willing to pay and less sensitive to price increases.

There are examples of agencies using price discrimination. ScreenSound Australia, for instance, charges large media companies more than it charges private individuals, reflecting the difference in the two groups' perceived ability to pay.

Price discrimination can only work in limited circumstances where the person paying the lower price cannot onsell to other users and customers cannot select to fall into one or another category. For instance, a media conglomerate should not be able to pass itself off as an individual customer. Price discrimination also requires the agency to identify customers' ability to pay with some precision. This is likely to be difficult for large agencies with many products.

The objective of cost recovery is not to maximise revenue. Charges are intended to recover the cost of non-taxpayer funded activities while encouraging the use of information products. Therefore, any use of price discrimination needs to be treated cautiously. If an agency is already pricing products at marginal cost, then there should be no scope for price discrimination.

Charging for products between agencies

The Guidelines provide general principles that could be relevant to structuring inter-agency charges. Where one or both of the agencies involved in inter-agency transactions also provides services to purchasers outside the Commonwealth Government, the inter-agency arrangements need to be transparent to avoid the introduction of cost shifting and cross-subsidies between the Government and non-government parties. This means that charges should be set on the same basis for both Government and other clients.

To the extent that transactions between Commonwealth agencies reflect transfers of budget funding (and the structure of Government), inter-agency charges can reflect budget allocations more than cost recovery. Nonetheless, the proper location of costs brings efficiency and accountability benefits. The principles underlying appropriate cost recovery could be usefully applied to inter-agency transactions, even where they are governed by explicit contracts or by other 'arm's-length' arrangements. Therefore, agencies may wish to refer to the Guidelines when structuring charges in these circumstances.

Similar arguments apply to transactions between different levels of Government. Some arrangements reflect inter-government agreements on collectively provided services. Using pricing mechanisms can help to drive efficiency and accountability. Again, the Guidelines may provide some assistance in this area.

PROPOSED
REGULATORY AGENCY
GUIDELINES

Contents

Proposed regulatory agency Guidelines	1
Overview of the process	4
Cost Recovery Impact Statement (CRIS)	7
Stage 1 Policy review	9
Stage 2 Design and implementation	26
Stage 3 Ongoing monitoring	33
Stage 4 Periodic review	35
Attachment A CRIS process	37
Triggers for the CRIS process	37
Test of significance	37
Consultation	38
Preparation of the CRIS	38
Assessment of the CRIS	38
Decision making	39
Public scrutiny and reporting of the CRIS	39
Attachment B Selected charging issues	40
Levy design	40
Start-up costs	40
New products	41

Proposed regulatory agency Guidelines

These Guidelines were prepared by the Productivity Commission. Policy makers and agencies applying these Guidelines may wish to consult the Commission's report, Cost recovery by Government agencies (2001) for more detail and background information. The full report is available from AusInfo and on the Commission's web site at www.pc.gov.au.

WHAT are these Guidelines?

These Guidelines provide a framework to assist policy makers and agencies to design and implement appropriate cost recovery arrangements.

A key output of applying the Guidelines is a Cost Recovery Impact Statement (CRIS) or a Regulation Impact Statement (RIS). An independent review body assesses this CRIS or RIS. The CRIS or RIS and the independent assessment are then forwarded to the body responsible for deciding what action will be taken. Following that, the CRIS or RIS and independent assessment become public documents, published on the agency's web site and summarised in the agency's annual report and Portfolio Budget Statements.

WHO should use these Guidelines?

These Guidelines apply to Commonwealth regulatory agencies — that is, agencies whose primary purpose is to administer regulations (although they may also be involved in collecting and disseminating some information). Agencies may also wish to draw on these Guidelines, to the extent relevant, when developing inter-agency or inter-governmental charging arrangements. The Guidelines are not written to be applied to government business enterprises.

There is another set of Guidelines for information agencies. Such agencies primarily collect, compile and disseminate information products.

If agencies are unsure about which Guidelines to apply, then they should consult with the body responsible for independently assessing the CRIS or RIS process.

WHAT is cost recovery?

Cost recovery is recovery of some or all of the costs of a particular activity. Commonwealth Government cost recovery charges fall into two broad categories: fees for goods and services; and 'cost recovery' taxes (primarily levies, but also excises and customs duties).

Cost recovery is different from general taxation. Some levies or taxes are used to raise cost recovery revenues, but the direct link — or 'earmarking' — between the revenue and the funding of a specific activity distinguishes such cost recovery taxes from general taxation.

Many payments are not cost recovery for the purposes of these Guidelines. Exclusions include:

- general taxation (but not specific-purpose levies and taxes);
- commercial arrangements by government business enterprises in contestable markets;
- repayments of loans to the Commonwealth under various policies;
- asset sales, including the sale of rights to access resources;
- fines and pecuniary penalties; and
- payments to non-Commonwealth bodies where Commonwealth policies may affect prices (for example, the Pharmaceutical Benefits Scheme and the co-payment of medical fees under Medicare).

If agencies are unsure about whether the fees or levies they impose amount to cost recovery, then they should consult with the body responsible for independently assessing the CRIS or RIS process.

WHY have cost recovery?

Used appropriately, cost recovery can improve economic efficiency. Cost recovery may also have equity effects. It may improve equity by ensuring that those who use regulated products bear the costs. For regulatory agencies these broad principles suggest that the price of regulated products should incorporate all of the costs of bringing them to market, including the administrative costs of regulation.

However, cost recovery may not be warranted where:

- it is not cost effective;
- it would be inconsistent with policy objectives; or
- it would stifle competition and industry innovation (for example through 'free rider' effects).

Regulatory agencies undertake a range of activities and cost recovery is not appropriate for all of these. Therefore, a mix of cost recovered and taxpayer funded activities would be expected for most regulatory agencies.

WHEN should these Guidelines be applied?

Commonwealth regulatory agencies should apply these Guidelines when:

- undertaking reviews consistent with the Government's five-year review schedule for existing cost recovery arrangements;
- new cost recovery arrangements are proposed;
- significant amendments to existing arrangements are being considered; and
- periodic reviews of cost recovery arrangements are required.

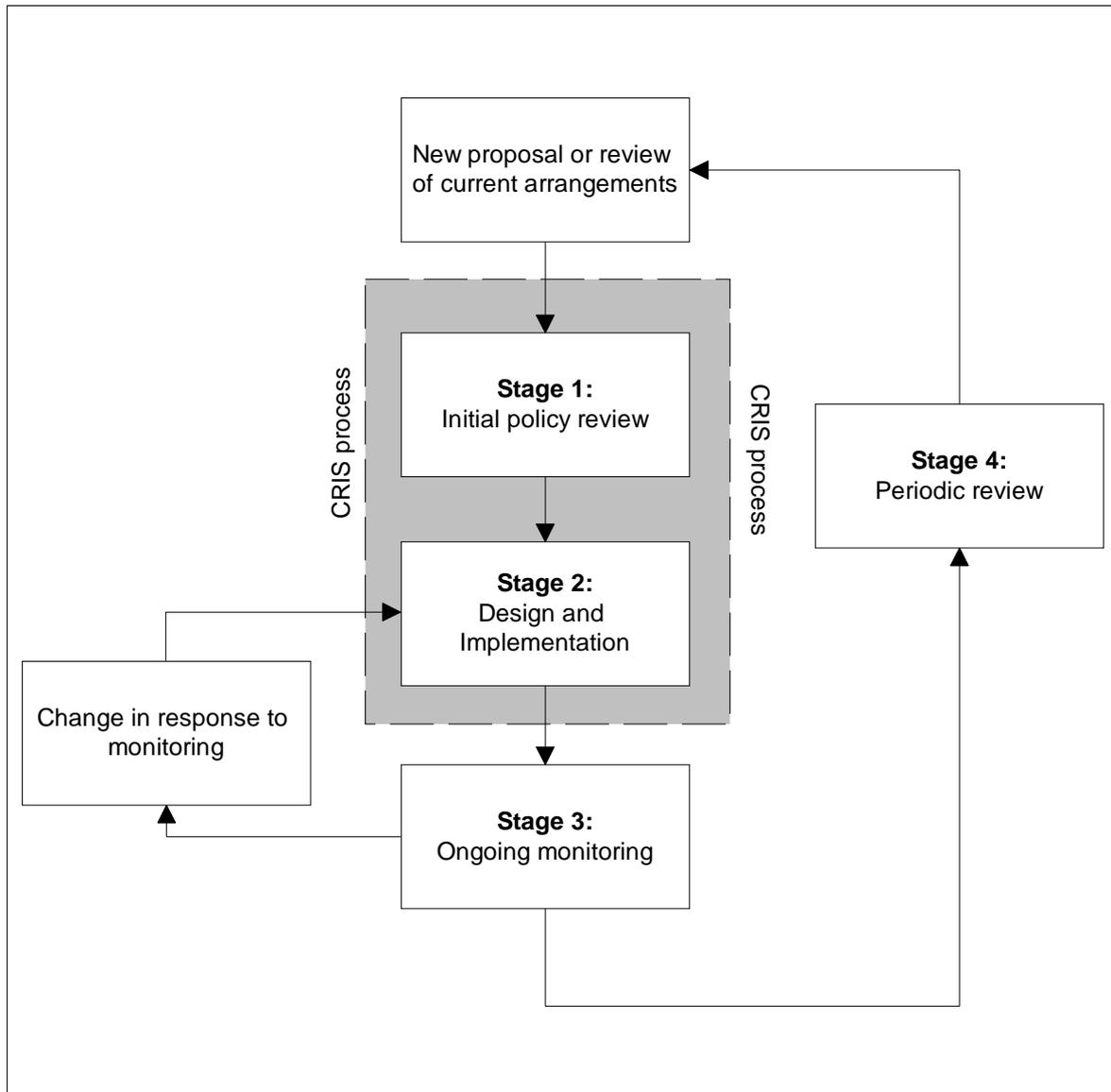
The Guidelines should be applied to all significant cost recovery arrangements. However, minor variations to existing arrangements may be exempted from review.

If agencies are unsure about whether the Guidelines apply to a particular cost recovery arrangement, then they should consult with the body responsible for independently assessing the CRIS or RIS process.

Overview of the process

These Guidelines adopt a four-stage process for determining the appropriate approach to cost recovery for regulatory activities (figure 1).

Figure 1 **Process for assessing cost recovery**



Stage 1 **Initial policy review**

The stage 1 policy review considers the following questions:

- Which of the agency's objectives are relevant to the activities or products being considered for cost recovery?
- Should cost recovery be introduced?
- What mechanisms, including consultation, should be used for ongoing monitoring of the efficiency and effectiveness of cost recovery arrangements?
- How long (not more than 10 years) before the cost recovery arrangements should be reviewed again?



Stage 2 **Design and implementation**

If cost recovery is appropriate, stage 2 considers the following questions:

- Who should pay cost recovery charges?
- Should cost recovery charges be imposed using fees or levies?
- What legal authority is necessary to impose the charges?
- Which issues should any legislation address?
- Which costs should the charges include?
- How should charges be structured?
- How should costs be calculated and allocated?

Together, the responses to the questions in stages 1 and 2 form a CRIS (discussed in the following section).



Stage 3 **Ongoing monitoring**

Stage 3 provides for ongoing scrutiny of cost recovery arrangements using the monitoring mechanisms determined as part of stage 1. Ongoing monitoring provides an opportunity for continual improvement in cost recovery arrangements.

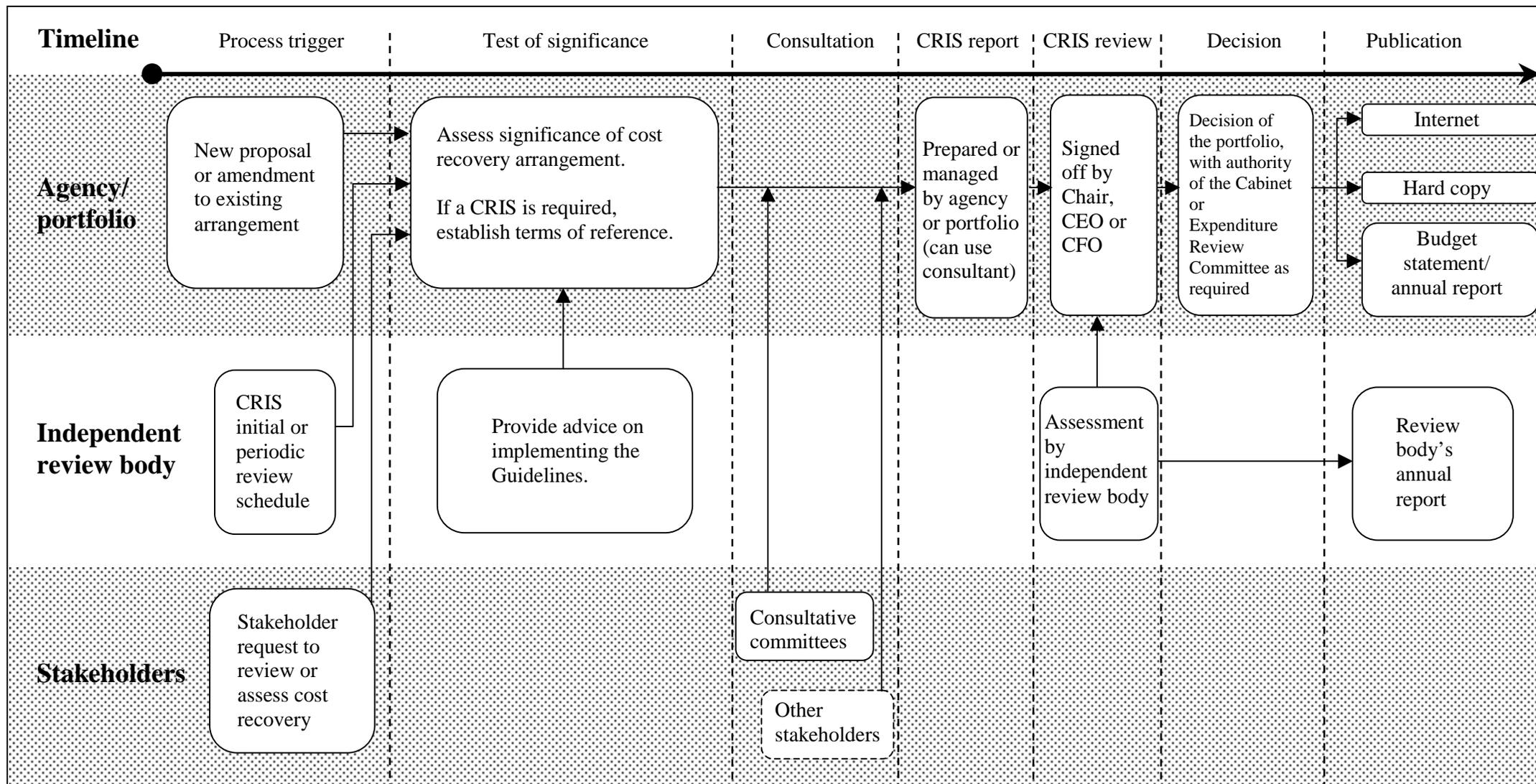


Stage 4 **Periodic review**

At least every 10 years, the appropriateness of cost recovery, the design of any cost recovery charges and the adequacy of monitoring arrangements need to be reviewed, to determine whether changes are necessary.

Stage 4 involves the preparation of a CRIS that reconsiders the issues in stages 1 and 2.

Figure 2 CRIS process summary



Cost Recovery Impact Statement (CRIS)

To apply the Guidelines, regulatory agencies need to prepare a Cost Recovery Impact Statement (CRIS) or a Regulation Impact Statement (RIS). The CRIS or RIS is a written report by the agency and/or the policy maker, which addresses the issues discussed in stages 1 and 2 of these Guidelines. The CRIS process is summarised in figure 2 and examined in more detail in attachment A.

The following are the most important characteristics of the CRIS:

- It should normally address all of the issues posed in the Guidelines. If the cost recovery proposal is of lesser significance or some issues are not relevant to an agency, a less comprehensive CRIS could be undertaken, but the reasons for doing so should be explained.
- It should include a consultation statement describing how stakeholders were consulted.
- It should be signed off by the Chair, Chief Executive Officer or Chief Financial Officer of the agency to certify that the Guidelines have been adequately applied.
- It should be assessed by an independent review body.
- It should be made publicly available, along with the independent assessment.

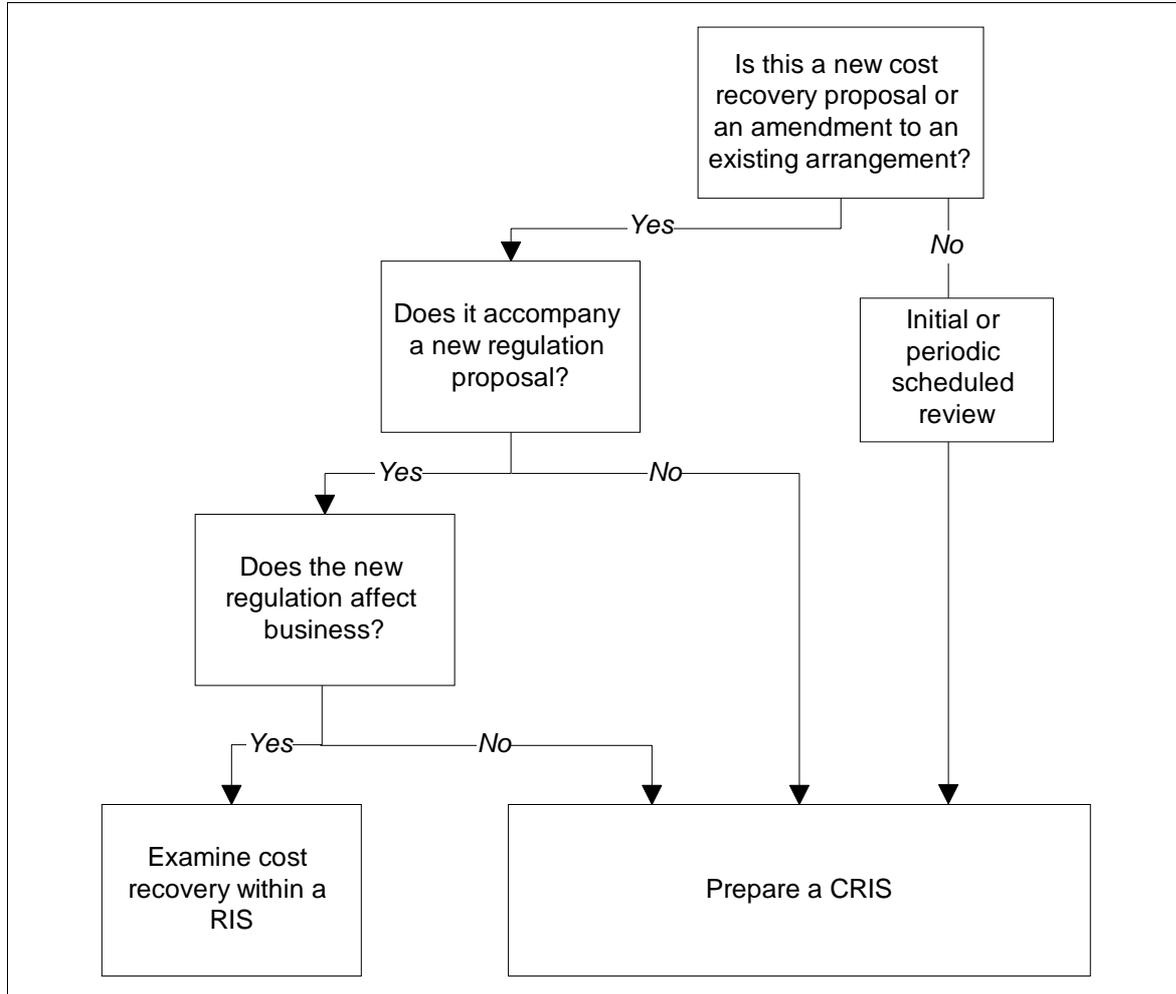
Relationship between the CRIS and the RIS

A RIS is required for proposed regulation (or amendment to regulation) that affects business. The RIS is examined by the Office of Regulation Review (ORR). A regulatory agency required to prepare a RIS does not need to prepare a separate CRIS (figure 3). The RIS will incorporate the requirements of the CRIS identified in the Guidelines. The cost recovery analysis segment of the RIS should be clearly identified, so that it can be subsequently reviewed in isolation from the regulation.

A CRIS will be necessary where:

- the agency is undertaking an initial or periodic review of its cost recovery arrangements, without an associated review of regulation;
- the new or amended cost recovery proposal is introduced administratively rather than through regulation; or
- the cost recovery proposal affects individuals, not businesses.

Figure 3 **Choosing between a CRIS and a RIS**



Stage 1

Policy review

It is rare for all of an agency's activities to have identical characteristics. It is not possible, therefore, to assess the appropriate level of cost recovery on an agency-wide basis. Rather, an agency should assess the case for cost recovery for each activity.

Which of the agency's objectives are relevant to the activities being considered for cost recovery?

It is important to clarify the objectives of the regulations and any non-regulatory activities an agency may undertake. This assists agencies and stakeholders to:

- understand the purpose of the activity and who benefits;
- assess whether adopting cost recovery would undermine the objectives of the activity; and
- if cost recovery is appropriate, choose an approach to charging that is consistent with the objectives of the activity.

When more than one activity is being considered for cost recovery, it may be useful to group those with similar characteristics or objectives. These groups need to be small enough so the types of activity within a group have common characteristics or objectives, but large enough to make the review process manageable.

In addition, it is often useful to distinguish between different stages in the regulatory process. In particular, when looking at regulatory activities, it is important to separate pre-market and post-market regulation. Pre-market regulation activities (regulations with which firms or products must comply before a product can be offered for sale)

Which of the agency's objectives are relevant to the activities being considered for cost recovery? (continued)

involve registration and approvals, or issuing exclusive rights and privileges. Post-market activities (regulations with which firms or products must comply after a product is available for sale) involve monitoring compliance with regulations, investigation and enforcement.

It may also be useful to break down the activities further according to the various industry sectors regulated by the agency. Activities affecting competing sectors should be treated as a group so the design of the charges does not affect competition between sectors.

Regulatory agencies that also provide information and education products will need to consider these separately. Figure 4 assists decision makers in classifying the groups of activities they undertake.

Should cost recovery be introduced?

The next step is to determine whether the agency should charge for all or some of its activities. The following discussion looks more closely at each of the classifications in figure 4 and outlines how to assess the appropriate level of cost recovery.

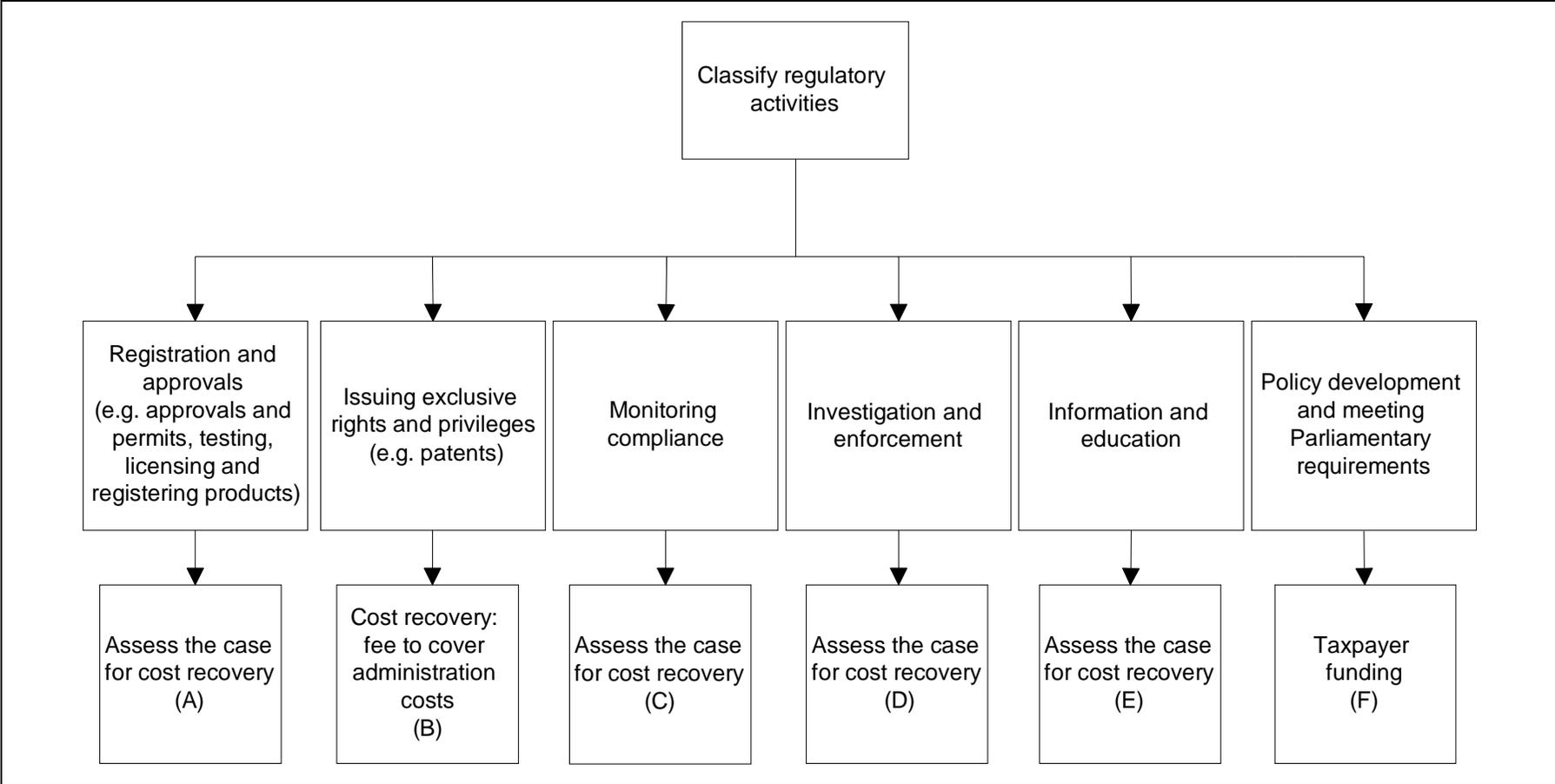
A

Registration and approvals

This type of activity includes:

- inspecting and approving premises, such as abattoir inspections by the Australian Quarantine and Inspection Service;
- registering firms or individuals before they can sell particular products or services, and renewing such registrations, such as the Australian Securities and Investments Commission licensing investment advisers and managed investment funds before they can trade;
- approving products before they are sold in Australia, such as the Therapeutic Goods Administration process for evaluating high risk prescription medicines;
- listing products on a register and maintaining that register, such as the Therapeutic Goods Administration process for listing complementary healthcare products;

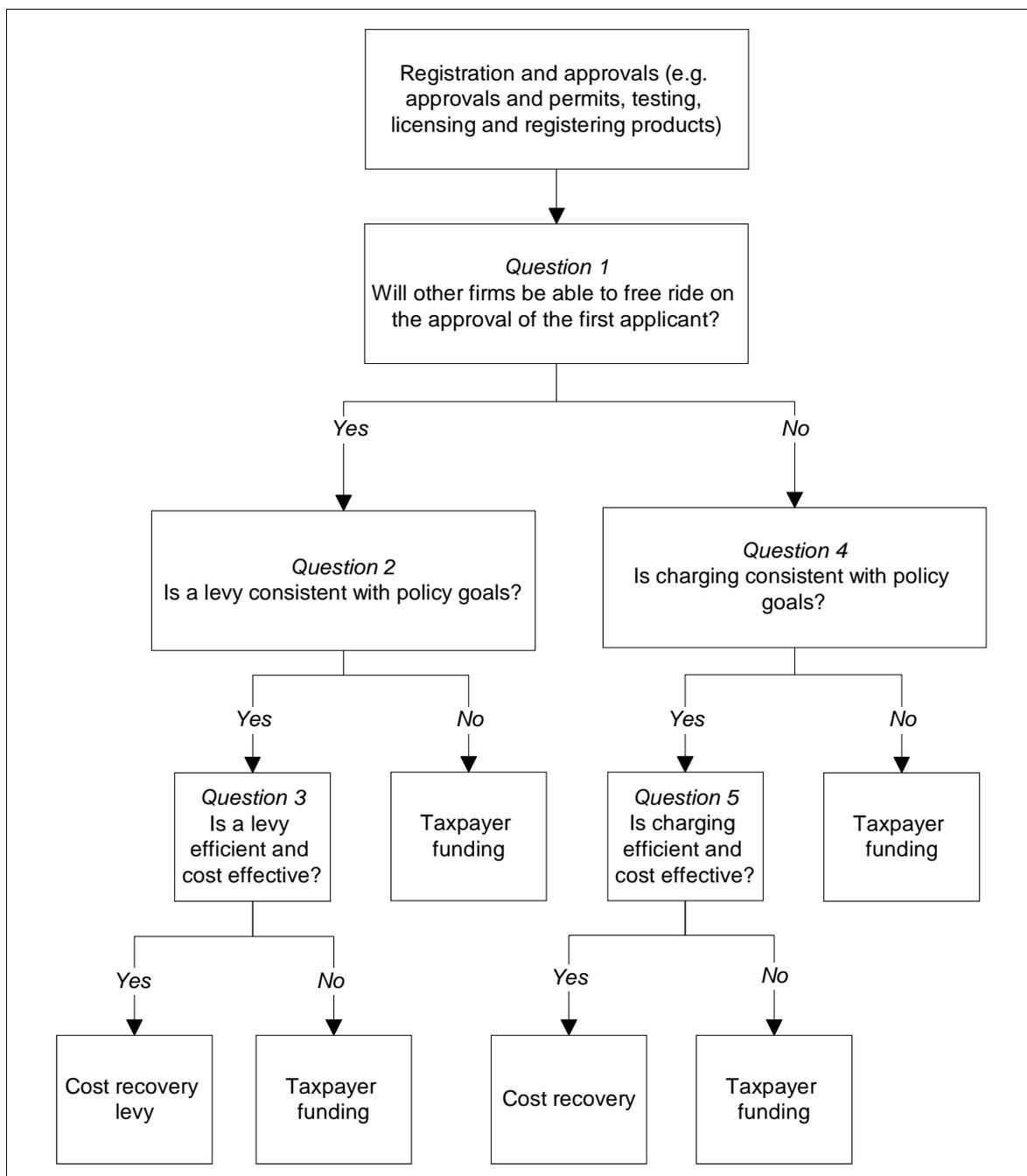
Figure 4 **Classification of activities**



- assessing and approving existing businesses to undertake particular activities that otherwise may be prohibited, such as Australian Competition and Consumer Commission authorisations; and
- rating or classifying products, such as the Office of Film and Literature Classification film ratings.

Figure 5 illustrates the questions that need to be considered to determine whether cost recovery should apply to such activities.

Figure 5 Registration and approvals



<p>Figure 5, question 1</p> <p><i>Will other firms be able to free ride on the approval of the first applicant?</i></p>	<p>Charging for the assessment of new products can encourage firms to avoid the costs of approvals by waiting for others to seek approval first (thus ‘free riding’ on the approval of others). This is a problem for pre-market approvals (before the product is offered for sale) when the regulator requires the first new example of a product to go through a more onerous and costly process than that for subsequent examples. Charging for such approvals would penalise the first firm that introduces a new product to Australian customers and impair innovation and product development.</p> <p>Examples of this type of regulation include the approval of a new food standard and the approval of a new complementary health care substance, where any firm can use the new approved substance in their products.</p> <p>For the approval of the first example of a new product, cost recovery could be appropriate if the firm receives an ‘exclusive capturable commercial benefit’ (through patents, for instance). This test is similar to that applied by ANZFA to charging for the approval of food standards.</p> <p>Yes: Go to Q2.</p> <p>No: Go to Q4.</p>
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<p>Figure 5, question 2</p> <p><i>Are levies consistent with policy goals?</i></p>	<p>Even where free rider effects make it undesirable to charge a direct fee for registrations or approvals, it may be appropriate to cost recover these regulatory activities using a levy.¹</p> <p>But, in some rare cases, imposing a levy could reduce the effectiveness of the regulation or undermine the objectives of the regulation.</p> <p>Yes: Go to Q3.</p> <p>No: Fund the regulatory activity from general tax revenue.</p>
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<p>Figure 5, question 3</p> <p><i>Is a levy efficient and cost effective?</i></p>	<p>To design an efficient levy, the agency needs to be able to identify accurately a base for imposing the levy that reflects the cost of regulation and targets the firms creating the need for the regulatory activity. For example, it may be inappropriate to levy the whole industry if only a small group of firms creates the need for the regulation, and this group cannot be individually charged. In this event, a levy would have few advantages over general taxation.</p> <p>Even if a levy is efficient, it may not be appropriate if it is very costly or complex to collect.</p> <p>Yes: Use a levy to charge the regulated firms or individuals.</p> <p>No: Fund the regulatory activity from general tax revenue.</p>
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¹ A fee charges individual firms or consumers for particular activities; in contrast, a levy is imposed across a group of firms or consumers and is equivalent to a tax. The term ‘charge’ refers to both fees and levies.

<p>Figure 5, question 4 <i>Is charging consistent with policy goals?</i></p>	<p>This question considers both fees and levies. Charging can be inconsistent with policy goals if it significantly increases the cost of enforcement. For example, charging to list products on a register could create incentives for firms to avoid registration, thus increasing the costs of enforcement and reducing the usefulness of the register.</p> <p>It may also be appropriate to consider whether a fee is needed to discourage frivolous or vexatious demand.</p> <p>Yes: Go to Q5. No: Fund the regulatory activity from general tax revenue.</p>
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<p>Figure 5, question 5 <i>Is charging efficient and cost effective?</i></p>	<p>Because they are directly related to costs, fees should be the preferred approach if they are efficient, consistent with policy goals and cost effective. A fee will not be efficient and cost effective if:</p> <ul style="list-style-type: none"> • it is difficult to establish a fee that accurately links the costs of the activities to the regulated firms or individuals; or • the fee is costly to collect because it is difficult to identify and bill each regulated firm or individual. <p>If the decision on whether a fee is cost effective is borderline then it may be appropriate to consider whether a fee is needed to discourage frivolous or vexatious demand.</p> <p>If a fee is not cost effective then a levy could be considered. Assessing whether a levy is efficient and cost effective is discussed under question 3.</p> <p>Yes: Fund the regulatory activity from cost recovery charges. No: Fund the regulatory activity from general tax revenue.</p>
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B Issuing exclusive rights and privileges

The second type of regulatory activity, depicted in figure 4, is the issuing of legally exclusive rights and privileges. One common example is the issue of a patent. Issuing licences to use the radio frequency spectrum, and exploration and mining licences are other examples. Cost recovery in this context refers only to the collection of the cost of administering the licence system, not to the collection of any revenue generated from selling licences.

Patents are designed to ensure those who invest in researching and developing a new product are able to recoup those costs once the product is ready for sale. As a result, the process of issuing patents, as with other exclusive rights, provides firms with an ‘exclusive capturable commercial benefit’; therefore, where practical, those that obtain the exclusive right should pay for the cost of administering this regulation.

This ‘exclusive capturable commercial benefit’ means that cost recovery is unlikely to undermine the goals of the regulation. In most cases it is cost effective to charge for issuing an exclusive right because the recipient needs to apply for the right. Therefore, costs are generally recovered via fees.

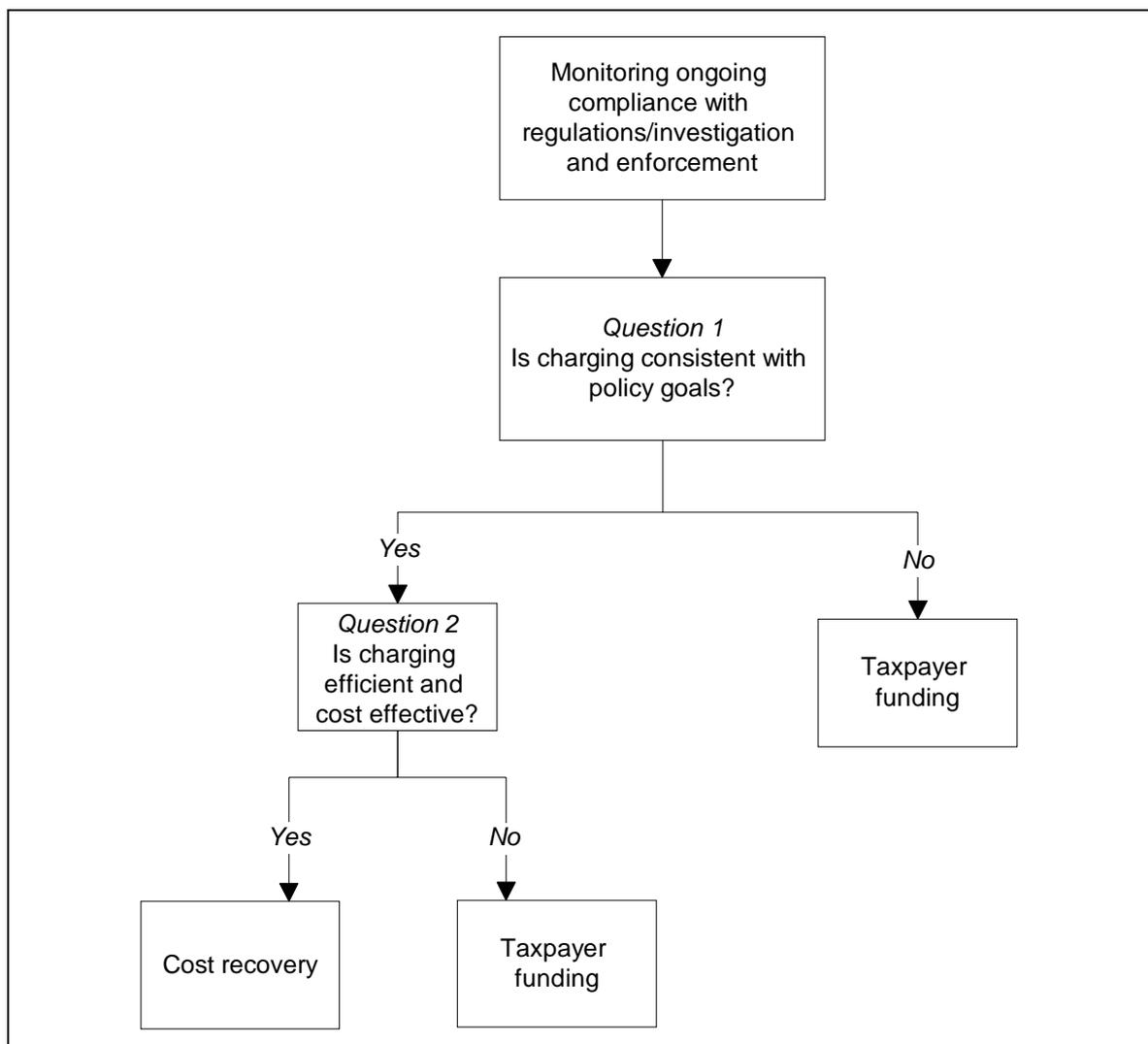
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Monitoring ongoing compliance with regulations

Such activities include:

- regularly collecting and assessing information to check compliance with standards, such as the Australian Prudential Regulation Authority’s regular reviews of the financial statements of institutions to monitor their liquidity levels;

Figure 6 **Monitoring ongoing compliance, and investigation and enforcement**



- conducting random audits to monitor compliance, such as the Civil Aviation Safety Authority’s monitoring of airlines’ compliance with aircraft safety standards; and
- managing complaints handling mechanisms, such as the Australian Securities and Investments Commission’s oversight of the operation of the Superannuation Complaints Tribunal.

Figure 6 illustrates the questions that need to be considered when investigating the appropriate levels of cost recovery for these activities.

<p>Figure 6, question 1 <i>Is charging consistent with policy goals?</i></p>	<p>In some cases involving the monitoring of compliance, charging fees would be counterproductive. For example, charging financial institutions to investigate their financial viability could exacerbate any difficulties they face.</p> <p>Where direct fees are inconsistent with policy goals, the agency should consider imposing levies. In this way, the industry would pay the costs of activities such as random audits. A levy could undermine policy objectives if it encouraged firms to misrepresent the nature of their business to avoid the levy and thus also avoid the regulation. The agency should not use cost recovery charges if they significantly reduce the effectiveness of the regulation or the level of compliance.</p> <p>Yes: Go to Q2.</p> <p>No: Fund the regulatory activity from general tax revenue.</p>
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<p>Figure 6, question 2 <i>Is charging efficient and cost effective?</i></p>	<p>In some areas of compliance monitoring, charges are unlikely to be efficient and cost effective. It may be difficult to link services to particular firms or identifiable groups; for example, it may be impractical to determine a basis for charging for monitoring compliance with broad based legislation, such as the <i>Trade Practices Act 1974</i>. As a result, an efficient charge is difficult to establish, or if it can be established, it is likely to be costly to implement.</p> <p>The same principles apply to assessing the efficiency and cost effectiveness of fees and levies for monitoring compliance as apply to registration and approvals (discussed under questions 3 and 5 of figure 5).</p> <p>Yes: Fund the regulatory activity from cost recovery charges.</p> <p>No: Fund the regulatory activity from general tax revenue.</p>
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Such activities include:

- conducting product recalls, such as the Australia New Zealand Food Authority's recalls of food products;
- investigating complaints or evidence of non-compliance, such as the Australian Communications Authority's investigation of recurring problems in telecommunications; and
- prosecuting companies that breach standards, such as the Office of the Gene Technology Regulator's enforcement of licence conditions.

Figure 6 illustrates the questions that need to be considered when investigating the appropriate levels of cost recovery for these activities.

<p>Figure 6, question 1 <i>Is charging consistent with policy goals?</i></p>	<p>In many cases involving investigation and enforcement, charging fees would be counterproductive. For example, charging individual companies for product recalls may discourage them from notifying the regulator of faulty or dangerous products.</p> <p>Where direct charges are inconsistent with policy goals, the agency should consider levies if there is an identifiable group that could be levied. However, in some cases, a levy could also undermine policy objectives. For example, in legal proceedings, the court normally awards costs after considering the circumstances of the case. If an agency can automatically recover its legal costs from industry, then the discipline of potentially having costs awarded against it is reduced. In general, cost recovery charges should not be used if they would reduce the effectiveness of the regulation or the level of compliance.</p> <p>Yes: Go to Q2.</p> <p>No: Fund the regulatory activity from general tax revenue.</p>
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<p>Figure 6, question 2 <i>Is charging efficient and cost effective?</i></p>	<p>Charges are unlikely to be efficient and cost effective in some areas of investigation and enforcement. It may be difficult to link services to particular firms or identifiable groups.</p> <p>Again, the principles for assessing the efficiency and cost effectiveness of fees and levies for investigation and enforcement activities are the same as those applying under questions 3 and 5 for figure 5. For example, while a direct fee would be inconsistent with policy objectives in the case of product recalls, a levy might be both consistent with policy objectives and cost effective.</p> <p>Yes: Fund the regulatory activity from cost recovery charges.</p> <p>No: Fund the regulatory activity from general tax revenue.</p>
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In some cases, regulatory agencies collect, compile, analyse and disseminate information. For example, the Australian Securities and Investments Commission compulsorily acquires financial information from Australian companies, which it compiles in a register and makes available to the public. Similarly, the Therapeutic Goods Administration provides information to doctors on drugs and therapeutic goods and to consumers on how to interpret the information provided on drug labels. Some regulatory agencies also provide educational services, for example through publications and seminars.

The steps in considering whether to impose cost recovery for information products are:

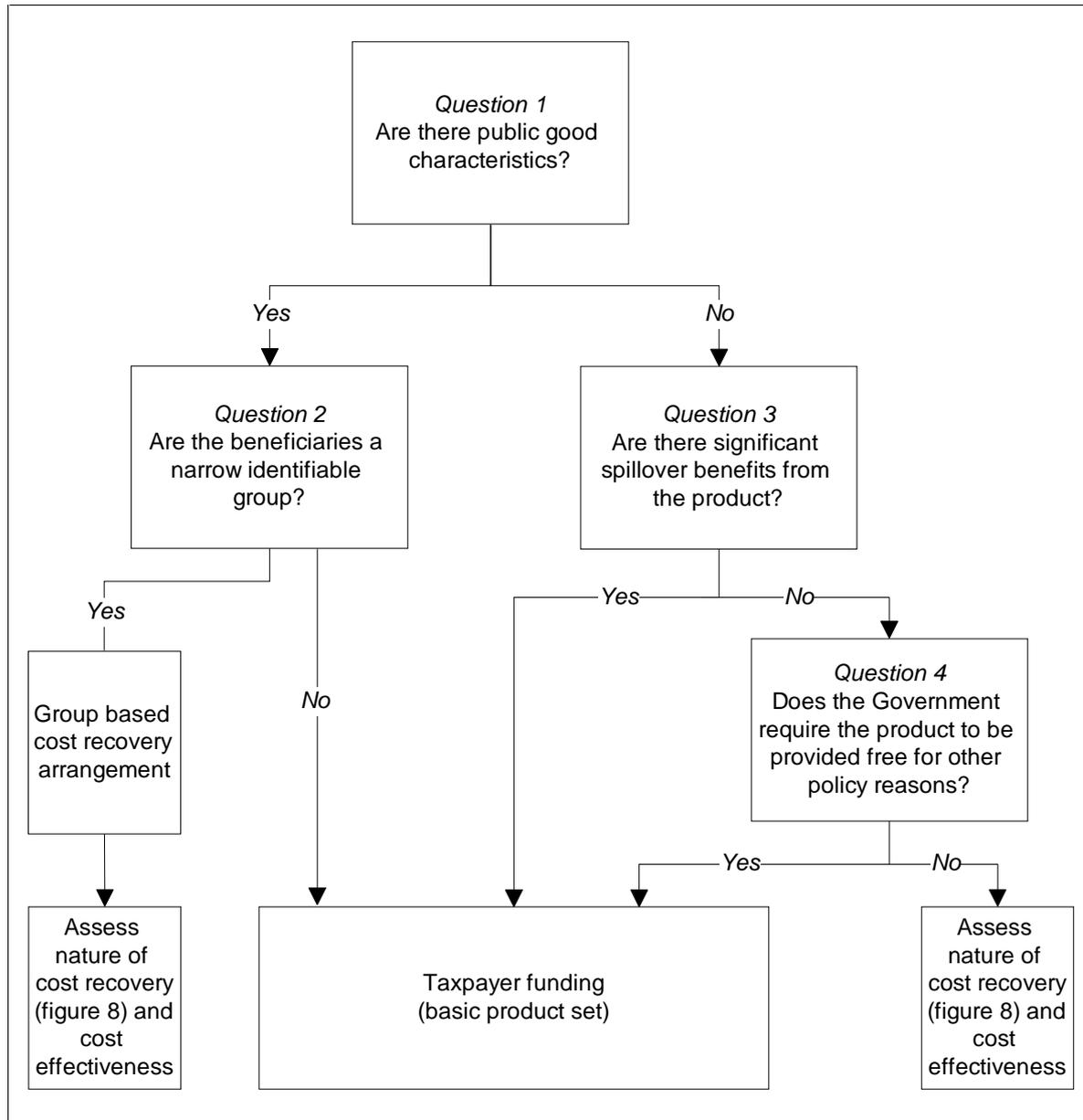
- determining which products should be taxpayer funded (basic product set) (figure 7); and
- establishing the approach to cost recovery for other products (additional products) (figure 8).

Determining the basic product set

The questions in figure 7 identify those products that should be taxpayer funded according to three criteria:

- they have ‘public good’ characteristics;
- they generate significant spillover benefits to the broader community; and/or
- there are other policy reasons for taxpayer funding.

Figure 7 Assessing funding for information products



<p>Figure 7, Question 1 <i>Are there public good characteristics?</i></p>	<p>The assessment of whether a group of products has public good characteristics is not clearcut. Agencies need to judge whether, on balance, the public good characteristics are significant enough to make it undesirable to charge for those products.</p> <p>Judgements about public goods typically consider two characteristics of the product: its level of rivalness and its level of excludability.</p>
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<p><i>Is the product rivalrous?</i></p>	<p>A product is non-rivalrous when one person using the product has no impact on others' ability to use that product. The number of users can be increased at virtually zero cost. Most general information fits into this category.</p> <p>Regulatory agencies produce a range of information products, some of which will be rivalrous and others non-rivalrous. Once information is collected and compiled, many people can use it without affecting the costs of collection or compilation. Such information, distributed via the media, is non-rivalrous. Many people can listen to the radio without affecting others' ability to use the information. A publication, however, may be rivalrous, because several people cannot use the same publication simultaneously.</p> <p>In assessing rivalness the key question is whether more users of the product will increase the cost of provision.</p> <p>Yes: If the product is <i>rivalrous</i> it is not a public good and the assessment should consider spillover benefits. Go to Q3.</p> <p>No: If the product is <i>non-rivalrous</i>, then the next step is to consider whether it is possible and desirable to exclude users and charge for the product.</p>
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<p><i>Is the product excludable?</i></p>	<p>In the case of a pure public good it is impossible to exclude people from using the product. However, in other cases, exclusion may be technically possible but undesirable. Two factors are important in assessing excludability.</p> <p><i>Is it impossible to exclude people from using the product?</i></p> <p>This occurs in a narrow range of circumstances; for example, once information has been released to the media, it is virtually impossible to prohibit others from accessing that information.</p> <p><i>Is it economically efficient to exclude people from using the product?</i></p> <p>This assessment looks at whether the benefits from charging outweigh the reduced use of the information. A number of factors influence the magnitude of these benefits and losses, such as the responsiveness of customers to changes in price, the level of taxpayer funding that would be required to substitute for cost recovery, and the efficiency costs of general taxation relative to those of cost recovery charges.</p> <p>While, in most cases, the costs of establishing a cost recovery regime are likely to be small, they should be taken into account, particularly where the case for introducing cost recovery is borderline.</p> <p>Yes: If it is possible and desirable to exclude users from the product, then it is not a public good and the assessment should consider spillover benefits. Go to Q3.</p> <p>No: If it is not possible, or it is possible but not desirable, to exclude people from the product, then go to Q2.</p>
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<p>Figure 7, question 2 Are the beneficiaries a narrow identifiable group?</p>	<p>Some products with public good characteristics are used only by a small group such as an industry or a specific consumer group. If it is possible to identify the group using the information product, then it may be possible to develop a levy mechanism that applies to only its members. In other cases, an industry association or other representative group may provide another avenue for recovering costs from most or all users of the product.</p> <p>Yes: Go to figure 8 on assessing the nature of cost recovery for additional information products, to determine which costs the levy should recover.</p> <p>No: Fund the information product from general tax revenue.</p>
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<p>Figure 7, question 3 Are there significant spillover benefits from the product?</p>	<p>The presence of significant spillover benefits strengthens the argument for taxpayer funding even where there are no public good characteristics.</p> <p>An information product will generate spillover benefits if one person having access to the information also benefits other unrelated parties. For example, information on companies can increase confidence in Australia’s system of business regulation. This confidence could provide spillover benefits to other businesses as a result of greater predictability and certainty in the general economy.</p> <p>The spillover benefits need to result from the availability of the information directly, rather than from activities such as research that incorporate the information. For example, one company could use air safety information to research and develop new safety procedures. These new procedures could be copied by other organisations, having spillover benefits to the whole industry. However, the Government needs to consider these benefits when it develops policies on funding aviation research, not on information provision. The benefits do not justify taxpayer funding for the information products themselves.</p> <p>Yes: Fund the information product from general tax revenue.</p> <p>No: Go to Q4 to determine whether any government funding is justified to achieve other policy objectives.</p>
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<p>Figure 7, question 4 Does the Government require the product to be provided free for other policy reasons?</p>	<p>Cost recovery may be inconsistent with Government objectives for the agency. For example, cost recovery may hinder an objective that requires some forms of information to be disseminated as widely as possible.</p> <p>When the Government decides to require an agency to provide an information product free of charge, it should articulate the policy reasons behind this decision.</p> <p>Yes: Fund the information product from general tax revenue.</p> <p>No: Go to figure 8 to assess the nature of cost recovery for additional information products.</p>
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Determining the basic product set (continued)

The products that emerge from the above set of questions as being appropriate for taxpayer funding are the *basic product set*. Such products will be taxpayer funded because they have public goods characteristics (and the beneficiaries are not a narrow identifiable group), they have significant spillover benefits or they contribute to other Government policy objectives.

Recovering the cost of additional products

A regulatory agency may wish to provide information products outside the taxpayer funded basic product set, consistent with its charter. It should assess these additional products for cost recovery using the principles outlined below. Assessment should be on a case by case basis, with regard to the efficiency and cost effectiveness of charging. Charges will not be efficient and cost effective if:

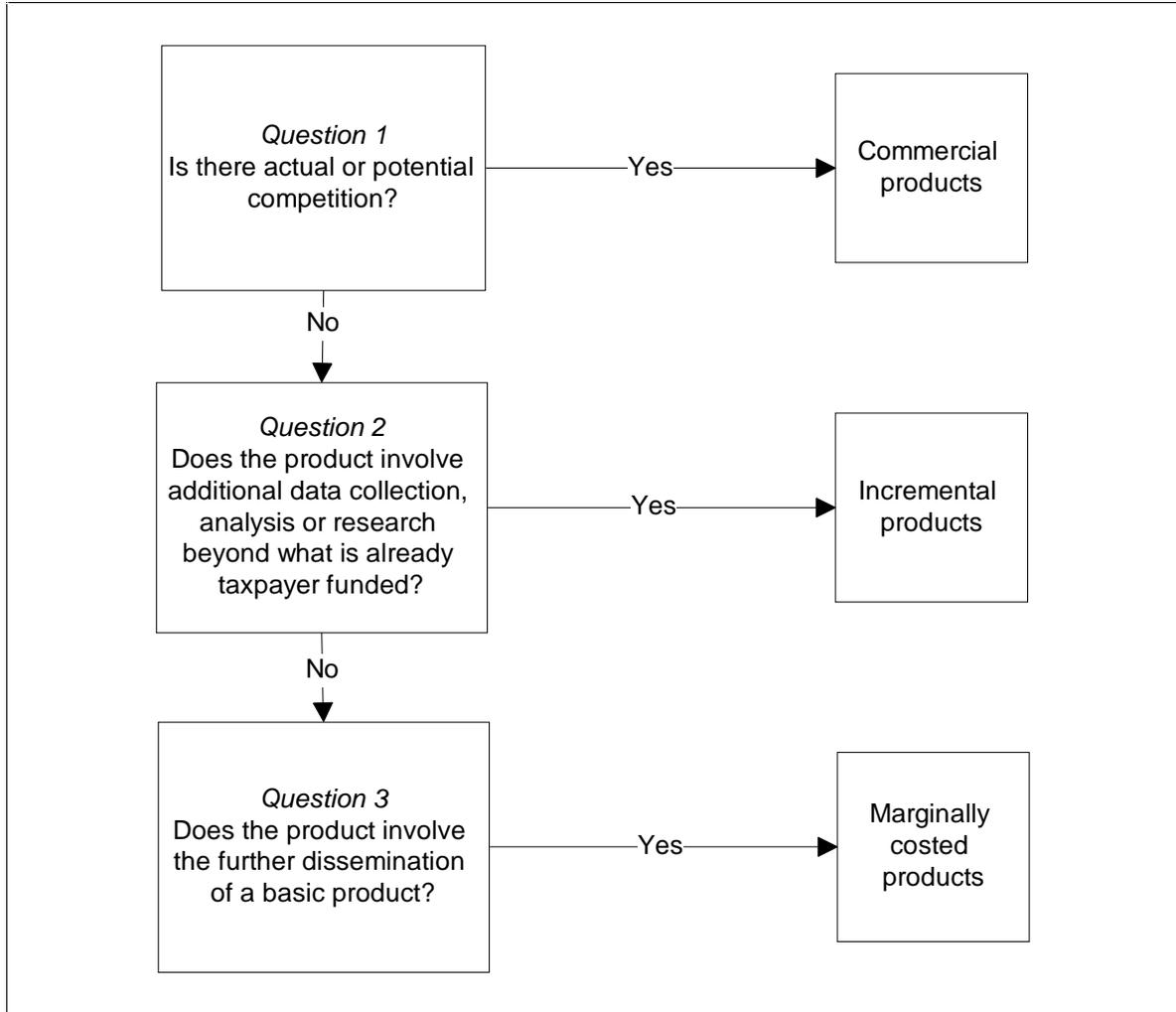
- it is difficult to establish a charge that links accurately the cost of a product to the users of that product; or
- the charge is costly to collect because it is difficult to identify and bill each user of the product.

Figure 8 illustrates the questions agencies should answer to determine the extent of cost recovery for additional products.

<p>Figure 8, question 1 <i>Is there actual or potential competition?</i></p>	<p>There is actual or potential competition when the agency's information or education product is available from private sector providers or when the private sector could provide that product relatively easily.</p> <p>Yes: Cost recovery consistent with the competitive neutrality guidelines of the Commonwealth Competitive Neutrality Complaints Office.</p> <p>No: Go to Q2.</p>
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<p>Figure 8, question 2 <i>Does the product involve additional data collection, analysis or research beyond what is already taxpayer funded?</i></p>	<p>Incremental products are those for which additional work has been undertaken to modify taxpayer funded information to meet the demands of a specific client or group. The additional work could involve:</p> <ul style="list-style-type: none"> • extending a data collection; • expanding research to cover new issues; and/or • undertaking additional analysis or manipulation of the information. <p>Yes: Cost recovery based on the incremental cost of the additional products.</p> <p>No: Go to Q3.</p>
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Figure 8 Assessing the nature of cost recovery for additional products



<p>Figure 8, question 3 <i>Does the product involve the further dissemination of a basic product?</i></p>	<p>Usually, some dissemination of the basic product set is taxpayer funded. However, users may want additional access to the information either using distribution methods that are not taxpayer funded or having greater access to the information than was intended to be taxpayer funded (for example, people may wish to hold private copies of publications).</p> <p>Yes: Cost recovery based on marginal cost of distribution.</p>
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These activities include:

- reporting to Parliament;
- advising Parliament on issues on which the agency has expertise;
- answering Parliamentary questions;
- briefing Ministers and responding to their correspondence;
- financial reporting; and
- complying with international treaties.

They also include policy work, such as defining and refining the agency's objectives and regulation needed to meet those objectives, and liaising and consulting with international organisations. They do not include providing products or services to other Government agencies.

Taxpayers should fund most of these activities. Providing services to Government results from the need to maintain a strong democratic process, more than from the need for regulation. The community, through Parliament, benefits from these activities.

Also, Government sets policies across all areas of the economy. It does not require sectors not subject to cost recovery to pay for policy development directly and it is inappropriate to impose these costs on areas subject to cost recovery.

The CRIS or RIS must clearly justify any cost recovery of these activities.

Application of the Guidelines up to this point should result in an agency being able to:

- ***classify its activities and products; and***
- ***decide when cost recovery is appropriate.***

The next steps in the stage 1 policy review are to determine:

- ***what mechanisms should be used for ongoing monitoring (including stakeholder consultation); and***
- ***the appropriate period between cost recovery reviews.***

What mechanisms, including consultation, should be used for ongoing monitoring of the efficiency and effectiveness of cost recovery arrangements?

The CRIS or RIS should examine and recommend mechanisms for ongoing monitoring that are appropriate for the individual circumstances of an agency. In all cases, ongoing monitoring is a joint responsibility between the agency, stakeholders and the Government.

The extent of ongoing monitoring will depend on the significance of the cost recovery arrangements and the impact they have on regulated firms. Such monitoring would include the agency's internal information collection and efficiency measures, and appropriate external arrangements. For significant cost recovery arrangements, it would include the appropriateness of the agency's existing consultative mechanisms and their ability to scrutinise cost recovery issues. Ongoing monitoring is discussed further in stage 3.

How long (not more than 10 years) before the cost recovery arrangements should be reviewed again?

An agency's circumstances will change. This means that cost recovery arrangements that were once appropriate may no longer be justified. A periodic review of all existing arrangements is therefore required, covering the appropriateness of cost recovery, the design of any cost recovery charges and the adequacy of monitoring arrangements. The CRIS or RIS should recommend a date for this review, no later than 10 years from the date of the initial CRIS or RIS.

Stage 2

Design and implementation

Charges can be collected in a variety of ways and based on different measures of costs. Agencies should choose the appropriate approach for a particular situation by:

- linking the charge or charges as closely as possible to the activity or product to be cost recovered;
- designing a system that is cost effective to calculate, collect and enforce;
- designing a system where the compliance costs of paying the charges are not excessive;
- balancing certainty with the flexibility to modify the approach to cost recovery if ongoing monitoring (stage 3) indicates that this is desirable;
- ensuring all aspects of the charging mechanism are consistent with the policy objectives of the agency; and
- designing a charging mechanism that is not inconsistent with other Government policies.

Who should pay cost recovery charges?

As a general principle the price of each regulated activity or product should incorporate the cost of regulation, subject to the caveats of efficiency, cost effectiveness and consistency with policy objectives.

This improves economic efficiency by ensuring that consumers and producers of regulated products recognise the administrative costs involved in regulation.

Charging the regulated firms is usually the most practical approach to setting cost recovery charges — particularly where the regulatory services needed differ substantially between firms. This is because, for example, the cost of assessments can vary according to the time and effort needed to undertake

**Who should pay cost recovery charges?
(continued)**

each assessment, and at different points over a product's life cycle. Translating such differences into consumer charges would result in a highly differentiated approach to setting fees, and conceivably require different fees for different products, or for similar products marketed by different firms. Charging regulated firms for the regulatory activities would reflect costs more directly.

For information products, those in the basic product set would be taxpayer funded, as discussed in stage 1.

Should cost recovery charges be imposed using fees or levies?

The choice between fees and levies has already been considered, to some extent, in the discussion of whether cost recovery is appropriate (see, for example, figure 5 on registrations and approvals). Overall, cost recovery charges can be introduced using:

- a fee that charges individuals or firms directly for the costs of providing the activity; or
- a levy on a group of individuals or firms (legally a form of taxation). Levies need to be established using a tax Act.

When cost recovery is appropriate, charges should be based on fees, as long as they are efficient, cost effective and consistent with the policy objectives of the agency. Levies have a range of problems. Because they are not so closely linked to the costs of individual activities, levies do not have the efficiency advantages of fees. They may also place less direct pressure on the agency to improve efficiency. Therefore, it is desirable, where possible, to charge for activities directly through fees.

Where levies are used, they should be closely linked to costs and focused on recovering costs from only those groups of firms or individuals that create the need for regulation. If this is not possible, then the efficiency advantages of a levy over general

Should cost recovery charges be imposed using fees or levies? (continued)

taxation are less clear.

For information products agencies should usually use fees to charge for their cost recovered products. This is the preferred approach unless the CRIS clearly identifies reasons why a levy would be more appropriate.

What legal authority is necessary to impose the charges?

All cost recovery charges (both fees and levies) should have appropriate legal authority. This not only ensures the validity of the charges, but also provides accountability and transparency. Particular Constitutional requirements govern the introduction of a levy or tax.

Those agencies considering cost recovery arrangements should seek legal advice on appropriate legal authority for their charges.

In addition, international obligations (for example, governing the sharing of information) could constrain the application of cost recovery charges. Where appropriate, agencies should consult with the Department of Foreign Affairs and Trade to ascertain whether any such obligations are relevant to the activities to be cost recovered.

Which issues should any legislation address?

Agencies should consider the level of specific guidance on cost recovery charges to be included in legislation or any regulations attached to that legislation. Such legislation could either specify the details (level, rates etc.) of the cost recovery charges or provide guidance on the desirable characteristics of the charges.

In designing any legislation, the agency should balance the level of certainty with the need for flexibility. While providing a high degree of certainty, legislated charges may be difficult to change in response to issues raised in ongoing monitoring.

Which costs should the charges include?

Cost recovery charges ideally should reflect the costs of undertaking individual activities. As far as possible, the agency should identify costs against particular activities to minimise the need to distribute overhead costs arbitrarily among activities.

A very precise approach to charging can be costly. In nearly all cases, an agency will need some proxy system to split overhead costs among the activities being charged.

How should charges be structured?

To determine the best pricing structure, agencies need a good understanding of the cost drivers behind particular activities. Costs will usually depend on factors such as the complexity of the regulated product, the standards applied, the riskiness of the product (and thus the intensity of the testing process) and the amount of information that needs to be analysed to undertake the assessment.

Cost recovery agencies may have insufficient information to formulate prices that reflect those cost drivers precisely; therefore, an agency will often need to use a proxy for the costs that are attributable to a particular firm in the industry. Such proxies include:

- classifying firms or products into groups that reflect the riskiness of each group and, thus, the agency's effort in regulating the group; and
- the size of the firm.

Attachment B lists some complex issues in the designing of cost recovery charges for regulatory activities.

How should costs be calculated and allocated?

Once the agency has decided on the structure of prices, its next step is to calculate and allocate the costs of the activity. The full cost of each activity is the value of all resources used or consumed in providing that output, and it includes direct, indirect

**How should costs be calculated and allocated?
(continued)**

and capital costs (box 1).

The estimation and allocation of costs should follow several key principles:

- Cost estimates should be based on efficient costs (box 2), not actual costs.
- Costing systems should be transparent (box 3).

If capital costs and overheads are included in charges, then agencies also need to:

- develop a method to calculate all aspects of capital costs and consider the appropriateness of a capital use charge (box 4); and
- develop a method to distribute capital and overhead costs among activities (box 5).

Box 1 Cost definitions

Direct costs are costs that can be attributed directly and unequivocally to an activity. They include labour (including on-costs) and materials used to deliver products.

Indirect costs are costs that are not directly attributable to an activity and are often referred to as overheads. They can include corporate services costs, such as the costs of the Chief Executive Officer's salary, financial services, human resources, records management and information technology.

Capital costs comprise the user cost of capital and depreciation. The user cost of capital represents the opportunity cost of funds tied up in the capital used to deliver products. It is the rate of return that must be earned to justify retaining the assets in the medium to long term. Depreciation reflects the portions of assets consumed each period in the production of output.

Fixed costs are costs that do not vary with output. Rent and capital are usually fixed costs in the short run.

Variable costs vary with the output and typically include direct labour and materials.

Common or joint costs remain unchanged as the activities undertaken are varied. These costs are incurred if any one of the activities are carried out. For example, the cost of a telephone line remains unchanged whether it is used for local or long distance calls.

Source: CCNCO (Commonwealth Competitive Neutrality Complaints Office) 1998a, Cost Allocation and Pricing, CCNCO Research paper, Productivity Commission, Canberra.

Box 2 Efficient costs

While cost recovery can promote efficiency by instilling cost consciousness in the agency and its customers, poorly designed arrangements can create incentives for 'cost padding' and inefficiency. Therefore, cost recovery arrangements need to ensure prices are based on the minimum cost necessary to deliver the product and still maintain quality over time.

If regulatory activities are not undertaken efficiently, then the agency should reduce cost recovery charges to reflect efficient costs. This applies to direct, capital and overhead costs.

Efficient costs are particularly important when measuring capital costs. Often agencies are accused by users of 'gold plating' (that is, installing assets that are unnecessarily large or sophisticated relative to the needs of users). In that event, even a modest rate of return on capital could lead to the agency charging artificially high capital costs.

It is not a simple matter to establish efficient costs. In some cases, it is possible to benchmark the agency, both domestically and overseas, to determine the 'reasonableness' of its costs. Market testing or contracting out some aspects of the agency's activities are also good ways of gauging efficiency.

Box 3 Transparency

Transparency is a key means of improving the efficiency and accountability of agencies. It requires agencies to articulate clearly their broad objectives and explain how their activities and approaches to cost recovery, including costing systems, contribute to those objectives. Transparency also requires consultation with stakeholders.

'Commercial in confidence' is not usually a sufficient reason for withholding costing information for most of the products of regulatory agencies. Generally, these agencies have a statutory monopoly over their activities and do not compete in a commercial market. Overall, the benefits of transparency greatly outweigh any commercial considerations.

Therefore, to meet their transparency obligations, agencies should be required to: adopt costing models sufficiently detailed to allow the Parliament, the Government and stakeholders to analyse their production costs; make public their costing models and actual costs, and how those costs relate to prices; and provide information on how capital costs are calculated, and how capital costs and overheads are allocated among activities.

Box 4 **Calculating capital costs**

The appropriate approach to calculating capital costs may differ among agencies. Therefore, agencies need to justify the method used to determine capital costs and depreciation.

In general, the approach chosen needs to balance:

- the costs of implementing the method chosen;
- optimising asset valuations to remove from the asset base facilities or parts of facilities that are not necessary to undertake cost recovered activities efficiently;
- accounting for increases or decreases in the value of the asset over time; and
- being able to incorporate changes if feedback from the ongoing monitoring process indicates that such changes are necessary.

The Commonwealth Government levies a capital-use charge on agencies that are wholly or partly funded from general taxation revenue. Agencies are then reimbursed for this charge through their appropriations. The Department of Finance and Administration manages these arrangements. In determining cost recovery charges, agencies need to ensure these charges do not include a capital-use charge on assets that the Government is already funding.

Box 5 **Allocating costs**

All regulatory activities to be cost recovered should recoup at least their direct costs. Allocating direct costs to an activity is relatively straightforward. Allocation becomes more difficult where indirect costs are involved.

When fees or levies are imposed across a significant proportion of an agency's activities, they should include both the direct costs of the activities and the overhead and capital costs. If cost recovered activities are a small proportion of the agency's activities, and they have little effect on the agency's overheads or capital expenditure, then the agency should recover only the direct costs of these activities. If taxpayer funded activities are only a small proportion of the agency's activities, then the Government should meet only the direct costs of these activities.

Overhead and capital costs can be distributed in a number of ways. For example, under Fully Distributed Costing, they can be allocated on a *pro rata* basis according to the number of staff involved in the activity or on the basis of the shares of direct costs devoted to the activity. One form of Fully Distributed Costing, Activity Based Costing, is more accurate in how it allocates indirect costs. It links an organisation's outputs to activities used to produce those outputs, which in turn are linked to the organisation's costs.

The appropriate approach to distributing capital and overhead costs can vary depending on the characteristics of the agency. The agency should balance accuracy and precision against the costs of particular methods, and justify the method chosen.

Stage 3

Ongoing monitoring

Once a CRIS or RIS has been produced and assessed, and the cost recovery arrangements begin to operate, the agency should introduce effective ongoing monitoring mechanisms to:

- give feedback to the agency so it can adapt its approaches to cost recovery in response to changing circumstances;
- ensure fees and levies are based on efficient and transparent costs;
- ensure individual firms or industries do not have undue influence over the agency; and
- reduce the frequency of major reviews of cost recovery arrangements by allowing minor issues to be addressed as they arise.

The agency should respond to any CRIS or RIS recommendations on ongoing mechanisms to measure and monitor the effectiveness of cost recovery arrangements. Potential mechanisms include benchmarking, market testing and third party competition.

The agency should also respond to any CRIS or RIS recommendations on consultation arrangements. Agencies with significant cost recovery arrangements should have adequate mechanisms in place to promote meaningful consultation with stakeholders. Consultative committees should include the following characteristics:

- stakeholder representation;
- a chairperson independent of the agency;
- ability to monitor agency efficiency;
- access to adequate information on agency processes and costs; and
- transparent reporting processes.

To be effective, a consultative committee should be provided regularly with sufficient information with which to assess the cost recovery arrangements and the efficiency with which the agency conducts the activities for which it cost recovers. To ensure transparency and accountability, the agency should report the

consultative committee's recommendations widely — for instance, on agency web sites and in annual reports.

A number of existing Government mechanisms supplement agency-specific monitoring arrangements. Parliamentary and budgetary scrutiny can help to reduce incentives for 'regulatory creep', 'gold plating' and 'cost padding', and can encourage the pursuit of cost effective regulatory strategies such as harmonisation and mutual recognition.

Other Government processes can provide information that assists the agency and the Government in monitoring and improving cost recovery arrangements. These processes include Australian National Audit Office performance audits, feedback provided by an agency's audit committee, and the outcomes of pricing reviews of the Department of Finance and Administration.

Stage 4

Periodic review

It is suggested that no more than 10 years elapse before an agency conducts another CRIS or RIS review of its cost recovery arrangements.

Many factors can change over time and affect the appropriate level of cost recovery for regulatory activities. New products can emerge, for example, that were not envisaged under the original regulation, resulting in a need to change the scope of the products regulated and, therefore, the scope of cost recovery arrangements. Community attitudes can change too, affecting the level of risk that the community is willing to accept and thus the appropriate level of regulation. Also, new technology can affect the costs and methods of testing regulated products, with implications for the agency's approach to cost recovery.

Where changes are particularly frequent, an agency will need to review the existing arrangements within a shorter timeframe. However, effective ongoing monitoring processes that facilitate continual improvements in efficiency, along with adjustments in response to changing circumstances, reduce the need for frequent periodic reviews (see stage 3).

Attachment A

CRIS process

The Cost Recovery Impact Statement (CRIS) is a central element of these Guidelines. The CRIS process consists of the steps examined in the following sections. Agencies that submit a cost recovery proposal as part of a regulatory proposal will need to implement these steps as part of their Regulation Impact Statement (RIS). Agencies that prepare a RIS are not required to prepare a separate CRIS.

Triggers for the CRIS process

A CRIS should be undertaken when:

- undertaking reviews consistent with the Government’s five year review schedule for existing cost recovery arrangements;
- new cost recovery arrangements are proposed;
- significant amendments to existing arrangements are being considered; and
- periodic reviews of cost recovery arrangements are required.

In some cases, an agency may decide to initiate a CRIS based on stakeholder concerns expressed during ongoing monitoring. If the agency is in doubt about the necessity of a CRIS, it should contact the independent review body for advice.² It should also contact the independent review body if it believes that its arrangement or proposal is of a ‘minor and machinery’ nature and should therefore be exempted from a CRIS.

Test of significance

As a general rule, an agency should undertake a detailed, comprehensive and transparent CRIS for significant cost recovery arrangements and proposals.

² The role of this body would be similar to that of the Office of Regulation Review, which advises on the degree of significance of proposals for new or amended regulation, and on the level of detail required, as a result, in the RIS.

Typically, a full CRIS includes both a policy component and a design and implementation review component. Initial and periodic cost recovery reviews would automatically attract this high level of scrutiny.

If a cost recovery proposal is of lesser significance, both in terms of the amount of revenue recovered and the impact on regulated firms or individuals, a less stringent approach might be warranted. This could involve the preparation of a less comprehensive CRIS under which only a selection of the questions set out in the Guidelines would need to be addressed in full. However, the agency would still need to consult with the independent review body to justify this approach. Such a CRIS could apply to proposals where policy issues have been settled and only design and implementation questions remain.

Consultation

The preparation of the CRIS should always involve an appropriate level of consultation with stakeholders. At a minimum, the agency preparing the CRIS document should enter into discussions with existing industry consultative committees. At the discretion of the agency and/or its portfolio, consultation may be extended to other stakeholders and take other forms.

Preparation of the CRIS

Officials of the department, agency, statutory authority or board responsible for a cost recovery proposal are also responsible for ensuring a CRIS is prepared. These bodies may choose to outsource the preparation of a CRIS to an external organisation, such as a specialised consultancy. However, the agency remains responsible for ensuring the questions relevant to the CRIS are adequately addressed in a consultant's report.

As a general rule, a CRIS needs to be prepared *before* any cost recovery measure is introduced.

Assessment of the CRIS

Once completed, the CRIS should be sent to the independent review body for assessment. The independent review body will advise the agency or department in writing on the CRIS's compliance with the Guidelines. The independent review body's assessment and the CRIS should be made publicly available.

If the CRIS does not meet all the necessary requirements, the independent assessment will identify any deficiencies and notify the decision maker. The decision maker may direct the agency to resubmit an amended CRIS.

Decision making

While the agency's management is responsible for implementing the agency's CRIS, the final decision on the suitability of the cost recovery arrangements or proposal may rest with other bodies, such as Cabinet, the Expenditure Review Committee, the board of a statutory authority or the Minister of a portfolio.

Public scrutiny and reporting of the CRIS

The completed CRIS and the independent review assessment should be released for public scrutiny. The public documentation should also include:

- a signed declaration by the agency's Chair, Chief Executive Officer or Chief Financial Officer that the CRIS meets its terms of reference and that the Guidelines have been applied;
- a description and justification of the level of consultation undertaken;
- a summary of the views expressed by those consulted; and
- reasons for any deviation from the Guidelines in the formulation of the cost recovery arrangements.

The CRIS and independent assessment should be made available on the agency websites and in hard copy upon request. All the parties that participated in the CRIS process should receive a copy free of charge.

A summary of the contents of the CRIS should be included in the agency's Portfolio Budget Statement and annual report. If Ministerial or Cabinet approval is required for cost recovery by an agency, then evidence of this approval should be attached to the CRIS.

In its own annual report, the independent review body should report to Parliament on the application of cost recovery by Commonwealth regulatory agencies.

Attachment B

Selected charging issues

Levy design

Poorly designed levies can create the possibility of cross-subsidies between firms and/or between industries. This possibility arises because a levy (whether a flat or proportional tax) applies to all members of a leviable group equally. If, within that group, some members make less call on the resources of the regulator, then they can end up subsidising those members that require more intensive regulation.

One solution to the risk of inefficient cross-subsidisation is to define narrow leviable bands, based on identified regulatory cost drivers, so those that make similar calls on the regulator's resources pay the same levy.

Regulatory costs can also vary between industries. If a regulator straddles several industries, then the agency needs to consider whether the costs of regulation are the same across industries; for instance, the products of some industries may be more risky than others and thus require closer scrutiny by the regulator.

Usually, there will be a minimum below which regulatory costs will not fall. At the other end of the spectrum, regulatory costs are unlikely to expand indefinitely. Thus, an agency should set minimum and maximum levies in some circumstances. However, the setting of thresholds and caps should reflect the cost of regulation so they do not create cross-subsidies.

Start-up costs

There are particular pitfalls and solutions in the treatment of start-up costs. An agency needs to consider two categories of start-up costs:

1. *Agency start-up costs.* If cost recovery charges are designed inappropriately, then excessively high charges could occur in the early years of an agency's operations. This possibility arises for two reasons:
 - (a) the agency has to recover 'one-off' establishment costs as they occur or shortly thereafter; and

(b) the agency has to recover establishment and other overhead costs from a relatively small number of early users, leading to abnormally high charges for these users.

2. *Regulated firm start-up cost.* The problems created by excessive early charges would be exacerbated in areas such as a new scientific field, where early entrants consist of mostly researchers and public institutions. Given their lack of commercial orientation in many cases, along with high start-up costs, few innovators are likely to have the capacity to absorb high cost recovery charges.

Both types of start-up costs could lead to the stifling of important scientific work in Australia if agencies recover costs inflexibly over time.

New products

In general, the regulatory approval process for new products precedes their introduction into the marketplace. This raises the possibility that producers (or importers) will be required to pay ‘up front’ for the approval of a product that may prove to be a commercial failure (or have a short shelf life). Further, because the product has not yet entered the market, the supplier may not have the cash flow necessary to meet the cost recovery charges.

Agencies can avoid this problem by spreading the cost of regulation over the market life of the product, by lowering initial assessment fees and raising ongoing annual fees (based on sales). This ‘backloading’ has the advantage of giving the producer access to sales revenue to cover regulatory costs. On the other hand, it transfers some of the commercial risk from the firm to the regulator: if the product fails commercially and is withdrawn from sale, then the regulator may be unable to recover all its initial assessment costs. There is also a risk of successful or high volume products subsidising unsuccessful products.

Some agencies have implemented concessional fees for ‘low volume’, ‘minor use’ and ‘low hazard’ products to avoid this problem. Those agencies for which high up-front costs are likely to be an issue should consult with regulated firms to devise a solution that suits their circumstances.

APPENDICES



A Conduct of the inquiry

This appendix outlines the inquiry process and lists the organisations and individuals that have participated.

As in all of its inquiries, the Commission aims to improve the overall performance of the Australian economy. It has regard to the established economic, social, environmental and regional development objectives of governments. The full terms of reference of this inquiry are on page v.

Following receipt of the terms of reference on 16 August 2000, the Commission placed a notice in the press inviting public participation in the inquiry and released an issues paper to assist participants in preparing their submissions. The Commission received 109 submissions before the release of a draft report in April. A further 64 submissions were received following the release of the draft report (a total of 173). Those who made submissions are listed in section A.1.

The Commission also held informal discussions in Sydney, Melbourne and Canberra with the organisations and Commonwealth Government departments and agencies listed in section A.2. This visit program assisted the Commission to obtain a wide understanding of the issues of cost recovery and the views of participants. Commonwealth Government regulatory, administrative and information departments and agencies were also asked to complete a questionnaire to provide the Commission with information on their cost recovery arrangements (see appendix B).

In November and December 2000 the Commission held pre-draft report public hearings in Melbourne, Sydney and Canberra. In addition, the Melbourne public hearings included video conferences with inquiry participants from Adelaide, Perth and Cairns. Following the release of the draft report, a second round of public hearings were held in Melbourne, Sydney and Canberra in June 2001. Participants in the public hearings are listed in section A.3. Submissions and transcripts of the hearings are publicly available.

Two workshops on the draft guidelines were held for regulatory and information agencies respectively during May. Participating agencies in the two workshops are listed in section A.4.

A.1 Submissions received

<i>Participants</i>	<i>Submission no.</i>
Agriculture Western Australia	80
Airservices Australia	107
Ansett Holdings Ltd	68
Association of Superannuation Funds of Australia	8, DR135
Australia New Zealand Food Authority	67
Australian Bureau of Agricultural and Resource Economics	56
Australian Bureau of Statistics	36, DR134
Australian Chamber of Commerce and Industry	70, DR136
Australian Chemical Specialties Manufacturers Association	60, DR164
Australian Communications Authority	108, DR127
Australian Competition and Consumer Commission	66, DR140
Australian Customs Service	29
Australian Electoral Commission	73
Australian Federal Police	100, DR146
Australian Fisheries Management Authority	65, 95, DR160
Australian Food and Grocery Council	19, DR145
Australian Geological Survey Organisation	55
Australian Geoscience Council	DR116
Australian Livestock Transporters Association	13
Australian National Audit Office	59
Australian Paint Manufacturers Federation	74
Australian Pharmaceutical Manufacturers Association	14, DR129
Australian Prudential Regulation Authority	21, DR113
Australian Seafood Industry Council	71
Australian Securities and Investment Commission	DR173
Australian Self-Medication Industry	23, 85, 105, DR123
Australian Shareholders Association	DR170

DR - submissions received following the release of the draft report.

(continued on next page)

(continued)

<i>Participants</i>	<i>Submission no.</i>
Australian Surveying and Land Information Group	44, DR131
Australian Trade Commission	58, DR149
Australian Transaction Reports and Analysis Centre	22, DR150
Australian Vice-Chancellors' Committee	DR128
Australian Visual Software Distributors Association	18
Avcare	28, 87, DR118
Awin Services Pty Ltd	20, DR119, DR153
Balanced State Development Working Group	DR158
Bessell, Max	DR120
Blackmores Ltd	25, DR114, DR154
Board of Airline Representatives of Australia	54, DR157
Bureau of Meteorology	35, DR142, DR159
Bureau of Tourism Research	92
Cairns Crocodile Farm – Australian Crocodile Traders	79
Centrelink	27
Chemicals and Plastics Action Agenda	15
Civil Aviation Safety Authority	75
Cochlear Ltd	10, 49
Commodore Station Pty Ltd	84
Complementary Healthcare Council of Australia	17, 52, 98, 104, DR117, DR155, DR172
Conference of Asia Pacific Express Carriers	72, DR169
Consumers' Health Forum of Australia	64
Cosmetics, Toiletry and Fragrance Association of Australia	DR166
Council of Small Business Organisations of Australia	93
Commonwealth Scientific and Industrial Research Organisation	88
Cumpston Sarjeant Pty Ltd	77, DR124, DR133
Davis, Peter	2

DR - submissions received following the release of the draft report.

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<i>Participants</i>	<i>Submission no.</i>
Department of Agriculture, Fisheries and Forestry — Australia	69, DR151
Department of Education, Training and Youth Affairs	103
Department of Employment, Workplace Relations and Small Business	86
Department of Finance and Administration	38, DR148
Department of Foreign Affairs and Trade	97
Department of Immigration and Multicultural Affairs	53, DR165
Department of Industry, Science and Resources	62
Department of Transport and Regional Services	48
Direct Selling Association of Australia Inc	46
Dwyer Partners	DR141
Electronic International Trade Services Pty Ltd	40
English Australia	6
Environment Australia	76
Environmental Research and Information Consortium Pty Ltd	7, DR139
Geological Survey of Victoria	99
Great Barrier Reef Marine Park Authority	42
Hadlow, R.F.	34, 96
Housing Industry Association	DR115
Industry Working Group on Quarantine	DR121, DR126
Insight EFM Pty Ltd	DR132, DR138
Investment and Financial Services Association	9
IP Australia	57, DR163
J.T. Larkin and Associates	45, DR137
Johnston, Adam	DR112
MariTrade	DR111, DR171
Medical Industry Association of Australia	12, 50, DR122, DR153
Meteorological Service of New Zealand Limited	109

DR - submissions received following the release of the draft report.

(continued on next page)

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<i>Participants</i>	<i>Submission no.</i>
Mosman Municipal Council	26
Mount Morgan Shire Council	51
Mundipharma Pty Ltd	81
National Crime Authority	78
National Farmers' Federation	DR162
National Industrial Chemicals Notification and Assessment Scheme	33, DR130
National Library of Australia	5, DR125
National Nutritional Foods Association of New Zealand	11, 106
National Registration Authority for Agricultural and Veterinary Chemicals	39
National Standards Commission	31, 90
Nature's Sunshine Products of Australia Pty Ltd	3
Newcastle Airport Ltd	101
Nhulunbuy Corporation Ltd	4
Northern Territory Geological Survey	32
NRMA Insurance Ltd	37
Office of the Federal Privacy Commissioner	91
Paterson, Mark	43, DR147
Plastics and Chemicals Industries Association	24, DR143
Qantas Airways Ltd	63, DR152
Red Meat Advisory Council	47, DR110, DR156, DR161
Regional Airlines Association of Australia Ltd	61
Regulatory Solutions Pty Ltd	41, 83
ScreenSound Australia	30, DR144
SSL Australia Pty Ltd	16
Therapeutic Goods Administration	89, 94, 102
Tourism Task Force	DR167, DR168
Whiteley Industries Pty Ltd	1, 82

DR - submissions received following the release of the draft report.

A.2 Visits

Organisation

Airservices Australia
Association of Superannuation Funds of Australia
Australia New Zealand Food Authority
Australian Bureau of Statistics
Australian Chamber of Commerce and Industry
Australian Chemical Specialties Manufacturers Association
Australian Communications Authority
Australian Competition and Consumer Commission
Australian Customs Service
Australian Electoral Commission
Australian Fisheries Management Authority
Australian Food and Grocery Council
Australian Geological Survey Organisation
Australian Maritime Safety Authority
Australian National Audit Office
Australian Prudential Regulation Authority
Australian Quarantine and Inspection Service
Australian Securities and Investment Commission
Australian Self-Medication Industry
Australian Surveying and Land Information Group
Australian Trade Commission
Avcare
Blackmores Ltd
Bureau of Meteorology
Business Council of Australia
Centrelink
Civil Aviation Safety Authority
Complementary Healthcare Council of Australia
Council of Small Business Organisations of Australia
Department of Agriculture, Fisheries and Forestry — Australia
Department of Communications, Information Technology and the Arts

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Organisation

Department of Employment, Workplace Relations and Small Business

Department of Environment and Heritage

Department of Finance and Administration

Department of Foreign Affairs and Trade

Department of Health and Aged Care

Department of Immigration and Multicultural Affairs

Department of Industry, Science and Resources

Department of Transport and Regional Services

Freebairn, John

Interim Office of the Gene Technology Regulator

IP Australia

National Farmers' Federation

National Industrial Chemicals Notification and Assessment Scheme

National Library of Australia

National Registration Authority for Agricultural and Veterinary Chemicals

New South Wales Department of Information Technology and Management

New South Wales Treasury

Office of Film and Literature Classification

Office of Regulation Review

Therapeutic Goods Administration

A.3 Public hearing participants

Melbourne, 20 November 2000

Plastics and Chemicals Industries Association

Australian Pharmaceutical Manufacturers Association

Australian Food and Grocery Council

Whistleblowers Melbourne

Aircar Industry

Sydney, 21 November 2000

English Australia

Whiteley Industries Pty Ltd

Medical Industry Association of Australia

Awin Services Pty Ltd

Sydney, 22 November 2000

Association of Superannuation Funds of Australia

Australian Self-Medication Industry

Australian Visual Software Distributors Association

Nature's Sunshine Products of Australia Pty Ltd

Australian Prudential Regulation Authority

Australian Transaction Reports and Analysis Centre

Cochlear Ltd

Chemicals and Plastics Action Agenda

Canberra, 27 November 2000

Direct Selling Association of Australia Inc

Bureau of Meteorology

Complementary Healthcare Council

Paterson, Mark

Department of Transport and Regional Services

Canberra, 28 November 2000

Regulatory Solutions Pty Ltd

Screensound Australia

J.T. Larkin and Associates

National Standards Commission

Avcare

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(continued)

Canberra, 29 November 2000

Australian Livestock Transporters Association

Hadlow, Robert Frank

Australian Surveying and Land Information Group

Australian Customs Service

National Library of Australia

Australian Geological Survey Organisation

Board of Airline Representatives

Canberra, 5 December 2000

Australian Bureau of Statistics

Council of Small Business Organisations of Australia

Regional Airlines Association of Australia

Australian Bureau of Agricultural and Resource Economics

Department of Immigration and Multicultural Affairs

Australia New Zealand Food Authority

Australian Chemical Specialties Manufacturers Association

Council of Asia Pacific Express Carriers

Department of Finance and Administration

Canberra, 6 December 2000

Australian Seafood Industry Council

Department of Agriculture, Fisheries and Forestry — Australia

Australian Quarantine and Inspection Service

Ansett–Air New Zealand

Australian Fisheries Management Authority

Red Meat Advisory Council

Austrade

Department of Industry, Science and Resources

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(continued)

Canberra, 7 December 2000

Therapeutic Goods Administration
Australian Chamber of Commerce and Industry
Consumers' Health Forum
Australian Competition and Consumer Commission
Civil Aviation Safety Authority
Qantas Airways Ltd
Environment Australia
IP Australia

Melbourne, 11 December 2000

Cumpston Sarjeant Pty Ltd
Commonwealth Scientific and Industrial Research Organisation, Land and Water
(video conference from Adelaide)
Australian Crocodile Traders (video conference from Cairns)
Agriculture Western Australia (video conference from Perth)

Melbourne, 4 June 2001

Avcare
Cumpston Sarjeant Pty Ltd
Bessell, Max

Sydney, 7 June 2001

Australian Pharmaceutical Manufacturers Association
Cosmetic, Toiletry and Fragrance Association of Australia
Australian Self-Medication Industry
Cosmetics Industry Association
Whiteley Industries Pty Ltd
MariTrade
Australian Shareholders Association
Australian Geoscience Council

Sydney, 8 June 2001

Medical Industry Association of Australia
Blackmores Ltd
Tourism Task Force

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(continued)

Canberra, 13 June 2001

Australian Bureau of Statistics

Paterson, Mark

Australian Chamber of Commerce and Industry

Red Meat Advisory Council

J.T. Larkin and Associates

Complementary Healthcare Council

Plastics and Chemicals Industry Association

Australian Trade Commission

Canberra, 14 June 2001

Environmental Research and Information Consortium Pty Ltd

Insight EFM Pty Ltd

Industry Working Group on Quarantine

ScreenSound Australia

Council of Small Business Organisations of Australia

Canberra, 15 June 2001

Qantas Airways Ltd

Australian Food and Grocery Council

Civil Aviation Safety Authority

Bureau of Meteorology

Dwyer, Terry

Department of Agriculture, Fisheries and Forestry — Australia

Department of Finance and Administration

A.4 Workshop participants

Information agencies – 17 May 2001

Australian Bureau of Agricultural and Resource Economics
Australian Bureau of Statistics
Australian Institute of Health and Welfare
Australian Surveying and Land Information Group
Australian Trade Commission
Bureau of Meteorology
Bureau of Rural Sciences
Bureau of Tourism Research
Commonwealth Scientific and Industrial Research Organisation
Department of Agriculture, Fisheries and Forestry — Australia
Department of Finance and Administration
National Library of Australia
ScreenSound Australia

Regulatory agencies – 18 May 2001

Airservices Australia
Australia New Zealand Food Authority
Australian Communications Authority
Australian Customs Service
Australian Fisheries Management Authority
Australian Maritime Safety Authority
Australian Quarantine and Inspection Service
Australian Securities and Investments Commission
Civil Aviation Safety Authority
Department of Agriculture, Fisheries and Forestry — Australia
Department of Finance and Administration
Department of Immigration and Multicultural Affairs
National Registration Authority for Agricultural and Veterinary Chemicals
Office of the Gene Technology Regulator
Therapeutic Goods Administration

INTERNAL WORKING DOCUMENT

B Commonwealth cost recovery arrangements

The terms of reference require the Commission to report on the nature and extent of current cost recovery arrangements. To meet this requirement, the Commission sent a questionnaire to a large number of Commonwealth Government regulatory and information agencies. In total, 127 questionnaires were sent, and the Commission received 99 responses (a response rate of 78 per cent). A copy of the questionnaire, a list of the agencies to which the survey was sent and a list of those who responded are available in appendix J.

The questionnaire has two sections. All agencies were asked to complete part I, which included questions on their total revenues and expenses, as well as their total cost recovery revenue. Those agencies that considered that they undertook cost recovery in 1999-2000 were asked also to complete part II. This section asked agencies to provide information on individual cost recovered activities. Where cost recovery arrangements were similar across activities, agencies were asked to report on these arrangements as a group. This section included questions on the total revenue, cost recovery revenue and expenses of the individual activities. For many agencies, the sum of the individual activities reported in part II differs from the total figure reported in part I. Therefore, care should be taken when comparing responses from part I, which are cited in parts of this report, with responses from part II, cited in this appendix.

For presentational reasons, responses have been simplified and the responses to some questions have not been included. The full responses of all agencies that responded (except those that were provided in confidence) are available from the Commission's web site or on request from the Commission.

INTERNAL WORKING DOCUMENT

AAD	Australian Antarctic Division
ABARE	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
ACA	Australian Communications Authority
ACCC	Australian Competition and Consumer Commission
ACS	Australian Customs Service
AEC	Australian Electoral Commission
AFTRS	Australian Film, Television and Radio School
AG	Attorney General's Department
AGA	Australian Government Actuary
AGO	Australian Greenhouse Office
AGS	Australian Government Solicitor
AGSO	Australian Geological Survey Organisation
AIATSIS	Australian Institute of Aboriginal and Torres Strait Islander Studies
AIFS	Australian Institute of Family Studies
AIHW	Australian Institute of Health and Welfare
AIMS	Australian Institute of Marine Science
AFFA	Department of Agriculture, Fisheries and Forestry Australia
AFMA	Australian Fisheries Management Authority
ALRC	Australian Law Reform Commission
AMSA	Australian Maritime Safety Authority
ANAO	Australian National Audit Office
ANTA	Australian National Training Authority
ANSTO	Australian Nuclear Science and Technology Organisation
ANZFA	Australia New Zealand Food Authority
AOFM	Australian Office of Financial Management
APRA	Australian Prudential Regulation Authority
AQIS	Australian Quarantine and Inspection Service
ARPANSA	Australian Radiation Protection and Nuclear Safety Agency
ASA	Airservices Australia
ASC	Australian Sports Commission
ASIC	Australian Securities and Investments Commission
ATC	Australian Tourist Commission

INTERNAL WORKING DOCUMENT

ATO	Australian Taxation Office
ATP	Australian Training Products
ATSB	Australian Transport Safety Bureau
AUSLIG	Australian Surveying and Land Information Group
Austrade	Australian Trade Commission
AVO	Australian Valuation Office
Avstats	Aviation statistics
AWM	Australian War Memorial
Bom	Bureau of Meteorology
BRS	Bureau of Rural Sciences
BTE	Bureau of Transport Economics
BTR	Bureau of Tourism Research
CASA	Civil Aviation Safety Authority
CRICOS	Commonwealth Register of Institutions and Courses for Overseas Students
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CRC	Cooperative Research Centre
CRF	Consolidated Revenue Fund
DAA	Dairy Adjustment Authority
DCITA	Department of Communication, Information Technology and the Arts
DEH	Department of Environment and Heritage
DEWRSB	Department of Employment, Workplace Relations and Small Business
DETYA	Department of Education, Training and Youth Affairs
DFAT	Department of Foreign Affairs and Trade
DHAC	Department of Health and Aged Care
DIMA	Department of Immigration and Multicultural Affairs
DISR	Department of Industry, Science and Resources
DOD	Department of Defence
DOFA	Department of Finance and Administration
DTRS	Department of Transport and Regional Services
DVA	Department of Veterans Affairs
FaCS	Department of Family and Community Services
FMA	<i>Financial Management and Accountability Act 1997</i>
GBRMFA	Great Barrier Reef Marine Park Authority

INTERNAL WORKING DOCUMENT

HIC	Health Insurance Commission
ICAO	International Civil Aviation Organisation
IPA	IP Australia
ITSA	Insolvency and Trustee Services Australia
MARA	Migration Agents Registration Authority
MIFCo	Maritime Industry Finance Company Limited
MRT	Migration Review Tribunal
NCA	National Capital Authority
NCC	National Competition Council
NICNAS	National Industrial Chemicals Notification and Assessment Scheme
NLA	National Library of Australia
NNTT	National Native Title Tribunal
NOOSR	National Office of Overseas Skills Recognition
NRA	National Registration Authority for Agricultural & Veterinary Chemicals
NSC	National Standards Commission
NSTC	National Science and Technology Centre
OPC	Office of Parliamentary Counsel
OPH	Old Parliament House
PC	Productivity Commission
PMC	Passenger Movement Charge
PM&C	Department of Prime Minister and Cabinet
PRISMS	Provider Registration and International Students Management System
PSMPC	Public Service Merit Protection Commission
RBA	Reserve Bank of Australia
RRT	Refugee Review Tribunal
SBS	Special Broadcasting Corporation
SLASO	Space Licensing and Safety Office
SRCC	Safety, Rehabilitation and Compensation Commission
SSA	ScreenSound Australia
TGA	Therapeutic Goods Administration
TPA	<i>Trade Practices Act 1974</i>

na Not available

.. Not applicable

INTERNAL WORKING DOCUMENT

— Rounded to zero

All percentages are calculated using unrounded numbers.

INTERNAL WORKING DOCUMENT

B.1 Portfolio: Agriculture, Fisheries and Forestry

Table B.1 **Overview of arrangements**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Dairy sub-unit</i>	Fee	User/Policy	2000	..
	<i>Levies and revenue service</i>	Fee	Beneficiary	1988	Annually
	<i>Plant breeders Rights Scheme</i>	Fee	Policy	1988/1994	Annually
	<i>Product integrity, animal and plant health</i>	Fee	Revenue	1993	Irregularly
	<i>Quota administration</i>	Fee	Policy	1998	..
ABARE		Fee	Policy/User	1989-90	Annually
AFMA		Fee/Levy	Policy/Beneficiary pays	late 80s	Annually
AQIS	<i>Live Animal Exports</i>	Fee	na	na	Six monthly
	<i>Grain Exports</i>	Fee/Tax	na	1990(fee), 1963(tax)	Six monthly
	<i>Horticulture Export Program</i>	Fee/Tax	na	early 90s	Six monthly
	<i>Dairy Export Program</i>	Fee/Tax	na	1990	Six monthly
	<i>Fish Export Program</i>	Fee/Tax	na	1991	Six monthly
	<i>Post Entry Animal Quarantine Stations</i>	Fee	na	1991	Six monthly
	<i>International Mail</i>	Fee	na	1997	Six monthly
	<i>Import Clearance Program</i>	Fee	na	1994	Six monthly
	<i>Post Entry Plant Quarantine</i>	Fee	na	1991	Six monthly
	<i>Airports</i>	Fee/PMC	na	1995	Six monthly
	<i>Seaports</i>	Fee	na	1991	Annually
	<i>Meat Inspection Program</i>	Fee/Tax	na	1991	Six monthly
	<i>AQIS Training Services</i>	Fee	na	1993	Six monthly
BRS		Fee	Revenue/Policy	1993	Annually
NRA	<i>Chemical regulation</i>	Fees/Levy	Policy	1994	2-3 years

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.2 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised through cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	<i>Dairy sub-unit</i>	0.6	0.6	100.0	0.6	100.0	Yes third party	..
	<i>Levies and revenue service</i>	2.2	2.2	100.0	2.2	100.0	Yes	Adjustment
	<i>Plant breeders Rights Scheme</i>	0.8	0.9	91.3	1.0	82.5	Yes	CRF
	<i>Product integrity, animal and plant health</i>	0.6	8.2	7.4	7.7	7.8	Yes	Refund or Retained
	<i>Quota administration</i>	0.3	0.3	100.0	0.3	100.0	No	..
ABARE		11.2	22.8	49.4	22.0	51.1	Yes	na
AFMA		8.5	23.6	35.8	24.2	34.9	Yes	Adjustment
AQIS	<i>Live Animal Exports</i>	1.8	1.8	99.8	1.8	97.4	No	Refund/Retained/Services
	<i>Grain Exports</i>	6.8	6.8	99.8	6.8	99.8	No	Refund/Retained/Services
	<i>Horticulture Export Program</i>	4.7	4.7	99.7	5.3	87.7	No	Refund/Retained/Services
	<i>Dairy Export Program</i>	1.1	1.1	99.7	1.1	99.8	No	Refund/Retained/Services
	<i>Fish Export Program</i>	3.8	3.8	99.8	3.9	99.1	No	Refund/Retained/Services
	<i>Post Entry Animal Quarantine Stations</i>	2.7	3.1	83.3	2.9	83.2	No	Retained

(continued on next page)

INTERNAL WORKING DOCUMENT

Table B.2 (continued)

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
	International Mail	2.2	2.3	99.8	2.3	98.9	No	Refund/Retained/Services
	Import Clearance Program	36.4	36.4	100.0	35.1	99.0	No	Industry Reserve Fund
	Post Entry Plant Quarantine	0.3	1.4	21.2	1.4	21.2	No	Retained
	Airports	20.0 ^c	20.1	99.8	20.2	99.2	Partially to other agency and CRF	Retained
	Seaports	4.4 ^c	4.5	98.3	4.2	103.6	Partially to other agency and CRF	Refund/Retained/Services
	Meat Inspection Program	54.0	54.0	100.0	53.9	100.0	No	Refund/Retained/Services
	AQIS Training Services	1.5	1.5	99.1	1.6	94.1	No	Refund/Retained/Services
BRS		7.6	21.8	34.9	25.0	30.4	Yes	..
NRA	Chemical regulation	17.8	18.5	96.0	16.2	109.7	Yes	Adjustment

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. ^c This includes revenue obtained from the Passenger Movement Charge. **CR** Cost recovery. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.3 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Dairy sub-unit</i>	Direct	..	..	No
	<i>Levies and revenue service</i>	Direct/Indirect	Activity based costing	..	No
	<i>Plant breeders Rights Scheme</i>	Direct/Indirect	Activity based costing	Cost less depreciation	No
	<i>Product integrity, animal and plant health</i>	Direct/Indirect	Pro rata	..	..
	<i>Quota administration</i>	Direct/Indirect	Pro rata	..	No
ABARE		Direct/Indirect	Pro rata	na	No
AFMA		Direct/Indirect	Pro rata	Deprival	No
AQIS	<i>Live Animal Exports</i>	Direct/Indirect	Cost drivers	na	No
	<i>Grain Exports</i>	Direct/Indirect	Cost drivers	na	No
	<i>Horticulture Export Program</i>	Direct/Indirect	Cost drivers	na	No
	<i>Dairy Export Program</i>	Direct/Indirect	Cost drivers	na	No
	<i>Fish Export Program</i>	Direct/Indirect	Cost drivers	na	No
	<i>Post Entry Animal Quarantine Stations</i>	Direct/Indirect	Cost drivers	na	No
	<i>International Mail</i>	Direct/Indirect	Cost drivers	na	No
	<i>Import Clearance Program</i>	Direct/Indirect	Cost drivers	na	No
	<i>Post Entry Plant Quarantine</i>	Direct/Indirect	Cost drivers	na	No
	<i>Airports</i>	Direct/Indirect	Cost drivers	na	No
	<i>Seaports</i>	Direct/Indirect	Cost drivers	na	No
	<i>Meat Inspection Program</i>	Direct/Indirect	Cost drivers	na	No
	<i>AQIS Training Services</i>	Direct/Indirect	Cost drivers	na	No
BRS		Direct/Indirect	Pro rata	..	Yes
NRA	<i>Chemical regulation</i>	Direct/Indirect	Activity based costing	..	No

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.4 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Dairy sub-unit</i>	Other Act	Govt/industry	Cwealth	Govt/Industry	..
	<i>Levies and revenue service</i>	Other Act	Govt/Industry	na	No ongoing consultation	Yes
	<i>Plant breeders Rights Scheme</i>	FMA/Other Act	Govt/Industry	na	Govt/Industry	Yes
	<i>Product integrity, animal and plant health</i>	FMA	Govt	Cwealth	Consumers	No
ABARE	<i>Quota administration</i>	Other Act	Industry	Other	Industry	Yes
		FMA	Govt	DOFA	Govt	Yes (1995)
AFMA		Tax Act/Other Act	Govt/Industry	Other	Govt/Industry	Yes (1994)
AQIS	<i>Live Animal Exports</i>	Other Act	na	na	na	Yes (2000)
	<i>Grain Exports</i>	Tax Act/Other Act	na	na	na	Yes
	<i>Horticulture Export Program</i>	Tax Act/Other Act	na	na	na	Yes (2000)
	<i>Dairy Export Program</i>	Tax Act/Other Act	na	na	na	Yes
	<i>Fish Export Program</i>	Tax Act/Other Act	na	na	na	Yes
	<i>Post Entry Animal Quarantine Stations</i>	Other Act	na	na	na	Yes
	<i>International Mail</i>	Other Act	na	na	na	Yes

(continued on next page)

INTERNAL WORKING DOCUMENT

Table B.4 (continued)

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
	<i>Import Clearance Program</i>	Other Act	na	na	na	Yes
	<i>Post Entry Plant Quarantine</i>	Other Act	na	na	na	Yes
	<i>Airports</i>	Other Act	na	na	na	Yes
	<i>Seaports</i>	Other Act	na	na	na	No
	<i>Meat Inspection Program</i>	Tax Act/Other Act	na	na	na	Yes
	<i>AQIS Training Services</i>	FMA	No consultation	na	na	No
BRS		FMA	Govt	na	No ongoing consultation	Yes, internally
NRA	<i>Chemical regulation</i>	Tax Act/Other Act	Govt/Industry/Consumers	na	na	Under review

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.5 Responsibility for various functions

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Department	<i>Dairy sub-unit</i>	AFFA	..	DAA/Centrelink/DEWRSB	AFFA
	<i>Levies and revenue service</i>	AFFA	AFFA	AFFA	AFFA
	<i>Plant breeders Rights Scheme</i>	AFFA	Parliament	AFFA	AFFA
	<i>Product integrity, animal and plant health</i>	AFFA	AFFA	AFFA	AFFA
	<i>Quota administration</i>	AFFA	AFFA	AFFA	AFFA
ABARE		AFFA/ABARE	ABARE	AFFA/ABARE	AFFA/ABARE
AFMA		DOFA/AFFA/AFMA	AFMA	AFMA	AFMA
AQIS	<i>Live Animal Exports</i>	na	na	na	na
	<i>Grain Exports</i>	na	na	na	na
	<i>Horticulture Export Program</i>	na	na	na	na
	<i>Dairy Export Program</i>	na	na	na	na
	<i>Fish Export Program</i>	na	na	na	na
	<i>Post Entry Animal Quarantine Stations</i>	na	na	na	na
	<i>International Mail</i>	na	na	na	na
	<i>Import Clearance Program</i>	na	na	na	na
	<i>Post Entry Plant Quarantine</i>	na	na	na	na
	<i>Airports</i>	na	na	na	na
	<i>Seaports</i>	na	na	na	na
	<i>Meat Inspection Program</i>	na	na	na	na
	<i>AQIS Training Services</i>	na	na	na	na
BRS		AFFA	BRS	BRS	BRS
NRA	<i>Chemical regulation</i>	AFFA	NRA/AFFA	NRA	NRA

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

B.2 Portfolio: Attorney-General's

Table B.6 Overview of arrangements

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Office of International Law and Office of Legislative Drafting</i>	Fee	Policy	1992-93	Aligned with AGS
	<i>Australian Protective Service</i>	Fee	Policy	1988	Annually
	<i>Australian Security Vetting Service</i>	Fee	Policy	1996	Annually
ALRC	<i>Publications</i>	Fee	Policy	1975	na
	<i>Conference</i>	Fee	Policy	2000	..
	<i>Journal subscriptions</i>	Fee	Policy	1976	1997
ASIO	<i>Protective security</i>	Fee	Policy	1993	na
ACS	<i>Passenger Movement Charge</i>	Tax	Revenue	1978	Ad hoc
	<i>Import processing charges</i>	Tax	Revenue	April 1997	Bi-annually
	<i>S. 31 Charges</i>	Fees	User	Various dates	Ad hoc
ITSA	<i>Issue of a Bankruptcy Notice, exercise of Official Receiver powers</i>	Fee/Levy	User	Long standing	Never
NNTT	<i>Information, claim lodgement, geospatial services</i>	Fees	Revenue/Services	1994, 2000	6 monthly (geospatial)
OPC	<i>Training course</i>	Fee	Demand/Services	1994	Annually

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.7 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR Whether revenue / revenue is total earmarked ^a expenses	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%	
Department	Office of International Law and Office of Legislative Drafting	1.1	1.1	100.0	na	na No	Retained by AG
	Australian Protective Service	63.5	63.5	100.0	62.5	101.6 No	Retained by APS
	Australian Security Vetting Service	1.5	1.5	100.0	na	na No	Retained by AG.
ALRC	Publications	—	—	100.0	na	na No	..
	Conference	0.1	0.1	100.0	0.1	77.7 No	..
	Journal subscriptions	—	—	100.0	na	na No	..
ASIO	Protective security	0.3	67.0	0.5	na	na No	..
ACS	Passenger Movement Charge	226.1 ^c	226.1	100.0	124.5 ^d	159.0 Yes	All revenue goes directly to CRF
	Import Processing charges	73.1	73.1	100.0	72.6	101.0 Yes	Adjustment
	s. 31 FMA charges	20.4	20.4	100.0	na	na No	na
ITSA	Issue of a Bankruptcy Notice, exercise of Official Receiver powers	18.8	41.9	44.8	41.2	45.5 Most not earmarked	..
NNTT	Information, claim lodgement, geospatial services	0.1	22.3	0.5	23.3	0.5 About 50%	..
OPC	Training course	—	6.4	0.5	6.4	0.5 Yes	..

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. ^c Revenue is collected by ACS on behalf of DIMA/AQIS and ACS. ^d This relates to ACS expenses only. Both DIMA and AQIS also incur costs on PMC but these are not known to ACS. **na** Not available. **..** Not applicable. **—** Rounds to zero.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.8 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Office of International Law and Office of Legislative Drafting</i>	Direct/Indirect	Pro rata (direct)	Deprival	Yes
	<i>Australian Protective Service</i>	Direct/Indirect	Pro rata (direct)	Deprival	No, but pay dividend to DOFA
	<i>Australian Security Vetting Service</i>	Direct/Indirect	Pro rata	Deprival	Yes
ALRC	<i>Publications</i>	..	..	..	..
	<i>Conference</i>	Partial	..	..	..
	<i>Journal subscriptions</i>	Partial	..	..	..
ASIO	<i>Protective security</i>	Direct	..	Historic/Deprival	No
ACS	<i>Passenger Movement Charge</i>	Direct/Indirect	Activity based costing	Historic/Deprival	No
	<i>Import Processing charges</i>	Direct/Indirect	Activity based costing	Historic/Deprival	No
	<i>s. 31 charges</i>	Direct/Indirect	Activity based costing	Historic/Deprival	No
ITSA	<i>Issue of a Bankruptcy Notice, exercise of Official Receiver powers</i>	..	..	..	..
NNTT	<i>Information, claim lodgement, geospatial services</i>	Direct/Indirect	Pro rata to direct	..	..
OPC	<i>Training course</i>	na	..	na	na

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.9 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Office of International Law and Office of Legislative Drafting</i>	FMA (s.31)	Govt	None	No ongoing consultation	No
	<i>Australian Protective Service</i>	FMA (s.20)	Govt	None	No ongoing consultation	No
	<i>Australian Security Vetting Service</i>	FMA (s.31)	Govt	None	No ongoing consultation	No
ALRC	<i>Publications</i>	na	No consultation	None	No ongoing consultation	Yes (1990)
	<i>Conference</i>	na	No consultation	None	No ongoing consultation	No
	<i>Journal subscriptions</i>	na	No consultation	None	No ongoing consultation	1999-2000
ASIO	<i>Protective security</i>	na	na	na	No ongoing consultation	Reviews by external commercial parties
ACS	<i>Passenger Movement Charge</i>	Tax Act	Govt/Industry	Internal	Industry	ANAO (1996, 2001)
	<i>Import Processing Charges</i>	Tax Act	Govt/Industry	Internal	Industry	Industry (Bi-annually); ANAO (1998)
	<i>S. 31 charges</i>	FMA Act	Consumers	DOFA	na	No
ITSA	<i>Issue of a Bankruptcy Notice, exercise of Official Receiver powers</i>	Other Act	Industry	None	No ongoing consultation	No
NNTT	<i>Information, claim lodgement, geospatial services</i>	FMA/Other Act/ No Act	Govt	AGS advice	Govt	Currently underway (search fees)
OPC	<i>Training course</i>	FMA	No consultation	DOFA/ ANAO	No ongoing consultation	No

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.10 Responsibility for various functions

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Department	<i>Office of International Law and Office of Legislative Drafting</i>	Govt	AG	AG	AG
	<i>Australian Protective Service</i>	Govt	AG	AG	AG
	<i>Australian Security Vetting Service</i>	Govt	AG	AG	AG
ALRC	<i>Publications</i>	ALRC	ALRC	ALRC	ALRC
	<i>Conference</i>	ALRC	ALRC	ALRC	ALRC
	<i>Journal subscriptions</i>	ALRC	ALRC	ALRC	ALRC
ASIO	<i>Protective security</i>	ASIO	ASIO	ASIO	ASIO
ACS	<i>Passenger Movement Charge</i>	Govt	Govt/ACS	ACS/DIMA/ AQIS	ACS
	<i>Import Processing Charges</i>	Govt	Govt/ACS/ Industry	ACS	ACS
	<i>S. 31 charges</i>	ACS	ACS	ACS	ACS
ITSA	<i>Issue of a Bankruptcy Notice, exercise of Official Receiver powers</i>	ITSA	Parliament	ITSA	ITSA
NNTT	<i>Information, claim lodgement, geospatial services</i>	Govt/NNTT	Govt/NNTT	NNTT	NNTT
OPC	<i>Training course</i>	OPC	OPC	OPC	OPC

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

B.3 Portfolio: Communication, Information Technology and the Arts

Table B.11 Overview of arrangements

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often are charges changed/reviewed</i>
Department	<i>Cultural activities^b</i>	Fee	Policy	1996	Annually (NSTC)
	<i>Artbank</i>	Fee	Policy	1985	Annually
ACA	<i>Annual Licence Carrier Charge</i>	Levy	Beneficiary	1991	Annually
	<i>Spectrum Maintenance Component</i>	Levy	Policy/Demand/User	1995	Bi-annually
	<i>Administrative</i>	Fee	Policy/Demand/User	1995	Bi-annually
AFTRS		Fee	Policy	1973	na
NLA	<i>Kinetica</i>	Fee	Policy	1999	Annually
	<i>Sale of Goods and Services</i>	Fee	Demand	1960	Annually
SSA		Fee	Revenue/Service	1983	Irregularly
SBS		Fee	Policy	1995-96	Annually

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. ^b Entry fees to OPH and NSTC. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.12 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	<i>Cultural activities</i>	1.8	18.1	9.9	15.0	12.0	Yes	..
	<i>Artbank</i>	1.7	3.6	47.2	2.9	58.6	No	Retained
ACA	<i>Annual Licence Carrier Charge</i>	18.5	18.5	100.0	18.4	100.5	No	Retained
	<i>Spectrum Maintenance Component</i>	24.5	24.5	100.0	30.0	81.3	No	Retained
	<i>Administrative</i>	5.9	5.9	100.0	6.5	90.8	No	Retained
AFTRS		1.1	19.4	5.7	20.1	5.5	No	na
NLA	<i>Kinetica</i>	6.0	8.3	72.3	7.9	75.9	No	Adjustment/ Services/Retained
	<i>Sale of Goods and Services</i>	2.5	222.9	1.1	43.1	5.8	No	..
SSA		1.8	48.6	3.5	47.5	3.6	Yes	Retained
SBS		0.2	140.1	0.1	0.2	100.0	No	..

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.13 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Cultural activities</i>	na	..	na	na
	<i>Artbank</i>	na	..	na	na
ACA	<i>Annual Licence Carrier Charge</i>	Direct/Indirect	Activity based costing	Deprival	Yes
	<i>Spectrum Maintenance Component</i>	Direct/Indirect	Activity based costing	Deprival	Yes
	<i>Administrative</i>	Direct/Indirect	Activity based costing	Deprival	Yes
AFTRS		na	na	na	na
NLA	<i>Kinetica</i>	Direct/Indirect	Other	Deprival	No
	<i>Sale of Goods and Services</i>	Direct/Indirect	Other	Deprival	No
SSA		Direct/Indirect	Other	Replacement	Yes
SBS		Direct/Indirect	Activity based costing	Deprival	No

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.14 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Cultural activities</i>	FMA	DOFA	..	..	..
	<i>Artbank</i>	FMA	na	na	No ongoing consultation	Yes (1997)
ACA	<i>Annual Licence Carrier Charge</i>	Other Act	Govt	na	Govt	No
	<i>Spectrum Maintenance Component</i>	Other Act	Govt	Internal	Govt	Yes (1995)
	<i>Administrative</i>	Other Act	Govt	Internal	Govt	Yes (1995)
AFTRS		Other Act	..	Other	Govt/Industry/Consumers	Yes (2000)
NLA	<i>Kinetica</i>	Other Act	Govt/Industry	na	Industry/Consumers	Under review
	<i>Sale of Goods and Services</i>	Other Act	Govt/Consumers	DOFA	Industry	Under review
SSA		FMA	Govt/Industry/Consumers	No	Govt/Industry/Consumers	Yes (2000)
SBS		Other Act	Govt/Industry	DOFA/ Internal	Govt/Industry/Consumers	Yes (2000)

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.15 **Responsibility for various functions**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Department	<i>Cultural activities</i>	..	OPH/NSTC	OPH/NSTC	OPH/NSTC
	<i>Artbank</i>	na	Artbank	Artbank	Artbank
ACA	<i>Annual Licence Carrier Charge</i>	DCITA	ACA	ACA	ACA
	<i>Spectrum Maintenance Component</i>	ACA	ACA	ACA	ACA
	<i>Administrative</i>	ACA	ACA	ACA	ACA
AFTRS		AFTRS	AFTRS	AFTRS	AFTRS
NLA	<i>Kinetica</i>	NLA	NLA	NLA	NLA
	<i>Sale of Goods and Services</i>	NLA	NLA	NLA	NLA
SSA		SSA	SSA	SSA	SSA
SBS		SBS	SBS	SBS	SBS

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

B.4 Portfolio: Defence

Table B.16 **Overview of arrangements**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Goods and services</i>	Fee	na	na	Adhoc

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.17 Revenue 1999-2000

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Revenue raised though cost recovery</i>	<i>Total revenue</i>	<i>CR revenue / total revenue</i>	<i>Total expenses</i>	<i>CR revenue / total expenses</i>	<i>Whether revenue is earmarked^a</i>	<i>What happens to revenue if it is greater than costs^b</i>
		\$m	\$m	%	\$m	%		
Department	<i>Goods and services</i>	12.2	16 439.6	0.1	11 123.1	0.1	No	..

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

Table B.18 Costs recovered

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Goods and services</i>	Direct/indirect	Averaged	Deprival	Yes

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.19 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	Goods and services	FMA	na	DOFA	No ongoing consultation	No

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

Table B.20 **Responsibility for various functions**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Department	Goods and services	Defence	Defence	Defence	Defence

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

B.5 Portfolio: Environment and Heritage

Table B.21 **Overview of arrangements**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Bird and Bat Banding Scheme</i>	Fee	Policy	1996	Ad hoc
	<i>Corporate services for AGO</i>	Fee	Policy	1998	Biennially
	<i>Assessments for NRA</i>	Fee	Policy	1995-96	Annually
	<i>Assessments for NICNAS</i>	Fee	Policy	1996-97	Annually
	<i>Wildlife Permits and Enforcement</i>	Fee	Policy	1984	Ad hoc
	<i>AAD -Joint Ventures</i>	Fee	User	1998,1999,1947	Irregularly
	<i>AAD -CRC</i>	Fee	User	1997	Irregularly
	<i>Sea dumping permits</i>	Fee	Policy	1983	Irregularly
	<i>Hazardous Waste Permits</i>	Fee	Policy	1990	Irregularly
	<i>National Halon Bank</i>	Fee	Policy	1993	Irregularly
	<i>Ozone Protection Reserve</i>	Fee	Policy	1995	Irregularly
	<i>Environment and Conservation Council</i>	Fee	User/Demand	1992	Ad hoc
BoM	<i>Aviation weather services</i>	Fee	Policy	1952	Annually
	<i>Defence weather services</i>	Fee	Policy	1972	Annually
	<i>Special Services Unit</i>	Fee	Policy	1990	na
	<i>Other specific services</i>	Fee	Policy	1967	Annually
GBRMPA	<i>Environmental Management and Permit Application Fees</i>	Fee	User	1990,1993	na
	<i>Communications and Education</i>	Fee	na	1987	Annually

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.22 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	<i>Bird and Bat Banding Scheme</i>	—	—	100.0	—	9.8	No	..
	<i>Corporate services for AGO</i>	0.5	0.5	100.0	0.5	100.0	No	..
	<i>Assessments for NRA</i>	0.7	0.7	100.0	1.0	70.0	Yes	Refunded
	<i>Assessments for NICNAS</i>	0.5	0.5	100.0	0.5	100.0	Yes	Refunded
	<i>Wildlife Permits and Enforcement</i>	0.2	1.7	11.8	1.7	11.8	Yes	..
	<i>AAD -Joint Ventures</i>	1.2	1.2	100.0	1.2	100.0	Yes	No provision
	<i>AAD -CRC</i>	1.1	1.1	100.0	1.1	100.0	Yes	No provision
	<i>Sea dumping permits</i>	—	0.9	3.6	0.9	3.7	Yes	..
	<i>Hazardous Waste Permits</i>	—	—	100.0	—	41.3	Yes	..
	<i>National Halon Bank</i>	0.5	6.2	8.1	4.7	10.6	Yes	Retained
	<i>Ozone Protection Reserve</i>	0.7	0.7	100.0	0.5	140.0	Yes	Retained
	<i>Environment and Conservation Council</i>	—	—	100.0	—	100.0	No	Retained
BoM	<i>Aviation weather services</i>	14.5	14.5	100.0	14.5	100.0	No	Adjustment
	<i>Defence weather services</i>	3.4	3.4	100.0	3.4	100.0	No	Adjustment
	<i>Special Services Unit</i>	9.0	9.0	100.0	9.0	100.0	No	CRF
	<i>Other specific services</i>	5.0	5.0	100.0	5.0	100.0	No	Adjustment
GBRMPA	<i>Environmental Management and Permit Application Fees</i>	6.0	26.0	23.1	25.6	23.4	Yes	..
	<i>Communications and Education</i>	1.8	1.8	100.0	3.2	56.3	No	..

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. .. Not applicable. — Rounds to zero.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.23 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Bird and Bat Banding Scheme</i>	na	na	na	na
	<i>Corporate services for AGO</i>	Direct	Activity based costing	..	No
	<i>Assessments for NRA</i>	Direct/Indirect	Other	..	No
	<i>Assessments for NICNAS</i>	Direct/Indirect	Other	..	No
	<i>Wildlife Permits and Enforcement</i>	na	..	na	na
	<i>AAD -Joint Ventures</i>	Direct	..	Deprival	Yes
	<i>AAD -CRC</i>	Direct	..	Deprival	Yes
	<i>Sea dumping permits</i>	Direct	Other	..	No
	<i>Hazardous Waste Permits</i>	Direct	..	..	No
	<i>National Halon Bank</i>	Direct	..	..	No
	<i>Ozone Protection Reserve</i>	Direct	..	..	No
BoM	<i>Environment and Conservation Council</i>	Direct	..	..	No
	<i>Aviation weather services</i>	Direct/Indirect	Pro rata	Deprival	Yes
	<i>Defence weather services</i>	Direct/Indirect	Pro rata	Deprival	Yes
	<i>Special Services Unit</i>	Total Plus	Pro rata	na	Yes
GBRMPA	<i>Other specific services</i>	Direct/Indirect	Pro rata	Deprival	Yes
	<i>Environmental Management and Permit Application Fees</i>	na	..	..	..
	<i>Communications and Education</i>	na	na	Deprival	No

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report).. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.24 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Bird and Bat Banding Scheme</i>	FMA	Govt/Consumers	Cwealth	Consumers	No
	<i>Corporate services for AGO</i>	FMA	Govt	na	Govt/Consumers	No
	<i>Assessments for NRA</i>	Other Act	Govt	DOFA	Govt	Under review
	<i>Assessments for NICNAS</i>	Other Act	Govt	DOFA	Govt	No
	<i>Wildlife Permits and Enforcement</i>	Other Act	Govt/Industry	na	Govt/Industry	No
	<i>AAD -Joint Ventures</i>	FMA	Govt/Others	DOFA	Others	No
	<i>AAD -CRC</i>	Other Act	Govt/Industry	DOFA	Govt/Industry	No
	<i>Sea dumping permits</i>	Other Act	Govt/Industry	na	Govt/Industry	Yes (2000)
	<i>Hazardous Waste Permits</i>	Other Act	Govt/Industry/ Consumers	DoFA	Govt/Industry	Yes (2000)
	<i>National Halon Bank</i>	FMA	na	na	na	No
	<i>Ozone Protection Reserve</i>	Other Act	Govt/Industry	Cwealth	Govt/Industry	Yes (2000)
	<i>Environment and Conservation Council</i>	No Act	Govt	na	Govt	Yes (1998)
	BoM	<i>Aviation weather services</i>	FMA/Other Act	Govt/Industry	Internal/Cwealth	Govt/Industry	Yes (1998-99)
<i>Defence weather services</i>		FMA/Other Act	Govt	Internal/DOFA	Govt	Yes (1997-98)
<i>Special Services Unit</i>		FMA/Other Act	Govt	Internal/DOFA	Govt	Yes (1997)
<i>Other specific services</i>		FMA/Other Act	Govt	Internal/DOFA	Govt/Industry/ Consumers	Yes (1997)
GBRMPA	<i>Environmental Management and Permit Application Fees</i>	Other Act	Govt/Industry/ Consumers	na	Govt/Industry/ Consumers	Yes (1996)
	<i>Communications and Education</i>	Other Act	Govt/Industry/ Consumers	na	Govt	na

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.25 Responsibility for various functions

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Department	<i>Bird and Bat Banding Scheme</i>	Environment Australia	Environment Australia	Environment Australia	Environment Australia
	<i>Corporate services for AGO</i>	DEH	DEH	DEH	DEH
	<i>Assessments for NRA</i>	DEH	DEH/NRA	DEH/NRA	DEH/NRA
	<i>Assessments for NICNAS</i>	DEH	DEH/NICNAS	DEH/NICNAS	DEH/NICNAS
	<i>Wildlife Permits and Enforcement</i>	DEH	DEH	DEH	DEH
	<i>AAD -Joint Ventures</i>	AAD/Treaty nations	AAD	AAD	AAD
	<i>AAD -CRC</i>	CRC	AAD	AAD	AAD
	<i>Sea dumping permits</i>	DEH	DEH	DEH	DEH
	<i>Hazardous Waste Permits</i>	DEH	DEH	DEH	DEH
	<i>National Halon Bank</i>	DEH	DEH	DEH	DEH
	<i>Ozone Protection Reserve</i>	DEH	DEH	DEH	DEH
	<i>Environment and Conservation Council</i>	DEH	DEH	DEH	DEH
BoM	<i>Aviation weather services</i>	BoM/ICAO/CASA	BoM	BoM	ASA ^a
	<i>Defence weather services</i>	BoM/DoD	BoM	BoM	BoM
	<i>Special Services Unit</i>	BoM	BoM	BoM	BoM
	<i>Other specific services</i>	BoM	BoM	BoM	BoM
GBRMPA	<i>Environmental Management and Permit Application Fees</i>	GBRMPA	GBRMPA	GBRMPA	GBRMPA
	<i>Communications and Education</i>	GBRMPA	GBRMPA	GBRMPA	GBRMPA

^a ASA collects the revenue as an agent for BoM. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

B.6 Portfolio: Education, Training and Youth Affairs

Table B.26 Overview of arrangements

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>NOOSR migration case assessments</i>	Fee	Policy	1989	To be reviewed in 2001
	<i>NOOSR sale of publications</i>	Fee	Demand/Users	1982	Ad hoc
	<i>NOOSR Vetassess assessment program</i>	Fee	Policy	1999	Biennially
	<i>NOOSR teaching assessments</i>	Fee	Policy	1999	To be reviewed in 2001
	<i>NOOSR non permanent residents education assessments</i>	Fee	Policy	1997	To be reviewed
	<i>NOOSR education assessments</i>	Fee	Policy	1987	To be reviewed in 2001
	<i>CRICOS & PRISMS</i>	Fee	Demand/Users	1997	Annually
	<i>Jobguide</i>	na	Services	1998	Biannually
	<i>Australian Education International</i>	Fee	Beneficiary/Policy	1993	Annually
	<i>International Services</i>	Fee	Beneficiary/Policy	1993	Ad hoc
	<i>Statistics Unit</i>	Fee	Demand/Users	1991	Annually
Anglo -Australian Telescope Board		Fee	User/Services	1997	Triennially
ANTA		Fee	Policy/User	1996	Annually

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.27 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	NOOSR migration case assessments	0.5	0.5	100.0	0.5	100.0	Yes	na
	NOOSR sale of publications	—	—	100.0	—	100.0	No	na
	NOOSR Vetassess assessment program	0.3	0.3	100.0	0.3	100.0	No	na
	NOOSR teaching assessments	0.4	0.4	100.0	0.4	100.0	No	na
	NOOSR non permanent residents education assessments	0.1	0.1	100.0	0.1	100.0	No	na
	NOOSR education assessments	0.1	0.1	100.0	0.1	50.0	No	na
	CRICOS & PRISMS	1.0	1.0	100.0	1.4	71.4	Yes	CRF
	Jobguide	0.1	1.4	7.1	0.3	33.3	Yes	Refund/Retained
	Australian Education International	1.2	5.0	24.0	4.4	27.0	Yes	Retained
	International Services	0.9	0.9	100.0	0.3	300.0	Yes	CRF
	Statistics Unit	—	—	100.0	—	121.4	Yes	Refund
Anglo -Australian Telescope Board		1.3	1.3	100.0	1.2	108.3	No	Retained
ANTA		0.1	25.5	0.4	18.1	0.6	No	na

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. .. Not applicable. — Rounds to zero.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.28 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>NOOSR migration case assessments</i>	Direct	na	na	No
	<i>NOOSR sale of publications</i>	Direct	na	na	No
	<i>NOOSR Vetassess assessment program</i>	Direct/Indirect	na	na	No
	<i>NOOSR teaching assessments</i>	Direct/Indirect	na	na	No
	<i>NOOSR non permanent residents education assessments</i>	Direct/Indirect	na	na	No
	<i>NOOSR education assessments</i>	Direct/Indirect	na	na	No
	<i>CRICOS & PRISMS</i>	Direct/Indirect	na	na	No
	<i>Jobguide</i>	Direct	na	na	No
	<i>Australian Education International</i>	Direct/Indirect	Pro rata (labour)	na	No
	<i>International Services</i>	Direct/Indirect	Activity based costing	Deprival	Yes
	<i>Statistics Unit</i>	Direct/Indirect	Other	na	No
Anglo -Australian Telescope Board		Direct/Indirect	Pro rata (labour)	Deprival	Yes
ANTA		Direct/Indirect	Pro Rata (rent/labour)	na	na

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity.' Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.29 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>NOOSR migration case assessments</i>	Other Act	Govt	DOFA	No ongoing consultation	na
	<i>NOOSR sale of publications</i>	No Act	Govt	Cwealth	Govt	No
	<i>NOOSR Vetassess assessment program</i>	Other Act	Govt	DOFA	Govt	No
	<i>NOOSR teaching assessments</i>	Other Act	Govt	DOFA	No ongoing consultation	No
	<i>NOOSR non permanent residents education assessments</i>	No Act	Govt	DOFA	No ongoing consultation	na
	<i>NOOSR education assessments</i>	Other Act	Govt	DOFA	No ongoing consultation	na
	<i>CRICOS & PRISMS</i>	Other Act	Govt/Industry	DOFA	No ongoing consultation	Yes (2000)
	<i>Jobguide</i>	None	Govt	na	No ongoing consultation	No
	<i>Australian Education International</i>	FMA	Govt/Industry	DOFA	Govt/Industry	No
	<i>International Services</i>	FMA	Govt	DOFA	Govt	Yes (2000)
	<i>Statistics Unit</i>	FMA	Govt	DOFA/Other	No ongoing consultation	No
Anglo -Australian Telescope Board		No Act	No consultation	Cwealth/ Other	No ongoing consultation	No
ANTA		FMA	Govt	DOFA	Govt	Yes (2000)

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.30 Responsibility for various functions

Agency	Activity/sub-agency	Policy	Price setting	Administration	Revenue collection
Department	<i>NOOSR migration case assessments</i>	NOOSR/DIMA	NOOSR/DIMA	NOOSR/DIMA	NOOSR
	<i>NOOSR sale of publications</i>	NOOSR	NOOSR	NOOSR/AusInfo	NOOSR/AusInfo
	<i>NOOSR Vetassess assessment program</i>	NOOSR/DIMA	NOOSR/Vetassess	NOOSR	NOOSR
	<i>NOOSR teaching assessments</i>	NOOSR/DIMA	NOOSR	NOOSR	NOOSR
	<i>NOOSR non permanent residents education assessments</i>	NOOSR	NOOSR	NOOSR	NOOSR
	<i>NOOSR education assessments</i>	NOOSR/DIMA	NOOSR/DIMA	NOOSR	NOOSR
	<i>CRICOS & PRISMS</i>	DETYA	DETYA	DETYA	DETYA
	<i>Jobguide</i>	DETYA	DETYA	DETYA	DETYA
	<i>Australian Education International</i>	DETYA	DETYA	DETYA	DETYA
	<i>International Services</i>	DETYA	DETYA	DETYA	DETYA
	<i>Statistics Unit</i>	DETYA	DETYA	DETYA	DETYA
Anglo -Australian Telescope Board		Anglo-Aust. Observatory	Anglo-Aust. Observatory	Anglo-Aust. Observatory	Anglo-Aust. Observatory
ANTA		DOFA	ANTA/ATP	ANTA	ANTA

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

B.7 Portfolio: Employment, Workplace Relations and Small BusinessTable B.31 **Overview of arrangements**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Job search touch screen units leased to Job Network members</i>	Fee	Demand	1997	Triennially
	<i>IT implementation and training</i>	Fee	Demand/Services	1998	Ad hoc
	<i>Relocating IT functions</i>	Fee	Policy	1998	na
	<i>Office of workplace services</i>	Fee	User/Services	1994	na
	<i>Personnel operations training</i>	Fee	Demand	1990	Ad hoc
	<i>Public sector team</i>	Fee	Demand/Services	1996	Ad hoc
	<i>Trades Recognition Australia</i>	Fee	na	1989	Ad hoc
Comcare	<i>OH&S Act administration</i>	Fee	Policy	1992	Annually
	<i>Licensing under Safety Rehabilitation Compensation Act 1988</i>	Fee	Policy	1992	Annually
	<i>Training activities</i>	Fee	Policy/User	1992	Annually
NICNAS	<i>New chemical assessment fees</i>	Fee	Policy	1997	Ad hoc
	<i>Existing chemicals assessment</i>	Levy	Policy	1997	Ad hoc
	<i>Publications and seminars</i>	Fee	Policy	na	Ad hoc

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.32 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	Job search touch screen units leased to Job Network members	1.1	1.1	100.0	na	na	Yes	na
	IT implementation and training	15.6	15.6	100.0	15.6	100.0	Yes	na
	Relocating IT functions	15.6	15.6	100.0	15.6	100.0	Yes	na
	Office of workplace services	0.3	0.3	100.0	na	na	No	na
	Personnel operations training	0.2	0.2	100.0	0.4	50.0	Yes	Retained
	Public sector team	0.7	0.7	100.0	0.9	77.8	Yes	na
	Trades Recognition Australia	2.1	2.1	100.0	2.2	95.5	Yes	na
Comcare	OH&S Act administration	4.2	4.2	100.0	4.2	100.0	Yes	na
	Licensing under Safety Rehabilitation Compensation Act 1988	1.0	1.0	100.0	1.0	100.0	Yes	na
	Training activities	0.2	0.2	100.0	0.2	100.0	No	na
NICNAS	New chemical assessment fees	1.6	1.6	100.0	1.6	100.0	Yes	Retained
	Existing chemicals assessment	2.1	2.2	95.5	2.1	100.0	Yes	Retained
	Publications and seminars	—	—	100.0	—	100.0	na	Adjustment

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. **..** Not applicable. **—** Rounds to zero.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.33 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Job search touch screen units leased to Job Network members</i>	Direct	na	na	No
	<i>IT implementation and training</i>	Direct/Indirect	na	na	No
	<i>Relocating IT functions</i>	na	na	na	na
	<i>Office of workplace services</i>	Direct/Indirect	na	na	No
	<i>Personnel operations training</i>	Direct	na	na	No
	<i>Public sector team</i>	Direct	na	na	No
	<i>Trades Recognition Australia</i>	Direct	na	na	No
Comcare	<i>OH&S Act administration</i>	Direct/Indirect	Activity based costing	na	No
	<i>Licensing under Safety Rehabilitation Compensation Act 1988</i>	Direct/Indirect	Activity based costing	na	No
	<i>Training activities</i>	Direct/Indirect	Activity based costing	na	No
NICNAS	<i>New chemical assessment fees</i>	Direct/Indirect	Activity based costing	na	No
	<i>Existing chemicals assessment</i>	Direct/Indirect	Activity based costing	na	No
	<i>Publications and seminars</i>	Direct	na	na	No

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.34 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Job search touch screen units leased to Job Network members</i>	No Act	No consultation	Other	No ongoing consultation	No
	<i>IT implementation and training</i>	Other Act	Govt/Industry	None	Consumers	No
	<i>Relocating IT functions</i>	Other Act	na	na	No ongoing consultation	na
	<i>Office of workplace services</i>	No Act	No consultation	None	No ongoing consultation	No
	<i>Personnel operations training</i>	FMA	Govt	Cwealth	Govt	Yes (2000)
	<i>Public sector team</i>	FMA	Govt	Cwealth	Govt	Yes (2000)
	<i>Trades Recognition Australia</i>	Other Act	Govt	Cwealth	No ongoing consultation	No
Comcare	<i>OH&S Act administration</i>	Other	Govt	DOFA	Govt	Yes
	<i>Licensing under Safety Rehabilitation Compensation Act 1988</i>	Other	Govt	DOFA	Govt	Yes (1999-2000)
	<i>Training activities</i>	Other	Govt	DOFA	No ongoing consultation	No
NICNAS	<i>New chemical assessment fees</i>	Other Act	Govt/Industry/ Consumers	Independent from Govt	Govt/Industry	Yes (1997)
	<i>Existing chemicals assessment</i>	Other Act	Govt/Industry	Independent from Govt	Govt/Industry	Yes (2000)
	<i>Publications and seminars</i>	No Act	Govt/Industry	Cwealth	Govt/Industry	No

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.35 Responsibility for various functions

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Department	<i>Job search touch screen units leased to Job Network members</i>	DEWRSB	DEWRSB	DEWRSB	DEWRSB
	<i>IT implementation and training</i>	DEWRSB	DEWRSB	DEWRSB	DEWRSB
	<i>Relocating IT functions</i>	na	na	na	na
	<i>Office of workplace services</i>	na	na	na	na
	<i>Personnel operations training</i>	na	na	DEWRSB	DEWRSB
	<i>Public sector team</i>	DEWRSB	DEWRSB	DEWRSB	DEWRSB
	<i>Trades Recognition Australia</i>	DEWRSB	DEWRSB	DEWRSB	DEWRSB
Comcare	<i>OH&S Act administration</i>	DEWRSB	SRCC	Comcare	Comcare
	<i>Licensing under Safety Rehabilitation Compensation Act 1988</i>	DEWRSB	SRCC	Comcare	Comcare
	<i>Training activities</i>	DEWRSB	Comcare	Comcare	Comcare
NICNAS	<i>New chemical assessment fees</i>	DEWRSB	DEWRSB	NICNAS	NICNAS
	<i>Existing chemicals assessment</i>	DEWRSB	DEWRSB	NICNAS	NICNAS
	<i>Publications and seminars</i>	DEWRSB	NICNAS	NICNAS	NICNAS

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

B.8 Portfolio: Finance and AdministrationTable B.36 **Overview of arrangements**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Access to Government information</i>	Fee	Policy	na	na
AEC	<i>Roll management</i>	Fee	..	1991	Annually (changed), reviewed (3 yearly)
	<i>Roll products and services</i>	Fee	User	na	Periodic review
	<i>Industrial elections & ballots</i>	Fee	CN	1997	Periodic review
	<i>ATSIC elections</i>	Fee	User	1990	Annually
	<i>State & local govt. elections</i>	Fee	CN	na	Periodic review
	<i>Overseas election assistance</i>	Fee	User	na	Periodic review
ComSuper	<i>Superannuation administration services</i>	Fee	Purchaser-provider	1998-99	Annually

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services; CN = Competitive neutrality. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.37 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%	na	na
Department	Access to Government information	12.0	12.0	100.0	13.2	91.4	na	na
AEC	Roll management	0.1	0.3	31.6	5.4	46.1	na	na
	Roll products and services	0.2	0.7	23.8	0.7	23.8	na	Retained
	Industrial elections & ballots	1.1	8.8	12.1	8.8	12.1	na	Retained
	ATSIC elections	5.0	5.0	100.0	5.3	93.8	na	..
	State & local govt. elections	2.1	2.1	100.0	1.9	110.8	na	Retained
	Overseas election assistance	3.5	4.5	77.4	4.3	104.6	na	Retained
Comsuper	Superannuation administration services	39.0	39.9	98.9	38.8	101.6	na	Retained

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.38 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Access to Government information</i>	na	Activity based costing	Market value	na
AEC	<i>Roll management</i>	Direct	na	na	No
	<i>Roll products and services</i>	Direct/Indirect	Pro rata (salary)	na	No
	<i>Industrial elections & ballots</i>	Direct/Indirect	Pro rata (salary)	na	Yes
	<i>ATSIC elections</i>	Direct	na	na	No
	<i>State & local govt. elections</i>	Direct/Indirect	Pro rata (salary)	na	Yes
	<i>Overseas election assistance</i>	Direct/Indirect	Pro rata (salary)	na	No
Comsuper	<i>Superannuation administration services</i>	..	Activity based costing	Deprival	Yes

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.39 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Access to Government information</i>	Other Act	Govt	na	na	In progress
AEC	<i>Roll management</i>	FMA	Govt	DOFA	Govt	Yes
	<i>Roll products and services</i>	FMA	Govt	DOFA/Internal	Govt	Yes
	<i>Industrial elections & ballots</i>	FMA/Other Act	na	DOFA/Internal	na	In progress
	<i>ATSIC elections</i>	FMA/Other Act	Govt	..	na	Yes
	<i>State & local govt. elections</i>	FMA	na	DOFA/Internal	na	In progress
	<i>Overseas election assistance</i>	FMA	na	DOFA/Internal	na	na
Comsuper	<i>Superannuation administration services</i>	FMA	Govt	External	DOFA/Board of trustees	No

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.40 **Responsibility for various functions**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Department	<i>Access to Government information</i>	DOFA	DOFA	DOFA	DOFA
AEC	<i>Roll management</i>	AEC	AEC	AEC	AEC
	<i>Roll products and services</i>	AEC	AEC	AEC	AEC
	<i>Industrial elections & ballots</i>	AEC	AEC	AEC	AEC
	<i>ATSIC elections</i>	AEC	AEC	AEC	AEC
	<i>State & local govt. elections</i>	AEC	AEC	AEC	AEC
	<i>Overseas election assistance</i>	AEC	AEC	AEC	AEC
ComSuper	<i>Superannuation administration services</i>	DOFA	ComSuper	ComSuper	ComSuper

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

B.9 Portfolio: Foreign Affairs and Trade

Table B.41 Overview of arrangements

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Passports</i>	Fee	Beneficiary/Revenue/Demand	na	Annually
	<i>Consular services</i>	Fee	Demand	1955	10 years
	<i>Market development division</i>	Fee	Policy	1992	Annually
	<i>Australian safeguards and non-proliferation office</i>	Levy	Beneficiary	1993	Annually
	<i>East asia analytical unit</i>	Fee	na	na	Ad hoc
	<i>Finance management branch</i>	Fee	Policy	1998	Six monthly
Austrade	<i>Client service policy</i>	Fee	Policy	1998	Irregularly
	<i>Trade promotion activities</i>	Fee	Revenue	1986	Ad hoc
	<i>Programs funded by external organisations</i>	Fee	Services	1986	Ad hoc

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.42 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	Passports	126.7	126.7	100.0	0.0	na	No	na
	Consular services	1.2	1.2	100.0	0.0	na	No	na
	Market development division	—	—	100.0	—	69.6	No	Retained
	Australian safeguards and non-proliferation office	0.5	na	..	na	..	No	na
	East asia analytical unit	0.1	0.1	100.0	0.8	6.3	No	na
	Finance management branch	14.6	14.6	100.0	0.0	na	No	na
Austrade	Client service policy	8.5	103.5	8.2	103.5	8.21	Yes	Retained
	Trade promotion activities	4.5	4.5	100.0	4.5	100.0	Yes	Retained
	Programs funded by external organisations	15.8	15.8	100.0	15.8	100.0	Yes	Retained

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. **..** Not applicable. **—** Rounds to zero.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.43 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Passports</i>	na	na	na	na
	<i>Consular services</i>	na	No	na	No
	<i>Market development division</i>	Direct	na	na	na
	<i>Australian safeguards and non-proliferation office</i>	na	Activity based costing	na	na
	<i>East asia analytical unit</i>	Direct	na	na	No
	<i>Finance management branch</i>	Direct/Indirect	na	No	No
Austrade	<i>Client service policy</i>	Direct/Indirect	na	na	No
	<i>Trade promotion activities</i>	Direct/Indirect	Activity based costing	na	No
	<i>Programs funded by external organisations</i>	Direct/Indirect	Activity based costing	Deprival	Yes

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.44 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Passports</i>	Other Act	Govt	na	na	No
	<i>Consular services</i>	Other Act	Govt	na	na	No
	<i>Market development division</i>	FMA	Govt	Cwealth	No ongoing consultation	na
	<i>Australian safeguards and non-proliferation office</i>	Other Act	Govt	na	No ongoing consultation	Yes (1987)
	<i>East asia analytical unit</i>	na	na	na	na	na
	<i>Finance management branch</i>	No Act	Govt	na	na	No
Austrade	<i>Client service policy</i>	Other Act	Govt	Cwealth	Govt/Industry/Consumers	Yes (1998)
	<i>Trade promotion activities</i>	Other Act	Govt	DOFA	Consumers	Yes (1996)
	<i>Programs funded by external organisations</i>	Other Act	Govt	DOFA	Consumers	Yes

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.45 **Responsibility for various functions**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Department	<i>Passports</i>	DFAT	Legislation	DFAT/DOFA	DFAT
	<i>Consular services</i>	DFAT	Governer General	DFAT	DFAT
	<i>Market development division</i>	na	MIA/DFAT	MIA/DFAT	MIA/DFAT
	<i>Australian safeguards and non-proliferation office</i>	DFAT	DFAT	DFAT	DFAT
	<i>East asia analytical unit</i>	na	na	na	na
	<i>Finance management branch</i>	DFAT	DFAT	DFAT	DFAT
Austrade	<i>Client service policy</i>	Austrade/DFAT	Austrade	Austrade	Austrade
	<i>Trade promotion activities</i>	Austrade/DFAT	Austrade	Austrade	Austrade
	<i>Programs funded by external organisations</i>	Austrade/DOFA	Austrade	Austrade	Austrade

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

B.10 Portfolio: Family and Community Services

Table B.46 **Overview of arrangements**

<i>+Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Australian Institute of Family Studies	<i>Publications</i>	Fee	na	1980	Regularly
	<i>Contract research</i>	Fee	na	1980	Regularly
Centrelink	<i>Business partnership agreements</i>	Fee	User	1997	Annually

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.47 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Australian Institute of Family Studies	Publications	0.1	0.1	100.0	0.2	50.0	na	Retained
	Contract research	0.6	0.6	100.0	0.6	100.0	na	Retained
Centrelink	Business partnership agreements	na	1 680	na	na	na	na	Retained

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

Table B.48 Costs recovered

Agency	Activity/sub-agency	What costs charges aim to recover ^a	How indirect costs are allocated ^b	Basis for asset valuation	Whether charges include a user cost of capital
Australian Institute of Family Studies	Publications	Direct/Indirect	Pro rata	Historic	No
	Contract research	Direct/Indirect	Pro rata	Historic	Yes
Centrelink	Business partnership agreements	Direct/Indirect	Pro rata	Historic	No

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.49 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Australian Institute of Family Studies	<i>Publications</i>	Other Act	na	DOFA	Stakeholders	Yes (2001)
Centrelink	<i>Contract research</i>	Other Act	na	DOFA	Govt/Industry/Consumers	Yes (1999)
	<i>Business partnership agreements</i>	FMA/Other Act	na	na	Client/DOFA	Yes (2001)

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

Table B.50 **Responsibility for various functions**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Australian Institute of Family Studies	<i>Publications</i>	AIFS	AIFS	AIFS	AIFS
Centrelink	<i>Contract research</i>	AIFS	AFIS	AFIS	AFIS
	<i>Business partnership agreements</i>	Client	Centrelink/DOFA	na	na

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

B.11 Portfolio: Health and Aged Care**Table B.51 Overview of arrangements**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	TGA	Fee/Tax	Policy/User	1990	Annually
ANZFA	Publications	Royalties/Fee	Users	1991	na
AIHW	Statistical services	Fee	Services	1987	na
ARPANSA	Regulation	Fee	User	1999	Annually
HIC	Consultancy services and sale of statistics	Fee	User	na	na

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.52 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	TGA	41.4	43.8	94.7	49.0	84.5	Both	Retained
ANZFA	Publications	0.8	13.6	5.9	13.1	6.1	No	na
AIHW	Statistical services	9.2	17.8	51.9	17.7	52.0	No	Refund/Retained
ARPANSA	Regulation	1.2	3.8	31.6	3.6	33.5	No	Adjustment
HIC	Consultancy services and sale of statistics	8.8	391.5	2.2	416.3	2.1	na	na

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

Table B.53 Costs recovered

Agency	Activity/sub-agency	What costs charges aim to recover ^a	How indirect costs are allocated ^b	Basis for asset valuation	Whether charges include a user cost of capital
Department	TGA	Direct/Indirect	Activity based costing	Deprival	No
ANZFA	Publications	Direct/Indirect	% of direct costs	..	No
AIHW	Statistical services	Direct/indirect	% of non-salary costs	na	No
ARPANSA	Regulation	Direct/Indirect	Pro rata (labour)	..	No
HIC	Consultancy services and sale of statistics	Direct/Indirect	% of direct costs	na	No

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.54 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	TGA	Tax Act/ Other Act	Govt/Industry/ Consumers	na	Industry/Consumers	No
ANZFA	Publications	Other Act	Govt/Industry/ Consumers	DOFA/Other	Industry/Consumers	No
AIHW	Statistical services	na	Govt	Cwealth	DHAC/FaCS	Yes (1999)
ARPANSA	Regulation	Other Act	Govt	DOFA/Other	Minister/Industry	No
HIC	Consultancy services and sale of statistics	na	Govt	na	No ongoing consultation	No

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

Table B.55 **Responsibility for various functions**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Department	TGA	TGA	TGA	TGA	TGA
ANZFA	Publications	ANZFA	ANZFA	ANZFA	ANZFA
AIHW	Statistical services	AIHW/DHAC/FaCS	AIHW/DHAC/FaCS	AIHW	AIHW
ARPANSA	Regulation	ARPANSA	ARPANSA	ARPANSA	ARPANSA
HIC	Consultancy services and sale of statistics	HAC/HIC	HAC/HIC	HIC	HIC

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

B.12 Portfolio: Immigration and Multicultural Affairs

Table B.56 **Overview of arrangements**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Miscellaneous</i>	Fee	User/Revenue/Demand	Mid-80s	Annually
	<i>Translating and Interpreting Services</i>	Fee	User/ Revenue/Demand	1992	Irregularly
	<i>Visa Application Charges</i>	Fee	User/Demand	Mid-80s	Annually
	<i>Citizenship fees</i>	Fee	User	na	Annually
MARA	<i>Registration</i>	Fee	Revenue/User	1998	Annually
MRT	<i>Review of DIMA visa decisions</i>	Fee	Policy	1999	Irregularly
RRT	<i>Review of DIMA visa decisions</i>	Fee	Policy	1999	Irregularly

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.57 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	Miscellaneous	3.0	8.0	37.5	6.0	50.0	No	Retained
	Translating and Interpreting Services	9.5	24.5	38.8	24.5	38.8	Yes	Retained
	Visa Application Charges	204.1	743.0	27.5	515.4	39.6	No	CRF
	Citizenship fees	8.0	na	na	21.0	38.1	No	CRF
MARA	Registration	1.8	1.8	100.0	1.8	100.0	Yes	..
MRT	Review of DIMA visa decisions	5.9	na	na	11.7	50.4	No	CRF
RRT	Review of DIMA visa decisions	0.7	na	na	17.9	3.9	No	CRF

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.58 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Miscellaneous</i>	Direct/Indirect	Activity based costing	na	na
	<i>Translating and Interpreting Services</i>	Direct/Indirect	Pro rata	Historic	No
	<i>Visa Application Charges</i>	..	..	..	..
	<i>Citizenship fees</i>	..	..	..	..
MARA	<i>Registration</i>	Direct/Indirect	Pro rata	Historic	No
MRT	<i>Review of DIMA visa decisions</i>	..	..	..	..
RRT	<i>Review of DIMA visa decisions</i>	..	..	..	..

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.59 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Miscellaneous</i>	FMA	Govt	DOFA	DOFA/Industry	Yes
	<i>Translating and Interpreting Services</i>	FMA	Govt	DOFA	Minister	Yes (2000)
	<i>Visa Application Charges</i>	Other Act	Govt	DOFA	Minister/Govt/Industry	Yes (1997)
	<i>Citizenship fees</i>	Other Act	Govt	DOFA	Minister/Govt	Yes (1999)
MARA	<i>Registration</i>	Other Act	Govt/Industry/Consumers	DOFA	Industry/Minister	Yes (1997, 1999)
MRT	<i>Review of DIMA visa decisions</i>	Other Act	Govt	DOFA	DOFA/Minister	Yes
RRT	<i>Review of DIMA visa decisions</i>	Other Act	Govt	DOFA	DOFA/Minister	Yes

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

Table B.60 **Responsibility for various functions**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Department	<i>Miscellaneous</i>	DIMA	DIMA	DIMA	DIMA
	<i>Translating and Interpreting Services</i>	DIMA/Minister	DIMA	DIMA	DIMA
	<i>Visa Application Charges</i>	DIMA/Govt/Minister	DIMA/Minister/DOFA	DIMA	DIMA
	<i>Citizenship fees</i>	DIMA/Govt/Minister	DIMA/Minister/DOFA	DIMA	DIMA
MARA	<i>Registration</i>	DIMA/Govt/Minister	DIMA/Minister	DIMA	MARA
MRT	<i>Review of DIMA visa decisions</i>	DIMA/Govt/Minister	Govt	MRT	MRT
RRT	<i>Review of DIMA visa decisions</i>	DIMA/Govt/Minister	Govt	RRT	RRT

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

B.13 Portfolio: Industry, Science and Resources

Table B.61 Overview of arrangements

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Refining and Fuels Section</i>	Fee	Beneficiary	Mid 1980s	Irregularly
	<i>Australian Diver Accreditation</i>	Fee	Policy	1987	Irregularly
	<i>Supplier Access to Major Projects</i>	Fee	Beneficiary	1998-99	na
	<i>Bizlink</i>	Fee	na	Around 1994	No changes
	<i>Emerging Technologies</i>	Fee	Demand	1999	No changes (new programme)
	<i>Innovation Investment Fund</i>	Fee	Demand/User	1997	Irregularly
	<i>Australian Government Analytical Laboratories</i>	Fee	Policy	1987	Annually
	<i>Space Licencing and Safety Office</i>	Fee	Policy	Charges not yet in place	Biennially
	<i>IPS Radio and Space Services</i>	Fee	Administrative decision	1985	Annually
AUSLIG		Fee	na	1950s	Annually
AGSO		Fee	Policy	1988	Regularly
CSIRO		Fee	Encourage links with industry	1949	Regularly
IP Australia		Fee	Policy	1984	Annually
NSC		Fee	Policy	1983	Changes frozen since 1996
ATC	<i>Trade Events</i>	Fee	Revenue	Early 1990s	Irregularly
	<i>Advertising</i>	Fee	Revenue/User	Early 1990s	Annually
	<i>Co-operative Marketing Agreements</i>	Fee	Services	Prior to 1996	na
ANSTO		Fee	na	1980s	Annually
ASC		Fee	na	1980s	Annually
BTR		Fee	Policy	1987	Annually
AIMS		Fee	Encourage links with industry	1988	Annually

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.62 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	<i>Refining and Fuels Section</i>	—	—	100.0	0.1	17.1	..	Retained
	<i>Australian Diver Accreditation</i>	—	—	100.0	0.1	14.3	No	na
	<i>Supplier Access to Major Projects</i>	na	na	na	na	na	na	na
	<i>Bizlink</i>	0.1	5.6	1.3	5.6	1.3	Yes	..
	<i>Emerging Technologies</i>	0.1	0.8	12.5	0.8	12.5	No	Retained
	<i>Innovation Investment Fund</i>	0.1	0.1	100	1.0	8.7	Yes	..
	<i>Australian Government Analytical Laboratories</i>	19.4	30.3	64.1	30.2	64.2	No	na
	<i>Space Licencing and Safety Office^c</i>	0.0	0.0	..	0.0	..	..	na
	<i>IPS Radio and Space Services</i>	0.1	3.8	2.8	3.7	2.8	Yes	na
AUSLIG		4.7	33.2	14.2	33.2	14.2	No	Adjustment/ Services
AGSO		12.1	75.0	16.2	73.5	16.5	Yes	Retained
CSIRO		250.4	895.2	28.0	775.3	32.3	No	Retained
IP Australia		72.8	74.6	97.6	72.2	100.8	No	Retained
NSC		0.7	1.3	58.2	1.4	53.4	No	.. ^d
ATC	<i>Trade Events</i>	na	16.4	na	21.5	na	na	Services
	<i>Advertising</i>	na	4.8	na	5.9	na	na	Services
	<i>Co-operative Marketing Agreements</i>	4.0	4.0	100.0	10.9	36.8	No	na

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INTERNAL WORKING DOCUMENT

Table B.62 (continued)

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Revenue raised though cost recovery</i>	<i>Total revenue</i>	<i>CR revenue / total revenue</i>	<i>Total expenses</i>	<i>CR revenue / total expenses</i>	<i>Whether revenue is earmarked^a</i>	<i>What happens to revenue if it is greater than costs^b</i>
		\$m	\$m	%	\$m	%		
ANSTO		29.9	98.1	30.5	na	na	No	na
ASC		5.8	136.1	4.3	137.1	4.2	No	Retained
BTR		0.6	4.4	12.9	4.3	13.2	No	.. ^d
AIMS		4.6	30.3	15.2	27.0	17.0	No	Retained

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. ^c The Space Licencing and Safety Office is a new agency which is not yet charging for its activities. ^d Revenue raised by this agency has not exceeded costs. **CR** Cost recovery. **na** Not available. **..** Not applicable. **—** Rounds to zero.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.63 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Refining and Fuels Section</i>	Direct	..	na	No
	<i>Australian Diver Accreditation</i>	Direct	Activity based costing	..	..
	<i>Supplier Access to Major Projects</i>	na	na	na	na
	<i>Bizlink</i>	Direct	..	..	No
	<i>Emerging Technologies</i>	na	..	..	No
	<i>Innovation Investment Fund</i>	na	..	..	No
	<i>Australian Government Analytical Laboratories</i>	Direct/indirect	Pro rata	Deprival	Yes
	<i>Space Licencing and Safety Office</i>	Direct/Indirect	Activity based costing	..	No
	<i>IPS Radio and Space Services</i>	Direct	Pro rata	..	No
AUSLIG		Direct/Indirect	Activity based costing	Deprival	No
AGSO		Direct/Indirect and Total Plus	na	Historic	No
CSIRO		Direct/Indirect	Pro rata (labour)	Deprival	Yes
IP Australia		Direct/Indirect	Activity based costing	Replacement/Deprival	Yes
NSC		Direct/Indirect	Pro rata	Deprival	No
ATC	<i>Trade Events</i>	Direct	..	..	No
	<i>Advertising</i>	..	..	..	No
	<i>Co-operative Marketing Agreements</i>	na	..	..	No
ANSTO		Direct/Indirect	Pro rata	Deprival	Yes
ASC		Direct	na	..	No
BTR		Direct	Pro rata (labour)	..	No
AIMS		Direct/Indirect	Pro rata (labour)	Fair value	Yes

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.64 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Refining and Fuels Section</i>	FMA	Govt/Consumers	None	Consumers	No
	<i>Australian Diver Accreditation</i>	FMA	Govt/Industry	..	Govt/Industry	No
	<i>Supplier Access to Major Projects</i>	No Act	Govt	na	No ongoing consultation	Yes (1999)
	<i>Bizlink</i>	na	Govt	DOFA	No ongoing consultation	No
	<i>Emerging Technologies</i>	Other Act	na	na	No ongoing consultation	No
	<i>Innovation Investment Fund</i>	Other Act	Govt	None	No ongoing consultation	No
	<i>Australian Government Analytical Laboratories</i>	FMA	na	DOFA	Govt/industry	Under review
	<i>Space Licencing and Safety Office</i>	Other Act	Govt/Industry	DOFA/Other	Govt/Industry	..
	<i>IPS Radio and Space Services</i>	FMA	Govt/Consumers	DOFA	No ongoing consultation	na
AUSLIG		FMA	na	Other	Govt/Industry/ Consumers	Under review
AGSO		FMA	Govt	DOFA	Govt/Industry	Under review
CSIRO		Other Act	Govt/Industry/ Consumers	Internal/Cwealth	Govt/Industry/ Consumers	Yes (1997)
IP Australia		FMA	Govt/Industry	DOFA	Govt/Industry	Yes (1999)
NSC		Other Act	Govt	None	Govt/Industry	Yes (1992)
ATC	<i>Trade Events</i>	Other Act	No consultation	None	Govt/Industry	No
	<i>Advertising</i>	Other Act	Govt/Industry/ Consumers	..	Industry	No
	<i>Co-operative Marketing Agreements</i>	Other Act	Industry	na	na	..
ANSTO		na	Govt	Internal	Govt	na

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INTERNAL WORKING DOCUMENT

Table B.64 (continued)

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
ASC		No Act	Govt	None	No ongoing consultation	No
BTR		No Act	Govt	Cwealth	Govt/Industry/Consumers	Under review
AIMS		Other Act	Govt/Industry/Consumers	Internal/Cwealth	Govt/Industry/Consumers t	Yes

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.65 Responsibility for various functions

Agency	Activity/sub-agency	Policy	Price setting	Administration	Revenue collection
Department	<i>Refining and Fuels Section</i>	DISR	DISR	DISR	DISR
	<i>Australian Diver Accreditation</i>	DISR	DISR	DISR	DISR
	<i>Supplier Access to Major Projects</i>	DISR	na	DISR	na
	<i>Bizlink</i>	AusIndustry	AusIndustry	AusIndustry	AusIndustry
	<i>Emerging Technologies</i>	DISR	DISR	AusIndustry	DISR
	<i>Innovation Investment Fund</i>	Industry Research and Development Board	Industry Research and Development Board	DISR	DISR
	<i>Australian Government Analytical Laboratories</i>	DISR	DISR	DISR	DISR
	<i>Space Licencing and Safety Office</i>	DISR	DISR	DISR	DISR
	<i>IPS Radio and Space Services</i>	DISR	IPS	IPS	IPS
AUSLIG		AUSLIG	AUSLIG	AUSLIG	AUSLIG
AGSO		AGSO	AGSO	AGSO	AGSO
CSIRO		CSIRO	CSIRO	CSIRO	CSIRO
IP Australia		IP Australia, DISR, DFAT	IP Australia	IP Australia	IP Australia
NSC		NSC	NSC	NSC	NSC
ATC	<i>Trade Events</i>	ATC	ATC	ATC	ATC
	<i>Advertising</i>	ATC	ATC	ATC	ATC
	<i>Co-operative Marketing Agreements</i>	na	na	na	na
ANSTO		ANSTO	ANSTO	ANSTO	ANSTO
ASC		ASC	ASC	ASC	ASC
BTR		Ministerial Council	BTR	BTR	BTR
AIMS		AIMS	AIMS	AIMS	AIMS

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

B.14 Portfolio: Prime Minister and Cabinet

Table B.66 Overview of arrangements

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Photographic services; management of advertising accounts; sale of books</i>	Fee	na	na	na
AIATSIS	<i>Archives and production</i>	Fee	na	1964	na
ANAO	<i>Auditing</i>	Fees	na	na	Annually
Office of the Commonwealth Ombudsman	<i>ACT Ombudsman Function</i>	Fee	na	1996	Annually
	<i>ATO tax reform complaint service</i>	Fee	na	1999-2000	na
Office of the Inspector-General of Intelligence and Security	<i>Inquiry for Minister for Defence</i>	Fee	na	na	na
Office of the Official Secretary to the Governor-General	<i>Replacement awards</i>	Fee	na	1975	Irregularly
PSMPC	<i>Training, employment related functions, employment notices</i>	Fee	na	Late 80s (training), 1994 (employment), prior to 1999 (notices)	Regularly

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.67 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	<i>Photographic services; management of advertising accounts; sale of books</i>	3.8	3.8	100.0	2.2	171.2	No	Retained
AIATSIS	<i>Archives and production</i>	0.3	0.3	100.0	0.4	85.7	No	Retained
ANAO	<i>Audit fees</i>	10.6	60.1	17.6	45.4	23.2	No	na
Office of the Commonwealth Ombudsman	<i>ACT Ombudsman Function</i>	0.2	0.2	100.0	na	na	No	na
	<i>ATO tax reform complaint service</i>	0.2	0.2	100.0	na	na	No	na
Office of the Inspector-General of Intelligence and Security	<i>Inquiry for Minister for Defence</i>	0.1	0.1	100.0	0.1	100.0	No	..
Office of the Official Secretary to the Governor-General	<i>Replacement awards</i>	—	—	100.0	na	na	No	na
PSMPC	<i>Training, employment related functions, employment notices</i>	8.4	8.4	100.0	22.6	37.2	Yes	Retained

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. **..** Not applicable. **—** Rounds to zero.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.68 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Photographic services; management of advertising accounts; sale of books</i>	na	Pro-rata	na	na
AIATSIS	<i>Archives and production</i>	Direct	na	na	na
ANAO	<i>Audit fees</i>	na	Pro-rata	na	No
Office of the Commonwealth Ombudsman	<i>ACT Ombudsman Function</i>	Labour	..	na	No
	<i>ATO tax reform complaint service</i>	Labour	..	na	No
Office of the Inspector-General of Intelligence and Security	<i>Inquiry for Minister for Defence</i>	Direct	na	na	na
Office of the Official Secretary to the Governor-General	<i>Replacement awards</i>	na	na	na	No
PSMPC	<i>Training, employment related functions, employment notices</i>	Direct (training and employment), Direct/indirect (notices)	Pro-rata	..	No

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity'. Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.69 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Photographic services; management of advertising accounts; sale of books</i>	FMA	Govt	na	na	Yes
AIATSIS	<i>Archives and production</i>	Other Act	na	na	Govt	na
ANAO	<i>Audit fees</i>	Other Act	Govt	na	No ongoing consultation	Yes
Office of the Commonwealth Ombudsman	<i>ACT Ombudsman Function</i>	Other Act	Govt	na	Govt	No
	<i>ATO tax reform complaint service</i>	FMA	Govt	None	Govt	No
Office of the Inspector-General of Intelligence and Security	<i>Inquiry for Minister for Defence</i>	No Act	Govt	..	No ongoing consultation	Yes
Office of the Official Secretary to the Governor-General	<i>Replacement awards</i>	na	na	na	No ongoing consultation	No
PSMPC	<i>Training, employment related functions, employment notices</i>	FMA/Other Act	Govt	DOFA	No ongoing consultation	Yes

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.70 Responsibility for various functions

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
Department	<i>Photographic services; management of advertising accounts; sale of books</i>	PM&C	PM&C	PM&C	PM&C
AIATSIS	<i>Archives and production</i>	AIATSIS	AIATSIS	AIATSIS	AIATSIS
ANAO	<i>Audit fees</i>	PM&C	ANAO	ANAO	ANAO
Office of the Commonwealth Ombudsman	<i>ACT Ombudsman Function</i>	na	na	na	na
	<i>ATO tax reform complaint service</i>	na	na	na	na
Office of the Inspector-General of Intelligence and Security	<i>Inquiry for Minister for Defence</i>	na	na	na	na
Office of the Official Secretary to the Governor-General	<i>Replacement awards</i>	na	na	na	na
PSMPC	<i>Training, employment related functions, employment notices</i>	PSMPC	PSMPC	PSMPC	PSMPC

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

B.15 Portfolio: Treasury

Table B.71 **Overview of arrangements**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Corporate services for the AOFM</i>	Fee	User	1999-2000	Annually
	<i>Ministerial support provided to portfolio agencies</i>	Fee	User	1993 Approx.	Annually
	<i>AGA - Actuarial services</i>	Fee	Demand	1990 Approx.	Annually
	<i>AGA - Sale of publications</i>	Fee	na	Early 90s	Five yearly
	<i>Sale of TRYM model</i>	Fee	User	1995-96 Approx.	Adhoc
	<i>Sale of Treasury publications</i>	Fee	na	Pre 1995	Annually
	<i>Corporations and Securities Panel - transcript and experts' costs,</i>	Fee	na	2000	na
ABS		Fee	Demand/Revenue	1988	Annually
ACCC	<i>Telecommunication regulation</i>	Fee	Policy	1997	Annually
	<i>TPA fees</i>	Fee	Policy	na	Adhoc
	<i>Contract work, room hire, etc</i>	Fee	na	na	na
AOFM	<i>Sale of publications</i>	Fee	na	1999	Annually
APRA	<i>Prudential regulation of financial institutions</i>	Levy	Beneficiary	1998 ^b	Annually
ASIC	<i>Regulation of companies and securities markets</i>	Fee	Beneficiary/Policy	1991 ^c	Annually
ATO	<i>Incidental activities</i>	Fee	na	na	Annually
	<i>AVO - Valuation activities</i>	Fee	na	na	na
NCC	<i>National gas code application fees</i>	Fees	na	1999	No reviews
	<i>Speeches to communications conference</i>	Fees	Beneficiary	1998	Regularly
PC	<i>Library services</i>	Fee	na	1995-96	Irregularly
	<i>Sale of publications</i>	Fee	na	1999 Approx.	Annually
	<i>Consultancy work</i>	Fee	na	na	Annually
RBA	<i>Sale of some publications</i>	Fee	Demand	1981	Irregularly
Royal Australian Mint	<i>Minting of coins</i>	Fee	na	na	na

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. ^b Financial supervision fees were in existence before this date. ^c Company fees were in existence before this date. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.72 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	Corporate services for the AOFM	0.6	0.6	100.0	0.6	100.0	No	..
	Ministerial support provided to portfolio agencies	0.3	0.3	100.0	0.3	100.0	No	..
	AGA - Actuarial services	0.9	0.9	100.0	0.3	250.7	No	Retained
	AGA - Sale of publications	—	—	100.0	na	na	No	..
	Sale of TRYM model	—	—	100.0	na	na	Yes	..
	Sale of Treasury publications	0.2	0.2	100.0	0.3	50.0	No	..
	Corporations and Securities Panel — transcript and experts' costs,	—	2.3	0.6	1.0	1.3	No	..
ABS		21.5	265.0	8.1	255.5	8.4	Yes	Retained
ACCC	Telecommunication regulation	2.8	2.8	100.0	2.8	100.0	No	..
	TPA fees	1.2	1.2	100.0	na	na	No	..
	Contract work, room hire, etc	0.2	0.2	100.0	na	na	No	na
AOFM	Sale of publications	na	na	na	na	na	na	..
APRA	Prudential regulation of financial institutions	61.2 ^c	64.7	94.6	58.8	104.1	No	Adjustment
ASIC	Regulation of companies and securities markets	201.0 ^d	201.0	100.0	144.8	138.8	No	CRF
ATO	Incidental activities	101.0	108.1	93.4	101.0	100.0	No	Refund
	AVO - Valuation activities	17.7	18.1	97.8	17.1	103.5	No	Retained
NCC	National gas code application fees	0.1	0.1	100.0	0.2	27.9	No	..
	Speeches to communications conference	—	—	100.0	—	69.0	No	..

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INTERNAL WORKING DOCUMENT

Table B.72 (continued)

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Revenue raised though cost recovery</i>	<i>Total revenue</i>	<i>CR revenue / total revenue</i>	<i>Total expenses</i>	<i>CR revenue / total expenses</i>	<i>Whether revenue is earmarked^a</i>	<i>What happens to revenue if it is greater than costs^b</i>
		\$m	\$m	%	\$m	%		
PC	<i>Library services</i>	—	—	100.0	—	100.0	No	Retained
	<i>Sale of publications</i>	—	—	100.0	—	100.0	No	Retained
	<i>Consultancy work</i>	—	—	100.0	—	100.0	No	Retained
RBA	<i>Sale of some publications</i>	0.1	0.1	100.0	0.2	27.0	No	na
Royal Australian Mint	<i>Minting of coins</i>	115.0	115.0	100.0	46.9	245.1	No	CRF

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. ^c Does not include transfers to ASIC and the ATO. ^d Does not include transfers to third parties. **CR** Cost recovery. **na** Not available. .. Not applicable. — Rounds to zero.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.73 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Corporate services for the AOFM</i>	Direct	Pro-rata	na	No
	<i>Ministerial support provided to portfolio agencies</i>	Direct	Pro-rata	na	No
	<i>AGA - Actuarial services</i>	Direct/Indirect	na	..	No
	<i>AGA - Sale of publications</i>	na	na	..	No
	<i>Sale of TRYM model</i>	na	na	na	na
	<i>Sale of Treasury publications</i>	Direct (printing)	Pro-rata	..	No
	<i>Corporations and Securities Panel - transcript and experts' costs</i>	Direct (some)	na	..	No
ABS		Direct/Indirect	Pro rata (direct labour costs)	Historic	No
ACCC	<i>Telecommunication regulation</i>	Direct/Indirect	na	na	No
	<i>TPA fees</i>	na	..	..	No
	<i>Contract work, room hire, etc</i>	Direct/Indirect	na	na	No
AOFM	<i>Sale of publications</i>	na	na	na	na
APRA	<i>Prudential regulation of financial institutions</i>	Direct/Indirect	Pro rata	na	No
ASIC	<i>Regulation of companies and securities markets</i>	Total plus	na	na	No
ATO	<i>Incidental activities</i>	Direct/Indirect	na	..	No
	<i>AVO – Valuation activities</i>	Direct/Indirect	Rule of thumb	Deprival	Yes
NCC	<i>National gas code application fees</i>	na	na	..	No
	<i>Speeches to communications conference</i>	Direct	..	na	No

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INTERNAL WORKING DOCUMENT

Table B.73 (continued)

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
PC	<i>Library services</i>	Direct	na	..	No
	<i>Sale of publications</i>	Direct (printing, postage)	..	..	No
	<i>Consultancy work</i>	Direct/Indirect	na	..	No
RBA	<i>Sale of some publications</i>	Direct	na	na	No
Royal Australian Mint	<i>Minting of coins</i>	Direct/Indirect	Pro-rata	Deprival	No

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.74 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Corporate services for the AOFM</i>	No Act	Govt	..	Govt	Yes
	<i>Ministerial support provided to portfolio agencies</i>	No Act	Govt	..	na	na
	<i>AGA - Actuarial services</i>	FMA	Govt	na	No ongoing consultation	No
	<i>AGA - Sale of publications</i>	FMA	Govt	na	No ongoing consultation	No
	<i>Sale of TRYM model</i>	FMA	Govt	Cwealth	Govt	Yes
	<i>Sale of Treasury publications</i>	FMA	Govt	Cwealth	No ongoing consultation	No
	<i>Corporations and Securities Panel - transcript and experts' costs,</i>	No Act	Industry	na	Industry	No
ABS		FMA/Other Act	Govt	DOFA	Govt/Industry	No
ACCC	<i>Telecommunication regulation</i>	Tax Act	Govt	na	na	na
	<i>TPA fees</i>	Other Act	Govt	na	na	na
	<i>Contract work, room hire, etc</i>	FMA	na	na	No ongoing consultation	na
AOFM	<i>Sale of publications</i>	FMA	Govt	DOFA/ Cwealth	No ongoing consultation	No
APRA	<i>Prudential regulation of financial institutions</i>	Tax Acts	Govt/Industry	Other	Govt/Industry	Yes (2001)
ASIC	<i>Regulation of companies and securities markets</i>	Tax Act	Govt	Cwealth/ Other	No ongoing consultation	Yes (2001)
ATO	<i>Incidental activities</i>	No Act	Govt	Internal	Govt	na
	<i>AVO - Valuation activities</i>	FMA	Govt	DOFA	No ongoing consultation	Not recently
NCC	<i>National gas code application fees</i>	Other Act	Govt/industry	Cwealth	Govt	No
	<i>Speeches to communications conference</i>	na	na	na	na	No

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INTERNAL WORKING DOCUMENT

Table B.73 (continued)

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
PC	<i>Library services</i>	FMA	Govt	DOFA	Consumers	Yes (1997)
	<i>Sale of publications</i>	FMA	Consumers	Internal	No ongoing consultation	No
	<i>Consultancy work</i>	FMA	Govt	Internal	No ongoing consultation	No
RBA	<i>Sale of some publications</i>	No Act	na	Internal	No ongoing consultation	Yes
Royal Australian Mint	<i>Minting of coins</i>	No Act	Govt	na	Govt	Yes

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.75 Responsibility for various functions

Agency	Activity/sub-agency	Policy	Price setting	Administration	Revenue collection
Department	<i>Corporate services for the AOFM</i>	Treasury	Treasury	Treasury	Treasury
	<i>Ministerial support provided to portfolio agencies</i>	Treasury	Treasury	Treasury	Treasury
	<i>AGA - Actuarial services</i>	Treasury	Treasury	Treasury	Treasury
	<i>AGA - Sale of publications</i>	Treasury	Treasury	Treasury	Treasury
	<i>Sale of TRYM model</i>	Treasury/ABS	Treasury/ABS	ABS	ABS
	<i>Sale of Treasury publications</i>	Treasury	Treasury	Treasury	Treasury
	<i>Corporations and Securities Panel - transcript and experts' costs,</i>	The panel	The panel	The panel	The panel
ABS		ABS	ABS	ABS	ABS
ACCC	<i>Telecommunication regulation</i>	Treasury	na	na	na
	<i>TPA fees</i>	Treasury	Treasury	ACCC	ACCC
	<i>Contract work, room hire, etc</i>	ACCC	ACCC	ACCC	ACCC
AOFM	<i>Sale of publications</i>	AOFM	AOFM/AUSINFO	AUSINFO	AUSINFO
APRA	<i>Prudential regulation of financial institutions</i>	APRA/Treasury	APRA/Treasury	APRA/DOFA	APRA/DOFA
ASIC	<i>Regulation of companies and securities markets</i>	Treasury	Treasury/Minister	ASIC	ASIC
ATO	<i>Incidental activities</i>	ATO	ATO	ATO	ATO
	<i>AVO - Valuation activities</i>	AVO	AVO	AVO	AVO
NCC	<i>National gas code application fees</i>	NCC	NCC	NCC	NCC
	<i>Speeches to communications conference</i>	NCC	NCC	NCC	NCC
PC	<i>Library services</i>	PC	PC	PC	PC
	<i>Sale of publications</i>	PC	PC	PC	PC
	<i>Consultancy work</i>	PC	PC	PC	PC
RBA	<i>Sale of some publications</i>	RBA	RBA	RBA	RBA
Royal Australian Mint	<i>Minting of coins</i>	Treasury	Treasury	Royal Australian Mint	Royal Australian Mint

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

B.16 Portfolio: Transport and Regional Services

Table B.76 **Overview of arrangements**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Type of charge</i>	<i>Stated rationale for cost recovery^a</i>	<i>When introduced</i>	<i>How often charges are changed/reviewed</i>
Department	<i>Noise amelioration program and airport environmental officers</i>	Fee	Policy	1995-2001	Annually (amelioration), Adhoc (airports)
	<i>ATSB</i>	Fee	na	1999	Adhoc
	<i>Avstats</i>	Fee	User/Demand	1993	na
	<i>BTE</i>	Fee	User/Demand	1996-97	Adhoc
	<i>Coasting trade licence and permit fees</i>	Fee	User	1997	na
	<i>Part X (Trade Practices Act 1974) fees</i>	Fee	na	1989	Irregularly
	<i>Vehicle safety standards</i>	Fees	User	1989	Irregularly
	<i>IASC</i>	Fee	User	na	na
AMSA	<i>Regulation and safety</i>	Levies	Policy/User	na	Annually
ASA	<i>Aeronautical services</i>	Fee	User	na	Anually (minimum)
CASA	<i>Aviation safety standards and regulation</i>	Excise/Fee	Policy/User/Beneficiary	1988	Bi-annually (CPI)
NCA	<i>Statutory fees, diplomatic leases</i>	Fee	na	na	na

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.77 Revenue 1999-2000

Agency	Activity/sub-agency	Revenue raised though cost recovery	Total revenue	CR revenue / total revenue	Total expenses	CR revenue / total expenses	Whether revenue is earmarked ^a	What happens to revenue if it is greater than costs ^b
		\$m	\$m	%	\$m	%		
Department	Noise amelioration program and airport environmental officers	39.9	39.9	100.0	60.9	65.6	Yes	.. (amelioration), refund (airports)
	ATSB	0.2	0.2	100.0	10.2	1.5	na	..
	Avstats	0.1	0.1	100.0	na	na	Yes	na
	BTE	—	—	100.0	—	100.0	Yes	na
	Coasting trade licence and permit fees	0.2	0.2	100.0	na	na	No	na
	Part X (Trade Practices Act 1974) fees	—	—	100.0	—	82.6	No	..
	Vehicle safety standards	7.4	7.4	100.0	6.8	108.3	Both	na
	IASC	na	na	..	na	..	No	..
AMSA	Regulation and safety	52.4	54.6	96.0	57.6	90.9	Yes	Retained
ASA	Aeronautical services	na	na	na	na	na	No	Retained
CASA	Aviation safety standards and regulation	59.9	98.9	60.6	83.7	71.6	Yes	na
NCA	Statutory fees, diplomatic leases	1.0	17.0	5.8	15.3	6.5	Yes	CRF

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. **..** Not applicable. **—** Rounds to zero.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.78 **Costs recovered**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
Department	<i>Noise amelioration program and airport environmental officers</i>	Direct	..	na	No
	<i>ATSB</i>	Direct/Indirect	na	na	na
	<i>Avstats</i>	Direct	na	na	No
	<i>BTE</i>	Direct/Indirect	Pro-rata (direct)	na	No
	<i>Coasting trade licence and permit fees</i>	na	na	na	na
	<i>Part X (Trade Practices Act 1974) fees</i>	Direct/Indirect	Pro-rata (labour)	na	No
	<i>Vehicle safety standards</i>	na	na	na	na
	<i>IASC</i>	Less than direct	Fixed	..	..
AMSA	<i>Regulation and safety</i>	Direct/Indirect	Activity based costing	Deprivation	Yes
ASA	<i>Aeronautical services</i>	Total plus	Pro rata (staff)	Deprivation	Yes
CASA	<i>Aviation safety standards and regulation</i>	Direct/Indirect	na	Deprivation	No
NCA	<i>Statutory fees, diplomatic leases</i>	..	..	..	Yes

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity. 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.79 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
Department	<i>Noise amelioration program and airport environmental officers</i>	Other Acts	Govt/Industry/ Public	Other	na	Yes
	<i>ATSB</i>	FMA	Govt	DOFA	Govt	No
	<i>Avstats</i>	na	Govt	DOFA	na	No
	<i>BTE</i>	FMA	Govt	DOFA	None	No
	<i>Coasting trade licence and permit fees</i>	Other Act	na	na	na	na
	<i>Part X (Trade Practices Act 1974) fees</i>	Other Act	na	na	None	No
	<i>Vehicle safety standards</i>	Other Act	na	na	na	Irregularly
	<i>IASC</i>	na	Industry	na	Industry and state govt.	No
AMSA	<i>Regulation and safety</i>	Tax Act/Other Act	Industry	Independent to Govt	Industry	Yes (1997)
ASA	<i>Aeronautical services</i>	Other Act	na	Internal	Industry/Consumers	Yes (2000)
CASA	<i>Aviation safety standards and regulation</i>	Tax Act/Other Act	Govt/Industry/ Consumers	Independent to Govt	Govt/Industry	Yes
NCA	<i>Statutory fees, diplomatic leases</i>	Other Act	Govt	Internal	No	Yes (1999)

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. **..** Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.80 Responsibility for various functions

Agency	Activity/sub-agency	Policy	Price setting	Administration	Revenue collection
Department	Noise amelioration program and airport environmental officers	DTRS	Treasury (amelioration), DTRS (airports)	DTRS	Airservices (amelioration), DTRS (airports)
	ATSB	DOFA	DTRS/ATSB	DTRS/ATSB	DTRS/ATSB
	Avstats	DTRS	DTRS	DTRS	DTRS
	BTE	BTE	BTE	BTE	BTE
	Coasting trade licence and permit fees	DTRS	DTRS	DTRS	DTRS
	Part X (Trade Practices Act 1974) fees	DTRS	DTRS	DTRS	DTRS
	Vehicle safety standards	DTRS	DTRS	DTRS	DTRS
	IASC	DTRS	IASC	IASC	IASC
AMSA	Regulation and safety	AMSA	AMSA	AMSA	ACS
ASA	Aeronautical services	ASA	ASA	ASA	ASA
CASA	Aviation safety standards and regulation	DTRS	DTRS	DOFA/CASA	CASA/ATO/ACS
NCA	Statutory fees, diplomatic leases	NCA	NCA	NCA	NCA

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

B.17 Portfolio: Veterans Affairs

Table B.81 Overview of arrangements

Agency	Activity/sub-agency	Type of charge	Stated rationale for cost recovery ^a	When introduced	How often charges are changed/reviewed
AWM	Image sales and education programs	Fee	Services	..	5 yearly

^a Demand = Demand management; Revenue = Raising revenue; Policy = Government policy; User = User pays; Beneficiary = Beneficiary pays; Services = Expand services. na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.82 Revenue 1999-2000

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Revenue raised though cost recovery</i>	<i>Total revenue</i>	<i>CR revenue / total revenue</i>	<i>Total expenses</i>	<i>CR revenue / total expenses</i>	<i>Whether revenue is earmarked^a</i>	<i>What happens to revenue if it is greater than costs^b</i>
		\$m	\$m	%	\$m	%		
AWM	<i>Image sales and education programs</i>	0.4	98.0	0.4	na	na	No	Retained

^a Earmarking is the assignment of revenue received from a specific tax or taxes to the financing of a particular government activity. ^b Refund = CR revenue is refunded; Adjustment = Fees are adjusted; Services = Services were expanded; Retained = CR revenue retained by agency; CRF = Paid into Consolidated Revenue Fund. **CR** Cost recovery. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

Table B.83 Costs recovered

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>What costs charges aim to recover^a</i>	<i>How indirect costs are allocated^b</i>	<i>Basis for asset valuation</i>	<i>Whether charges include a user cost of capital</i>
AWM	<i>Image sales and education programs</i>	Direct	Formula	..	Yes

^a 'Direct' costs are costs that can directly and unequivocally be attributed to an activity. 'Indirect' costs are costs that are not directly attributable to an activity.' 'Total plus' includes direct and indirect costs plus any revenue over this amount, such as a proxy rate of return. ^b Indirect costs are generally allocated pro rata to some or all direct costs or by activity based costing. Activity based costing links an organisation's outputs to activities used to produce those outputs which in turn are linked to the organisation's costs (see appendix H, volume 1 of the inquiry report). **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

INTERNAL WORKING DOCUMENT

Table B.84 **Accountability and transparency**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Legal basis^a</i>	<i>Who was consulted when cost recovery introduced</i>	<i>What guidelines were used</i>	<i>Who is involved in ongoing consultation</i>	<i>Whether the arrangements have been formally reviewed</i>
AWM	<i>Image sales and education programs</i>	Other Act	..	..	No ongoing consultation	No

^a FMA = *Financial Management and Accountability Act 1997*. The main purpose of this Act is to provide a framework for the proper management of public money and public property. It is not clear whether this Act provides a legal basis for cost recovery; Tax Act = Any Tax Act; Other Act = An Act other than the FMA Act or a Tax Act; No Act = No Act supporting the arrangements. **na** Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

Table B.85 **Responsibility for various functions**

<i>Agency</i>	<i>Activity/sub-agency</i>	<i>Policy</i>	<i>Price setting</i>	<i>Administration</i>	<i>Revenue collection</i>
AWM	<i>Image sales and education programs</i>	AWM Council	AWM	AWM	AWM

na Not available. .. Not applicable.

Source: PC summary based on questionnaire (part II) responses.

C Case study — information agencies

Information agencies are those agencies with the primary function of collecting, compiling, analysing and disseminating information to the public. They include agencies that provide;

- social/economic data — for example, the Australian Bureau of Statistics (ABS) and the Australian Bureau of Agricultural and Resource Economics (ABARE);
- information about the physical environment — for example, the Bureau of Meteorology, the Australian Surveying and Land Information Group (AUSLIG) and the Australian Geological Survey Organisation (AGSO); and
- ‘cultural’ and archive information — for example, the National Library of Australia and ScreenSound Australia.

Other agencies, including scientific research agencies such as CSIRO, the Australian Institute of Marine Science, the Australian Nuclear Science and Technology Organisation and the Bureau of Rural Sciences, also collect, compile, analyse and disseminate information to the public, but not as their primary function. Some regulatory agencies, such as the Australian Securities and Investments Commission and the Therapeutic Goods Administration, acquire information (sometimes compulsorily) as part of their regulatory function, which they make available to the public. These agencies face many similar issues to those of mainstream information agencies.

C.1 Extent and nature of cost recovery

As outlined in chapter 2, information has characteristics that provide a rationale for some level of government provision. These characteristics include:

- Government’s requirement for information to meet its own needs;
- the ‘public good’ characteristics of information;
- the positive spillover effects of information; and
- the strong economies of scale in the provision of information.

These characteristics are more prevalent in some information products than in others. Products in which these characteristics are more prevalent can be classified

as basic products, and are funded by general taxation revenue. Products in which these characteristics are less prevalent, can be classified as additional products, and are usually funded through some degree of cost recovery. Additional products can be classified further into three groups:

- dissemination, where data that have already been collected and compiled are conveyed to users. Typically, some free dissemination has already been undertaken and further dissemination charged at the marginal cost of providing the product to an additional user;
- incremental products, where some additional collection, compilation or analysis may be undertaken to meet the needs of particular users. Incremental (or avoidable) costs are generally charged for these products; and
- commercial products, which may be sometimes nearly indistinguishable from incremental products except that they are contestable such that competitive neutrality principles apply.

Agencies' cost recovery arrangements

The cost recovery arrangements of several selected information agencies are discussed in the following sections.

Bureau of Meteorology

The bureau's classification of its products is shown in figure C.1. The collection of raw meteorological data and some compilation of the data are taxpayer funded. The bureau's dissemination activities are divided between basic and special products depending on their economic classification as private, mixed or public (see chapter 2). Different economic classifications correspond to different charging regimes.

The basic products comprise:

- a basic product *set* consisting of reports of current weather conditions and forecasts (including warnings), which is provided free through the mass media and the Internet; and
- a basic product *service* that builds on the basic product set, but for which users are charged a fee for access. The cost of access includes (1) any additional costs to the bureau of making the information available to suit the convenience of the individual user and (2) the costs of accessing the products by either telephone or fax.

The special products comprise:

- specialised products for a special sector or user group which have a significant public interest component (such as aviation and defence). The charges that the users pay for these products are based on incremental costs incurred in producing them; and
- commercial products, such as special investigations or tailored forecasts for individual customers, which are undertaken in open competition with the private sector by the bureau's Special Services Unit (sub. 35, p. 9).

International agreements under the World Meteorological Organisation also influence the categorisation of products. These agreements require the bureau to provide certain essential data and products to other national meteorological services on a free and unrestricted basis. These data and products are thus widely available and form part of the bureau's basic product. Any additional data and products given to these overseas agencies are provided on a cost recoverable or commercial basis, and form part of the bureau's special products. The overall economic framework for the provision of meteorological products has been outlined in a number of papers (Freebairn and Zillman 2000a, 2000b).

Figure C.1 Schematic representation of the Bureau of Meteorology's products

<i>Product category</i>	<i>International exchange</i>	<i>Economic classification</i>	<i>Charging regime</i>
Special products	Additional data and products	Private goods Mixed goods	Commercial Cost recoverable
Basic products	Essential data and products	Public goods	Access charges Free through media
Basic infrastructure, data and products (basic system – public goods)			

Source: BoM (sub. 35, p. 10).

According to the bureau the cost of its basic product set was \$51 million and the cost of its products provided at the cost of access was \$0.7 million in 1999–2000. The cost of its products provided to the aviation industry was \$13 million and that of its products provided for defence was \$3 million. The bureau's commercial operations raised \$9 million (sub. 35, p.3).

Allocating products to categories is not straightforward. The horizontal alignments of boundaries (broken lines) in figure C.1 are only approximate and vary across cases and time. A review of the bureau (Slatyer 1997) recommended the introduction of the basic product set of free information as a restricted subset of the more broadly defined 'basic services' (sub. 35, att. E). The bureau stated that in

choosing which products should be part of the basic product set and which should be available at the cost of access:

... we have developed a five-page set of guidelines for trying to draw the boundary ... recognising that the boundary is going to change with time, with technology, with political pressure. (trans., p. 254)

The difficulty of deciding the extent to which agencies should be involved in purely commercial work is highlighted by the different approaches of overseas agencies providing meteorological products. According to the bureau, in the United States, the National Meteorological Service undertakes no commercial work. It provides only products necessary for public safety and the private sector undertakes any specialised products provided to particular users (trans., p. 260). In New Zealand, the Meteorological Services of New Zealand Limited is a state owned provider of meteorological services. It has a commercial agreement with the Minister of Transport to provide a set of core products of meteorological data acquisition, forecasts and warning that are, in effect, taxpayer funded. It also provides market products to the private sector, including the media and the aviation industry (both domestic and international) (Meteorological Services of New Zealand Limited, sub. 109, p. 1).

Australian Bureau of Statistics

The ABS typically classifies its products as either community service obligations¹ or ‘user pays’ products. It includes most of its collection and compilation activities and part of its dissemination activities as community service obligations, which are taxpayer funded. According to ABS, the Commonwealth Government has not set specific guidelines for its community service obligations. However, the ABS stated that ‘consistent with its functions, the ABS recognises that statistics must be accessible and used by the community, business and government’ (sub. 36, p. 6). To achieve this outcome, the ABS disseminates part of its collection — through the mass media, libraries, telephone inquiries and the Internet — at no charge to the user. The ABS stated that the community service obligation attempts to provide ‘a good cross-section of summary data from ... [its] collections’ (trans., p. 1103). The ABS is also required, as part of its community service obligations, to provide certain information to various international organisations such as the United Nations and the OECD.

¹ The term ‘community service obligations’ is widely applied to non-commercial activities that government business enterprises are required to undertake as part of Government’s social or equity policies. Governments usually subsidise government business enterprises for undertaking such obligations.

‘User pays’ products fall into three broad categories:

- products that have significant private benefits but an element of community service obligation, which are partly cost recovered;
- products that are not perceived to have any community service obligation, which are fully cost recovered; and
- products deemed to be commercial, which are fully cost recovered with an allowance for ‘risk’ (The ABS has only one commercial product — CDATE) (sub. 36, p. 6).

The ABS also has licensing arrangements with secondary distributors who seek to commercialise ABS data. These arrangements (summarised in table C.1) generally involve a royalty payment for the use of the data, depending on the amount and use of the data. In some cases, such as for MariTrade, the ABS charges a flat fee in addition to a royalty (sub. DR111, p. 1).

Table C.1 Licensing conditions for commercial use of ABS data

<i>Use of data</i>	<i>Conditions</i>
On-selling of ABS data	Royalties calculated at 70 per cent of ABS data cost or 25 per cent of client revenue depending on how the data are being used.
Provision of a product or service using or incorporating ABS data	Royalties calculated at 10 per cent or 25 per cent of the client's revenue depending on the amount of ABS data incorporated in the final output. ^a
Reference tool for consultancy business	Usually 5 per cent of client revenue depending on how the data are being used. ^a
Income-generating statistical analysis and research	Usually 5 per cent of client revenue depending on how the data are being used. ^a
Publications	Case basis. ^a
Websites	Case basis.

^a Royalties apply only if the output includes 10 per cent or more of ABS intellectual property.

Source: ABS (2001).

The ABS also charges for providing some other products, such as statistical consultancy, outposting of ABS staff, training courses and seminars. Such products are generally for government agencies and are charged on a ‘cost recovery’ basis in accordance with (now outdated) Department of Finance and Administration guidelines (sub. 36, att. 1).

A summary of the ABS’s pricing policy is provided in table C.2

Table C.2 Summary of ABS pricing policy for products

<i>ABS product</i>	<i>Broad pricing policy</i>
Publications	The ABS has a standard range of publications designed to meet the needs of a broad range of users. According to the ABS, its budget appropriation funds the cost of producing copies of publications that are part of its community service obligations. Copies of its publications obtained for private use are priced to recover collectively their cost of production, distribution and marketing beyond the cost of production of the copies distributed to meet public good obligations. The cost of the collection, compilation and analysis of the data is not recovered.
Other standard products	The ABS has other standard products that are designed to meet similar needs as met by the standard publications but that are generally not paper based. They include CDATE and the Integrated Regional Data Base. According to the ABS, prices are based on cost recovery for a product or group of similar products. In a few instances, an allowance for commercial 'risk' is included in the price.
Information consultancy	<p>The ABS provides information consultancies, which are one-off compilations of information on request. According to the ABS, these are priced for full cost recovery. There are three components to the cost recovered:</p> <ul style="list-style-type: none">• the labour cost, which is the hourly charge calculated for the total time taken to undertake the consultancy. The aim is to recover the costs of the labour involved, including overheads. Overheads include average superannuation, workers compensation, leave and similar salary on-costs, and an allowance for accommodation, training, computing, marketing and sales, and similar corporate and business overheads;• the infrastructure cost, which aims to recover the various system and database costs of providing non-core or unpublished statistical information to clients; and• the direct costs, which are any costs incurred in undertaking a consultancy that are directly attributable to the consultancy, such as courier charges, lamination etc.
Statistical consultancy	The ABS provides statistical consultancies to advise on collecting and analysing information. These are priced for full cost recovery, with the costs to be recovered consisting of labour and direct costs (as defined above).
User funded surveys, statistical units, outposted officers and international consultancies	<p>The ABS provides other products that are priced at marginal cost, with the costs to be recovered consisting of two components:</p> <ul style="list-style-type: none">• the nominal salary costs plus average superannuation, workers compensation, leave and similar salary on costs and an allowance for accommodation, training, computing and similar overheads. Overheads for corporate and business support are not included; and• direct costs, which are any costs incurred in undertaking the work that are directly attributable, such as travel, form printing, collection and processing costs etc.

Source: ABS (sub. 36, p. 7).

National Library of Australia

The library's approach to cost recovery is 'for core services to be provided free of charge and for more advanced or value added services, and services to other libraries to be charged at rates ranging from marginal costs through to profit in certain circumstances' (trans., p. 475). Core services are defined broadly as 'access to the collection' (trans., p. 476).

Examples of the library's products and their associated cost recovery arrangements are shown in table C.3.

Table C.3 Products provided by the National Library of Australia

<i>Product</i>	<i>Description</i>
Kinetica	Kinetica is an online service provided to over 1000 Australian libraries to support those libraries in areas such as cooperative cataloguing and document delivery. The Kinetica service is offered by subscription to organisations with the choice of paying for actual use or on an agreed site licence basis. Kinetica is operated as a full cost recovery service.
Publications	The library produces and markets trade publications based on its collections. These publications are priced to recover their direct costs of production but not the costs of authorship or editing. The library's primary reason for publishing is to make its collections more accessible to the public.
Interlibrary loan/document delivery	Charges for the loan of items or supply of documents between libraries are set within the Australian library community at a standard rate of \$13. This charge does not represent the actual costs of supply, but is considered a reasonable cost in terms of encouraging libraries to share resources in the interests of Australian library users generally. Libraries, including the National Library of Australia, may then charge additional fees for guaranteed fast-track delivery of items.

Source: National Library (sub. 5, p. 2).

ScreenSound Australia

ScreenSound Australia's mission is 'to increase the use, enjoyment and safety of Australia's audiovisual heritage, and through this enrich the lives of all Australians' (sub. 30, p. 1). ScreenSound Australia sees its main business as being an archive (trans., p. 343) and taxpayer funding covers the cost of developing, storing and preserving the collection of audiovisual material. Access to the collection, through screenings, presentations, exhibitions and video and audio products produced by ScreenSound, is partly cost recovered. Other products that are not central to its mission, such as its technical facilities and the use of its headquarters as a venue for professional, academic and social functions, are fully cost recovered (sub. 30, p. 4). ScreenSound considers this approach to be a practical way of generating additional

funds to improve public access to the collection (trans., p. 344). Competitive neutrality principles are applied where these products compete with those of private firms. However, many of its products are specialised, so ScreenSound Australia generally does not compete with private firms.

Australian Surveying and Land Information Group

AUSLIG, a business unit within the Department of Industry, Science and Resources, is Australia's national mapping agency. It charges for packaged and customised products, but not for general and reference information. Packaged products include maps and map data, while customised products include satellite imagery. General and reference information products include product catalogues and geodetic controls (sub. 44, p. 4).

Australian Geological Survey Organisation

AGSO, an agency within the Department of Industry, Science and Resources that provides geoscientific information on Australia's natural resources and the environment, distinguishes between partly and fully funded work. A large part of AGSO's product is determined by government policy and taxpayer funded. AGSO also undertakes cofunded or cooperative work with external bodies that will 'enhance or extend AGSO's core program and contribute to or enhance the national geoscience knowledge base'. The results from this work are made available to the public, and the costs are shared in proportion to the balance of the private and public benefit (sub. 55, p.10).

AGSO also undertakes commissioned or fully funded work for both the private and public sectors. It undertakes this work when it 'complements AGSO's strategic program and/or there is a benefit to AGSO through enhanced knowledge or technology transfer'. When the outputs of this commissioned work are for purely private benefits, all costs are recovered, including overheads and a proxy rate of return (sub. 55, p. 11).

Australian Bureau of Agricultural and Resource Economics

ABARE, an agency in the Department of Agriculture, Fisheries and Forestry — Australia, provides economic information for rural, minerals and energy industries. It undertakes 'research that is either of national importance or of importance to a broad spectrum of participants in one or more industries in the commodity sector' (sub. 56, p. 4). The bulk of ABARE's external funding comes from the Department of Industry, Science and Resources and industry research and development

corporations. It undertakes ‘research that is essentially of a private good nature, but only when it is complementary with its broader public policy role’ (sub. 56, p. 4).

Bureau of Rural Sciences

The bureau, an agency within the Department of Agriculture, Fisheries and Forestry — Australia, provides scientific assessments, analyses and advice in support of the department’s objectives. It undertakes cost recovered work that aligns with the department’s outputs and priorities. The bureau’s clients include rural research and development corporations and other Commonwealth agencies (sub. 69, p. 7).

Rationales for existing arrangements

Generally, information agencies have clear rationales and objectives for cost recovery. These include:

- providing additional financial resources to increase the provision of the agency’s products;
- reducing the cost to taxpayers for the provision of the agency’s products;
- better managing the demand for the agency’s products;
- improving the internal efficiency of agencies; and
- recognising the ‘private benefit’ element of some publicly-provided products.

Some agencies have also cited reasons for not introducing full cost recovery, including:

- recognising the ‘public good’ characteristics of information products;
- improving access to information; and
- promoting downstream exploration and development of publicly owned natural resources.

Most information agencies have policy documents, manuals or guidelines on charging, pricing and costing. Table C.4 summarises agencies’ policies and guidelines on cost recovery.

Table C.4 Agencies' policies and guidelines on cost recovery

<i>Agency</i>	<i>Policy/guidelines</i>
Australian Bureau of Statistics	<i>Dissemination and Pricing Policy</i>
Australian Geological Survey Organisation ^a	<i>Commercial Practices Manual</i>
Bureau of Meteorology	<i>Charging Manual</i>
Commonwealth Scientific and Industrial Research Organisation	<i>Costing and Pricing Policy</i>
National Library of Australia	<i>Guidelines on Charging</i>

^a AGSO's current cost recovery is based on *Guidelines for Costing Government Activities*, issued by the former Department of Finance in 1991.

Sources: ABS (sub. 36, p. 13); AGSO (sub. 55, p. 7); BoM (sub. 35, p. 10); CSIRO (sub. 88, p. 9); National Library (sub. 5, p. 6); DoF (1991).

Cost recovery mechanisms

Information agencies generally use a fee-for-service approach to recover costs, rather than taxes or levies. These fees include charges for goods and services, subscriptions, licence fees and royalties. The method for setting charges varies for different goods and services, from recovery of marginal costs² to full market pricing.

Some agencies offer bulk discounts. The ABS, for example, has reached an agreement with the Australian Vice Chancellors' Committee to provide most universities with access to data at a reduced rate. According to the ABS, this reduced rate reflects the cost saving to the ABS of dealing with one organisation, the Australian Vice Chancellors' Committee, rather than each university individually (trans., p. 1116).

A number of agencies, particularly the ABS, use royalties as part of their cost recovery arrangements. AUSLIG has made use of copyright, licences and royalties in its cost recovery arrangements, although they are 'the exception rather than the rule' and it receives only a relatively small proportion of its revenue from royalties. AUSLIG noted that this form of payment is attractive to users who wish to spread the commercial risk, but for many users the high administrative costs of royalties make an upfront fee more attractive (trans., p. 435).

ScreenSound Australia has had a similar experience with royalties:

One of the problems ... [with these] ... arrangements is that there can be an awful lot of administration for trivial sums of money. (trans., p. 344)

² The cost of producing an additional unit of output (see appendix H).

Information agencies typically charge the user of their products directly. One exception is the Bureau of Meteorology's provision of meteorological products to the aviation industry. In this case, another Commonwealth agency, Airservices Australia, acts as an agent for the bureau; while the bureau determines the charges to be imposed on the industry, Airservices Australia collects the revenue on the bureau's behalf (BoM questionnaire [part II] response).

Consultation

Information agencies use a range of methods to consult with their users to determine whether their methods of cost recovery and the level of their charges are appropriate. The Australian Statistical Advisory Council advises the ABS on:

- the improvement, extension and coordination of statistical services provided for public purposes in Australia;
- annual and longer term priorities and programs of work that should be adopted in relation to providing those statistical services; and
- any other matters relating to those statistical services generally (part III of the *Australian Bureau of Statistics Act 1975*).

The National Library of Australia has a Kinetica Advisory Committee made up of elected and appointed industry representatives. The terms of reference of this committee are to provide:

... advice on strategic and policy issues affecting the delivery of the Kinetica service, the broad direction of service development, and changes occurring in the library community which are likely to affect services ... (National Library of Australia 2000)

ScreenSound Australia, AUSLIG, AGSO and ABARE reported that they undertook market research and client surveys to gauge their clients' satisfaction with their products and charging policies (questionnaire responses).

The Bureau of Meteorology reported ongoing consultation with the aviation industry over its aviation weather services. A variety of committees, working groups, and focus groups involving the bureau, the Civil Aviation Safety Authority, Airservices Australia, the major Australian airlines, the Australian Air Transport Association, airport operators and others are involved in this consultation (BoM 2000, p. 91). However, not all users find these arrangements adequate. Ansett stated that:

... there is a decided lack of information provided at industry consultation days as to the method and level of charges. (sub. 68, p. 11)

The bureau also reported that a Joint Australian Defence Force/Bureau of Meteorology Defence Weather Services Working Group monitors and reviews the ongoing operations of the defence weather services, including the development of appropriate service level agreements and performance measures (BoM 2000, p. 91).

Revenue collected through cost recovery

The information agencies that responded to the Commission's questionnaire collected nearly \$98 million from cost recovery in 1999-2000 (table C.5). The Bureau of Meteorology and the ABS collected around 60 per cent of this revenue. The cost recovered revenue includes transactions with other Commonwealth agencies, which can be quite substantial; for example, 40 per cent of ABARE's cost recovery revenue comes from the Department of Industry, Science and Resources (sub. 56, p. 13).

AGSO reported that it is required to obtain at least 30 per cent of its revenue from external sources. However, it raised only 16 per cent of its total expenses from external sources in 1999-2000 and stated that the 30 per cent external revenue target 'is no longer rigorously applied' (trans., p. 487).

Table C.5 **Cost recovery revenue, 1999-2000**

<i>Agency</i>	<i>Total revenue from cost recovery^a</i>	<i>Total expenses</i>	<i>Cost recovery revenue/total expenses</i>
	\$m	\$m	%
Australian Bureau of Agriculture and Resource Economics	11.2	22.0	50.9
Australian Bureau of Statistics	21.5	255.5	8.4
Australian Geological Survey Organisation ^b	12.1	73.5	16.5
Australian Hydrographic Service	2.2	228.6	1.0
Australian Surveying and Land Information Group	4.7	33.2	14.2
Bureau of Meteorology	35.3	202.9	17.4
Bureau of Rural Sciences	0.07	0.2	30.2
Bureau of Tourism Research	0.6	4.3	13.9
National Library of Australia	8.6	51.0	16.9
Productivity Commission	0.05	21.4	0.2
ScreenSound Australia ^c	1.8	47.5	3.8
Total	98.1	940.1	10.4

^a These figures may include revenue from transactions with other Commonwealth agencies. ^b AGSO reported that it is required to achieve a 30 per cent external funding target. ^c ScreenSound Australia noted that this figure would be much higher if the capital use charge were excluded from its appropriation (sub. DR144, p. 3).

Source: PC estimates based on responses to part I of the questionnaire and agencies' annual reports.

Legal basis for cost recovery

Some information agencies have a clear legislative basis for their cost recovery arrangements, but for others the legal foundation is less straightforward. In the view of the Australian Government Solicitor, agencies that impose a charge for the performance of their statutory duties need to be ‘authorised expressly by legislation or by necessary implication from the legislation’ (see appendix I). For two of the information agencies that are statutory authorities — the ABS and the Bureau of Meteorology — the legal authority to charge for their products is explicit in their legislation. In the case of the ABS, the *Census and Statistics Act 1905* was amended in 1988 to ensure the ABS had the legal authority to charge for its products (sub. 36, p. 5). For the Bureau of Meteorology the relevant Act is the *Meteorology Act 1955*. Another statutory authority, the National Library of Australia, does not have explicit power under its legislation to charge for its products. However it noted that the *National Library Act 1960* did not preclude it from charging a fee for its products (questionnaire response). Further, it has legal advice that:

... in view of the discretionary elements of [section 6 and 7 of the *National Library Act 1960*], and the lack of any legal compulsion [for users] to obtain [their] services, [it] can charge a reasonable amount for services if it is decided, having regard to priorities and financial resources, that it is not feasible or convenient to do otherwise. (sub. DR125, p. 1)

The legal basis for the cost recovery arrangements of those agencies that are within a department are not clearly defined. In response to a question in the Commission’s questionnaire on the legal basis for establishing their cost recovery arrangements:

- ABARE and ScreenSound Australia cited agreements under the *Financial Management and Accountability Act 1997*. However, the main purpose of this Act is to provide a framework for the proper management of public money and public property and it is not clear whether this Act provides a legal basis for cost recovery (see chapter 3); and
- AUSLIG cited Ministerial endorsement of the Commonwealth Public Interest Spatial Data Transfer Policy developed by the Commonwealth Spatial Data Committee (CSDC 1995) as the legal basis for its cost recovery activities. However, AGSO stated that there is no legal basis for its cost recovery activity, even though the Commonwealth Public Interest Spatial Data Transfer Policy also covers AGSO.

C.2 Effects of cost recovery on agencies

The introduction of cost recovery is likely to have both positive and negative effects on agencies. Greater use of appropriate market mechanisms can lead to an

improvement in the internal efficiency of agencies and an improved focus on the needs of their users. However, cost recovery can lead to agencies placing less emphasis on their broader public policy role.

Incentive effects for agencies

Cost recovery can change the incentives faced by agencies, in ways that can be both beneficial and detrimental.

Retention of cost recovery revenue

Where information agencies are able to retain the revenue they raise through cost recovery, they may have a greater incentive to pursue cost recovery. Most of the information agencies that responded to the Commission's questionnaire reported that they are able to access the revenue raised through cost recovery, typically through net appropriation agreements under s.31 of the *Financial Management Act 1997* (see chapter 3). ABARE noted that its budget appropriations, under its s.31 agreement, were reduced by the amount of its expected cost recovery revenue (sub. 56, p. 11). The ABS reported that its s.31 agreement formalised existing arrangements where its base appropriation was reduced, and that all of its cost recovery revenue was returned as 'annotated' appropriations (sub. 36, p. 9). AGSO reported that when it was set a 30 per cent external revenue target, it was to retain 'all revenue up to the target and revenue in excess of the target was to be shared on an 85/15 basis between AGSO and the Consolidated Revenue Fund' (sub. 55, p. 6). However, as noted above, AGSO did not reach this external revenue target in 1999-2000. The Bureau of Meteorology reported that only around 2 per cent of its cost recovery revenue paid into the Consolidated Revenue Fund was not earmarked for return to the bureau.

External revenue targets

AGSO and CSIRO are required to generate 30 per cent of their revenue from external sources. A risk of setting external revenue targets is that agencies may lose focus on achieving an appropriate balance between their central public policy activities and their commercial activities. Agencies may undertake too much commercial activity at the expense of their public policy activities or they may charge too much for particular products. AGSO argued that:

Undue focus on the pursuit of cost recovery ... as an objective in its own right has the potential to subvert and distort longer-term strategic Government objectives in favour of short-term imperatives likely to attract funding from industry. ... Any requirement to meet an arbitrary cost-recovery target ... has the potential for a loss of focus from

efficient delivery of agreed key outcomes to seeking alternative sources of funding. (sub. 55, p. 14)

CSIRO expressed similar concerns (sub. 88, p. 6).

Although external revenue targets are applied to the whole agency, generally the burden of achieving the target falls on those units within the agency that are able to generate external revenue. The level of cost recovery within these units will greatly exceed the overall target set for the agency to cross-subsidise other units that are not able to cost recover. As CSIRO stated:

When you have a 30 per cent target and you translate that through to a research unit and then you look at those units that are able to actually work in a consulting environment ... that 30 per cent converts into a 70 or 80 per cent target and we would expect to be fluctuating between 70 and at times even 90 per cent external revenue in terms of the way we operate. (trans., p. 907)

According to AGSO, the burden of meeting its external revenue target falls heavily on its geophysical data, which it sells at a high price because it 'can be used by a mining company to assist in area selection for a mine and ... the return [to these companies] is very high' (trans., p. 492).

Given these concerns with external revenue targets, it is not surprising that agencies have also reported that the targets are not strictly enforced. AGSO stated that:

... the validity of [this] approach has ... been devalued over time. It's no longer rigorously applied, but there's a wonderful ambiguity left as to exactly where you should be positioned. (trans., p. 488)

Similarly, CSIRO stated that:

An important principle in CSIRO's triennium funding agreement with the Government is that the Government will 'view external earnings targets flexibly to allow quality and relevance of the research output and general community benefit to be considered'. (sub. 88, p. 4)

Interaction with objectives of activities being cost recovered

One objective of most information agencies is to provide access to their information. Cost recovery can enhance this objective by providing agencies with additional resources that enable them to provide a greater range of products. ScreenSound Australia stated that:

The strategic management of the Archive's programs and resources, including cost recovery issues, has resulted in an improvement in both of the two principle indicators of success ... supplementation of appropriation and increase in access. ... Our increase

in revenue through cost recovery ... has allowed us to provide a very substantial increase in access to services. (sub. 30, p. 5)

Cost recovery can also conflict with this objective if charging for products restricts access. The Bureau of Meteorology highlighted this conflict in relation to meteorological information. The global nature of meteorological phenomena means there are large benefits from the free and unrestricted exchange of information among national agencies. The World Meteorological Organisation provides an international framework for the collection and free exchange of information between its members. According to the bureau:

... the introduction of any realistically conceivable market framework for international trade of basic meteorological data would result in a rise in cost to Australia of maintaining its current level (quality and quantity) of meteorological service provision by a factor of two to ten or more. (sub. 35, p. 17)

Restricting access to information through cost recovery is likely to have an adverse effect on the wider benefits to the community of the use of this information. CSIRO expressed its concerns that other policy objectives of the Government are being compromised because users are unable to afford the required data. CSIRO stated that:

... the Government changed from making data freely available ... to charging ... these datasets are now guarded very carefully, are used strategically for people to try and gain advantage and more importantly, aren't accessible. (trans., p. 901)

Private users of government information expressed similar views. Dr Mark Paterson, a private researcher, was concerned about the effect of cost recovery arrangements introduced by the ABS in the late 1980s for the Australian Survey of Motor Vehicle Use and the Motor Vehicle Census. These arrangements increased the cost of acquiring these data, and he claimed some research with a broader public benefit was not undertaken as a result (sub. 43, p. 4).

There is likely to be a trade-off between the additional resources available from cost recovery and the restrictions on access to information that may result. The additional resources may improve public welfare by funding additional collection and analysis of information, but the restricted dissemination of this information may diminish welfare. As a member of the Australian Statistic Advisory Council noted:

It is not obvious to me that if the ABS lost the revenue from its sales associated with its core activities, then the world would be worse off. Let us assume that it would have to reduce the amount of data that it collected but the data that it did collect would be more widely disseminated. It is possible that the public benefit from wider dissemination of albeit less data collected may outweigh the loss from less data being collected. (ABS, sub. DR134, p. 8)

Innovation and technology

The increasing use of digital technology and the Internet is having a substantial effect on the dissemination of information. This is influencing how information is delivered, how widely it can be disseminated, the costs and charges of dissemination and the associated cost recovery arrangements.

Digital technology is increasing the amount of information that can be handled electronically and the Internet is allowing this information to be disseminated at a lower cost to a larger number of users. This has led to a substantial increase in the use of the Internet to access products from information agencies. The ABS reported that the use of its website has increased greatly over the past five years — up from an average of about 14 000 hits per month in 1996 to 2 million hits per month in 2001 (sub. 134, p. 3).

However, the establishment and ongoing operation of a website involves costs. The ABS estimated that the additional operating costs of providing all its publications on its website for free would be around \$4–5 million per year (sub. 134, p. 4). Similarly, the Department of Agriculture, Fisheries and Forestry — Australia stated that:

... if all data were to be made available free on the Internet there would be a substantial funding shortfall for information agencies such as [the Bureau of Rural Sciences] and ABARE, which would require additional budget funding to cover. (sub. DR151, p. 5)

In addition, the Internet alone is not always an adequate means of disseminating information. Agencies may need to use additional methods, such as hard copies and the media, to provide their products. As the Bureau of Meteorology noted:

... the Internet is not an adequate dissemination system by itself and hence the Bureau makes significant and essential use of the traditional media (radio, television and newspapers) as an additional method of dissemination of information such as weather forecasts and warnings. (sub. 142, p. 3)

The ongoing need to use other methods of dissemination reduces the potential cost savings from using the Internet.

On the revenue side, the Internet is already affecting traditional cost recovery streams for information agencies. For instance, the ABS outlined factors that are likely to affect its future cost recovery:

- the move from paper based to electronic means of disseminating information is associated with a downward trend in revenue from the sale of publications;
- Internet based self-help developments are affecting information consultancy revenue particularly for the more straightforward consultancy requests;

-
- the ongoing growth of the information market has led to greater competition in some of the ABS's traditional markets;
 - greater use of personal computers and the Internet in Australia has led to a rapid growth in the ability of households and firms to access information on line, often with an expectation that it will be provided free; and
 - some other major countries are providing access to a wide range of statistical information for free on the Internet (sub. 26, p. 10).

ScreenSound Australia warned that while the digital age is seen by some as a 'nirvana' which offers an almost unlimited potential to collect, manipulate and disseminate large quantities of information around the world very cheaply, 'at the moment the digital age is a promise but the reality is just an awful lot of expense and an awful lot of work' (trans., p. 348).

Agency efficiency

Cost recovery can improve agency operations by providing market signals and incentives to allocate the agency's resources to meet the needs of users better and to improve its internal management systems. A central issue that faces the managers of information agencies is the allocation of the available resources to meet the needs of their users. Consultation with users is a widely used method. The market signals generated by cost recovery are another. As the ABS noted, one of its objectives for introducing cost recovery was 'to enable demand for ABS products and services to be used as a more reliable indicator of how ABS resources should be prioritised' (sub. 36, p. 5).

Cost recovery can also provide an incentive for agencies to improve their internal management because they need to identify costs better and meet the needs of their users. The systems and processes required for cost recovery can bring wider benefits to the agency. As ABARE reported, 'cost recovery arrangements have caused [it] to adopt formal project management systems much earlier than it would otherwise have done' (sub. 56, p. 20).

However, cost recovery arrangements have their own costs. Agencies may have to divert resources into establishing and maintaining cost recovery arrangements, rather than focus on their core business. As the Environmental Resources and Information Consortium stated:

... undoubtedly, there are many public scientists now ... spending a lot of their research time trying to capture money. (trans., p. 1217)

Operation of agencies

In many cases the introduction of cost recovery has had an effect on the operations of information agencies. The ABS listed some of the challenges it faced with the introduction of cost recovery:

- a need to shift the culture of the ABS from one where output was provided free to one where clients were charged for all but simple enquiries;
- the development of policy and procedures to support charging, and ongoing adaptation of these policies and procedures to meet the requirements of new and different products;
- technical infrastructure had to be developed and maintained to support invoicing and management information requirements;
- the identification of the costs to be recovered and provision of systems and processes to monitor them; and
- actually achieving cost recovery. The ABS struggled to recover its costs in the early years but has moved closer to demonstrated cost recovery with costs being recovered in 1997-98 (the peak Census dissemination year) and in 1999-2000. (sub. 36, p. 5)

Calculating and allocating costs to be recovered

The charges imposed by information agencies depend on which costs are included and how they are calculated. In principle, most agencies would be expected to recover the incremental or avoidable costs associated with additional products (see chapter 2). In some instances, however, agencies have attempted to introduce market based pricing. This may be appropriate where competitive neutrality considerations apply. For example, CSIRO stated that ‘the pricing of commercial activities must be based on the perceived value to the client and an estimate of their full costs’ (sub. 88, p. 9). However, for most agencies, commercial products are only a small component of their overall operations.

Some agencies have attempted to apply market based pricing more widely, but experienced significant difficulties. The ABS reported that it had difficulties in introducing user charges based on market prices, and its pricing policy now reflects costs (box C.1).

Box C.1 User charges at the ABS

The ABS reported that when user charges were introduced in 1988, it proposed introducing market based pricing for all its products except those provided free as part of its community service obligations.

Initially, pricing was based on market prices and set without reference to actual costs, because the ABS did not have mechanisms to determine the relevant costs. The ABS discovered that the interpretation of 'market price' was variable and difficult to assess, given that it is a monopoly provider in many cases. As a result, market prices were often based on the ABS's perception of the clients' willingness to pay. ABS's dissemination performance was largely measured in terms of gross revenue from the various products, and there was limited review of prices. Its main response was to eliminate publications with a small subscriber base and to disseminate the results in more cost-effective ways.

A major internal review of the ABS pricing policy was undertaken in 1994 to allow the ABS to articulate objectives for its pricing policy clearly and to adopt appropriate guidelines and management information. Following this review, pricing policy moved from market pricing to reflecting costs incurred, and procedures for regular review were established.

Source: ABS (sub. 36, p. 4).

Some private users of the products provided by information agencies raised concerns about setting charges based on market prices. J. T. Larkin and Associates stated that 'any price above marginal cost is a tax, even if that price is below average cost' (sub. 45, p. 3).

Agencies also face practical difficulties in cost based pricing. Cost based prices are usually based on recovering the incremental or avoidable costs, as well as other costs such as the cost of capital. All of the information agencies reported that they recover both direct and indirect costs, with most agencies allocating indirect costs on a *pro rata* basis to direct costs. AUSLIG reported that it uses an Activity Based Costing approach to allocate its indirect costs (see appendix B). Box C.2 outlines some of these difficulties faced by the Bureau of Meteorology in costing its product.

Box C.2 Costing issues for the Bureau of Meteorology

The bureau reported that within its overall costing and charging policy, it has encountered significant practical issues in costing individual products. These issues have arisen primarily from the inherent subjectivity involved in locating the boundary between 'purely public good services' and 'purely private good services'. This task has been complicated by the need for consistency, or at least compatibility, with the approaches used by other national meteorological services.

In determining the cost of a product, the bureau has identified that overheads require close attention especially when the product is incremental to a basic product. The recent transition from program budgeting to output budgeting resulted in the bureau significantly reducing overhead costs included in the cost recovery charges, particularly in charges for aviation weather services.

Source: BoM (sub. 35, p.14).

Indirect costs may include a share of capital. Capital costs will partly depend on the value of the assets used to produce a product, and different valuation methods will give different results (see appendix H). The Bureau of Meteorology and ScreenSound Australia reported that they use a replacement cost method to value their assets, while the ABS and AGSO use a historical cost method. The National Library and AUSLIG use deprival costing (see appendix B).

C.3 Economic effects of cost recovery

Cost recovery has an effect on the direct users of the products provided by information agencies and on the broader economy. It places some or all of the cost of information products on users, rather than the general taxpayer. This can promote efficiency in the production and consumption of information products. However, charges can have a detrimental effect where prices are set above the cost of providing the product to an additional user or where agencies compete on an unequal basis with private firms.

Effects on industry

Cost recovery may affect industry through applying charges for information products that firms use as inputs. If these charges are set above the cost of providing the product to an additional user, then some firms may be discouraged from using data for which they would have paid the marginal cost. Cumpston Sarjeant, a private actuarial firm, noted that 'high data costs ... restrict some potentially very valuable analyses' (trans., p. 941). The Environmental Research and Information

Consortium stated that ‘ABS data ... is so expensive that we just have stopped using it now for economic and social work’ (trans., p. 1222). These firms have provided some examples of the effect of the high costs of data (box C.3). However, it is not clear that these costs are greater than the associated marginal or incremental costs.

Box C.3 Effects of high data costs on industry

A number of participants provided examples of how the high cost of obtaining data affected them. Cumpston Sarjeant said it had considered examining patterns of regional mortality against patterns of regional industry. However, the cost of obtaining the data to do this work discouraged the company from proceeding with the project. It believed this would be a problem for researchers considering a range of topics, including regional issues, disease, poverty and land degradation (trans. p. 942).

The Environmental Research and Information Consortium said it was unable to obtain datasets for the whole of Australia at reasonable costs. At best it could get ‘small parcels, at large cost’ that tended to focus on small areas, rather than at the regional or national level. It stated that it believed that if these data were made available to private firms at a reasonable cost, then there would be ‘an enormous rush of new, innovative products and services that we could use right across Australia, that would benefit local government, community groups, state government agencies and national policy developments’ (trans., p. 1218).

The Environment Research and Information Consortium also pointed to the effect of the policy of the Geological Survey of Victoria and the Northern Territory Geological Survey of providing geophysical data at little or no cost. In Victoria, these data are being used to attract investment into viticulture. In the Northern Territory, they are being used to attract investment into neem oil (a natural pesticide), sandalwood and mahogany, which is being used to support Aboriginal communities. The consortium noted that ‘if (the) data had not been provided at no cost ... this investment would probably never have eventuated’ (trans., p. 1219).

The effect on industry may be aggravated by agencies having to meet external revenue targets. Given that the burden of meeting these targets is likely to fall on a narrow range of products that are able to generate greater amounts of revenue, agencies may find it necessary to charge prices for these products that are higher than the cost of providing them to an additional user. This will have an adverse effect on those users who otherwise would have purchased these products. Box C.4 outlines the effect of AGSO’s pursuit of its 30 per cent external revenue target.

Box C.4 Effect of AGSO's external revenue target

According to AGSO, the burden of meeting its external revenue target falls heavily on its geophysical data. Charging high prices for this information makes it unlikely it will be used for other beneficial uses (trans., p. 492).

The Environmental Research and Information Consortium expressed a similar concern when it stated that:

The cost of geophysical [data] from AGSO is far too high for a [small to medium enterprise] to access for R&D, service innovation or service delivery purposes. While current prices for geophysical data were probably set at a level commensurate with the paying capacity of large mining companies, these data are now used ... by [small to medium enterprise] for a wide range of resource assessment purposes (for example, soil mapping, hydrology assessment, etc.) and where the client's budget is very low, for example, Landcare groups. (sub. 7, p. 3)

The high price of this information has implications for other objectives of Government. It is likely to reduce the amount of exploration of Australia's mineral and petroleum resources. As AGSO noted:

... the Government is an equity holder in these resources with responsibility for the custodianship and management of these resources in the interests of the community. The Government, therefore, has a genuine, on-going interest in maximising investment in these resources. The benefits are returned to the community through the discovery and development of new resources. (sub. 55, p. 12)

Differences in Commonwealth and State government charges for geophysical data may distort investment (including foreign) decisions. According to the Northern Territory Geological Survey and the Geological Survey of Victoria, the high price of AGSO's geophysical data is having an adverse effect on cooperation between these agencies. Since 1998 both agencies have charged minimal fees for their geophysical data to encourage exploration. The Northern Territory Geological Survey stated that:

The differential pricing policy is a deterrent to NTGS embarking on joint projects with AGSO that involve large acquisition costs, as we have found it is difficult to agree on how the products of joint projects will be distributed. (sub. 32, p. 2)

Sources: AGSO (sub. 55, p. 12); ERIC (sub. 7, p. 3); GSV (sub. 99); NTGS (sub. 32, p. 2).

The inclusion of royalties in the charges for information products is particularly likely to affect the use of information. The cost to an agency of providing information to an additional user is unlikely to be related to the revenue or profit of the firms using the information. Royalty-based charges that exceed the cost of providing the product to an additional user will lead to a misallocation of resources.

MariTrade, a consultancy firm, explained how ABS charging arrangements, which included royalties on MariTrade's revenue, had an adverse effect on its business. According to MariTrade, ABS introduced a scale of charges that increased the flat fee for the data MariTrade required from less than \$3000 per year to more than \$15 000 per year and included a royalty of 25 per cent of MariTrade's revenue. This

increased the cost of the data to \$35 000 per year (sub. DR111, p. 1). As MariTrade stated:

... we believe that this pricing structure is inappropriate to a value adding private sector provider, as it is having the unintended consequence of destroying a market and valuable service we have built up over many years. (trans., p. 1021)

Cost recovery by information agencies may also have adverse effects where agencies compete on unequal terms with private firms. Where agencies are attempting to meet externally imposed cost recovery targets, they face incentives to use access to taxpayer funded resources to undercut private firms.

The Environmental Research and Information Consortium was concerned about agencies having more favorable access to information than commercial users:

Government agencies engaged in cost recovery compete unfairly in the delivery of resource information and knowledge because they have ready access to public data and [intellectual property] at no cost and protect these data and [intellectual property] through minimising public access by imposing licence restrictions and high costs for public access. (sub. DR139, p. 1)

While this behavior may be contrary to competitive neutrality policies, private firms may be reluctant to pursue an official complaint for fear of retribution. The Environmental Research and Information Consortium stated that:

I've been reluctant to [complain officially] because I've been subject to considerable retribution by these Government agencies already and to pursue that further I would only be subject to more retribution by them. (trans., p. 1221)

Similarly, MariTrade is reluctant to pursue an official complaint against ABS's charges because of concerns with upsetting its relationship with a 'monopoly supplier' (trans., p. 1029).

The Australian Competition and Consumer Commission has taken successful legal action against the Bureau of Meteorology for alleged misuse of its market power in supplying information to a competitor (ACCC 1997).

Effects on individual consumers

Some information agencies deal directly with individual consumers, as in the case of 'weather by fax', and ABS publications and data requests. Some inquiry participants raised concerns about the effects on consumers of the cost recovery arrangements of some information agencies. For example, Mr R. F. Hadlow, a private researcher, raised concerns about the cost recovery arrangements for photocopying services. Several agencies stated that controlling the demand for their services is a rationale for cost recovery and the National Library specifically listed

controlling the demand for photocopying services (sub. 5, p. 1). Hadlow claimed that:

DIY/card operated photocopying, at tax payer funded Commonwealth facilities, is charged at 200 per cent above both actual cost and the fee charged by prominent commercial providers. (sub. 34, p. 3)

Further, in relation to photocopying by the staff of an agency, he claimed:

The charge of 50c per copy indicates an hourly labour charge equivalent to the cost of hiring a skilled tradesman (including overheads) and is well above a reasonable cost for labour for basic photocopying. (sub. 34, p. 5)

He also stated:

If the cost of copying material is made so expensive that it will not be used, one must question the value of maintaining it at public expense? (sub. 34, p. 3)

Inter-agency transactions

Information agencies often provide products to other Commonwealth agencies. In many cases the information agency will charge these agencies on the same basis as other users but, in some cases, special arrangements have been established. Special arrangements between agencies are often required where an information agency has a statutory obligation to provide certain products to other agencies. For example, under the *Meteorology Act 1955*, the Bureau of Meteorology has the responsibility of providing meteorological products for civil aviation and the Australian Defence Forces. For civil aviation, these products are provided under a Memorandum of Understanding with the Civil Aviation Safety Authority and Airservices Australia. This memorandum sets out, among other things, the responsibilities of the various parties, administrative arrangements, performance standards, general principles for charging for these services and the mechanisms for consultation and review of these arrangements and charges. For the Australian Defence Force, no single document governs these arrangements, but a working group has been established to develop an overarching memorandum of understanding (sub. 35, att. G, p. 5-1).

Special arrangements may also arise when information agencies do not fully recover the costs of providing a product to other Commonwealth agencies. For example, the ABS provides outposted officers to Commonwealth agencies. Generally, the ABS fully cost recovers for the services of these officers, but lower charges may be negotiated where the agency can help the ABS achieve its legislative function (ABS, Canberra, pers. comm., 22 March 2001). Similarly, according to the Bureau of Rural Sciences, many research and development corporations that commission work from the bureau have guidelines that limit their contribution to the costs of the research they have commissioned. These guidelines prevent the bureau from

recovering some costs of providing research. In these cases, the bureau ‘looks for a very high level of alignment’ between the objectives of the Department of Agriculture, Fisheries and Forestry — Australia (which provides the bureau’s appropriation funding) and the objectives of the work these agencies wish to commission (trans., p. 677). These arrangements may result in cost shifting between agencies.

In some cases, agencies receive most external revenue from the public sector, resulting in little net impact on the budget. For example, since 1993-94, ABARE’s appropriations have been progressively reduced and its revenue from other sources has increased; by 1999-2000, such revenue was around 50 per cent of its budget. However, about 40 per cent of this revenue is a transfer of appropriations from the Department of Industry, Science and Resources via a service level agreement to fund research for the resources sector (sub. 56, pp. 11–13). The bulk of the remainder of this revenue is from other Government departments and rural research and development corporations. The rural research and development corporations are typically funded by an industry research levy and matching funds from the Commonwealth’s general revenue. Thus, half of ABARE’s revenue from the rural research and development corporations and all of the direct funding from Government departments are derived from general taxation revenue. As ABARE noted:

While the focus of research has been changed by more direct links between researchers and industry and policy advisers, the ultimate sources of funds have not changed greatly. (sub. 56, p. 23)

This decentralised approach to funding information agencies is used in Sweden to provide a range of official statistics. Under the Swedish model, a number of government agencies are responsible for providing statistics on health and medical care, social welfare, energy and agriculture. These agencies decide what statistics should be produced, how they should be collected and compiled, and who should have access to them. They also decide who will collect and compile these statistics. Agencies can choose to undertake these tasks themselves or contract them to other government agencies or the private sector (OECD 1998, pp. 73–77). This approach introduces a degree of contestability into the provision of official statistics, but may suffer from a lack of central coordination of statistical output.

C.4 Summary

Information has characteristics that mean some degree of public provision is required. However, it is also appropriate for some information products to be provided on a cost recovery basis. A central issue for information agencies is to

determine which products should be taxpayer funded and which products should be funded by some degree of cost recovery.

Most information agencies have clear rationales and objectives for recovering or not recovering various costs, and have developed guidelines or policies for implementing their cost recovery arrangements. However, in some cases, the legal basis of the arrangements is not clear.

Cost recovery can have an effect on the operations and objectives of information agencies. Additional funds mean the agencies may be able to provide more products, and appropriate charging arrangements can improve the internal efficiencies of agencies and make them more focused on users' needs. However, charging may restrict access to information products and, when combined with external revenue targets, cause agencies to pursue commercial goals at the expense of their public policy roles.

The increasing use of digital technology and the Internet is allowing a greater amount of information to be disseminated to a greater number of users at low marginal cost. However, there may be significant costs involved in the establishment and ongoing operation of a website, and the Internet by itself is not always an adequate means of dissemination. This reduces the potential cost savings from using the Internet.

Other cost recovery issues for information agencies include the possible adverse effects on their users and the broader community if charges are set above the cost of providing the product to an additional user and where agencies compete on unequal terms with private firms.

D Case study — health and safety regulatory agencies

Many Commonwealth regulatory agencies have functions aimed at protecting the health and safety of consumers, the environment and the wider community. These agencies regulate selected activities and products that are perceived to have particular health and safety concerns — for example, chemicals, pharmaceutical products, therapeutic devices, food, imported goods, genetic research and air transport. Participation in these industries is contingent on meeting certain regulatory requirements. Therefore, the regulatory activities and associated charges are discretionary only at the point of entry into a market.

The health and safety role shared by these agencies, and the compulsory nature of their regulatory activities, raise particular issues for cost recovery. Because most of these agencies' regulatory activities tend to affect the health and safety of wide sections of the community (as well as discrete groups of consumers), it may be difficult to identify everyone who benefits from the regulations, and/or impractical to charge them for those benefits. To the extent that charges are compulsory for regulated industries, it may be unclear how these costs affect decision making within regulated firms, or competition between them.

The approaches taken by various Commonwealth health and safety regulatory agencies to these, and other, cost recovery issues are discussed in the following sections. Agencies and divisions of departments included in this case study are listed in box D.1 and then collectively referred to as 'health and safety regulatory agencies'. This case study draws on the cost recovery arrangements of these agencies as illustrations, but does not review each arrangement in detail.

Box D.1 Health and safety regulatory agencies in Australia

Therapeutic Goods Administration: The TGA is a division within the Department of Health and Aged Care. It administers a national system of regulatory controls on the quality, safety, efficacy and timely availability of therapeutic goods used in or exported from Australia.

Australia New Zealand Food Authority: ANZFA is a statutory authority within the Department of Health and Aged Care. It develops food standards and other food regulatory measures for Australia and New Zealand.

Australian Radiation Protection and Nuclear Safety Agency: ARPANSA is a statutory authority within the Department of Health and Aged Care. It licenses Commonwealth agencies that deal with radioactive materials or apparatus, or any aspect of a nuclear facility.

Office of the Gene Technology Regulator: The OGTR is an independent statutory office within the Department of Health and Aged Care. Its responsibilities include protecting the health and safety of people and the environment by identifying and managing risks posed by gene technology.

National Industrial Chemicals Notification and Assessment Scheme: NICNAS is a statutory office administered by the National Occupational Health and Safety Commission (within the Department of Employment, Workplace Relations and Small Business). NICNAS assesses the health and environmental risks of all new industrial and selected existing chemicals that are manufactured locally or imported.

National Registration Authority for Agricultural and Veterinary Chemicals: The NRA is a statutory authority within the Department of Agriculture, Fisheries and Forestry — Australia. It is responsible for administering the National Registration Scheme which provides for the assessment and registration of agricultural and veterinary chemical products before sale in Australia.

Australian Quarantine Inspection Service: AQIS is an agency within the Department of Agriculture, Fisheries and Forestry Australia. It administers Australia's quarantine, agriculture and food export laws.

Space Licensing and Safety Office: SLASO is a division within the Department of Industry, Science and Resources. It regulates space activities undertaken within Australia or by Australian nationals overseas.

Australian Maritime Safety Authority: AMSA is an authority within the Department of Transport and Regional Services. It provides regulation and oversight of Australian shipping, maritime navigation facilities and search and rescue services.

Civil Aviation Safety Authority: CASA is an authority within the Department of Transport and Regional Services responsible for setting aviation safety standards, registering aircraft, licensing and enforcing compliance with safety regulations.

Airservices Australia: ASA is a statutory body within the Department of Transport and Regional Services. It is responsible for air traffic control and navigation facilities, as well as airport firefighting services.

D.1 Extent and nature of cost recovery

Regulatory agencies with health and safety responsibilities may share similar issues and concerns with cost recovery, but the nature, extent and objectives of their cost recovery arrangements vary considerably. While some agencies recover a small proportion of their costs, or only the costs of discrete activities, others recover almost all (or in some cases more than) the costs of running the agency.

Revenue collected through cost recovery

The Commonwealth health and safety regulatory agencies listed in box D.1 raised \$899 million in revenue through cost recovery arrangements in 1999-2000. ASA recovered the greatest amount of revenue (\$585 million) and, along with the NRA, also recovered the highest proportion of agency expenses (109 per cent). However, the chemical and pharmaceutical regulators (NICNAS and the TGA) also generated high proportions of their expenses from cost recovery arrangements (99 per cent and 85 per cent respectively). Cost recovery revenue of these agencies is shown in table D.1.

Agency cost recovery revenues may be less than or greater than costs for a variety of reasons, including activity fluctuations which may be offset between years (as with the TGA), and cost recovery targets which include a rate of return on capital (as with ASA).

Agencies and activities that cost recover

The majority of agencies responsible for health and safety regulation have been established as independent statutory authorities. However, several agencies within the group have different legislative structures. The TGA and AQIS are agencies within departments, and NICNAS is a statutory scheme within a statutory authority (the National Occupational Health and Safety Commission).

There are also some key differences in how cost recovery policy is applied. The agencies recover different proportions of costs and have contrasting charging mechanisms and costing structures. Some agencies, typically those regulating chemicals and therapeutic goods, aim to meet cost recovery targets that are applied to the whole agency. The NRA, NICNAS and the TGA aim to recover 100 per cent of agency costs. On the other hand, agencies such as AQIS, CASA and AMSA have individual cost recovery targets for particular activities.

Table D.1 **Cost recovery revenue of health and safety regulators, 1999-2000**

Agency ^a	Total cost recovery revenue	Total revenue from other sources	Total agency expenses	Cost recovery target	Cost recovery revenue / total expenses
	\$m	\$m	\$m	%	%
TGA	41.4	2.3 ^b	49.0	100	84.5 ^c
ANZFA	0.8 ^d	12.9	13.1		6.1
AQIS	136.7	42.2	178.2		76.7
NICNAS	3.7	0.1 ^e	3.7	100 ^e	99.3
NRA	17.6	1.0	16.2	100 ^f	108.6
CASA	59.8	39.1	83.7		71.4
ARPANSA	1.2	14.0	16.1		7.5
AMSA	52.4	28.5	77.9		67.3
ASA	585.4 ^g	11.0 ^h	539.2	100 ⁱ	108.6
Total	899.0	151.1	974.3		92.3

^a TGA — Therapeutic Goods Administration, ANZFA — Australia New Zealand Food Authority, AQIS — Australian Quarantine Inspection Service, NICNAS — National Industrial Chemicals Notification and Assessment Scheme, NRA — National Registration Authority for Agricultural and Veterinary Chemicals, CASA — Civil Aviation Safety Authority, ARPANSA — Australian Radiation Protection and Nuclear Safety Agency, AMSA — Australian Maritime Safety Authority, ASA — Airservices Australia. ^b Revenue from 'other sources' does not include an appropriation from the Government. ^c Cost recovery charges were deliberately set below costs to offset surpluses earned between 1995-96 and 1997-98. ^d ANZFA cost recovery revenue in 1999-2000 came from royalties and sale of publications. It did not recover any revenue from regulatory activities. ^e NICNAS received \$113 000 appropriation from Government to cover 50 per cent of its compliance monitoring costs (despite a 100 per cent cost recovery target). ^f The NRA has a stated 100 per cent cost recovery target, but it receives an appropriation from Government of \$108 000 for minor use chemicals (equal to 1 per cent of revenue in 1999-2000) (NRA, sub. 39, p. 4). ^g ASA classifies this revenue as commercial service charges rather than cost recovery. ^h ASA receives an appropriation of \$11 million to subsidise the cost of towers at regional and general aviation airports. This subsidy is funded by industry from a levy on avtur fuel. ⁱ ASA bases its charges on the cost of providing its services, maintaining its assets and earning a reasonable profit.

Source: PC estimates based on responses to part I of the questionnaire.

Most of the health and safety agencies recovering costs on an activity basis have distinguished activities that are provided as 'community service obligations' (that are funded from general taxation revenue) from those that have easily identifiable or direct beneficiaries (that are cost recovered).¹ AMSA, for example, fully recovers the costs of regulatory services provided to industry directly but funds its search and rescue functions (which it identifies as a community service obligation) through general taxation revenue.

¹ The term 'community service obligation' is commonly applied to non-commercial activities that government business enterprises are required to undertake for social or equity policy reasons. Government usually directly subsidises these enterprises for undertaking community service obligations.

ANZFA has adopted a different approach. A new model to recover the costs of ANZFA's regulatory activities was introduced in July 2000, although the arrangements have not yet generated any revenue. This model enables ANZFA to impose cost recovery where an 'exclusive capturable commercial benefit' can be identified from the approval of an application, or where applicants request that extra resources be used to 'fast track' their application. This approach may reflect the nature of regulation undertaken by ANZFA:

Unlike the activities of the Therapeutic Goods Administration or the National Registration Authority, in most cases, the processing of an application by ANZFA does not transfer a commercial benefit solely to the applicant. This is because the approval of an application is not limited to the applicant, nor generally to the individual product, but provides for generic amendments to the Food Standards Code. ... this 'free-rider' effect would make it inequitable to charge an applicant the full cost of processing an application. (sub. 67, p. 3)

Under this test, ANZFA would recover the costs of an application where the applicant has a legally enforceable property right in a product. Section 66 (9) of the *Australia New Zealand Food Authority Act 1991* states:

... an exclusive, capturable commercial benefit applies where:

- (a) the applicant can be identified as a person or body that may derive a financial gain from the adoption of the draft standard or draft variation of the standard that would be prepared in relation to the application; and
- (b) any other unrelated persons or bodies, including unrelated commercial entities, would require the agreement of the applicant in order to benefit financially from the approval of the application.

By contrast, the TGA recovers the costs of all activities regardless of whether the applicant has a property right. Some participants have criticised this approach, arguing that the costs of assessing complementary healthcare products (which are not patentable) should be treated differently from the costs of assessing pharmaceutical products (most of which are patentable) (CHC, sub. 17, p. 4). Similar issues have arisen recently about potential new uses of products that are out of patent (such as generic pharmaceuticals).

There is no uniform treatment of costs relating to policy, research, compliance and monitoring functions. These functions include the preparation of ministerial briefings, litigation activities and research. The TGA and the NRA are required to recover the costs of policy development and regulatory activities from industry. NICNAS, in contrast, receives an appropriation for 50 per cent of its compliance costs, and policy functions relating to industrial chemicals are undertaken by the National Occupational Health and Safety Commission and funded through general taxation revenue.

Historical context

Cost recovery has been an established practice in some health and safety regulatory agencies for several decades. CASA noted that ‘cost recovery has been a feature of the provision of aviation regulatory services since 1956’ but became policy in 1988 (sub. 75, p. 2). Cost recovery arrangements were introduced in AQIS in 1979. Other agencies, such as the NRA and NICNAS imposed cost recovery arrangements upon their establishment (beginning in 1995 and 1990 respectively).

Although agencies introduced cost recovery arrangements at different times, there has been a general trend across all agencies to increase over time the proportion of costs recovered. The TGA began operations in 1991 with a 50 per cent cost recovery target (although this target was not reached until 1996). This target was later revised to require industry to fully fund those functions specifically related to industry. To implement this revised target, the TGA, in consultation with industry, classified each activity as either industry related or ‘in the public interest’ and allocated the costs of each activity accordingly. All executive activities were attributed to public interest functions (funded through general taxation revenue) and almost all pharmaceutical evaluation activities were industry related (83 per cent cost recovered). All corporate overheads were to be funded equally from the industry and general taxation. In the 1996-97 budget the Government increased the TGA’s agency-wide cost recovery target to 75 per cent, to be phased in over three years. In 1997-98 the Government determined that 100 per cent of the agency’s costs would be recovered from industry from 1998-99.

The cost recovery charges of AQIS have also been progressively increased. AQIS introduced cost recovery in 1979, with a requirement to recover 50 per cent of its export inspection activities. Between 1979 and 1988 AQIS expanded the range of activities subject to cost recovery until all inspection activities of agricultural commodities were partly cost recovered. The rate of cost recovery for inspection activities was subsequently increased to 60 per cent of costs in 1988 and to 100 per cent in 1991.

Nature of cost recovery arrangements

Health and safety agencies use a variety of mechanisms to recover the costs of their activities. Most agencies impose fees for regulatory activities provided to industry. These fees are categorised under a number of headings including assessment, administration, registration and application fees, and regulatory service fees. Most health and safety agencies also charge fees for the sale of publications and for other non-regulatory activities such as contracted research and the provision of seminars, conferences and training courses.

The majority of agencies also recover costs through levies or taxes (including customs and excise duties). Levies may be charged on a per product basis (such as the NRA levy on Australian gross sales of products) or on a company basis (such as the NICNAS company registration levy). The cost recovery arrangements imposed by the NRA are outlined in box D.2 as an illustration of the mechanisms used by health and safety agencies.

Box D.2 NRA cost recovery arrangements — three main mechanisms

Application fees are imposed under the Agricultural and Veterinary Chemicals Code. These fees are set out in the regulations to the code and vary according to the type of application and the assessment required. Depending on the type of application, fees fall into one of the following four categories: new products; variations to existing registered products; permits; and modular assessments.

Annual registration renewal fees are imposed under the Agricultural and Veterinary Chemicals Code. Companies are required to pay an annual registration renewal fee for each product on the register. The fees are determined according to the product's disposals in the previous calendar year, where disposals equal the value of the product's gross sales in Australia. The fee paid per product is as follows:

<i>Disposals</i>	<i>Fee</i>
Over \$25 000	\$1000
Between \$10 000 and \$25 000	\$600
Less than \$10 000 (registered in three or more States/Territories)	\$300
Less than \$10 000 (registered in one or two States/Territories)	\$200
Nil disposals	\$200

Levies on disposals of registered products are imposed under three Acts: the *Agricultural and Veterinary Chemical Products Levy Imposition (General) Act 1994*; the *Agricultural and Veterinary Chemical Products Levy Imposition (Excise) Act 1994*; and the *Agricultural and Veterinary Chemical Products Levy Imposition (Customs) Act 1994*. The levy monies are collected under the *Agricultural and Veterinary Chemical Products (Collection of Levies) Act 1994* and the levy rates are prescribed under regulations to this Act. The fees listed above do not raise sufficient revenue to recover all of the NRA's costs, so levies are used to 'top up' the revenue from application fees and fund compliance activities. The levies are payable on a product's gross sales, exclusive of sales tax. The current levy rates are as follows:

<i>Disposals</i>	<i>Levy rate</i>
Less than \$100 000	Nil
\$100 000 or more	0.65 per cent (capped at \$25 000)

Source: NRA (sub. 39, pp. 3–4).

Legislative arrangements

Legislation underpins the cost recovery arrangements of most health and safety agencies. The nature of these legislative arrangements generally varies in accordance with the agency's legislative standing. The enabling legislation of most agencies established as statutory authorities (such as AMSA and the NRA), provides for charging fees-for-service. These provisions are often qualified with a clause that states that such charges are not to amount to taxation (see chapter 3). AMSA's ability to charge is further qualified:

The amount or rate of a charge must be reasonably related to the expenses incurred or to be incurred by the Authority in relation to the matters to which the charge relates and must not be such as to amount to taxation. (s.47(12), *AMSA Act 1991*)

Although the broad authority to charge fees is granted under the enabling legislation, regulations attached to the enabling Act generally provide for the specific nature and amount of fees charged.

Cost recovery regimes of non-statutory authorities also have their foundations in legislation, but the enabling provisions are generally more specific regarding the types of charge that may be imposed. NICNAS, for example, sets charges under the *Industrial Chemicals (Notification and Assessment) Act 1989*. This Act lists the services for which fees may be prescribed under regulations (s.110).

Cost recovery levies (which are technically taxes) must have authorisation in a specific tax Act (see chapter 3). The TGA annual charge, for example, is authorised under the *Therapeutic Goods (Charges) Act 1989*. Similarly, each of the AMSA levies is authorised under a separate Act. Regulations made under the levy Acts usually set out the levy rates, and associated Acts deal with the collection of the levies.

Rationales for existing arrangements

Cost recovery has become an established aspect of health and safety regulation in Australia. Agencies generally did not provide the Commission with detailed reasons for the introduction of their cost recovery arrangements, and in many instances, cost recovery appears to have been imposed without a formal rationale.

The NRA explained its move to full cost recovery in 1995-96 as being 'in line with government policy targets' (sub. 39, p. 2) and NICNAS explained that its move from 50 per cent to 100 per cent cost recovery in 1996-97 was 'to align ... with other chemical regulatory agencies, such as the NRA' (sub. 33, p. 1).

The Commission's questionnaire for this inquiry asked agencies to explain the reasons for their existing cost recovery arrangements. Generally, responses varied and provided little detail. Some agencies provided brief responses, such as 'user pays' and 'government decision' while others provided no explanation. AQIS noted that:

... decisions to introduce cost recovery arrangements in AQIS related to various Government's policies to, where possible, recover costs of providing services to industry where services could be regarded as a normal business expense. (questionnaire response)

ANZFA provided a more detailed rationale for its recent introduction of cost recovery, stating that the arrangements were 'to allow better management of both ANZFA's scarce resources and its workload' (questionnaire response).

Although responses to the questionnaire were generally brief, the rationales for many existing arrangements have been outlined in external reviews of cost recovery arrangements. A review of AMSA levies in 1997 noted that full cost recovery of AMSA's safety and regulatory activities was introduced to conform with:

... proper public sector pricing principles to recover avoidable costs. The principle states that, as shipping is an economic activity which requires regulation in the community interest, the cost of such regulation should be borne by those generating the need for regulation. In simple terms, if the shipping industry or shipping activity did not take place, the community would not incur the costs of regulation — as it does, those who generate the need should pay the cost and not have it borne by the general community. (Taylor 1997)

Some rationales for cost recovery arrangements have changed over time in response to policy changes. The Australian Pharmaceutical Manufacturers Association suggested that the 100 per cent cost recovery target of the TGA is inconsistent with the TGA's earlier rationale in support of partial cost recovery — in 1991, the then Minister, supported partial cost recovery for the TGA, noting that some activities of the TGA were performed in the public interest and should be funded from general taxation revenue (House of Representatives 1991, p. 464).

In a submission to this inquiry, the TGA argued that full cost recovery is warranted on the grounds that industry gains a significant commercial benefit from product endorsement and 'that all regulatory effort by the TGA is undertaken solely because the industry exists' (sub. 89, p. 10). TGA currently recovers from industry the cost of policy advice, monitoring, compliance and administration costs.

Some agencies stated that they recovered costs because their users were other agencies that in turn recovered costs. The Department of Environment and Heritage, for example, conducts risk assessment reports and provides policy advice to both

NICNAS and the NRA. These assessments deal with the potential effects of chemicals on the non-human environment. The department fully cost recovers this service and stated:

Consistent with government policy on cost recovery for chemical registration functions, the NRA is fully cost recovered. Environment Australia's provision of the services of environmental risk assessment to the NRA is in turn fully cost recovered. (questionnaire response)

D.2 Impact of cost recovery on agencies

Health and safety agencies have not applied a uniform approach to cost recovery. Agencies apply various charging mechanisms to recover the costs of their activities, and arrangements for the administration and governance of agencies also differ. These approaches have varying effects on agency efficiency.

Incentive effects for agencies

Cost recovery has the potential to create positive or negative incentives for agencies. Positive effects may arise from improved efficiency (although this may be difficult to measure), improved accountability and transparency, as well as improved demand responsiveness. Negative incentive effects may include industry capture, cost padding, gold plating, regulatory creep and cost shifting.

Efficiency effects

Some health and safety agencies said that cost recovery has promoted agency efficiency, transparency and accountability. NICNAS, for example, highlighted increases in outputs, better access to products, and improvements in the quality and useability of its assessments, while costs had remained at 1997 levels (sub. 33, p. 3).

Organisations such as the Industry Working Group on Quarantine stated that cost recovery has improved AQIS's efficiency:

There is also, I believe, an expectation from the cargo owners and indeed the service providers that, if you have a cost recovery mechanism or system, it should lead to an improvement in efficiency in the service — if you're paying for it — and in our case it has led to efficiency improvements. (trans., p. 1246)

The NRA stated that full cost recovery had increased industry expectations, which had led it to complete 98 per cent of submissions within the allocated timeframe. It also claimed to have been assisted in this achievement by improved industry efficiency — applicants lodged higher quality submissions, in the knowledge that

they will bear additional costs if they need to resubmit their application (sub. 39, p. 1).

Transparency and accountability

The Industry Working Group on Quarantine stated that cost recovery had led to improvements in AQIS's transparency and accountability:

Industry questions the regulatory authority a lot more than perhaps the regulatory authority would through an internal audit, because we see the commercial side of things and we may suggest that there are better ways of dealing for instance, with the cost recovery mechanisms. (trans., p. 1247)

While cost recovery may encourage users to seek value for money in agency activities, it may also work against accountability to the public. Organisations such as the Complementary Healthcare Council of Australia stated that 100 per cent cost recovery arrangements remove statutory agencies (such as the TGA) from the Government scrutiny applied to agencies funded by appropriations, thus reducing their transparency and accountability (sub. 17, p. 11).

Other industry participants suggested that current arrangements are insufficient to address transparency and accountability concerns and that more direct approaches are required. These could include board representation, industry consultation and the formation of industry consultative committees, with access to appropriate data for measuring performance.

Demand responsiveness

By pricing outputs, cost recovery can help agencies be more responsive to demand. However, the mandatory nature of the regulatory activities undertaken by these agencies gives them considerable power in setting rates and makes it difficult to use demand management techniques. ANZFA's cost recovery arrangements recognise that companies may be willing to pay for the extra resources needed to fast track applications. Although this policy is in place, it is yet to be applied. However, it is important that such arrangements employ additional resources rather than divert resources away from existing agency activities.

Industry capture

Full cost recovery, combined with stakeholder influence, can also lead to perceptions of industry capture, as recognised by the Complementary Healthcare Council of Australia (sub. 17, p. 22). This is particularly the case when industry

believes it has a right to influence regulatory agencies' activities because it pays for them:

Industry, if required to fund a scheme to 100 per cent should have a strong ability to influence the allocation and priority of the activities. This may be through a Board or stakeholder group that has responsibility to advise on the ongoing process. (PACIA, sub. 24, p. 7)

The NRA stated that it attempts to minimise the risk of agency capture by ensuring transparency and openness within the agency:

The NRA's management and consultative arrangements also allay fears of industry capture by being very open and transparent. All assessment reports are made available to the public and decisions are disseminated via the NRA Gazette and other communication vehicles. Strong public input is encouraged. (sub. 39, p. 6)

Cost padding

Some industry participants raised concerns about agencies' costs and their impact on charges. For example, Blackmores viewed the annual charges for listing products on the Australian Register of Therapeutic Goods (ARTG) (between \$350 and \$950 per product) as excessive:

Changes to the ARTG are made on a fee per application service. It should be reasonable to expect these application fees should also cover the maintenance of the database as well. A computer database of this nature could be contracted out to the private sector at a greatly reduced cost. (sub. 25, p. 1)

Whiteley Industries raised concerns about the costs associated with evaluating anti-bacterial handwash:

...the simplest testing which is in fact not applicable any more to the TGA is a simple test that costs about \$500, but that is not good enough now, we have to use other tests. The cheapest of those costs around about \$5000. (trans., p. 1005)

The Australian Chemical Specialties Manufacturers Association raised concerns about calculation of evaluation costs by NICNAS. For example, NICNAS charges a Low Volume Chemical permit fee of \$2600 to import less than 100 kg per annum of a new ingredient:

This process should take less than half a day and is certainly less complex than the TGA Listing Application, for which the TGA fee is \$400. NICNAS should be required to justify their \$2600 fee for this evaluation. (sub. DR164, p. 12)

The Australian Self-Medication Industry, as well as the Complementary Healthcare Council of Australia, questioned the appropriateness of TGA rental costs. The Department of Finance and Administration imposed a net annual rent of

\$5.3 million — an increase of \$3.3 million — just prior to the sale of the premises (ASMI, sub. DR123, p. 1; CHC, sub. DR155, p. 3).

Regulatory creep

The Australian Paint Manufacturers Federation stated that cost recovery for government bodies is analogous to a monopoly ‘whose decisions do not have to stand the test of competitive scrutiny’. As a result, cost recovery can lead to regulatory creep as ‘it is seen by the bureaucrats as a way of extending the organisations operations’ (sub. 74, p. 4).

The Australian Chemical Specialties Manufacturers Association raised concerns over the regulatory expansion of the TGA with respect to low risk products such as anti-bacterial handwash and disinfectants:

...the TGA introduced a new test without any published supporting peer review paper ... At that time, there was no Australian laboratory which could run this new protocol and no Australian manufacturers had ever tested their product to this standard. (sub. DR164, p. 9)

The Australian Chemical Specialties Manufacturers Association also raised concerns that agencies, such as NICNAS may develop more stringent regulatory requirements than those overseas, and impose greater costs on Australian firms:

Product safety data which is accepted by our major trading partners is not accepted in Australia. This means that firms here are forced to provide duplicative and/or unique safety data for Australian regulators, increasing costs and the regulatory burden. (sub. DR164, p. 10)

Cost shifting

When agencies cost recover for some activities and not others, there may be incentives to shift outputs from those that do not recover costs to those that do (see chapter 8). Shifting resources away from those activities with public benefits towards those with private benefits may be inconsistent with program objectives. These concerns were identified in the *Nairn Report, 1996 — Australian Quarantine: A Shared Responsibility*:

Observations during the inspection phase of the Review lent weight to the view that quarantine staff were tending to concentrate effort on cost-recovered programs to the detriment of budget-funded activities ... some quarantine activities appeared to be driven more by the ability to charge for services than by the need to meet the objectives of quarantine. (Nairn 1996 in Red Meat Advisory Council, sub. 47, p. 23)

Agency innovation and technology

New technologies may promote both agency and industry efficiency which may also be reflected in lower charges. Information technologies, particularly the Internet, are changing the relationship between regulators and those they regulate. Increasingly, those who must comply with the regulations are able to provide information to the regulator via the Internet.

The TGA stated that the introduction of the electronic lodgement facility has dramatically reduced processing times from 80 to 10 days in the majority of cases for low risk products (sub. 89, p. 21).

Some agencies are actively encouraging the shift to electronic communication. AQIS, for example, encourages industry to use electronic certificates for export by under-charging for electronically issued documents and over-charging for manually issued certificates. The Australian National Audit Office report into AQIS cost recovery systems noted that this practice was agreed with industry (ANAO 2000a, p. 89).

Operation of cost recovery

The implementation of cost recovery requires the calculation and apportioning of costs. Agencies differ in how they allocate costs across activities.

Calculating and apportioning costs

Regardless of the extent of cost recovery undertaken by individual health and safety agencies, most start by estimating their total cost base and allocating both direct and indirect costs to outputs. All health and safety agencies apportion costs by applying some form of Fully Distributed Cost approach (see appendix H). NICNAS, the NRA, the TGA and AMSA use Activity Based Costing to apportion costs (see appendix B). ANZFA, ARPANSA and AQIS all use Fully Distributed Costing to allocate indirect costs as a proportional share of direct costs. AQIS's approach is summarised in box D.3.

Box D.3 AQIS's approach to apportioning costs

AQIS apportions costs using a Fully Distributed Cost approach. Where possible, it apportions indirect costs to the different user groups directly (on a program basis), so as to minimise cross-subsidies between users.

AQIS differentiates between those indirect costs that can be specifically attributed to a subset of users (technical and operational costs) and those, such as overheads, that are applied across the whole agency.

- *Technical and operational costs* are exemplified by the costs of detector dogs which are specific to the airports, import clearance, Northern Australian quarantine strategy and the international mail programs. These are allocated on the basis of the number of dog teams used.

The remaining indirect costs are apportioned through a variety of mechanisms, predominantly as a proportion of full-time equivalent staff or as a proportion of direct expenditure:

- *Corporate expenses* are charges of the organisation as a whole, such as insurance and internal audit charges. These are apportioned on the basis of full-time equivalent staff.
- *Overheads* include support services in finance, human resources, information technology and regional support. These are allocated on the basis of drivers such as full-time equivalent staff across relevant programs, direct expenditure, invoices processed, accounts raised and floor space, and represent 11 per cent of AQIS's 2000-01 budget.

Sources: Questionnaire response; ANAO (2000a, pp. 48, 115); AFFA (trans., pp. 664–5).

Cross-subsidies

Cross-subsidies occur when some users pay for more than the costs of the services they receive, and the surplus is used to offset the cost of services provided to other users (ANAO 2000a, p. 84). Many cost recovery arrangements incorporate either incidental or deliberate cross-subsidies, and submissions to this inquiry revealed that rationales for cross-subsidies differ among health and safety agencies. Rationales include the difficulties of separating the costs of the activities/programs, identifying users of the activity or product, perceived equity concerns about charges and responding to industry preferences for the calculation and implementation of charges.

Most health and safety agencies are able to separate their activities within programs and do not use revenue from one program to cross-subsidise another. One exception is the TGA, which uses the revenue from annual registration charges (for

registration on the Australian Register Therapeutic Goods database) to cross-subsidise post-market monitoring and compliance functions.

The difficulty of identifying the users of a regulatory activity was not a common rationale for cross-subsidisation, except for transport agencies. AMSA imposes a general levy based on ship tonnage (the Marine Navigation Levy) to fund the provision of navigation aids such as lighthouses, because it would be impractical to monitor the individual use of these aids. Until 1988, ASA operated a network pricing framework that implicitly included elements of cross-subsidy. (ASA now applies location-specific pricing based on the costs of individual towers).

Various health and safety agencies listed perceived equity reasons for cross-subsidies. CASA subsidises the shortfall from regulatory fees through fuel excise and customs taxes. Similarly, ASA subsidises the costs of operating landing towers at regional airports through a special appropriation funded by fuel excise. These cross-subsidies tend to benefit smaller regional operators at the expense of larger airlines.

In relation to this arrangement, Ansett argued that equity considerations ‘should be funded through a community service obligation, not via industry cross-subsidies’ (trans., p. 692).

Finally, the adoption of cross-subsidies by some agencies was partly a response to industry consultation. AQIS stated that its policy is to prevent cross-subsidisation between user groups (or programs) by setting charges to achieve full cost recovery (AFFA, sub. DR151, p. 17). However, it has adopted a cross-subsidisation model within its meat inspection program:

... industry felt the registration charges were too high and they wanted there to be some cross-subsidisation from the fee-for-service arrangement into the non-variable cost structure. That was agreed with industry. It adulterated the purity of our model but it was what industry preferred, and they agreed, and we agreed with them and it has been a very useful mechanism for ensuring that we have agreement with industry. (AFFA, trans., p. 668)

Managing cost recovery revenue

Because of the difficulty of accurately estimating the level of demand for their activities and associated costs, agencies may over-recover (or under-recover) costs in any particular period.

SLASO, for example, has set its charges by calculating the expected full operating costs of the agency over the relevant period (two years) divided by the expected total number of applicants (DISR, sub. 62, p. 16). It has received advice that it was

not imperative for the licence/permit fees to exactly equal the costs, because ‘if the fees were calculated in good faith’ then they would not amount to taxation. However, the advice noted that if revenue exceeds costs in one period, then fees should be adjusted in the next period to achieve balance (DISR, sub. 62, p. 16).

Where over-recovery of costs may occur, most health and safety agencies indicated that they retain the revenue, but differed in how they manage the surplus. The NRA and ARPANSA stated that excess revenue leads to an adjustment of their respective charges. The TGA noted that excess revenue may be used to limit future price increases or may be retained in case of future revenue shortfalls. (The TGA over-recovered in 1995, 1996 and 1997, but recovered only 85 per cent of its costs in 1999-2000.) NICNAS stated that any revenue in excess of full costs is allocated to priority projects as identified by its Industry Government Consultative Committee (questionnaire responses, appendix B).

AQIS stated that over-recovered funds are allocated into one of three liability accounts following industry consultation (box D.4). However, despite these arrangements, the Australian National Audit Office (2000a, p. 20) found that AQIS had retained \$5 million of over-recovered funds and not yet returned them to industry in the form of discounts and rebates to charges.

Box D.4 Treatment of over-recovered AQIS funds

Over-recovered AQIS funds are placed into one of the three following liability accounts.

The Income Equalisation Reserve is used to enable AQIS and industry to overcome unforeseen downturns in the recovery of expenditure over a period of years. Reserve accounts are established with the agreement of industry, through the program consultative committees.

The Revenue Rebate is used to reduce temporarily the level of charges applied for services performed by the program, as agreed with industry. The method and timeframe for returning these funds is a matter for the relevant consultative committee.

The Industry Initiative Account is used in consultation with industry for projects of benefit to industry, such as research and development, marketing and promotional activities.

Sources: AFFA (sub. DR151, p. 12); AQIS (questionnaire response); ANAO (2000a).

The ability of agencies to retain revenue in excess of their full costs may create incentives for agencies to increase charges (as discussed earlier). Over-recovery of fees-for-service could lead to fees being construed as taxes. AQIS received legal advice that over-recovery by 10 per cent or more could result in a charge being construed as a tax (ANAO 2000a, p. 68). Strong governance arrangements to

promote transparency and accountability would reduce the incentives for over-recovery and any associated risk of legal challenge to fees.

Contestability

A level of contestability can be introduced to an agency's activities through the outsourcing and market testing of activities. For example, the outsourcing of various components of the assessment process for foods, chemicals and pharmaceuticals could lead to greater contestability and promote increased agency efficiency. International arrangements, such as mutual recognition, may also introduce contestability to agency activities. Mutual recognition would increase the pressure on Australian regulators to be efficient by making them compete with comparable international bodies.

International harmonisation of regulation is a necessary first step towards mutual recognition and can also reduce the compliance cost to industry and agency administration and processing costs.

Some inquiry participants complained about a lack of harmonisation and mutual recognition in health and safety regulation. The Australian Chemical Specialties Manufacturers Association noted that:

... the lack of international harmonisation of definitions and classifications makes provision of data and compliance more difficult and costly. (sub. 60, p. 7)

It also noted:

One area with the potential for regulators to decrease their costs significantly, and therefore the amount recovered from industry, is the improved recognition of chemical approvals by foreign regulatory authorities. This would also significantly reduce the costs of companies providing information to regulators. (sub. 60, p. 6)

Similarly, the Plastics and Chemicals Industry Association suggested agencies should:

... outsource the technical review aspects and undertake a more managerial approach to the assessment process. This would likely lead to competitive costs and reduced overheads which are more justifiable to the applicant. Government would still need to be assured of the quality of the process and retain its role as final arbiter of results to ensure that the level of technical support remains independent and sound. (sub. 24, p. 3)

The Complementary Healthcare Council of Australia supported this view, stating:

Many TGA activities could be contested by the private sector. For example, the Australian Register of Therapeutic Goods ... could be managed by a range of licensed service providers. Laboratory analysis of substances could be carried out by NATA accredited laboratories. Manufacturing facilities in Australia and overseas could be

audited out by local auditors. At the very least contestability would benchmark TGA performance. (sub. 17, p. 2)

Similarly the Medical Industry Association of Australia noted that the TGA could implement more efficient arrangements by introducing competition in conformity assessment for therapeutic devices, which could:

... remove potential conflict of interest issues wherein the TGA currently establishes regulatory standards then assesses products against them. (sub. 122, p. 4)

Administrative arrangements

The mechanism adopted for recovering costs (for example, fees-for-service versus levies) can affect the complexity, efficiency and cost of administrative arrangements. Fees-for-service, for example, may be more costly to administer than a levy or tax because of the complexity in calculating appropriate charges. There are also issues relating to the collection method of charges and concerns about their predictability.

In the case of AMSA and CASA, some taxation revenue is hypothecated — that is, the revenue raised through particular tax instruments is earmarked for appropriation to the agencies. Revenue generated from the *Fuel Aviation Revenue (Special Appropriations) Act 1998* is earmarked for CASA. Similarly, revenue received from the Regulatory Functions Levy, the Marine Navigation Levy and the Protection of the Sea Levy are all hypothecated to AMSA. A common issue with levies is ensuring that the amount raised matches the amount needed to fund the relevant activity. Qantas, for example, stated that ‘the aviation fuel duty has returned \$7.6 million more than anticipated in the past two years’ (sub. DR152, p. 2).

The appropriate cost recovery mechanism can depend on the type of program being cost recovered. Levies may be appropriate where it is difficult to allocate costs and benefits to individual users, where users cannot be charged directly or where costs need to be recovered over a long period of time (see chapter 7). Examples include the Marine Navigation Levy (imposed by AMSA) and the Aircraft Noise Levy (imposed by the Department of Transport and Regional Services). However, levies have been criticised for a lack of transparency. As noted by Ansett:

We have enormous concerns about the use of fuel levies as an appropriate cost recovery mechanism ... They are certainly administratively easy. They’re not transparent. (trans., p. 694)

While most health and safety agencies collect cost recovery charges themselves, the collection of charges relating to the Department of Transport and Regional Services and transport agencies such as CASA and AMSA are outsourced. The Australian

Taxation Office collects the fuel excise on behalf of CASA, while the Australian Customs Service collects AMSA's levies (but does not charge AMSA for this service).

The Australian Customs Service collects AMSA levies in the course of its barrier management inspection duties. The Australian National Audit Office recognised this to be an efficient approach to levy collection, but noted:

Consistent with the need for transparency in the management of levies, the collection costs should be visible. As well, they should be included in the total costs attributed to the levy, even if this is at the reporting level and not imposed as a fee-for-service. (ANAO 2000c, p. 44)

ASA collects the Aircraft Noise Levy on behalf of the Department of Transport and Regional Services (using the same administrative system that is used in the collection of aircraft landing fees), and charges the department for this service.

The stability of cost recovery administrative arrangements varies. Transport agencies (such as CASA and AMSA) have had stable administrative arrangements dealing with excise/levies, community service obligation funding and fees-for-service over many years. However, agencies such as the TGA and the NRA, which now fully cost recover, have been subject to changes in government policy relating to cost recovery targets. ANZFA recently implemented new cost recovery arrangements, while the cost recovery arrangements of the OGTR and SLASO are still under review.

Governance

In broad terms, governance refers to the processes that direct and control agencies, and hold them to account. Cost recovery can have important impacts on these arrangements. Key elements of governance include: the transparency of the agency and its activities; the implementation of effective risk management and financial management; and the accountability of the agency (or its board) to stakeholders and the public through clear and timely disclosure. This may involve consultation with stakeholders to enhance the predictability of cost recovery arrangements.

Accountability

Those health and safety agencies that are regulated by the *Commonwealth Authorities and Companies Act 1997* (the CAC Act) are required to have a board structure in place (for example CASA, ASA and the NRA). The board is responsible for management to the Minister. The CAC Act sets out standards of conduct for directors, such as a standard for establishing an audit committee to

assist in financial reporting, risk management and internal control. In other agencies, the Chief Executive Officer is accountable to the relevant Minister.

Industry participants such as Avcare suggested that a board structure with industry representation is their preferred system of governance, stating that the presence of a board may be ‘one way to achieve transparency, and scrutiny of some of the costs’ (Avcare, trans., p. 385). However, as noted earlier, direct stakeholder participation may lead to perceptions of the agency being ‘captured’.

The Australian National Audit Office noted that board representatives should be selected on the basis of their expertise relating to the agency and their financial management skills because they have an obligation to manage the agency with public interest objectives in mind (ANAO 1999).

Consultation

All health and safety agencies have some form of process to consult with stakeholders. However, the degree of accountability and transparency of these arrangements varies between and also within agencies. Most statutory bodies and agencies provide for consultative committees, but their establishment and functions are not standardised.

AQIS operates a separate Industry Consultative Committee for each of its 14 commodity/industry groups, except the Animal Quarantine Stations (because there is no easily identifiable industry for this program). The Industry Consultative Committee for the AQIS meat program, for example, includes:

A wide range of industry representatives, from game meat establishments, through to red meat establishments, through to cold store operators — everyone in the production chain. They all have sort of cross-representation. Participation in that is financed by the individual group, whoever they happen to be representing, and the secretariat services are provided by AQIS. (AFFA, trans., p. 670)

The AQIS Industry Cargo Consultative Committee appears to promote effective consultation. The committee promotes accountability and transparency across many areas including the Industry Working Group on Quarantine, which has representation on the committee, stated that it addresses:

... the operational side of things, financial management, cost recovery ... over-recovered funds [and] income equalisation reserves ... I think the success of the committee has led to further success, so that as it's seen to be an effective way of working, you can do more ... (trans., pp. 1245, 1249).

The perceived value of other consultative committees may differ between agencies and stakeholders. The TGA stated that the TGA Industry Consultative Committee (TICC):

... facilitates consultation between TGA and the industry regarding input to the TGA budget and accounting against the TGA Corporate Plan; [it] also provides direct feedback from industry to TGA on broad policy, resource allocation and performance issues. (sub. 89, p. 17)

This view contrasts with that of the Complementary Healthcare Council of Australia, which suggested this committee was not sufficiently accountable and transparent, particularly regarding issues of financial management:

The TICC committee which has been referred to in so much of the hearings is managed by the TGA with little opportunity to question expenditure or budget. The transcripts show many conflicting attitudes to the usefulness of this forum. (sub. 98, p. 5)

The Medical Industry Association of Australia also had concerns with the TGA Industry Consultative Committee and stated:

... [it] fails to deliver a forum in which industry can expect to be given an opportunity to shape TGA business practices. Industry input can be and is ignored and industry is not empowered in the TICC process to prescribe performance standards. (sub. 122, p. 4)

More generally, the Australian National Audit Office noted that the TGA could improve its relationship with stakeholders by publishing more detailed information in annual reports, as well as producing quarterly performance reports (2000b, p. 54).

Predictability

Predictability in agency activities and charges can improve the stability of its funding base. It can also promote business confidence and enable industry to make informed decisions. As identified by Avcare:

Fees should be set by regulation and not fluctuate each year according to the predicted workload of agencies (that is, number of applications) as happens with the TGA. A fluctuating approach does not provide the necessary cost predictiveness and budget forecast certainty for industry. (sub. 28, p. 9)

Most health and safety agencies have processes in place to encourage predictability in activities and charges. NICNAS operates a company registration system, which requires that all persons or companies importing or manufacturing industrial chemicals valued at more than a total of \$500 000 must register annually with NICNAS and pay a registration charge. A recent evaluation by NICNAS found that:

... the company registration system provides a stable and predictable funding base, and that the administrative costs of the program compare favourably with alternative funding mechanisms such as funding from consolidated revenue. (sub. 33, p. 2)

As mentioned earlier, AQIS is able to reduce instability in its charging arrangements by allocating over-recovered funds into liability accounts:

AQIS's policy is for programs to endeavour to fully recover their costs in the year they are incurred. However, full cost recovery in one year is weighed against the necessity for price stability and, in practice, it is not possible to achieve full cost recovery every year without frequently amending charges ... The [Income Equalisation Reserve] account is designed to reduce the need for constant changes to fee/charging levels. (AFFA, sub. DR151, p. 12)

Predictability in AQIS's charging arrangements has broad industry support. The Industry Working Group on Quarantine stated:

... we try to have a predictability of costs, and that's very, very important to industry — that industry knows what the up-front costs are and also doesn't have those costs changing every year or every six months. It's very important to us. (trans., p. 1247)

On the other hand, the TGA has come under industry criticism because its specified charges, although predictable, do not adequately reflect actual costs. Although the TGA differentiates between high and low risk evaluations, assessment charges are then based on the number of pages and the type of information contained in each part of a submission. The Australian Pharmaceutical Manufacturers Association stated:

Thus, whilst there is a specific fee, for example, for the evaluation of between 20 000 and 40 000 pages of clinical data for a prescription medicine of \$88 500, the fee is only notionally related to the actual cost of the activity. (sub. 14, p. 5)

It also stated that industry has suggested increasing annual charges rather than increasing fee-for-service charges, because the former approaches would provide more certainty, but expressed concerns about transparency:

... such an approach would seem to diminish the degree of transparency of cost recovery arrangements and may allow less pressure to be exerted on the TGA to minimise its costs and introduce efficiency gains. (sub. DR129, p. 2)

ANZFA's model for pricing evaluations (yet to be applied) grades applications according to their complexity and charges accordingly (table D.2). This is intended to 'give applicants certainty of the total charges they will face before they agree to work commencing' (ANZFA, sub. 67, p. 5).

Table D.2 Australia New Zealand Food Authority charging structure

<i>Category</i>	<i>Average hours</i>	<i>Cost per hour^a</i>	<i>Actual cost^b</i>	<i>Actual hours</i>
		\$	\$	
Very simple application	25	112	2800	0-50
Simple application	125	112	14 000	51-200
Average application	300	112	33 600	201-400
Complex application	500	112	56 000	401-600
Highly complex application	750	112	84 000	601-900

^a Includes all salary and administration costs for a senior officer in 2000-01. ^b Charges cover all costs of varying a standard or having a product or process approved through to final decision making by the Ministerial Council.

Source: ANZFA (sub. 67, p. 5).

Some industry participants expressed concern about a lack of consultation leading to uncertainty in cost recovery arrangements. Ansett, for example, objected to the lack of consultation regarding the level of fuel levies:

We're not consulted on the level of activity that is used in determining and setting the level of the fuel levy. We have no reconciliation at the end of the year as to the amount paid and the amount collected in the fuel levy. ... we have no consultation about these levies. They're announced on budget night and take effect from midnight on budget night. They impact on our business planning. (Ansett, trans., p. 694)

D.3 Economic effects of cost recovery

The cost recovery arrangements of health and safety agencies have implications for the regulated industry, consumers and the broader economy. They may encourage efficient resource allocation across the economy and contribute to achieving the objectives of the regulation (see chapters 2 and 7). Alternatively, cost recovery arrangements may have negative effects on industry, such as contributing to barriers to entry or deterring innovation. Cost recovery arrangements may also affect consumers of regulated products through higher prices (to the extent that industry passes on the costs of regulation) or through reduced choice of products.

Resource allocation effects

The activities of health and safety agencies benefit, to some extent, three main groups:

-
- the consumers of regulated products (for example, through increased product safety or service standards);
 - the general public (for example, through knowing there is a range of safe products); and
 - the regulated firms (for example, through government endorsement of their products).

In other circumstances, health and safety agencies act to prevent the producers or consumers of a product from harming third parties ('negative spillovers'). The NRA, for example, regulates to protect the general community and environment from the potential environmental harm associated with agricultural and veterinary chemicals.

The degree to which different groups benefit may differ between agencies and activities. This can be reflected in cost recovery arrangements where agencies have adopted a 'beneficiary pays' approach. (The Commission considers that the beneficiary pays approach has limitations dealing with cost recovery for regulation that addresses negative spillovers). CASA, for example, identified the beneficiaries of its activities as the aviation industry, the travelling public and the general community. This is reflected in its funding arrangements — some taxpayer funding and some from the aviation industry, a part of which CASA assumes to be passed on to the travelling public (sub. 75, p. 4).

In some circumstances, agencies wish to apply a 'beneficiary pays' approach but cannot charge beneficiaries directly. This may be where: the regulatory activity also has 'public good' characteristics; it is difficult to identify the beneficiaries; and the beneficiaries are so numerous that it is not practical or economically efficient to charge them directly (see chapters 2 and 7).

Many health and safety agencies have identified 'public good' characteristics in some of their activities and these activities are funded from general taxation revenue. AMSA's search and rescue operations, for example, are taxpayer funded. While an emotive issue, general taxation funding of search and rescue operations places no incentive on the most likely users of the service to take greater responsibility for their actions. The Department of Transport and Regional Services suggested an 'insurance scheme':

... an 'insurance' charge levied on the cost of provision of a year's search and rescue service may well prove to be a feasible option. (sub. 48, p. 4)

In other instances, health and safety agencies do not charge beneficiaries directly because of the difficulty (or cost) of identifying and charging them. AMSA, for example, exempts the non-commercial shipping industry from paying two of its

three levies because it would not be cost effective to levy pleasure craft and fishing vessels (Taylor 1997, p. 20). Similarly, ANZFA does not charge for applications to change the food standards code where applicants do not have ‘an exclusive capturable commercial benefit’. Changes to the food standards code may benefit other members of the industry and the consumers of food products, making the beneficiaries too numerous and the task of recovering costs impractical. This ‘free rider’ problem may also discourage innovation in food development if ‘first mover’ applicants were charged (see chapter 7).

In most circumstances, consumers of regulated products are the main beneficiaries of the activities of health and safety agencies. However, agencies do not usually have direct contact with consumers and do not charge them directly. Many agencies (for example, CASA) impose charges on the regulated industry, assuming that at least a proportion of these charges will be passed on to consumers in the purchase price.

Some health and safety agencies have assumed that industry is also an important beneficiary of regulation. The TGA, for example, recovers 100 per cent of its costs from industry partly on the basis that industry obtains commercial benefit from regulation (TGA, sub. 94).

Distributional effects of cost recovery arrangements

Aside from the level of cost recovery imposed, the charging mechanisms and structures applied by agencies may also have implications for economic efficiency. Two particular issues are cross-subsidies in charging arrangements and the impact of cost recovery on small firms.

Cross-subsidies

In some industries, firms argued that one sector of the industry is subsidising the costs of regulating another sector. To the extent that cross-subsidisation occurs, price signals will be distorted and some industry sectors may consume more or less of the regulatory activity (to the extent that they have a choice) than they would otherwise. For example, both Ansett and Qantas stated that the fuel excise surcharge paid by airlines is used to cover CASA’s regulatory costs and cross-subsidise smaller industry participants. The avtur levy is also used to subsidise the cost of landing towers at regional airports (Ansett, sub. 68, p. 3; Qantas, sub. 63, p. 6).

There’s a disproportionate amount of funding comes out of the levy on the fuel which in reality is paid by Qantas and Ansett as well as the main suppliers. There is a general community benefit from aviation safety overall and of course there is the direct industry benefit itself for all of industry, probably through easier administration, but the

two airlines are paying a disproportionate part ... So this is a cross-subsidy on the two major airlines. (Qantas, trans., p. 1287)

In addition, Qantas noted that only fuel purchased in Australia is subject to the excise, so:

Australian companies ... which predominantly or exclusively conduct their business overseas, receive the benefit of the regulatory oversight provided by CASA virtually free of charge by purchasing their fuel overseas and avoiding the levy. (sub. 63, p. 6)

It has also been suggested by some inquiry participants that farmers are subsidising the consumption by non-agricultural users of products regulated as agricultural and veterinary chemicals. Avcare stated:

... the NRA also picks up a lot of products which are in the small sales category for home owner uses, things like swimming pools, companion animals and a whole raft of things which are not related to farming enterprises. So what we're seeing now is that the higher sales products tend to be the ones that the farmers use and so those costs for the whole scheme are being paid by the farming community, when in fact the bulk of those 7000-odd products are non-farm products. (trans., p. 933)

On the other hand, other organisations such as the Chemicals and Plastics Action Agenda and the Plastics and Chemicals Industry Association stated that pool chemicals such as chlorine were high volume products and the associated revenue collected by the NRA was 'used as a cross-subsidisation of other work for the agency' (PACIA, sub. 24).

Pool chlorine is a very basic chemical. It is a very high volume chemical and as such it attracted quite substantial revenue back into the National Registration Authority ... (Chemicals and Plastics Action Agenda, trans., p. 225).

Other agencies have implemented cost recovery arrangements with explicit instructions that program areas or locations are not to cross-subsidise other areas. Since 1993, AQIS has been required to recover full costs on a program by program basis, rather than across the organisation as a whole. The Australian National Audit Office concluded that AQIS has generally been successful in this regard, but noted some exceptions. For example, there was some cross-subsidisation in the cargo risk management and entry management programs, as well as in the animal quarantine station program. However, the extent of cross-subsidisation 'was not readily quantifiable because of the general absence of data on actual costs incurred to provide particular types of services' (ANAO 2000a, p. 23).

Impact on small firms

A wide range of cost recovery mechanisms is available to health and safety agencies, and inquiry participants indicated that some may result in more

disproportionate impacts on small firms than on others and, in some cases, may act as a barrier to entry (see below).

In many health and safety agencies, the size of firms determines, to some extent, the level of charges paid. The NRA, for example, imposes a cap on levy payments, and both the NRA and NICNAS impose minimum thresholds for levy payments and allow exemptions from charges in certain circumstances. However, unless differences in charges reflect differences in the level or cost of the regulatory activities consumed, the resulting allocation of resources may not be efficient.

Agencies may base charges on firm size for a number of reasons; for example, NICNAS indicated its arrangements are to minimise the regulatory burden on industry (sub. 33, p. 3). Charges based on firm size may also address distributional objectives. The Council of Small Business Organisations of Australia argued against agencies distinguishing between different groups in their cost recovery charges, stating that:

... any good or service in the marketplace should be purchased at the same rate, and ... if society believes that some disadvantaged group needs support that should be through some sort of tax relief or some benefit. (trans., p. 535)

The requirement to pay substantial charges up front, for example, may be more of a burden on small firms than large firms if economies of scale make it easier to absorb up-front charges. The NRA stated that consultation with industry prompted its decision to impose only partial cost recovery of initial application costs, and to recover the remaining cost through an annual levy on sales:

On average about 30 per cent of actual costs are recovered from application fees. However, by having a cost recovery model which have the two components, up front fees and sales levy, the cost is spread over the life of the product. In this way fees do not unduly disadvantage smaller companies or mitigate against local research and development efforts and the promotion of minor agricultural industries. (sub. 39, p. 7)

Although industry participants broadly favour this model (which splits charges among product fees, annual fees and levies), Avcare suggested redistributing the proportion of the split:

... to capture more at the front end ... to more reflect the costs that are actually put into assessment and use levy to top up the other activities of the NRA ... to minimise the amount of cross-subsidisation that is occurring. (trans., p. 932)

Avcare favours this approach because it is concerned that those firms whose products have both high volume sales and a long product life cross-subsidise products that are not subject to the levy because they have low volume sales. As stated by Avcare:

Using levies to spread assessment costs over time is favourable. However, the way the NRA model operates ... this leads to most of the assessment costs not being recovered from future sales of the product that's been approved. This is because about 70 per cent of the almost 7000 registered agvet products have sales less than \$100 000 a year and don't attract a levy. ... On the other hand costs are more than recovered from the few products — about 3 per cent — which have sales over \$3 million a year and it does not take too many years to pay back the assessment costs from those higher selling products. A commercial life of more than 30 years is not uncommon ... once the cost recovery has been paid or the assessment costs have been paid, those higher selling products continue to cross-subsidise those that don't pay their way. (Avcare, trans., p. 927)

Further, the NRA commented on the likely impact on small firms of reducing its number of charging categories:

To ensure fees are closely aligned with the level of service, an extensive schedule of fees and charges has been determined in consultation with the industry and reviewed on several occasions. While there has been some suggestion that the number of fees/charges should be rationalised, this may not be in the best interest of small companies who service niche, yet important agricultural sectors. (sub. 39, p. 5)

Participants also commented on the alleged disadvantages faced by small firms in not being able to spread charges across a large product range, volume or market. For example, Whiteley Industries noted:

... the larger companies can ... fund their cost recovery across a greater market share with enhanced margins ... As a consequence small suppliers simply cannot compete. (sub. 1, p. 2)

Industry incentives

Many health and safety agencies have incorporated positive incentives to industry into their cost recovery arrangements. Through cost recovery charges, some agencies have attempted to deter frivolous or vexatious applications, promote quality in applications and encourage industry to keep agency records up to date. The NRA, for example, which bases annual registration charges on the gross sales of listed products, imposes a \$200 charge on products with nil sales as an incentive to firms to remove old products from the list of registered products. However, there is a risk that such charges are set too high, firms may be deterred from submitting worthwhile applications.

Cost recovery arrangements also have the potential to create undesirable incentives for industry. Cost recovery arrangements may encourage firms to act against the objectives of the regulation. As an example, if pharmaceutical companies were charged directly for the cost of recalling their products, then they might be

discouraged from notifying the TGA of any potential problems with a product. (Recall mechanisms are therefore often funded through an industry levy.) Cost recovery arrangements may also lead firms to behave in a manner that may increase the costs of the regulator. Taylor (1997) refers to a submission by the Australian Yachting Federation which suggested that:

Charging their members direct[ly] could affect behaviour and search and rescue costs could be higher if their members were discouraged from using navigation aids through some charging arrangements. (p. 17)

Competition effects

Firms wishing to sell products in markets regulated by health and safety agencies face potential regulatory barriers on two levels. The first is at the firm level, where firms are often required to register and receive approval to operate. The second is at the individual product level, through individual product assessment, approval and registration. In both cases it is difficult to distinguish the impact of cost recovery charges from the impact of the regulations themselves and general market factors such as small market size and short market-life of products (see chapter 5).

Firms that face cost recovery charges in addition to the costs of complying with the regulations may be deterred from entering the Australian market. However, not all industry participants attributed decisions about market entry to cost recovery charges. Avicare noted:

The magnitude of the regulatory costs are largely made up of data generation, ongoing sales levies and stewardship. NRA application costs by comparison are small even with full cost recovery. Business decisions to enter a market should not be made on NRA costs alone. (sub. 87, p. 4)

But a number of submissions indicated that regulatory charges had adversely affected decisions to introduce individual products into the Australian market. The Australian Paint Manufacturers Federation argued that cost recovery arrangements:

... force companies to make decisions as to what products they will or will not produce in Australia based not on market considerations but on which products are likely to incur the lowest level of fees, levies etc. ... coatings manufacturers are making decisions as to which coatings to introduce into Australia not on the basis of what the market really needs but on the basis of what the market can afford having regard, in particular, to the exorbitant level of fees and charges imposed ... (sub. 74, p. 4)

The Australian Chemical Specialties Manufacturers Association complained about the additional cost of NICNAS approval for chemicals that were already approved overseas:

The need to obtain NICNAS approval for ingredients that are widely used overseas but cannot be used here without that approval is a major and growing concern for ACSMA members. ... member companies can either forgo the introduction of the product in Australia (as has happened with, for example, a fabric soil repellent) or apply to obtain NICNAS approval. (sub. DR164, p. 12)

Awin Services, commenting on the charges imposed by the TGA for therapeutic devices, noted that it would be cheaper for manufacturers to bypass the Australian market and go directly to the United States, or to the European Union, where regulatory charges are significantly lower relative to the size of the market (sub. 20, p. 1). Cochlear also complained about TGA charges:

... the impact of 100 per cent cost recovery is to make market entry in Australia too expensive for many companies. Companies do not introduce new products to the Australian market where it is apparent that high up front costs for evaluation and entry onto the [Australian Register of Therapeutic Goods] cannot be recovered in the often short market-life of the product. (sub. 10, p. 2)

The TGA responded to this criticism by stating that current arrangements do not restrict consumer choice because the special access scheme allows individual patient access to unregistered devices in special circumstances (trans., p. 789).

The Medical Industry Association of Australia in turn responded to the TGA:

There is a decreasing availability of certain therapeutic devices in Australia. The absence of these cannot always be addressed by the TGA Special Access Scheme as product support may not be available. (sub. DR122, p. 2)

In addition, the association stated that although the special access scheme provides access to some products, it is illegal under subsection 22(6) of the *Therapeutic Goods Act 1989* for those products to be promoted to Australian consumers (sub. DR153, p. 2; trans., p. 1066).

Technology and innovation effects

By increasing the costs of market entry, cost recovery charges may impede the introduction of new technologies and deter innovation within regulated industries. These concerns have been recognised by organisations such as the National Farmers' Federation which stated:

New products often require extensive testing before they can be released onto the market. As a result, they can incur high registration costs which may deter businesses from investing in the new products and technologies. (sub. DR162, p. 10)

A number of agencies have recognised the potential for cost recovery to influence technological development and have modified their cost recovery policies to

remove disincentives to innovation. For example, the NRA requires only minor use permits for chemicals used in research in approved facilities and NICNAS attempts to facilitate the introduction of new technology by issuing early access permits to facilitate access to new low hazard chemicals (see chapter 7).

However, industry participants argued that some cost recovery arrangements continue to act as disincentives to innovation. The costs of approving new complementary healthcare and agricultural and veterinary products, combined with the lack of intellectual property rights in many of these products, is arguably affecting the introduction of new products by creating ‘free rider’ problems or ‘first mover’ disadvantages (see chapter 7).

The Complementary Healthcare Council of Australia argued that complementary healthcare producers face a first mover disadvantage:

The cost of evaluating a new [complementary healthcare product] substance is high — upwards of \$10 000. There is no capturable commercial benefit to a company from having a new substance evaluated and approved for use as an ingredient as there is no patent protection for [complementary healthcare products]. Once a new substance is approved, all players can use the substance. Accordingly, very few companies are able or prepared to trail blaze. (sub. 17, p. 9)

Similarly, Avcare stated that the current approval processes for the NRA, ANZFA and the OGTR were inadequate due to the free riding of data generation:

The major obstacle to the innovation and research leading to the introduction of new and innovative [agricultural and veterinary] products is the lack of data protection which allows free riding. The patents (which have an effective life for only 10–12 years) for most (about 90 per cent) [agricultural and veterinary] products on the market have expired, however the potential for innovative developments such as new uses and better formulations which are not patentable continues throughout the commercial life of the product which is often 50+ years. (sub. DR118, p. 4)

However, Avcare noted that cost recovery charges should not be used to deal with intellectual property issues (sub. DR118, p. 4).

The Chemicals and Plastics Action Agenda stated that assessment costs are a major impediment to the introduction of new technology in small Australian markets. It highlighted the case of low-solvent paints (which are available in the United States and Europe) which have not been introduced into Australia. It argued that these paints would lead to a reduction in solvent emissions by at least two million litres, which could ‘lead to an improvement in either/or environmental quality or public health and safety’ (sub. 15, p. 4).

The Department of Industry, Science and Resources observed that charges may deter the development of whole industries, by contributing to barriers to entry:

... the long-term viability of a new and emerging industry may be inhibited by unduly heavy regulation and cost recovery, especially if these burdens are of an up-front kind. (sub. 62, p. 6)

Two recently proposed cost recovery arrangements, if implemented, could have such effects. The Government has proposed to recover 100 per cent of the costs of the newly established OGTR and SLASO. Each of these agencies is authorised by legislation to charge fees, although regulations determining the fee structures and levels have not yet been implemented. Evidence submitted to the Commission indicates that both agencies are unlikely to receive more than a handful of commercial applications in the initial years of operation, but are expected to operate on a 100 per cent cost recovery basis. The effect of imposing 100 per cent cost recovery on these agencies from the outset, on a strict year by year basis, would result in higher costs being borne by the industry innovators. Further, some clients of these agencies are likely to be researchers and public institutions which, some participants suggest, may have difficulty meeting these charges.

KPMG Consulting summarised the impact of the proposed cost recovery arrangements for the OGTR:

... around 94 per cent of all applications for gene technology dealings are publicly funded organisations undertaking research with little or no budgetary capacity to address cost imposts without detracting from the funds available for gene technology research. Consequently, an inappropriate cost recovery regime could lead to much proposed gene technology R&D work not being undertaken in Australia, or being moved off-shore. Under either scenario, Australia would be a major loser both economically and in its attempts to remain in the global mainstream of gene technology developments. (2000, p. 3)

The Department of Industry, Science and Resources has responded to these concerns by developing ‘a concessional fee structure for non-commercial scientific and educational launches’ (sub. 62, p. 19). While the regulations outlining the fee structure for the OGTR are yet to be finalised, the Government agreed to delay implementing full cost recovery until after the first two years of operation.

E Case study — Australian Communications Authority

This appendix reviews the cost recovery arrangements of the Australian Communications Authority (ACA).¹ The reason for this case study is that the Department of Finance and Administration has been asked to review ACA activities and report to the Expenditure Review Committee by the 2002-03 budget. The department has deferred the cost recovery part of this review until the Commission completes its inquiry. However, the analysis in this appendix has been limited by the lack of submissions from organisations that are affected by ACA charges.

E.1 Role of the ACA

The ACA is responsible for regulating the communications industry in Australia. It has two distinct functions: the regulation of the telecommunications industry and the regulation of the radiocommunications industry. The regulation of the telecommunications industry relates to the transition of the industry from an historical monopoly to a more competitive structure. An important factor behind the regulation of the radiocommunications industry is the need to manage the radiofrequency spectrum. A large number of individuals and firms would like to use the radiofrequency spectrum but because it is a scarce resource, it is 'rationed' by the ACA to ensure its efficient use and minimise the risks of interference. The functions of the ACA are summarised in box E.1.

The ACA imposes a variety of charges for the different activities it performs and has varying degrees of discretion over the levels and structures of those charges, with many being determined through legislation. ACA cost recovery ranges from charges for particular services, to amalgamated charges that cover the provision of a number of services, to charges that bear little or no relation to the costs incurred by the ACA in providing a particular service.

¹ The Commission received a separate reference from the Commonwealth Government on 16 July 2001 to inquire into appropriate arrangements for managing the radiofrequency spectrum. The inquiry will review the *Radiocommunications Act 1992* and related legislation, and the ACA's market based reforms and activities.

Box E.1 **Specific functions of the ACA**

The ACA performs a variety of services, which can be broadly split between its telecommunications and radiocommunications functions.

Telecommunications functions

- Licensing telecommunications carriers and telecommunication cablers
- Encouraging industry self-regulation through codes of practice developed by industry and registering those codes
- Determining and enforcing mandatory industry standards where necessary
- Seeking to ensure industry compliance with technical standards and labelling requirements
- Protecting the integrity of telecommunications networks
- Administering legislative provisions relating to the construction of communications facilities
- Reporting on telecommunications carrier and carriage service provider performance
- Managing the Telecommunications Numbering Plan, which attempts to provide adequate number capacity for current and new services
- Overseeing the fulfilment of the universal service obligation, which attempts to ensure that standard telephone services are available to all Australians
- Overseeing the fulfilment of the national relay service, which attempts to ensure people who are deaf or have a hearing or speech impairment have access to standard telephone services

Radiocommunications functions

- Managing the radiofrequency spectrum (although responsibility for the radiofrequency spectrum used by television and radio has been delegated to the Australian Broadcasting Authority)
- Managing electromagnetic interference

Other functions

- Representing Australia's communications interests internationally
- Developing and enforcing consumer safeguards
- Informing consumers

Sources: ACA (2000, p. 2); ACA (sub. DR 127, p. 6).

E.2 Extent and nature of cost recovery

The ACA raises revenue through three mechanisms:

- cost recovery for regulatory activities (for example, the annual carrier licence charge for telecommunications);
- asset sales and rent taxes (for example, auctions of rights to use spectrum, the spectrum access tax to use spectrum, and annual charges for telephone numbers); and
- levies to fund the equity and access goals of government for the telecommunications industry (for example, the universal service obligation levy).

This appendix focuses on the charges that are used to recover ACA costs (box E.2); the asset sales, rent taxes and levies that the ACA administers do not fall within this inquiry's definition of cost recovery (as discussed in chapter 1). Excluding these items, the ACA raised \$54.2 million in 1999-2000 (table E.1), which was 110.7 per cent of ACA agency expenses. The ACA raised some of this total cost recovery revenue on behalf of third parties for related purposes. This includes revenue raised on the behalf of the Australian Competition and Consumer Commission for telecommunications regulation and the International Telecommunication Union as well as for the Department of Communications, Information Technology and the Arts' grants and industry development plans. The ACA aims to recover 100 per cent of its own costs and 100 per cent of the costs of these third parties (questionnaire [part II] response).

The ACA's involvement in the International Telecommunication Union allows Australian participation in the setting of international standards for telecommunications and radiocommunications. In addition, the Union provides an international regulatory framework within which the Australian communications industries operate. For example, it manages the worldwide use of the radiofrequency spectrum and supervises satellite networks.

After allowing for the revenue raised on behalf of third parties, the ACA collected net cost recovery revenue of \$44.3 million in 1999-2000 (table E.1). This represented 90.4 per cent of agency expenses (sub. 108, p. 1). The ACA stated that this 'under-recovery' was the result of: the timing of amendments to charges; radio licensing exemptions and concessions; inaccuracies in the pricing of charges; variations in the volume of ACA activities; and the reporting distinction between revenue and cost recovery charges for the spectrum auctions (sub. 108, p. 2; sub. DR127, p. 4).

Box E.2 **ACA cost recovery charges**

This appendix focuses on the three charges described below.

Annual carrier licence charge (ACLC)

This charge recovers the costs of certain services carried out by a number of government agencies for the telecommunications industry. It is administered by the ACA. It is paid by owners of telecommunications network infrastructure according to the proportion of their eligible revenue in the industry. (Eligible revenue is gross telecommunications sales revenue less certain revenue streams.) It recovers costs for: ACA and Australian Competition and Consumer Commission regulation of the telecommunications industry; the Commonwealth's contribution to the budget of the International Telecommunication Union; the administration of industry development plans; and grants made by Department of Communication, Information Technology and the Arts for consumer representation and telecommunications research.

Spectrum maintenance component of the apparatus charges

This charge recovers the indirect costs of ACA's radiofrequency spectrum management. It is calculated as a fixed percentage of the spectrum access tax raised from the sale of the radiofrequency spectrum, given potential difficulties in trying to calculate the benefits to individual operators. The charge is currently set at 39.78 per cent of the spectrum access tax paid by operators. It recovers costs for international coordination, International Telecommunication Union membership, domestic planning, interference investigation and policy development.

Administrative component of the apparatus charges

This charge recovers the direct cost to the ACA of a particular licence transaction for the radiofrequency spectrum. These direct costs are calculated using an Activity Based Costing method and reviewed at least every two years. It recovers costs for: issuing a licence, renewing a licence, processing a licence fee instalment and varying licence conditions.

Source: ACA (questionnaire response and sub. 108).

Table E.1 Cost recovery by ACA, 1999-2000

	\$m	\$m	%
Total cost recovery revenue		54.2	
<i>Of which:</i>			
On behalf of the International Telecommunications Union ^a	5.0		
On behalf of the ACCC ^b	3.7		
For DCITA grants ^c	0.8		
For industry development plans ^d	0.4		
Subtotal	9.9		
Net cost recovery revenue		44.3	
Agency expenses		49.0	
Total cost recovery revenue/agency expenses			110.6
Net cost recovery revenue/agency expenses			90.4
Other revenues			
Asset sales and rent taxes			
Annual numbering charge		61.4	
Spectrum access tax		62.4	
Spectrum licensing charge		1360.0	
Levies			
Universal service obligation ^e		280.9	
National relay service ^f		10.8	

^a Commonwealth's contribution to the International Telecommunication Union for telecommunications and radiocommunications services for 1999. ^b The amount determined by the Australian Competition and Consumer Commission to be the proportion of its costs attributable to telecommunications regulation for 1998-1999, recovered a financial year in arrears by the ACA. ^c Grants for telecommunications consumer representation and telecommunications research, as determined by the Minister for Communications, Information Technology and the Arts. ^d The amount determined by the Minister for Communications, Information Technology and the Arts to be the proportion of the Commonwealth's costs for 1998-99 that is attributable to the administration of part 2 of schedule 1 of the *Telecommunications Act 1997* (related to industry development plans), recovered a financial year in arrears by the ACA. ^e The net universal service cost determined by the Minister for 1999-2000 ^f An Australia-wide telephone access service for individuals with a hearing or speech impairment, which is available using a teletypewriter or a computer with a modem.

Source: ACA (questionnaire response [part II]; pers. comm., 14 March 2001; 2000, p. 88).

The relative contribution of the three charges that generate almost 90 per cent of ACA cost recovery revenue is shown in table E.2.

The ACLC is directed at the telecommunications industry, while the spectrum maintenance and the administrative components of the apparatus charges are directed at the radiocommunications industry and its end users. These charges aim to recover 100 per cent of direct and indirect costs, and include a user cost of capital but not a return on the assets (ACA, questionnaire response). The costs are allocated using Activity Based Costing models and are audited externally.

Table E.2 Revenue from ACA cost recovery charges, 1999-2000

<i>Charge</i>	<i>Revenue</i>	<i>Contribution to revenue from cost recovery</i>
	\$m	%
Annual Carrier Licence Charge	18.5	34.1
Spectrum maintenance component	24.5	45.2
Administrative component	5.9	10.9
Miscellaneous ^a	5.3	9.8
Total	54.2	100.0

^a Numerous charges that do not raise a significant amount of revenue individually. For example, spectrum auction entry fees, speaking fees and late payments charges.

Source: ACA (pers. comm., 27 June 2001).

Cost recovery legal mechanisms and authority

The ACA was established under the *Australian Communications Authority Act 1997*, which merged the Spectrum Management Agency and the Australian Telecommunications Authority. The ACA gets its powers, including its charging authority, from the *Radiocommunications Act 1992*, the *Telecommunications Act 1997*, the *Australian Communications Authority Act 1997* and a range of related legislation. ACA charges are supported by legislation, regardless of whether they are implemented as a tax or fees-for-service. S 53 of the Australian Communications Authority Act differentiates between the two by requiring that ACA fees-for-service should not amount to taxation.

The large amount of legislation that surrounds ACA charges limits the authority's flexibility in determining the level and structure of some of its cost recovery arrangements. For example, the various elements of the ACLC are set by the Telecommunications Act. While it would be more transparent to disaggregate this charge, the ACA has limited capacity to do so, given that the determinants of the charge are set in legislation.

Rationale for existing arrangements

Cost recovery for regulating the telecommunications industry was explicitly introduced in the earlier *Telecommunications Act 1991* (ACA questionnaire response). The second reading of the 1991 Act stated that the charges provided a method of funding the increased regulation of the telecommunications industry stipulated by the Act.

The Radiocommunications Act (s.3) mentions various objectives, such as the promotion of efficiency and increased responsiveness by the ACA, but does not contain explicit objectives for cost recovery. The ACA's predecessor in regulating the radiocommunications industry, the Spectrum Management Authority, held a public inquiry into the apparatus licence system in 1993 that resulted in the introduction of the current system of cost recovery for the ACA's radiocommunications activities.

The objectives of this system were to reflect the government policy of charging for services provided at a client's request, to create efficiency gains by eliminating frivolous demand and to promote the development of service providers in the private sector (SMA 1993, p. 14). The 1993 inquiry into the apparatus licence system emphasise that there should be a distinction between the charges for ACA direct costs (the administrative component) and ACA ongoing or indirect costs (the spectrum maintenance component). It was hoped that the charges would create greater equity among users (who would pay for the costs they imposed), as well as greater transparency (because the licence fees would be easily understood by interested parties) (SMA 1993, p. v).

However, the spectrum maintenance component bundles up a variety of costs, including interference investigation, domestic planning and policy development, and this is likely to limit the transparency to external parties about individual activities. The use of the spectrum access tax to determine an operator's spectrum maintenance component charge was intended to reflect an equitable distribution of ongoing Spectrum Management Authority costs, in that the authority's resources tended to be directed at higher demand spectrum and geographic locations (SMA 1995, p. 13). This may be a cost-effective and practical method of charging, given the difficulties in charging for costs that are not easily attributable to individual licensees.

E.3 Impact of cost recovery on agencies

Cost recovery can have a number of effects on the government agency that is recovering its costs. It is particularly likely to have an impact on the agency's incentives for efficiency.

Incentive effects for agencies

As a general rule, if government agencies are not allowed to retain the revenues raised through cost recovery, then they are less likely to seek to maximise the revenue streams and will be disciplined by budget processes rather than by user

behaviour. In the case of the ACA, the revenue raised goes to the Consolidated Revenue Fund and is not earmarked for return to the authority. The ACA receives its funding directly from general taxation revenue. Given that the ACA is the sole Australian supplier of telecommunications and radiocommunications regulation, this arrangement minimises incentives for it to extend the scale and scope of its regulatory activities.

Cost recovery may nevertheless improve the performance of the ACA by indicating the level of demand for certain services that it provides. This can help to bring about an appropriate scale of delivery. To the extent that cost recovery increases the influence that users have over ACA activities, cost recovery may increase the efficiency and improve the tailoring of ACA services towards user requirements. However, there is the danger of ‘regulatory capture’ with the possibility that the regulator’s autonomy may be compromised. The Commission received no evidence on these matters with respect to the ACA.

Cost recovery has the potential to increase the transparency of a government agency’s activities, particularly with respect to its costs. This information may help both the government and users to encourage greater efficiency from agencies. Although the formulae that the ACA uses to calculate its charges are publicly available, the link between ACA charges and its costs is not always clear, and the use of amalgamated charging complicates this relationship. ACA charges are therefore not as transparent as they might ideally be. The ACA’s suggestion of improving the transparency of the spectrum maintenance component ‘by separately identifying total costs for each of its components (for example in [the ACA’s] Annual Report and in the Apparatus Licence Fee schedule booklet)’ (sub. DR127, p. 5) is consistent with the Commission’s recommendation 3.2 that revenue from Commonwealth cost recovery arrangements should be identified separately in each agency’s annual report.

Cost recovery has some indirect effects on the incentives for the ACA to increase efficiency. For example, there are plans for electronic payment for the renewal of apparatus licences, the development of systems to lodge application forms electronically, and electronic time recording for internal systems. The stated objective of such developments is to produce a more cost effective and efficient use of resources (ACA 2000, p. 103). The ACA stated that:

The implementation of a scheme of cost recovery has acted as both a useful discipline on the ACA’s radiocommunications licensing activities and a spur to reducing costs through the use of more efficient technologies and better working methods. (sub. 108, p. 5)

The ACA also stated that it does not believe that cost recovery has impeded the development of new services (sub. 108, p. 5). It gave the example of its

accreditation scheme for external operators to undertake frequency assignment work. The ACA applies a reduced cost recovery charge when an accredited external assigner undertakes the frequency assignment, to encourage the take-up of this scheme.

Operation of cost recovery

The proportion of a carrier's eligible sales revenue in the industry is used as a guide to carrier's market share and taken as a proxy for how much the carrier is likely to benefit from or use the telecommunication services associated with the ACLC. There is a lower limit to the ACLC through a fixed component. This appears to favour larger operators because the fixed component of the charge is likely to be more of a burden on smaller firms. However, to the extent that this component reflects the minimum cost of regulating a given firm, this could be an efficient arrangement.

The spectrum maintenance component recovers the indirect costs of ACA spectrum management. Some of these costs are for services that benefit spectrum users — for example, compliance activity such as interference investigation — while others are for services of a broader policy nature, such as those services that meet the policy and advice needs of Parliament and Ministers. The costs of broader policy work may be small, but it is questionable whether industry should fund these policy activities of government (see chapter 7).

Administrative arrangements

As noted above, the ACA has taken steps to introduce more efficient electronic-based systems to reduce costs. It is also proposing to delegate eligible revenue assessment to the Australian Tax Office.

The ACA conducts a major review of its charges every two years. It appears to have initiated changes on these occasions, as well as in between times when 'there are significant changes in costs during a period' (ACA, sub. 108, p. 7). Examples of alterations to charges include: a doubling of equipment testing charges in 1999; an increase in the spectrum maintenance component between 1995 and 2001 (from 29.9 per cent to 39.8 per cent of the spectrum access tax); and an amendment to charges in July 2000 to reflect indirect cost savings and the introduction of the goods and services tax.

Governance and consultation

The ACA's charging process is overseen by external costing consultants, ACA's Cost Recovery Committee and a 'board' (also known as the 'Authority', which consists of a chair, a deputy chair, between one to three members, and various associate members). External costing consultants oversee the calculation of ACA costs and charges. The Cost Recovery Committee is responsible for the cost recovery process and making recommendations to the board. The board is ultimately responsible for final approval and determination of all ACA charges, and it reviews proposed amendments (ACA, sub. 108, p. 8).

The fact that the ACA is a statutory authority encourages independence in its cost recovery activities. Currently, the board comprises twelve members, of whom ten are appointed from outside the ACA. However, ACA legislation and Ministerial direction on certain user charges limit ACA flexibility in its cost recovery activities.

The ACA undertook a public consultation process before introducing its current system of radiocommunications charges. However, no such consultation on telecommunications charges has taken place. The ACA provided two reasons for this lack of consultation:

- telecommunications charges are 'considered the lowest possible to achieve cost recovery' (ACA, sub. 108, p. 7); and
- the fixed component of the ACLC is set as a matter of government policy (ACA, sub. DR 127, p. 7).

E.4 Economic effects of cost recovery

ACA charges that recover the costs of its telecommunications functions are focused on the telecommunications industry, rather than on consumers. However, the ACA stated that the beneficiaries of its activities are 'consumers of the industries, the community and the industry itself' (questionnaire response). To the extent that industry is able to pass on regulatory costs to consumers, the ultimate incidence of the charges may be similar, regardless of where they are initially imposed (see chapter 2). Similar arguments apply to ACA charges for its radiocommunications functions, which are levied on industry. For these reasons, it is important to examine the effects of ACA's cost recovery on both industry and consumers.

Economic effects on industry

As discussed in chapter 5, ACA cost recovery may affect competition by introducing barriers to entry or creating an uneven playing field between firms. The ACLC may have some influence in preventing smaller potential carriers from entering the industry (sub. 108, p. 6). However, the *Telecommunications Act 1997* substantially lowered the minimum ACLC to \$10 000.

Further, ‘nominated carrier declarations’ reduce barriers to entry to owning the telecommunications infrastructure. They allow the owners of telecommunications infrastructure to pass on carrier obligations (under the *Telecommunications Act 1997*) to a nominated carrier. This includes annual costs related to the ACLC, universal service obligation and national relay service levies² (sub. 108, p. 6 and sub. 127, p. 6). This is subject to ACA satisfaction that the nominated carrier declaration is not being used for avoidance activities. An example of where a nominated carrier declaration might be used is when a remote Australian community wishes to build its own telecommunications infrastructure to improve services, thereby becoming an owner, but is unwilling to undertake the obligations of being a carrier.

Cost recovery can impose differing burdens on providers of telecommunications services, depending on their characteristics. For instance, the choice of the cost recovery mechanism may have a differential impact on small and large firms, firms located in the cities and those in regional areas of Australia, and on the private and public sectors. There is the potential for cross-subsidisation in the ACA’s cost recovery activities due to problems in allocating costs directly when it is not easy to identify how the benefits or costs accrue to particular users. The different treatment of small and large firms in the ACLC, for example, through the presence of a lower limit in the charge, may mean that the amount paid by individual operators does not closely reflect the cost of regulating them. Further, particular Government agencies are charged differently from the private sector. There are radiocommunications licence fee exemptions for diplomatic and consular missions, organisations providing surf life saving or remote area ambulance services, and certain bodies providing emergency services or services that safeguard life. These exemptions may affect the allocation of resources between the private and public sector. However, the scale of this problem is not expected to be large. The ACA does not believe its cost recovery charges create significant distortions: ‘The ACA does not believe

² The *Telecommunications Act 1997* places various obligations on carriers including compliance with matters of national interest and disaster plans; notification to the ACA of changes in the network’s technology; maintenance of facilities; provision of access to other carriers and liabilities for the ACLC; universal service obligation and national relay service.

there are significant access and equity or regional competitiveness issues associated with the radiocommunications cost recovery regime' (sub. 108, p. 9).

The cost recovery formulae of the ACLC, which is based on a company's proportion of eligible revenue in the industry, may introduce an element of uncertainty into ACA charges for telecommunications firms. To anticipate their ACA charges, carriers have to predict their eligible revenue and the eligible revenue of the rest of the industry. The calculation of these variables may also impose compliance costs on the industry. However, these are likely to be insignificant compared with other compliance costs that the firms incur in complying with regulation. Firms may also be encouraged to disguise information about their operations. The proposed plan to use the Australian Taxation Office to assess eligible revenue may address these problems (ACA, sub. 108, p. 4).

Technology and innovation effects

Fees for the modification of apparatus licences may discourage more efficient use of the radiofrequency spectrum. However, these fees are likely to be small compared with the costs of buying and operating new radiocommunications equipment (ACA, sub. 108, p. 5).

Telecommunications equipment needs to comply with ACA determined standards to be connected to telecommunications infrastructure. The costs of demonstrating compliance, including the payment of the associated cost recovery charges, may be a barrier to the manufacturers of niche equipment (ACA, sub. 108, p. 9). However, the Commission received no evidence from industry on this matter.

Economic effects on consumers

Most of the ACA cost recovery charges are on firms, hence consumer impacts are indirect. It is difficult to be precise about the extent that radiocommunications charges are passed on to consumers, given the variety of licences that are available and the differences among the owners of such licences. While the ACA expected that 100 per cent of the ACLC is passed on to consumers (sub. 108, p. 10), it noted the importance of market power and the elasticities of demand and supply in determining the extent to which this occurs (sub. DR127, p. 7).

An alternative approach to funding the ACA would be to use general taxation revenue. Telecommunications consumers are probably large enough to be a good proxy for the general public. However, this would most likely have different efficiency effects from those of the ACA's current method of charging, under which industry and consumers receive some price signals about the costs of administering the regulation by paying in proportion to usage.

F Case study — financial regulatory agencies

The main Commonwealth financial regulators that cost recover are:¹

- the Australian Prudential Regulation Authority (APRA); and
- the Australian Securities and Investments Commission (ASIC).

The delineation between the responsibilities of APRA and ASIC is functional rather than institutional; both agencies are concerned with the stability and transparency of financial systems. Prudential regulation (liquidity requirements) resides with APRA; disclosure and market conduct regulation resides with ASIC. The two agencies can thus regulate separate aspects of the same company's activities. For instance, while APRA would scrutinise the value of a firm's assets and liabilities, ASIC would ensure they are fully disclosed to the firm's shareholders. Although the constituencies of the two agencies overlap, APRA's is restricted to financial institutions, while ASIC's extends to all companies in Australia.

F.1 Market failures

The 1997 Financial Systems Inquiry Report (the 'Wallis Report') considered that the regulatory activities of both APRA and ASIC are designed to respond to two particular types of market failure: namely, third party risk and information asymmetry. The first market failure stems from the possibility that customers' loss of confidence in a financial institution may affect not only that institution but also its competitors, thus creating a negative spillover. A 'bank run', for instance, can begin with just one insolvent bank and spread to the whole banking sector. While banks may be aware of that risk, they may be unable to insure against it or agree on self-regulation. Further, such a bank run would impose costs on the whole community which the banks are not prepared to internalise. A possible example of third party risk is provided by the recent failure of the HIH insurance company. If, as a result of that failure, the public lost confidence in the insurance sector, then

¹ The other Commonwealth financial regulator, the Reserve Bank of Australia, recovers only the costs of ancillary activities, such as publications, and is not considered in this appendix.

inadequate risk adjustments could occur in economic transactions. This would have detrimental economic effects beyond HIH or its customer chain.

The second market failure stems from customers of financial institutions not usually having sufficient knowledge and expertise to be able to assess properly the risk inherent in transactions of a financial nature. For instance, bank customers have no way of easily knowing whether the bank is liquid (able to meet any cash withdrawals its customers demand) and their deposits are safe. A similar reasoning applies to members of a superannuation fund or customers of an insurance company; they will be discouraged from taking out insurance and superannuation policies if they are not confident that these institutions possess sufficient capital to meet their repayment obligations.

F.2 Extent and nature of cost recovery

This section provides estimates of the revenue raised by APRA and ASIC. It also examines the current cost recovery arrangements of these two agencies, both in terms of their historical context and their objectives.

Revenue collected through cost recovery

Cost recovery by APRA and ASIC is summarised in table F.1. As the comparison of the total revenue cost recovered by the agency to the agency's own expenses makes clear, both agencies recover funds in excess of their operating expenses, significantly so in the case of ASIC (ratio A/C for APRA; ratio A/D for ASIC). However, two caveats are in order. First, part of the financial sector levies collected by APRA are transferred to ASIC and the Australian Taxation Office (ATO) to fund related activities (namely, consumer protection, market integrity, unclaimed monies and lost members functions).²

² In addition, in 1998-99 and 1999-2000, APRA administered levy revenue — of \$17.6 million and \$25.6 million respectively — from self-managed ('excluded') superannuation funds which were destined for the ATO. This transitional arrangement has now ended.

Table F.1 Cost recovery by APRA and ASIC, 1995-96 to 2000-01

		<i>Unit</i>	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
APRA								
Cost recovery revenue ^a (A)	\$m					54.4 ^b	75.1	66.4
<i>Of which:</i>								
Accruing to APRA (B)	\$m					45.4	61.2	51.5
On behalf of ATO ^c	\$m					2.3	2.4	2.4
On behalf of ASIC ^d	\$m					6.6	11.6	12.6
Total agency expenses ^e (C)	\$m					53.4	58.8	50.7
B/C	%					85	104	101
A/C	%					102	128	131
ASIC								
Cost recovery revenue ^f (A)	\$m	275.5	297.9	326.1	331.8	361.0	371.0	9
Excluding transfers to the States and Northern Territory (B)	\$m	149.1	167.6	193.5	198.3	226.0	231.9	
Excluding all transfers to third parties (C)	\$m	na	na	na	na	201.0	na	
Total agency expenses ^h (D)	\$m	140.4	127.8	133.3	153.3	144.8	139.8	9
B/D	%	106	131	145	129	156	166	
C/D	%	na	na	na	na	139	na	
A/D	%	196	233	245	216	249	265	

^a Includes a small amount of revenue from the sale of goods and services. Does not include levies from small superannuation funds, administered by APRA between 1998 and 2000 on behalf of the Commonwealth Government. ^b Estimate. In its first year of operation, there was no direct link between cost recovery revenue and APRA's appropriation. ^c Levies transferred to the ATO to fund its administration of uncollected superannuation monies. ^d Levies transferred to ASIC to fund its consumer protection functions and the Superannuation Complaints Tribunal. ^e Includes establishment costs of \$7.1 million and \$6.2 million in 1998-99 and 1999-2000. ^f Does not include levies transferred from APRA. Includes a small amount of fines. ^g Budgeted. ^h Includes a small amount of administered expenses from 1997-98. **na** not available.

Sources: ASIC (questionnaire response); Treasury (2000d, pers. comm., 25 February 2001); APRA (questionnaire response, pers. comms., 23 February 2001, 27 April 2001, 18 June 2001, 2 August 2001; sub. DR113).

Second, a large portion of the fees recovered by ASIC is transferred to the States and the Northern Territory as compensation for relinquishing their company regulation powers to a national scheme in 1991 (box F.1). In addition, some of the fees are used to fund all or part of the operations of numerous other bodies that are part of the national scheme (for example, the Commonwealth Director of Public Prosecutions and the Australian Accounting Standards Board).³ In 1999-2000, the total amount of fees transferred by ASIC (via the Consolidated Revenue Fund) to third parties was \$160 million (ASIC questionnaire response).

³ This funding is notional, in that no attempt has been made to identify portions of ASIC fees as earmarked to these bodies.

Box F.1 Commonwealth compensation of the States and the Northern Territory for company regulation

In January 1991, the States and Territories ceded responsibility for the regulation of companies and securities to the Commonwealth. Under the terms of the Corporations Agreement reached at the time by the various governments, the States and the Northern Territory were to receive financial compensation from the Commonwealth for revenue foregone. The extent of that revenue can be inferred from figures cited by Ramsay (1990, p. 171), which estimated that the annual revenue generated by companies administered under the State based schemes was \$200 million, of which only \$70 million was spent maintaining the various State Corporate Affairs Commissions.

Section 703 of the Corporations Agreement holds that:

- (1) The Commonwealth will distribute among the States [and the Northern Territory] in respect of the year commencing on 1 July 1991, and each succeeding year commencing 1 July, an amount determined in accordance with this clause; and
- (2) The amount for any such year ('the current year') is the amount ascertained by adjusting the base amount of \$102 000 000 upwards in line with movements in the Consumer Price Index for the financial year 1989-1990 and each succeeding financial year to and including the financial year immediately preceding the current year.

The monies transferred under this agreement since 1991-92 are as follows:

1991-92:	\$116.1 million
1992-93:	\$118.2 million
1993-94:	\$124.3 million
1994-95:	\$122.5 million
1995-96:	\$126.4 million
1996-97:	\$130.3 million
1997-98:	\$132.6 million
1998-99:	\$133.5 million
1999-2000:	\$135.0 million
2000-01:	\$139.1 million (budgeted).

While not specified in the agreement, these transfers have been funded from ASIC charges. These compensation payments are expected to continue under the new (forthcoming) Corporations Agreement covering the application of the *Corporations Act 2001* (box F.2).

Sources: Commonwealth of Australia (1997a); Treasury (2001b; pers. comm., 25 February 2001).

When revenues transferred to third parties are netted out of its cost recovery revenue, APRA recovered 101 per cent of agency expenses in 2000-01, coming

close to its target of 100 per cent recovery of agency expenses (ratio B/C). After making the same adjustment for ASIC, cost recovery remained high at 139 per cent of agency expenses in 1999-2000 (ratio C/D). This is partly attributable to an accumulated deficit of \$217.6 million incurred by the national scheme between 1991-92 and 1995-96. As a result of that deficit, the amount of revenue recovered by ASIC each year has been set significantly higher than the costs of operating the national scheme (CLERP 2000, pp. 34, 36).

APRA revenue collection

APRA was created by the *Australian Prudential Regulation Authority Act 1998* (APRA Act), following recommendations from the 1997 Wallis Report. This agency took over the prudential supervisory responsibilities of 11 separate agencies. Its reporting and financial arrangements are governed by the *Commonwealth Authorities and Companies Act 1997*. Following recommendations from the Wallis Report, APRA's activities are financed through cost recovery (with adjustments for small amounts of other income). Recovery takes the form of annual levies paid by the regulated financial institutions (banks, life and general insurance companies, superannuation funds, credit unions and building societies), based on a percentage of assets held by the entity, subject to minimum and maximum levy amounts for each industry. Details of these levies for 2000-01 and 2001-02 are given in table F.2.

Table F.2 APRA levies, 2000-01 and 2001-02

<i>Industry</i>	<i>Year</i>	<i>Percentage of assets</i>	<i>Minimum</i>	<i>Maximum</i>
		%	\$	\$
Superannuation funds	2000-01	0.020	300	46 000
	2001-02	0.025	400	53 000
Retirement savings account providers	2000-01	0.020	5 000	18 500
	2001-02	No change	No change	No change
Life insurers	2000-01	0.020	500	280 000
	2001-02	No change	No change	364 000
General insurers	2000-01	0.020	5 000	100 000
	2001-02	0.025	No change	240 000
Authorised deposit- taking institutions	2000-01	0.012	500	1 000 000
	2001-02	No change	No change	1 005 000
Foreign bank branches	2000-01	0.006	500	500 000
	2001-02	No change	No change	No change
Non-operating holding companies	2000-01	Flat rate charge of \$10 000		
	2001-02	No change		

Sources: APRA (sub. 21, p. 7); Hockey (2001a).

APRA raises levies from institutions under the *Financial Institutions Supervisory Levies Collection Act 1998* and six supervisory levy Acts that apply to the various industries making up the financial sector. For instance, levies are collected from the superannuation industry under the *Superannuation Supervisory Levy Imposition Act 1998*. Levies received are paid into the Consolidated Revenue Fund, but are made available to APRA under a standing appropriation (special appropriation) in s.50 of the Australian Prudential Regulation Authority Act.

In its submission, APRA stated that its activities fall into three categories:

- the formulation and promulgation of prudential policy and practice observed by regulated institutions;
- surveillance and compliance programs and, where relevant, remediation or enforcement measures; and
- advice to Government on the development of regulation and legislation affecting regulated institutions and the financial markets in which they operate (sub. 21, p. 1).

APRA's supervisory role may take the form of an on-site visit to a financial institution to examine asset quality and risk. In the area of enforcement, APRA's activities can range from the appointment of an inspector to Federal Court action (APRA 2000, pp. 14, 16).

The industry-specific levy framework adopted by APRA reflects the Government's intention that industry levies cover the costs of supervising each industry and that there be no cross-subsidies between industries (ANAO 2001).⁴

ASIC revenue collection

ASIC is an independent Commonwealth body now operating under the *Australian Securities and Investments Commission Act 2001*. It began operations in 1991 as the Australian Securities Commission (taking over from the National Companies and Securities Commission). Its name and charter were changed in 1998 following the Wallis Report. ASIC, in its present form, is a statutory authority under the *Commonwealth Authorities and Companies Act 1997*. While ASIC collects large amounts in fees under the *Corporations (Fees) Act 2001* (for example, for the lodgment of annual company returns), these are administered revenue which must go into the Consolidated Revenue Fund. ASIC's main source of funding is a budget appropriation from the Commonwealth Government, which includes transfers from

⁴ This is despite the fact that, as APRA levies have the status of a tax, there is no legal impediment to the revenues raised being used to cross-subsidise some industries (ANAO 2001).

APRA to fund its consumer protection functions and the operation of the Superannuation Complaints Tribunal.

Fees accruing to ASIC are charged under ss.5 and 6 of the *Corporations (Fees) Act 2001*. The former section allows for fees (that are taxes) for chargeable matters (for example, the lodgment of a company return); the latter allows for fees that bear no relationship to the cost of providing any service related to the chargeable matter. The amount of each of the fees is set in schedule I to the *Corporations (Fees) Regulations 2001*. As noted earlier, fees collected are significantly in excess of ASIC's regulatory costs.

The legislative framework underpinning ASIC and its fees has only recently been overhauled in response to Constitutional problems identified by the High Court regarding the previous Corporations Law regime. The new regime enables the Commonwealth Parliament to enact the corporations legislation as a federal law, following referral from the States and Territories (box F.2).

Box F.2 *Corporations Act 2001*

Decisions of the High Court in the cases of *Re: Wakim; ex parte McNally* (1999) 198 CLR 511 and *The Queen v Hughes* (2000) 171 ALR 155 cast doubt on the ability of the Commonwealth to regulate companies and corporations under the *Corporations Act 1989* and the attendant Corporations Law. The former decision implied that the Federal Court did not have the authority to hear matters arising under the State Corporations Acts (forming part of the 1989 national company regulation scheme). The latter decision questioned ASIC's ability to incorporate companies.

These issues arose as a result of the Constitutional foundations of the 1989 national scheme. Under that scheme, the States and the Northern Territory agreed to enact legislation adopting the Corporations Law in force in the Australian Capital Territory (ACT), and to give ASIC (a Commonwealth authority) power to enforce State Corporations Law. However, the High Court decisions mentioned above endangered several important aspects of that scheme.

As a result, the Commonwealth Government introduced the Corporations Bill 2001 (and a number of accompanying bills), which substantially re-enacted the existing Corporations Law of the ACT as a Commonwealth Act applying throughout Australia. The legislative option used for having a single Commonwealth corporations law apply to all States and Territories (excluding external Territories) was to secure a referral of their powers to the Commonwealth under s.51(xxxvii) of the Constitution. All States and Territories have now passed referral legislation to that effect.

As a result of the new bills, ASIC fees — which had the legal status of a State tax under the previous national scheme — are now Commonwealth taxes. As such, they are imposed by a separate tax Act, the *Corporations (Fees) Act 2001*.

Source: Commonwealth of Australia 2001.

Like those of APRA, ASIC's activities range from supervision to enforcement and policy advice. They also include an information element, through the maintenance of a publicly accessible database of company details and participants in financial markets.

Historical context

The present cost recovery arrangements applying to APRA are largely the result of recommendations contained in the Wallis Report. Three recommendations are particularly relevant (box F.3). In addition to meeting these recommendations, APRA's funding arrangements are also designed to be consistent with international standards of prudential regulation. Two statements published by the Basle Committee on Banking Supervision are relevant for cost recovery:

- *Principle 1*: each agency involved in the supervision of banks should possess operational independence and adequate resources; and
- *Principle 1, Essential Criterion 3*: each supervisory agency should be financed in a manner that does not undermine its autonomy or independence and permits it to conduct effective supervision and oversight (ANAO 2001).

Box F.3 **Wallis Report recommendations concerning cost recovery by financial regulators**

Recommendation 104: Regulatory agencies' charges should reflect their costs.

The regulatory agencies should collect from the financial entities which they regulate enough revenue to fund themselves, but not more. As far as practicable, the regulatory agencies should charge each financial entity for direct services provided, and levy sectors of industry to meet the general costs of their regulations (1997, p. 532).

Recommendation 106: Regulatory agencies should set their charges, subject to approval by the Treasurer.

Fees and charges imposed to recover costs of the financial regulatory agencies should be determined by the agencies, subject to approval by the Treasurer (1997, p. 534).

Recommendation 107: Regulatory agencies should be off-budget.

From the perspective of financial regulation, it is preferable that the [Australian Prudential Regulation Commission and Corporations and Financial Services Commission]⁵ operate off-budget. If they are funded through the Commonwealth Government budget, they should have their funding levels determined by reference to policies for financial system regulation rather than targets for the overall budgetary balance (1997, p. 535).

Source: Wallis (1997).

⁵ Now re-named APRA and ASIC respectively.

The implementation of these recommendations and principles has led to the implementation of full cost recovery by APRA since 1999-2000.⁶ However, some of APRA's predecessors already cost recovered. For example, the Insurance and Superannuation Commission imposed a levy on superannuation funds under the *Superannuation Supervisory Levy Act 1991* (ASFA, sub. 8, p. 1). In some cases, APRA's creation led to a lower regulatory burden on financial institutions. Prior to 1999-2000 the costs of prudential regulation of banks were recovered indirectly through the Reserve Bank of Australia's non-callable deposit arrangements. The replacement of these arrangements with APRA's supervisory levies led to a reduction in prudential supervision income to the Commonwealth from \$250 million to \$23 million in 1999-2000 (ANAO 2001).

Cost recovery has existed for much longer for ASIC (and its predecessors) than for the prudential regulators. Indeed, ASIC stated:

In Australia, cost recovery arrangements have existed since the 19th century. The existing arrangements commenced in 1991 and were modified in 1994. (questionnaire response)

It added that:

The initial objective of the cost recovery arrangements was to cover all costs associated with the corporate regulator. In 1993, following a review involving the Attorney-General's Department, the Australian Securities Commission and the Department of Finance, the cost recovery arrangements were revised to cover all costs of the national corporate regulation scheme. (questionnaire response)

According to Paper no. 7 of the Corporate Law Economic Reform Program of the Commonwealth Government (CLERP 2000, p. 36), the amount of revenue generated by ASIC must cover:

- its own costs;
- the costs of other bodies forming part of the national scheme (for example, the Australian Accounting Standards Board);
- national scheme related costs of bodies that perform functions arising out of the scheme (for example, the Administrative Appeals Tribunal); and
- compensation payments to the States for revenue foregone as a result of the establishment of the national regulation scheme.

The first three items on this list relate to the operation of the national scheme of company registration and regulation. It may be appropriate, therefore, that companies be charged fees commensurate with these expenses. Regarding the

⁶ In its first year of operation, 1998-99, APRA was funded by an appropriation unrelated to its cost recovery revenue.

fourth item — compensation payments to the States and Northern Territory — the Australian Shareholders Association stated that:

... we can see no possible justification for the continuing payment of ‘compensation’ to the States and the Northern Territory.

It is clear that when the administration of company law was handled at a State level by State Corporate Affairs Commissions and similar bodies, the amounts collected by the States as fees significantly exceeded the amounts applied in the regulation of companies and the securities industry. In other words these fees constituted a form of State taxation. ...

There is no justification for the Commonwealth Government, through the agency of ASIC to continue to levy taxation on companies and other participants in the securities industry on behalf of the States and the Northern Territory. (sub. DR170, pp. 4–5)

Rationale for existing arrangements

The rationale for full cost recovery by APRA is based on the Wallis Report’s recommendation that, for reasons of equity and efficiency, the costs of prudential regulation should be borne by those who benefit from it (Wallis 1997, p. 532).

ASIC justified cost recovery as follows:

Successive governments have taken the view that costs associated with the administration of companies and the regulation of the futures and securities industries should be borne either directly or indirectly by all companies and market participants rather than through public funding by taxpayers. (questionnaire response)

And:

People involved with companies and participants (and potential participants) in [the futures and securities] industries benefit through their participation in a well regulated capital market. (questionnaire response)

Both agencies’ rationales for cost recovery therefore reflect the view that both suppliers and consumers of the products and services being regulated benefit from that regulation. On the other hand, as mentioned earlier, financial regulation in general and prudential regulation in particular is designed to ensure that regulated institutions account for the potential costs that their activities impose on others through negative spillovers (for example, the risk of financial contagion). This suggests that the beneficiaries of regulation may be more widespread than just the suppliers and consumers of financial services.

Discussion of objectives

Both financial institutions and their customers can be expected to feel the direct impact of APRA levies. This impact comprises costs as well as benefits. For the institutions themselves, direct costs in the form of levies may in some cases be partly offset by the benefits of the regulator's 'tick of approval'. The perception that their deposits are guaranteed by the Government, for example, may assist banks in competing with other types of financial institutions such as managed funds. As far as clients of financial institutions are concerned, direct benefits are received when information gaps are addressed and risk is reduced as a result. Clients also incur costs when levies are passed on to them in part or in full.

More important perhaps than the direct impact of APRA levies is their indirect impact. As discussed earlier, prudential regulation is partly designed to address a negative spillover in the form of third party risk. This risk is most pronounced in the case of the banking sector, given the possibility of financial contagion. However, third party risk can also affect other financial institutions for which public trust is important. For instance, a loss of confidence in the insurance industry could result from the collapse of HIH.

By working to ensure the liquidity and solvency of regulated institutions, the prudential regulator may be able to prevent — or at least moderate — the risk that a financial crisis will occur and lead to a widespread loss of consumer confidence. An indirect impact of APRA levies, therefore, is the accrual of third party benefits to financial institutions and their customers or to parties outside the regulated industry. In the case of the banking sector for instance, a banking crisis would be likely to affect general economic activity and employment. By preventing the creation of such negative spillovers, prudential regulation of banks creates third party 'beneficiaries' outside the banking industry.

The question arises about which category of beneficiaries should fund the cost of regulation. Not to charge direct beneficiaries — financial institutions and their customers — would be economically inefficient, because it would deprive them of important price signals guiding their decisions on how much to produce and consume of the regulated activity.

While the regulated institutions also derive third party benefits from the prudential regulation of their competitors, these benefits are in the form of a negative spillover (financial contagion in the case of banks) being avoided. As suggested in chapter 7, these 'beneficiaries' should not be made to pay for the costs of administering the regulation designed to combat the risk of a spillover. The same principle applies to third party beneficiaries outside the industry. While they undoubtedly benefit through the economic stability and predictability associated with a sound financial

sector, they are not the source of the need for regulation and, as argued in chapter 7, charging them would be unfounded for a number of reasons.

ASIC's balance of direct and indirect beneficiaries differs from APRA's. This is mainly because the risk of contagion from one firm failing is negligible in the economy as a whole compared with the financial sector. While ASIC's regulatory activities do have wider benefits in the form of economic stability and transparency, they primarily benefit those with a commercial stake in a regulated company (such as shareholders, creditors, suppliers and financiers) and consumers (in the case of the licensing and monitoring of providers of specialised financial services such as investment advice and auditing). These direct beneficiaries should therefore pay for the cost of the regulation through, for instance, reduced dividends and/or higher prices.

Stakeholders in the regulated companies and consumers of financial services also benefit directly, through being able to access the wealth of financial information ASIC provides through its various registers. However, this service is available to others beyond the agency's immediate constituency. For example, a person who, after obtaining a company's details on ASIC's website, decides not to subscribe to a share offer, benefits from ASIC's regulatory activities without having to bear the administration costs, except to the extent of the search fee. This would have benefits for that person, but also for other entities, such as other firms in which the same person may eventually decide to invest.

Thus, ASIC's information provision activities have broad benefits, which may extend throughout the economy as a result of a well informed and transparent marketplace. In recognition of this benefit, ASIC supplies financial information and documents free to some media organisations and the ABS. This allows for a sound public financial debate, which could be expected to have positive spillovers from a more efficient allocation of resources.

From the above discussion of APRA's and ASIC's regulatory activities, it appears that they generate a combination of direct and third party benefits, as acknowledged by the Association of Superannuation Funds of Australia:

While the rationale from prudential regulation is clear, it is more difficult to precisely identify who are the beneficiaries of the regulatory regime. There are both public benefits as well as benefits to the entities regulated and their customers/members. (sub. 8, p. 4)

However, the Australian Chamber of Commerce and Industry disputed the existence of direct benefits, stating that:

Much, if not all, financial services and corporations regulation is a pure public good, and does not create direct benefits for [the] financial services industry or for individual

corporations. Industry supports the public policy objectives of this regulation, but as a public good, it should be funded by the whole community. (sub. 70, p. 15)

The NRMA Insurance Group put forward similar arguments:

... all Australian consumers and businesses benefit from a stable financial system in which all financial services providers are required to meet minimum prudential and consumer protection standards. These standards enhance consumer and business confidence in the financial system and thus improve the efficiency of the overall system and attract additional savings for investment. Due to the existence of these wider economic benefits from regulation in the financial sector there is a strong argument for funding at least part of the cost of prudential supervision and consumer protection from general budgetary revenue rather than from industry levies or charges. (sub. 37, p. 3)

The Investment and Financial Services Association concurred, stressing that over-recovery is even less desirable than full recovery:

... given the significant public policy purposes that underlie financial sector regulation, a reasonable proportion of the cost should be borne by the whole community, through public funding. Fee and levy revenue should not be expected to meet the whole cost of regulation — and certainly should not exceed the running costs of the relevant regulators. (sub. 9, p. 2)

From these quotes, it would appear that current cost recovery arrangements by APRA and ASIC are at odds with the wishes of industry, because these agencies recover the totality of their operating expenses from regulated firms (and their customers). The views expressed by industry suggest that at least some of these expenses should be taxpayer funded.

However, the Commission has concluded that the price of regulated products should reflect the administrative costs of the regulation (see chapter 7). This ensures producers and consumers of the regulated product face the true resource cost of that product. When, as happens with prudential regulation, the impact of the regulation extends beyond the regulated industry, the cost of the regulation is then built into the supply chain and is borne by producers, downstream purchasers and/or final product consumers.

Finally, one inquiry participant — Dwyer Partners — rejected all cost recovery by ASIC and APRA, not on the grounds of positive externalities arising from a safer financial system, but because *negative* externalities arise from the operations of the regulators. It stated:

If something is provided as a public service with no care and no responsibility there should be no charge. Far from being entitled to charge anything, APRA and ASIC have been positively mischievous bodies by creating a dangerous illusion of supervision where in fact there has been none. The public would be far better off if warned to keep its eyes wide open in the firm awareness of *caveat emptor* rather than the current

situation of being heavily taxed for an illusion of safety. APRA and ASIC, in their current form, are creating negative externalities for the investing public by misleading it and overseas investors that Australian financial markets are properly regulated. (sub. DR141, p. 2)

However, in a recent speech, the Minister for Financial Services and Regulation, the Hon. Joe Hockey, clarified APRA's position with respect to company failures:

The Government's role is not to micro-manage Australian companies. We do not have the capacity or expertise to sit in the boardroom of every Australian company. Accordingly, our prudential regulator APRA does not guarantee the commercial success or the financial future of general insurance companies. APRA's job is to set standards and do its best to ensure that companies comply with those standards. The ultimate responsibility for the prudent operation of all financial institutions rests with the management and board of each institution itself. Others, like the company auditors, also have a significant role to play. (Hockey 2001b, p. 4)

It may also be argued that it is not desirable for any prudential regulator to 'insure' companies against failure. To do so could create incentives to act in a way that is contrary to the objectives of the regulation. Insurance companies, for example, could enter potentially non-performing contracts in the knowledge that the Government will not allow them to fail.

F.3 Impact of cost recovery on agencies

Cost recovery by an agency, in addition to influencing the behaviour of those who pay the charges, can influence the operations of that agency. This section examines the effects of cost recovery on several aspects of APRA's and ASIC's operations, from the incentives they face, to the cost recovery mechanisms they use, to the transparency and accountability with which they carry out cost recovery. These issues are discussed in relation to Commonwealth agencies generally in chapter 5.

Incentive effects for agencies

Cost recovery may, depending on the exact nature of the arrangements, alter the incentives an agency faces. Cost consciousness and efficiency may be encouraged. On the other hand, quasi-automatic cost recovery of all operating costs can lessen the incentives for an agency to be cost effective. Recovery of the costs of only some of an agency's activities may persuade the agency to concentrate on these areas at the expense of others.

The operating expenses of APRA and ASIC are given in table F.3. APRA's costs are estimated based on the activities of its predecessor agencies when appropriate.

Table F.3 Operating expenses of APRA and ASIC, 1995-96 to 2001-02

	APRA ^a	ASIC
	\$m	\$m
1995-96	na	140.4
1996-97	na	127.8
1997-98	55.4 ^b	133.3
1998-99	58.9 ^c	153.3
1999-2000	58.8	144.8
2000-01	50.7	139.8 ^d
2001-02	53.0 ^d	138.7 ^e

^a Excludes Government Actuary costs of \$1 million from 1997-98 to 1999-2000 (since transferred to Treasury). ^b Estimate of the aggregate of prudential supervision costs incurred by APRA's predecessor agencies: the Insurance and Superannuation Commission, the Reserve Bank's Supervision Department and the various agencies of the State based Financial Institutions Scheme (FIS). ^c Estimate of the aggregate of APRA's costs (\$53.4 million — see table F.1) and State authority costs under the FIS (assigned to APRA from 1 July 1999). ^d Budgeted. ^e Forward estimate. **na** Not available.

Sources: ASIC (questionnaire response); APRA (2000; questionnaire response; sub. DR113; pers. comms, 27 April 2001, 18 June 2001, 2 August 2001); Treasury (2001c).

As shown in this table, APRA's operating costs decreased between 1998-99 and 2000-01. According to APRA's evidence to the Parliamentary review of its activities, it achieved this cost reduction at a time when financial institutions grew in complexity and size (Hawker 2000, p. 6). However, the primary reason for cost savings, also according to APRA, 'has been the reduction in administrative costs following the merger of State-based financial institutions into APRA in mid 1999' (sub. DR113, p. 3). APRA's budget for 2000-01 assumes an increase in operating costs of approximately \$2.3 million. This is mainly due to an increase in personnel costs (Treasury 2001d).

Part of APRA's cost recovered expenses consist of repayments on two Commonwealth Government loans granted in 1998-99 and 1999-2000 to fund establishment and transition costs.⁷ Repayments on these loans, which will be extinguished in 2002, amounted to \$5.4 million in 1999-2000.

Changes in APRA's operating costs since its creation have meant changes in levies faced by specific industries. Between 1999-2000 and 2000-01 the maximum levies payable by non-excluded superannuation funds and general insurers increased, while their levy rates declined from 0.04 per cent to 0.02 per cent of assets. Thus, depending on the total assets of an institution, its levy could have gone up or down. NRMA stated that the maximum levy it pays in the general insurance category increased from \$75 000 in 1999-2000 to \$100 000 in 2000-01 (sub. 37, p. 4). In

⁷ These costs have included the building of infrastructure, the set up of head office in Sydney, the establishment of the new APRA organisational teams and the development of new processes and systems to support the new structure (APRA, sub. 21, p. 5).

2001-02 maximum levies payable by these industries increased further (by 140 per cent for general insurers), as did their levy rates (table F.2).

The Association of Superannuation Funds of Australia provided an example of the long term increase in the regulatory charges facing a superannuation fund. From a flat return lodgment fee of \$30 in the late 1980s, the maximum amount payable rose to \$14 000 in 1991-92 (sub. 8, p. 1). As shown in table F.2, the maximum levy payable by a superannuation fund in 2001-02 will be \$53 000. Commenting on the increase in superannuation levies proposed by APRA for 2001-02, the Association of Superannuation Funds of Australia noted that it did not appear reflective of the lower supervisory costs associated with the trend decrease in the number of superannuation funds (sub. DR135, p. 5).

ASIC's operating costs have fluctuated somewhat between 1995-96 and 2000-01. The 15 per cent increase recorded between 1997-98 and 1998-99 is attributable to the transfer of consumer protection functions from the Australian Consumer and Competition Commission to ASIC. Budgeted costs are predicted to remain stable in 2000-01 and 2001-02.

There is no formal relationship between the amount of fees that ASIC recovers and the appropriation it receives from the budget. The monies appropriated to ASIC to fund its expenses decreased between 1999-2000 and 2000-01 (table F.3), whereas the fees it raises were projected to increase that year (table F.1). The increase in the fees collected is partly due to indexation to the Consumer Price Index and partly due to the increase in the number of companies seeking registration.

The lack of direct relationship between ASIC's appropriations and the fees it collects is likely to minimise incentives to engage in 'regulation creep'. However, two inquiry participants noted the possibility of such a development in future. The NRMA observed that proposed changes to ASIC fees and regulations, foreshadowed by the Commonwealth Government in CLERP 7, 'are projected to lead to a significant increase in fee revenue for ASIC and potentially an even greater over-recovery of regulatory costs' (sub. 37, p. 7).⁸ For its part, the Association of Superannuation Funds of Australia stated:

Policy proposals by ASIC ... indicate the likelihood that it will require APRA regulated superannuation funds to also obtain a license from ASIC in order to undertake certain core functions of such funds. (sub. 8, p. 7)

This suggests the possibility of regulatory overlap between ASIC and APRA, resulting in unnecessarily high cost recovery charges.

⁸ At the time of writing, the bills implementing these changes were awaiting Parliamentary approval.

Cost recovery in the form of voluntary industry contributions can also create the risk of ‘agency capture’. According to the Australian Shareholders Association, such contributions already accruing to the Australian Accounting Standards Board (primarily funded from ASIC fees) may lead to more weight being given to the views of the largest contributors (sub. DR170, p. 8).

Information dissemination

To fulfil their functions, both APRA and ASIC collect a wealth of information on the institutions and companies they supervise. This information is contained in databases that are increasingly made available for online searches.

ASIC dissemination

After introducing electronic registration and data lodgment in 1998, ASIC now provides about half of this service online. The dissemination of information by ASIC has also benefited considerably from Internet technology. ASIC reports that 94 per cent of company searches in 1999-2000 occurred online, and that its website ranks among the most visited Commonwealth sites, with 200 000 visits per month by June 2000 (ASIC 2000).

However, it is debatable whether Internet technology is contributing to the full extent possible to a reduction in ASIC’s operating costs. While ASIC makes company information available electronically at a slightly lower charge than that for hard copies, the price differential (\$2) does not appear to reflect the difference in marginal cost.

It may even be argued that the dissemination of information forms part of ASIC’s basic product set. Dissemination of certain financial information may have significant positive spillovers, such as those associated with a transparent and well informed market and, as discussed in chapter 7, such information products should not attract a charge. Some participants shared this view:

It is hard to see what public benefit is served by compulsory provisions requiring the lodgment [with ASIC] of shareholder and director notices in the public interest which are then withheld from the public unless the public is willing to pay a privatized tax over and above the lodgment fees imposed on the incorporated company lodging such notices. (Dwyer Partners, sub. DR141, pp. 2–3)

At present it’s only possible ... to search names in the Internet register [of ASIC] without paying a fee, but we would argue that the full database, including for example the address of companies, the names of directors and so forth, should also be accessible without charge on the Internet ... the actual, in a sense, raw data from ASIC, I think

consumers should be able to obtain without charge from the internet. (ASA, trans., p. 1034)

However, where information requests received by ASIC involved the further dissemination or the enhancement of a basic product (for example, a more detailed set of company accounts), marginal or incremental cost (respectively) might be charged (see chapter 7).

APRA dissemination

While it supervises a smaller constituency than ASIC, APRA is also the repository of much financial information. As a relatively new institution, APRA has inherited somewhat disparate data systems from its predecessor agencies. As part of its Statistics project, it has harmonised and modernised these systems to facilitate electronic lodgment and consultation of financial information (APRA 2000).

APRA states that this project is designed to ‘position APRA to act as the central repository for financial information about regulated entities’ (APRA 2000, p. 30). Some of this financial information, collected compulsorily from financial institutions, is shared confidentially with the Reserve Bank of Australia and the ABS. In addition, APRA stated that:

... institutions and other users of financial sector statistics will be able to access and manipulate aggregate data via APRA’s website. A large range of standard reports will be accessible, together with user-friendly analytical tools to allow users to select aggregate data, construct ratios, and/or analyse these figures through time or against different industry cohorts. (APRA 2000, p. 31)

However, one industry participant — Cumpston Sarjeant — questioned the judiciousness of APRA’s data dissemination policy, arguing that unnecessary confidentiality goes against the benefits of a well informed market:

Most of the detailed data supplied by general insurers to APRA are ... not available. This has prevented informed analysis by brokers, rating agencies, investment analysts and insurance buyers. Detailed data on individual insurers are available in the USA and the UK. Similar availability in Australia might have helped prevent the HIH collapse, at least reduce its cost to policyholders. Data confidentiality has resulted in misplaced reliance on a single agency. (sub. DR133, p. 1)

This view suggests that APRA’s statistics, like company information held by ASIC, could generate positive spillovers. The implications of positive spillovers for cost recovery are discussed in chapters 2 and 7.

Operation of cost recovery

In this section, the respective cost recovery arrangements of APRA and ASIC are presented and discussed.

APRA operation

As illustrated in table F.2, levies accruing to APRA are set annually as a proportion of an institution's assets, with a minimum and a maximum amount to be levied. These levy cutoffs vary by industry, as does the percentage of assets levied. The rationale behind this costing model is that there is a minimum cost involved in regulating any institution. Above that minimum, supervisory costs are assumed to grow with the size of the institution until a point is reached at which size no longer affects these costs.

The costing model in use by APRA implies that an institution's contribution to the funding of the agency will not necessarily match its consumption of the agency's resources. In other words, 'good apples' are made to pay for 'bad apples' within an industry. This is inherent in the fact that the costs to be recovered from each industry are based on APRA's estimate of the costs of supervising that whole industry, not its member institutions.

The adequacy of the model attracted comments from industry during the review of the financial sector levy by Treasury and APRA, before the levies were determined for 2000-01. APRA summarised these comments as follows:

Industry groups generally argued that the minimum amount payable should equal the cost of supervising these entities [institutions], however there was no consensus in industry views. Entities paying above the minimum tended to assume that minimum amounts (of around \$300–\$500) were too low and were less than the true minimum cost of supervision, whereas other industry groups argued the minimums were too high.

Some industry groups also suggested that the maximum amount payable should either be raised significantly or even abolished — stating that there is no cap on the size of the risk associated with any entity, therefore, the amount payable should not be capped. Others did not accept this view as it would lead to the situation where the revenue raised from large institutions would be likely to far exceed the costs of supervision involved. (sub. 21, app. 5, p. 3)

An alternative to the industry levy approach would be to introduce a fee-for-service system, whereby individual institutions are made to pay for, say, an audit by APRA. This was a recommendation of the Wallis Report, which stated that 'as far as practicable, the regulatory agencies should charge each financial entity for direct services provided, and levy sectors of industry to meet the general costs of their regulations' (1997, p. 532). Under s.51 of the APRA Act, APRA is able to charge

directly for its services. However, such a system may worsen the situation of a firm in difficulty and/or discourage it from seeking assistance (ASFA sub. 8, p. 9). APRA asked:

... how much are we to charge a failing institution for its supervision, and is this compatible with our mission to protect deposit holders and premium takers? Who will ask for advice if we charge by the hour for it? (sub. DR113, p. 4)

Charging for specific services may also create incentives for the regulator to step up these activities for revenue raising purposes. While APRA at present raises some revenue from direct charges for services provided (for example, publications), this represents only about 2 per cent of its overall revenue (APRA, sub. 21, p. 2; APRA 2000). However, in 2001-02 APRA will introduce fees for discrete services such as licence applications and will consider the introduction of further fees (Treasury 2001d).

Nevertheless, two issues arise regarding the calculation of costs and their allocation by APRA. First, APRA's internal structure is not industry based. Rather, as shown in box F.4, the main delineation occurs between diversified institutions and specialised institutions. The former covers conglomerate, multi-product groups, often with international links, while the second contains more narrowly defined, single product institutions. While this dichotomy is dictated by functional considerations, it does not overlap well with the levies, which are industry based. For levying purposes, divisional costs are allocated among industries on a time basis, but this process is necessarily approximate (box F.5).

Box F.4 APRA's divisional structure

APRA is organised into four main divisions:

- Diversified Institutions Division;
- Specialised Institutions Division;
- Policy, Research and Consulting Division; and
- Corporate (human resources, information technology, legal, public affairs, risk assessment, finance and secretariat).

Source: APRA (sub. 21, p. 1).

Box F.5 Cost estimation process in APRA

To determine the levies needed to cover its costs, APRA estimates, on a quarterly basis, the time spent by its staff directly supervising each industry. Unallocated costs are then apportioned *pro rata* of the direct costs. In relation to this estimation process, the Australian National Audit Office found that APRA's use of staff numbers does not account for differences in the actual costs incurred by the agency. Specifically, it noted that time estimates in the Diversified Institutions Division for 2000-01:

- allocated supervisory time to each institution in each industry, which does not recognise any relative differences between the staffing costs for the different industries; and
- were based on an estimate for only one of the four branches. There was no information to indicate that this branch was representative of the activities of the entire division.

Further, it found that APRA has never measured staff time spent performing various activities and the time taken to perform different supervisory tasks. It concluded that it was not possible for APRA to demonstrate the accuracy of its approach. It recommended, therefore, that APRA periodically assure itself of the accuracy of its cost estimation approaches, in the interest of greater transparency and accountability.

Source: ANAO 2001.

APRA recognised this issue:

... increasingly as we go forward it will be more difficult to allocate costs to the traditional industry groups. (Hawker 2000, p. 13)

For this reason, APRA expressed a wish for the base levy rate to be similar across industry sectors (banks, insurance, superannuation) but to vary according to risk (trans., p. 184). If this were implemented, APRA would be able to levy conglomerates based on their overall level of risk (and therefore on their consumption of supervisory resources) rather than on their institutional make-up. A joint APRA and Treasury review of levies in 2000 considered a move to whole-group and risk based levies. In the face of industry opposition, such a move was rejected for now. It will be examined again as part of the 2003 Government assessment of the changes recommended by the Wallis Report.

The Association of Superannuation Funds of Australia reiterated industry reservations at the prospect of a uniform risk based levy:

... applying uniform percentage rates and an overall cap of \$1 million for a financial services group would lead to a massive redistribution of the levy burden. Such a redistribution would be very hard to justify in terms of the regulatory costs involved for various organisations. (sub. 8, p. 10)

However, one financial conglomerate — the NRMA Insurance Group — indicated that it favoured such a levy:

... NRMA Insurance Group believes that the levy imposed on each institution should be set more on a risk-based approach under which the levies depend on the degree of supervision or monitoring required. A significant advantage of this approach would be that it would provide an incentive for sound prudential management by financial institutions because those that are well-managed and require less supervision would pay lower levies.

In view of the trend towards institutions becoming conglomerates it would appear to be more appropriate to move towards a single levy structure for the overall entity. We note that APRA is intending to move towards a more common levy framework, as stated in its 1999 Industry Consultation paper, and we support this intention as it will help to improve the efficiency of prudential supervision as well as eliminate inequities that exist in current arrangements. (sub. 37, pp. 4–5)

A second cost issue lies with APRA's apportioning of overhead and non-supervisory costs across industries. As shown in box F.6, 42 per cent of APRA's costs in 1999-2000 were due to activities not immediately directed at industry (development of prudential policies and standards, administrative support and corporate governance).

Box F.6 APRA's cost structure

Total costs were shared across activities in 1999-2000 in the following break-down:

- 49 per cent for supervision, rehabilitation and enforcement;
- 14 per cent for the development of prudential policies and standards;
- 9 per cent for liaison with industry; and
- 28 per cent for administrative support and corporate governance.

Source: APRA (sub. 21, p. 8).

At present, such overarching costs are spread across regulated industries according to the time spent in the supervision of institutions belonging to that industry. The Australian National Audit Office found that:

... entities that manage multiple levies such as APRA and AMSA face considerable cost allocation problems devising transparent and efficient costing systems given the need to allocate significant indirect costs across levies. (2000c, p. 66)

APRA stated that a more detailed activity-based costing system, while possible, would involve extra costs, produce greater uncertainty regarding levies faced by industry from year to year, and not necessarily be more efficient than the current system (APRA, trans., p. 183).

Further, APRA claimed that it is difficult to develop an accurate measure of regulatory effort devoted to individual financial institutions or individual groups of financial institutions. It stated that:

The bottom line here is that it is virtually impossible to come up with a formula for calculating levy rates for cost recovery of an organisation like APRA that will satisfy everybody every year. (Hawker 2000, p. 11)

A divergence between regulatory costs and cost recovery revenue for regulators that straddle several industries can lead to cross-subsidisation between different industries, contrary to professed Government policy (ANAO 2001). A 2000 audit of APRA levies by the Australian National Audit Office concluded that smaller, self-managed superannuation funds ('excluded superannuation funds') were cross-subsidising larger financial institutions before 1998-99. Cost recovered revenue amounted to 965 per cent of regulatory costs for the excluded superannuation funds, but significantly less than 100 per cent for other types of financial institution. The Australian National Audit Office concluded that:

... prior to 1998-99 ... cost recovery outcomes achieved by APRA and its predecessor the Insurance and Superannuation Commission, bear little relationship to the actual cost of prudential regulation of these funds. (2000c, p. 68)

This apparent anomaly was partly rectified in 1998-99, when the supervision of most self-managed funds was transferred to the ATO, and the levy they faced was reduced from \$200 to \$45. However, some small APRA funds continue to face the same minimum levy facing larger superannuation funds. According to the Association of Superannuation Funds of Australia, this has resulted in the case of a single superannuation Approved Trustee (which administers several thousand funds) paying more than \$1 million in levies. This amount is equivalent to the levies paid by major banks individually and exceeds that paid by superannuation and insurance providers (sub. 8, p. 3; sub. DR135, pp. 6-7). It is also likely to be in excess of the actual supervisory costs of auditing that trustee. It is difficult, however, to assess the significance of this example without specific knowledge of the value and risk of the assets managed by that or similar trustees. The 2000 joint APRA and Treasury review of industry levies recommended that:

... small APRA superannuation funds [be charged] the same rate as other prudentially regulated superannuation funds recognising the importance of these financial institutions receiving an appropriate level of prudential regulation. (Treasury 2000c, p. 4)

By charging all superannuation funds the same minimum levy of \$300, APRA was able to reduce the levy rate for these institutions from 0.04 per cent in 1999-2000 to 0.02 per cent in 2000-01. For 2001-02 the minimum was increased to \$400 and the rate has risen to 0.025 (table F.2).

Another possible source of industry cross-subsidisation is created by estimating levy revenue and supervisory costs in advance of the financial year to which they apply. As mentioned earlier, any shortfall or excess in revenue collected by APRA in one year leads to automatic levy adjustments in the following year. However, these adjustments do not necessarily lead to, for instance, a shortfall in one year being recovered in the subsequent year. An analysis of this issue by the Australian National Audit Office concluded:

... there is some imprecision in APRA's calculation of adjustments for over- or under-collections from earlier years. Although ANAO estimates that there was a shortfall of some \$2 million in levy revenue against costs for 1999-2000, the 2000-2001 ADI [Authorised Deposit-taking Institution] levy parameters were prepared on the basis that APRA had over-recovered in 1999-2000 by \$1.7 million. This indicates that other industries may be subsidising the cost of supervising ADIs as insufficient levy revenue was budgeted to be collected in 2000-2001 to cover the apparent shortfall in 1999-2000 and budgeted costs for 2000-2001. (2001, p. 16)

Treasury's response, on behalf of APRA, considered that it is not unreasonable to expect a difference between the estimated cost and the actual cost of supervision, but that there is no intention of cross-subsidisation in levy payments across sectors and little, if any, evidence of cross-subsidisation in practice (ANAO 2001, pp. 39-40).

Beyond the question of cost allocation across industries, some inquiry participants questioned whether industry should fund some of APRA's costs at all. In relation to APRA's policy functions, for example, the Association of Superannuation Funds of Australia stated:

... paying for the policy development is a little bit odd, and paying for international aid activities by a government agency is a little bit odd as well. (trans., p. 137)

It also claimed that the benefits of these functions were not always accessible to them:

... quite a few of these policy functions have moved into the Treasury portfolio proper within the central Treasury, and even though we may be paying for some of that policy function, when you knock on the door of APRA and want to discuss any of those policy issues you're told to go away and talk to Treasury. (trans., p. 137)

In the recent past, the Association of Superannuation Funds of Australia has also conveyed the dissatisfaction of superannuation funds at being required to repay APRA's establishment costs, 'when these costs are not an intrinsic part of the regulation of superannuation' (cited in Blue 1999). The portion of establishment costs apportioned to non-excluded superannuation funds amounted to \$2.7 million in 1998-99, \$1.6 million in 1999-2000 and \$2.0 million in 2000-01, at a time when

the number of superannuation funds in operation fell sharply (APRA, sub. 8, pp. 3–4; ASFA, sub. DR135, p. 6).

Finally, the Association of Superannuation Funds of Australia expressed misgivings about the levies transferred by APRA to the ATO. It argued that the real cost to the ATO of maintaining the lost superannuation members register was almost certainly far below the amount of funds transferred from APRA for that purpose (\$2.3 million per year). Given the increasing use of online access technology, it thought that the tax office was over-recovering the cost of answering queries and matching members and funds. It stated that ‘consideration should be given to alternative delivery mechanisms for the information, or contracting out of the administration of the function’ (ASFA, sub. DR135, p. 4). Finally, it indicated that the maintenance of the lost members register should be funded from the Consolidated Revenue Fund, given that the Commonwealth Government benefited financially from unclaimed superannuation monies, (ASFA, sub. 8, pp. 7–8).

ASIC operation

Fees charged by ASIC range from \$8 to \$1800. In contrast to APRA fees, these do not vary according to the industry and asset size of the applicant. However, there are variations based on the nature of the company; proprietary companies, for instance, are charged a lodgment fee lower than that for public companies. In addition, ASIC undertakes some activities free of charge (for example, the supply of corporate information to selected media organisations and the ABS). Cross-subsidisation also takes place, from company returns fees to other ASIC activities (for example, licensing, fundraising and takeovers).

As noted previously, fees charged by ASIC must cover a number of costs beyond the agency’s operating costs. The main non-agency item is the compensation to States and the Northern Territory for revenue foregone under the national company regulation scheme. In 1994 fees were set at a level capable of achieving equality between ASIC’s total costs (including compensation) and total revenues over time. However, between 1991-92 and 1995-96, the operation of the national scheme incurred an accumulated deficit of \$217.6 million (CLERP 2000, p. 34).

Given this deficit, and given the need for compensation and cross-subsidisation, the annual company return fee (usually between \$200 and \$900) has been set at a level significantly higher than the direct cost of receiving and processing annual returns (CLERP 2000, p. 36). This is meant to allow ASIC to eliminate the deficit by 2000-01 and to equate revenues with costs thereafter.

The level of fees following the elimination of the deficit is under examination by the Government, as part of its CLERP 7 reform proposals. These proposals are aimed at simplifying lodgment and compliance by firms, and revising fees in line with 'user pays' principles (ASIC, questionnaire response). The Australian Chamber of Commerce and Industry stressed the need for ASIC fees to fall on elimination of the deficit:

... there does not appear to be any convincing revenue argument to continue ASIC fees at the current levels, even on a basis of 100 per cent cost recovery. A surplus is difficult to justify on the basis of cost recovery or public policy principles. (sub. 70, p. 15)

Another inquiry participant expressed concern about the possible effects of high fees. The NRMA likened ASIC charges to a tax on industry, resulting in higher costs to consumers and a reduction in the competitiveness of Australia's financial services sector (sub. 37, p. 1).

Governance and consultation

The levy rate setting process by APRA incorporates a number of transparency and accountability safeguards. The industry is consulted annually on the levy rates to be implemented in the next financial year. These rates are subject to approval by the Treasurer (or delegate). APRA is subject to the Parliamentary review process and to supervision by the Australian National Audit Office. In addition, its levy collection framework was reviewed and confirmed by the Government in 1999. A further review will be conducted in 2003 (APRA, sub. 21, p. 4). APRA levies are not subject to Parliamentary approval or review.

Despite the existence of consultation in the setting of APRA levies, views expressed by financial institutions or their representatives suggested that the level of transparency has been insufficient. For instance, the NRMA stated that:

APRA should ... seek to develop transparent measures of supervisory costs for the industries that it regulates, and report regularly on its performance and cost levels. The reporting should be done on a six-monthly basis, which is the same as APRA requires of the companies that it supervises. (sub. 37, p. 1)

The Association of Superannuation Funds of Australia concurred:

Not only is the consultation not there but the sort of information that we used to get that we could see where the levy was being spent and how it was being spent seems to have disappeared. Partly this is because of the nature of the organisations who use the levy and the way they are structured in terms of functions rather than our particular industry or industry groups. It's therefore difficult to see what part of a levy is being used for superannuation purposes. (trans., p. 136)

APRA responded:

There have been opportunities for stakeholders to both receive information from APRA and input to changes in the way levies are administered. ... APRA consults with eleven industry associations representing more than 10 000 institutions. (sub. DR113, p. 5)

The Treasurer (or delegate) supervises ASIC's activities and sets its fees. In 1993, fees were reviewed by a committee comprising representatives of the Attorney-General's Department (which then had portfolio responsibility for the Corporations Law), the Australian Securities Commission (ASIC's predecessor) and the Department of Finance (ASIC, questionnaire response). In 1995, the Commonwealth Government decided that there should be a series of supplementary fee increases to accelerate cost recovery (CLERP 2000, p. 34).

The Australian Shareholders Association expressed the view that stakeholders should have greater input into ASIC's fee setting mechanism — for instance, through the appointment of independent, non-executive commissioners, and through greater consultation with representatives of the entities liable for payment of ASIC charges (sub. DR170, p. 15). The Association also called for greater transparency of ASIC's activities, fee setting and cost structure, citing a lack of detailed information in the agency's annual reports (sub. DR170, p. 16).

Concern over a lack of transparency was also expressed regarding the monies transferred from APRA to ASIC. The Association of Superannuation Funds of Australia noted that:

One difficulty in evaluating whether activities of ASIC should be funded by way of the [APRA] levy arrangements is that very little information is provided by ASIC on the nature of its superannuation related activities outside the operation of the Superannuation Complaints Tribunal. The ASIC 1999-2000 Annual Report provides very little evidence of significant activity in regard to superannuation apart from a compliance review of superannuation member statements. (sub. 8, p. 6)

The Association of Superannuation Funds of Australia also questioned the funding arrangements for the Superannuation Complaints Tribunal, which is oversighted by ASIC, noting that the greater financial contribution required from the superannuation industry in 2000-01 did not appear to have been matched by a commensurate increase in the Tribunal's resources (sub. DR135, p. 3).

Concerns about the transparency of ASIC's superannuation activities echo those recorded by the 2000 joint APRA and Treasury review of APRA fees, which led to the recommendation that 'steps will be taken to ensure that the [funds collected by APRA and] appropriated to ASIC [are] fully explained in ASIC's annual financial statements' (Treasury 2000c, p. 10).

Another governance issue of concern to regulated institutions is predictability. This applies mainly to APRA, since ASIC charges are known from year to year, except for Consumer Price Index related increases.⁹

APRA uses a number of mechanisms to avoid overly wide variations in the levies imposed on the institutions it regulates:

- it can use reserves on balance sheet to help meet unforeseen demands on resources and reduce volatility in levy rates from year to year;
- the annual levy rate applying to an industry is based on a three year average of cost estimates for that industry (past year, current year, following year); and
- adjustments are made for any significant over- collections or under-collections from the current year.¹⁰

These mechanisms notwithstanding, the Association of Superannuation Funds of Australia was critical of some unexpected increases in levies in 2000-01:

There's no evidence of [greater accountability] in the annual reports and, if anything, the process of setting the levies for the current financial year was very much truncated. I think it was a phone call at the last minute on the basis of some summary papers circulated for another purpose and then, even later in the process, an announcement that a change was being made to the maximum levy. (trans., p. 142)

APRA indicated that this unforeseen increase had been due to the funding of the Superannuation Complaints Tribunal (oversighted by ASIC) (trans., p. 186).

As acknowledged by APRA, unforeseen changes in the number of industry participants also hinder predictability. Such changes affect the actual amount of levies collected by APRA, relative to the budgeted amount. In 2000-01, for example, unforeseen changes in the number of superannuation funds led to a shortfall in levy revenue of \$3.3 million. This resulted in an under-collection of \$0.5 million overall for APRA in that year, which will cause all levies to rise in 2001-02 (Treasury 2001d).

⁹ However, the Commonwealth Government has foreshadowed, in its CLERP 7 document, changes to ASIC fees and regulations which, according to the NRMA, 'are projected to lead to a significant increase in fee revenue for ASIC and potentially an even greater over-recovery of regulatory costs' (sub. 37, p. 7).

¹⁰ All industries, except the superannuation industry, pay their levies in advance on 1 July for the financial year ahead.

F.4 Economic effects of cost recovery

As an impost on firms, industries and consumers, cost recovery by financial regulators may produce a number of economic effects. In this section, effects on industry and consumers are examined.

Economic effects on industry

Cost recovery by financial regulators affects individual firms as well as whole industries. This can be expected to lead to intra-industry effects (at the firm level) as well as inter-industry effects (at the industry or sector level). These resource allocation effects are examined below, followed by a discussion of possible compliance costs imposed by cost recovery.

Resource allocation effects

As discussed in chapter 2, cost recovery can improve economic efficiency when it recovers the administrative costs of regulation. It forces firms (and industries) to recognise the true cost to society of producing a particular output. In the case of financial institutions, cost recovery is partly designed to finance the cost of suppressing a ‘third party risk’ spillover — namely, financial contagion. By charging institutions a cost commensurate with addressing the potential risk they create, cost recovery promotes the efficient allocation of resources.

Conversely, cost recovery will hinder efficient resource allocation if it imposes identical levies on firms (or industries) with different levels of risk. In its submission to the 1999 *Review of Financial Sector Levies*, the Association of Superannuation Funds of Australia suggested that the actual supervisory costs were far higher for a general insurer than for a corporate superannuation scheme (due to the low risk attached to the latter). Yet, if they both had assets slightly in excess of \$1 million, they both would have faced an annual levy of \$5000 in 1999-2000 (ASFA, sub. 8, p. 16).

In the present APRA model, levies are based on supervisory costs, which are in turn driven by staff allocation. For instance, in 2000-01, approximately 38 per cent of staff were allocated to the supervision of superannuation funds (APRA, sub. DR113, p. 5). Accordingly, levies collected from those funds were budgeted to cover 36 per cent of APRA’s operating costs (Treasury 2001d). This arrangement may be termed a ‘cost only’ model, whereby cost recovery from an industry reflects the amount of time spent regulating that industry.

Economic efficiency will be impaired if the time spent is related directly, say, to the number of institutions in an industry rather than their risk profile. Given that the maximum levy payable by any institution is approximately \$1 million, industry contributions to the operation of APRA do not necessarily reflect the size of the respective industries, as measured by their assets. For instance, the assets of the superannuation industry amounted to only 38 per cent of those of Authorised Deposit-taking Institutions in 1999-2000 (APRA 2000, p. 14). Yet, in that same year, the costs of supervision (and hence the levies) were 5.7 per cent higher for superannuation than for Authorised Deposit-taking Institutions (Treasury 2000c). Thus, there is an imbalance between supervisory costs and asset distribution across industries.

These issues have led to calls for the removal of levy caps (Van Leeuwen 1999) or at least for levies to reflect more closely the benefits of regulation. In its submission to the 1999 Review of Financial Sector Levies, the Association of Superannuation Funds of Australia stated that:

Prudential issues regarding large banks can involve matters of systemic stability that are not relevant to, say, a superannuation fund or life insurer. The major banks can and should pay levies which reflect the benefits of this provision of systemic stability. (Treasury 2000c, p. 17)

The industry-specific levy model used by APRA may also produce other forms of distortion in resource allocation. First, different levies for banking, insurance and superannuation activities may discourage firms from diversifying and exploiting economies of scope. The NRMA, for instance, mentioned that, as a diversified financial institution, it pays four different APRA levies (sub. 37, p. 3). Such a levy model may create perverse incentives for firms to minimise cost recovery payments by disguising their true vocation or by restructuring their activities. In the latter case, resources may be wasted through: duplication of some functions; or operation on too small a scale.

Second, the existence of a levy could discourage a firm from entering (or diversifying into) an industry. If the levy is an accurate measure of the cost of regulating a firm's operations and it makes it uneconomical for that firm to enter an industry, then resource allocation would be efficient. The same argument applies to a firm being forced out of a market by an appropriately set levy. However, allocative inefficiency would result from an inappropriately set levy that drove an otherwise efficient firm out of business. According to the Association of Superannuation Funds of Australia, however, levies for the superannuation industry are not normally of such magnitude as to have this effect (sub. 8, p. 6).

Cost recovery can also create resource allocation distortions at the intra-industry level. This may be the case in the banking industry. While the assets of the big four

Authorised Deposit-taking Institutions (banks) represented 60 per cent of the Authorised Deposit-taking Institution capital under regulation in 1998-99, they paid only 16 per cent of Authorised Deposit-taking Institution regulatory costs (Hawker 2000, p. 10). This implies that the burden of the levies will bear more heavily on a small credit union than on a large bank, for reasons potentially unrelated to risk or monitoring requirements.

Other intra-industry distortions can be created if different regulators charge comparable institutions different levies. The Association of Superannuation Funds of Australia suggested that the difference in levies faced by self-managed funds and small APRA funds (\$45 and \$300 respectively) is not necessarily commensurate with differences in supervision (by the ATO and APRA respectively) and has the potential to distort consumer choices (sub. DR135, p. 6).

Overall, the evidence suggests that the effective burden imposed by APRA levies varies depending on the size and specialisation of financial institutions. It also appears that this discrepancy, in some cases, is not based on differences in risk and/or prudential activity and, therefore, has the capacity to distort the efficient allocation of resources in the economy. Nonetheless, judgments about fine-tuning the charging model also need to take into account the transaction costs of complex arrangements.

Inquiry participants also expressed concerns regarding the disparity between the degree of regulatory oversight required by a firm and the ASIC fee it attracted. The Australian Shareholders Association noted that, in 1998-99, proprietary companies represented 98.6 per cent of ASIC's company constituency and contributed fees equivalent to 160 per cent of ASIC's running costs (sub. DR170, p. 1). Yet, proprietary companies are generally small and not subject to the stringent disclosure requirements of, say, companies listed on the Australian Stock Exchange. This means that the regulatory costs generated by proprietary companies are likely to be significantly smaller than those of public companies. The implication, according to the Australian Shareholders Association, is that '[ASIC's] annual return fee of \$200 paid by proprietary companies grossly exceeds the cost of regulating that sector of the industry' (sub. DR170, p. 11). This has the potential to introduce economic distortions based on firm size.

Compliance costs for firms

The Commission did not receive direct evidence of high compliance costs resulting from cost recovery by financial regulators. However, it seems likely that the cost of complying with levies and fees rises with the number of such charges. In the case of the NRMA, the payment of four separate levies to APRA is likely to entail higher

compliance costs than would be incurred under a single, risk based, levy model (irrespective of the amount of that levy). However, APRA noted that its:

... progressive capital program aimed at developing technology to assist with the complex analysis of the financial sector ... will have a profound impact on the way in which supervision is carried out including a reduction in user burden associated with the completion of statistical returns. (Treasury 2001d)

Given that statistical returns are required for the calculation of levies, this also implies a reduction in the cost of compliance with cost recovery arrangements. Compliance costs may also be higher, proportionately speaking, for small firms, because they are less likely to have access to sophisticated accounting systems.

Regarding ASIC fees, proposals made by the Treasurer as part of CLERP 7 (CLERP 2000) are aimed primarily at simplifying and alleviating compliance procedures under the Corporations Law. As an example, companies would no longer be required to lodge an annual return with ASIC (although they would still be required to pay an annual fee). These proposals, which are likely to reduce compliance costs, are part of the Financial Services Reform Bill currently before the Senate.

Impact on consumers

As explained in chapter 2, consumers and regulated firms will usually share the burden of cost recovery. The former will bear part of cost recovery through higher prices and reduced choice; the latter will bear part through lower sales and possibly lower profits. This may represent an efficient outcome if both groups also derive benefits from regulation or if the regulation acts to suppress negative spillovers.

The apportioning of regulatory costs rests on the ability of firms to pass on the costs to their customers (and, in the case of ASIC, shareholders). However, economic distortions on the consumption side may arise if this burden is passed on based on criteria other than regulatory costs. A diversified financial conglomerate, for instance, may decide to pass on the totality of its cost recovery burden to consumers in only one of its markets, based on the characteristics of demand in that market (such as a lack of competition and product differentiation), regardless of the regulatory costs of that market. This could result in, say, insurance subscribers being made to carry the cost of prudential regulation, not just of insurance activities but also of banking and superannuation activities. Such burden-shifting could impair efficiency through, for instance, consumers under-insuring or over-investing in superannuation. However, the Commission has not received any evidence of this type of distortion occurring.

G Other jurisdictions

This appendix examines the experiences of other countries and selected Australian States with cost recovery. It looks specifically at Canada, Finland, Iceland, New Zealand, Sweden, the UK and the US. It also looks briefly at those Australian States that have produced guidelines.

G.1 Introduction

Although most countries increased their use of cost recovery during the 1980s and 1990s (McMahon 1995; New Zealand Treasury 1998; Hills 1995), there are large differences in how long individual countries have been implementing general policies on cost recovery. For example, the US Office of Management and Budget developed a policy document specifically on user charges as early as 1959. Most of the countries examined either created or revised their policy documents in the 1990s to reflect an increasing role for cost recovery. A summary of the guidelines used in these countries is provided in box G.1.

This inquiry represents the first comprehensive approach to cost recovery at the Commonwealth Government level for regulatory and information agencies. It may also have implications for other types of agencies and other jurisdictions, including State Governments. Box G.2 contains a summary of the current guidelines available at the State level in Australia. Most State guidelines primarily address competitive neutrality issues and thus have only limited application to cost recovery as practised by many Commonwealth Government agencies.

Box G.1 Overseas guidelines for cost recovery

Canada — *Cost Recovery and Charging Policy* (Treasury Board of Canada Secretariat 1997b) provides guidelines to Canadian government agencies on their charges. It contains some information on the economic issues surrounding cost recovery and limited information on accounting and costing matters. *User Charging in the Federal Government — A Background Document* (Treasury Board of Canada Secretariat 1997a) contains a detailed discussion of economic issues. The Canadian guidelines seem to support relatively low levels of cost recovery, compared to those of other countries, through their endorsement of partial cost recovery in the presence of public benefits.

Finland — *User Charging for Government Services Act* (Vallinheimo and Joustie 1998a) provides guidelines to Finnish government agencies on their charges. There is a lack of other documents in English that explain the broader rationale for this legislation so it is difficult to speculate on the coverage of economic, accounting and costing issues. The legislation promotes the use of cost recovery, but lists many possible exemptions including: health care and other welfare services; administration of justice; environmental protection services; education; and general cultural activities.

New Zealand — *Guidelines for Setting Charges in the Public Sector* (NZ Treasury 1998) provides guidelines to New Zealand government agencies on their charges. It contains some information on the accounting, costing and economic issues surrounding cost recovery. The guidelines examine the economic principles that may make cost recovery inappropriate but provide limited practical advice on how these principles should be applied. The guidelines state that the potential beneficiaries of government activities, and individuals, groups or firms that require regulation ('risk exacerbators') should be subject to cost recovery.

OECD — *User Charging for Government Services* (OECD 1998) contains 'best practice guidelines' for OECD countries. It also contains case studies on the approaches taken in particular countries, describing the user charges of a government agency within each country to illustrate how cost recovery policy is implemented in practice. The guidelines promote user charges only if they are implemented under appropriate circumstances, such as where there is clear legal authority, determination of full costs and consultation with users.

UK — *The Fees and Charges Guide* (UK Treasury 1992) provides guidelines to UK government agencies. It contains detailed accounting and costing information but little information on economic issues. There is a presumption in favour of full cost recovery and no attempt to address circumstances when full cost recovery is inappropriate, other than stating that partial cost recovery is permissible with Ministerial agreement.

US — *Circular No. A-25 Revised* (OMB 1993) provides guidelines to US federal government agencies on their charges. It contains limited information on the accounting, costing and economic issues surrounding cost recovery. It encourages full cost recovery from identified recipients of government activities, irrespective of whether all or some of the benefits are passed onto others.

Box G.2 Australian State Government guidelines for cost recovery

Some Australian States have produced guidelines on user charges. The coverage of the guidelines differ among the States. Most have a competitive neutrality emphasis and may exclude regulatory activities, but others have a broader scope. In general, the guidelines contain advice on costing with full cost recovery being promoted as a general principle.

New South Wales — The New South Wales Treasury has produced *Guidelines for Pricing of User Charges* (2001). The emphasis of the guidelines is on competitive neutrality compliance. User charges are classified as the revenue generated from government agencies selling products in competition with the private sector. The definition of user charges specifically excludes taxes, fines and regulatory fees because of the degree of compulsion in these transactions. Full cost recovery is encouraged subject to an adjustment for the costs not incurred by a government agency by operating in the public sector (such as return on capital and taxation measures). The implementation of full cost recovery can be waived if the agency is able to demonstrate that the benefits are less than the costs.

Victoria — The Victorian Department of Treasury and Finance has produced *Guidelines for Setting Fees and Charges Imposed by Departments and Budget Sector Agencies, 2001-02* (2000). It contains guidance on costing, charging and competitive neutrality compliance. The guidelines advocate full cost recovery as a general rule and recommend the application of competitive neutrality principles as far as possible. Full cost recovery may be inappropriate where there are conflicting policy objectives, the activity contains public good characteristics, the product is supplied commercially in an open market or the activity relates to regulation (it identifies regulatory fees as being distinct from other user charges).

South Australia — The South Australian Department of Treasury and Finance has produced *A Guide to the Implementation of Cost Reflective Pricing* (2000). This document focuses upon 'cost reflective' pricing as a means for achieving competitive neutrality. Cost reflective pricing is defined as full cost recovery of an activity plus an adjustment for the net cost of being produced in the public sector as opposed to the private sector. However, cost reflective pricing is seen as a starting point for price setting — consideration should also be given to market conditions. It may not be appropriate to implement cost reflective pricing where the costs exceed the benefits. If this is the case, it is necessary to consider whether the benefits to the public from an activity warrant its supply.

(Continued next page)

Box G.2 (continued)

Tasmania — The Tasmanian Department of Treasury and Finance has produced *Costing Fees and Charges: Guidelines for Use by Agencies* (1998). This document focuses on costing issues but also discusses charging. The general rule is that charges should be based on full cost recovery. Full cost is identified as including direct costs, indirect costs and imputed costs necessary for competitive neutrality compliance. However, less than full cost recovery may be appropriate where there are positive spillovers, legal restrictions, conflicting policy objectives or it is difficult to identify the users of an activity. The guidelines require comprehensive and clear documentation for the implementation of a subsidy, including its amount and benefits.

Western Australia — The Western Australian Treasury has produced *Costing and Pricing Government Outputs* (1998). This report contains guidance on costing, pricing and compliance with competitive neutrality principles. It encourages full cost recovery, stating that in some cases it is the most cost-effective approach to pricing outputs. However, short run marginal cost pricing and long run marginal cost pricing are possible alternatives. A cost-benefit analysis of the application of competitive neutrality principles to charges should be undertaken and submitted to the Minister and the Cabinet Government Management Standing Committee before such principles are implemented. Full cost recovery involves setting a revenue target for the supply of output, but may be inappropriate in the presence of positive spillovers, government direction, legal restrictions or commercial supply in an open market.

Queensland — The Queensland Treasury has produced *Full Cost Pricing Policy* (1996) to implement National Competition Policy in Queensland. Full cost includes fixed costs, variable costs and an appropriate rate of return for capital costs, taxes, debt and competitive neutrality requirements. However, this document emphasises that full cost pricing should only be taken as a 'benchmark' for the price of a product because of the commercial nature of many activities subject to competitive neutrality. Consideration should also be given to return on equity and payment of dividends. Community service obligations or government service obligations can lead to partial cost recovery, subject to agreement between the relevant agency, portfolio department, the portfolio Minister and the Treasurer. The separation of policy and regulatory functions from commercial activities is recommended.

G.2 Rationales

There are two common objectives for cost recovery in the countries studied. The first is the promotion of a more efficient allocation of resources. User charges may act as a test of market demand, eliminating frivolous demand and helping to bring about an appropriate scale of delivery (Treasury Board of Canada Secretariat 1997b, p. 1). They may also empower the consumer, along a 'user pays, user says' principle, and a more client-focused service may result in greater quality and

efficiency (Treasury Board of Canada Secretariat 1997b, p. 1). Cost recovery may bring a greater awareness of a government agency's costs, both internally and externally (Borild 1998, p. 73). Greater cost awareness may aid the selection of the most appropriate supplier (New Zealand Treasury 1998, p. 2). The objective of promoting economic efficiency was also common among the guidelines of the Australian States. For example, the guidelines of New South Wales state that an objective of competitively neutral pricing is to achieve an efficient allocation of resources between public and private businesses (New South Wales Treasury 2001, p. 6).

The second widespread objective is the promotion of increased fairness through the beneficiaries of products paying for their provision instead of the general public. This may also be fiscally desirable because it reduces the need for funding from general taxation revenues (Treasury Board of Canada Secretariat 1997b, p. 1).

A number of countries also cited revenue raising as a possible objective for cost recovery, although their approaches differ. New Zealand's *Guidelines for Setting Charges in the Public Sector* seems to encourage the use of cost recovery for revenue raising purposes. One of its objectives for cost recovery is 'reducing reliance on funding from general taxation' (New Zealand Treasury 1998, p. 2). It also states that, as an alternative source of funding to user charging:

... the working presumption is that recourse to taxation should be avoided except where its advantages can be clearly demonstrated. (New Zealand Treasury 1998, p. 2)

The US Office of Management and Budget appears to see cost recovery as an alternative to general taxation, stating one of its objectives as 'the self-sustainment of Government agencies' supply of goods and services to specific recipients' (OMB 1993, p. 2). Anderson (1991, p. 14) believes that revenue raising has been an important factor behind the increase in user charges in the US.

A revenue raising objective is not explicitly acknowledged in the UK guidelines, but the use of charges to recover past deficits of government agencies is encouraged, while the return of past surpluses is discouraged. The guide states that it is the 'normal presumption' that fee levels should be set to recover past deficits, but that previous surpluses should not 'normally be taken into account' (UK Treasury 1992, p. 9).

In contrast to the countries above, Canada's *Cost Recovery and Charging Policy* document specifically precludes the use of cost recovery to raise revenue:

... charging cannot be used simply as a means of generating revenue to meet the funding requirements of the department or agency. (Treasury Board of Canada Secretariat 1997b, p. 1)

G.3 Legal authority

The Constitutions of many countries restrict the use of cost recovery, particularly with regard to constitutional distinctions between taxes and user charges (New Zealand Treasury 1998, p. 18). Many constitutions require that taxes be implemented through specific legislation, and this principle invalidates user charges that have the characteristics of a tax but are not supported by such specific legislation. This is the situation in Australia, Canada, New Zealand, the UK and among other countries. The guidelines of the Australian States do not generally discuss the legal authority for the charges of state government agencies. The constitutions of the Australian States, with the exception of Western Australia, do not distinguish between taxes and charges.

Factors that may be seen as giving user charges the characteristics of a tax include: whether the transaction is voluntary; the strength of the link between the revenue source and use; the size of the user charge; and whether indirect as well as direct costs are recovered (New Zealand Treasury 1998, p. 17). The Swedish Constitution, for example, defines a user charge as being directly related to the services rendered and not exceeding the full cost of those services (Borild 1998, p. 73). These issues are also likely to affect whether government organisations recover costs for individual services or across the agency. The guidelines of Canada, Finland, New Zealand, the UK and the US encourage cost recovery for individual goods and services.

The Finnish parliament overcame the potential limitations of the constitutional distinction between a tax and a fee-for-service by enacting the *User Charging for Government Service Act 1992* (Vallinheimo and Joustie 1998a). This Act provides the Finnish government with a broad ability to implement user charges within the guidelines embodied in the Act (Vallinheimo and Joustie 1998b, p. 35).

In the US, it is unclear how far the Constitution places limits on the application of user charges. In 1989, there was a unanimous ruling by the US Supreme Court that user charges are not taxes in the case of *Skinner v. Mid-America*, 87-2098. Anderson (1991, p. 24) took this to mean that user charges are whatever the government says they are — a user fee is different from a tax because Congress has decided that the two are different. Anderson suggested that this was a pragmatic decision, reflecting the extent of user charges in the US local, state and federal governments.

However, in 1998, the US Supreme Court made a ruling that user charges can be taxes, and therefore unconstitutional, in *United States v. United States Shoe Corp.* It was ruled that a purported user fee was unconstitutional because the link between the revenue source and the use of the revenue was too indirect (Joint Committee on

Taxation 1998, p. 7). There are two possible interpretations of this outcome and it is unclear which is the more applicable:

- this ruling may reflect a turnaround by the US Supreme Court from *Skinner v. Mid-America*, 87-2098 on the distinction between taxes and user charges; or
- the Court reached its conclusion based on particular circumstances of this case.

Some governments, such as those of Iceland, Sweden and the UK, are unable to charge for services unless the ability to do so has been specifically granted in legislation for a given agency (UK Treasury 1992, p. 2; Borild 1998, p. 74; Hjalmarsson 1998, p. 52). This results in government agencies having to implement legislation agency by agency because of the lack of general legislation (Hjalmarsson 1998, p. 52). Canada has three types of legal authority for setting fees — specific department legislation, *the Financial Administration Act* and ‘Ministerial Authority to Contract’ (Treasury Board of Canada 1997b, p. 7). While the *Financial Administration Act* and ‘Ministerial Authority to Contract’ may side-step this problem, it is likely to still exist under specific departmental legislation. The introduction of cost recovery may be deterred if the agency is required to spend significant resources on developing its policy and enacting the legislation. It may also increase the possibility of inconsistencies in the cost recovery practices of different government agencies — piecemeal legislation may be introduced agency by agency without appropriate reference to some over-arching legislation or policy.

G.4 Governance and accountability

The countries reviewed have different governance and accountability arrangements in place. Consultative processes differ both in terms of the consultation undertaken in developing the guidelines, and consultation required by the guidelines. Canada’s *Cost Recovery and Charging Policy* document was developed using consultation with nationally-based industry groups, groups representing Canadian individuals, academia, major user-charging departments and the Office of the Auditor-General (Treasury Board of Canada Secretariat 1999, p. 3). In contrast, the *Finnish User Charging for Government Services Act 1992* was produced with no formal consultation with interested parties.

The Canadian guidelines require government agencies to ensure efficient means of consultation with affected parties before and during cost recovery (Treasury Board of Canada Secretariat 1997b, p. 2). The New Zealand guidelines acknowledge the need for some kind of consultation process through user groups or some form of advisory board but it is not a compulsory requirement (New Zealand Treasury 1998,

p. 26). In contrast, the Finnish *User Charging for Government Services Act 1992*, the UK *The Fees and Charges Guide* and the US *Circular A-25 Revised* do not mention consultation with interested parties in setting user charges.

In Canada, agencies are required to conduct impact assessments of fee setting decisions, both before introduction and on an ongoing basis. There is also provision for raising concerns with the President of the Treasury Board, including concerns over any lack of consultation in the fee setting process (Treasury Board of Canada Secretariat 1997b, p. 5).

In Finland, government agencies are required to publish their pricing decisions in the Official Gazette. This might increase the transparency of such decisions to interested parties, but it appears that interested parties have limited power to raise concerns through a ‘watchdog’ institution or specified consultation process. The government organisation producing the service is entrusted with ensuring that the cost of production and the quality of service are appropriate (Vallinheimo and Joustie 1998b, p. 36).

In Sweden, all government agencies are required to consult yearly with the Swedish National Audit Office about their user charges. This is intended to ensure that user charges are uniform, relevant and do not exceed the full cost of the service over the service’s lifetime (Borild 1998, p. 74).

In the US, the Office of Management and Budget performs a variety of oversight functions over agencies’ cost recovery activities. However, its ability to independently gauge whether a given level of cost recovery is appropriate is arguable given the strongly pro-cost recovery role given to it in *Circular No. A-25 Revised* (OMB 1993).

Accountability mechanisms exist in most Australian States but vary in their formality. In Victoria, Treasurer or Ministerial approval is required for changes in fees under certain circumstances. In Tasmania, there is an external biennial assessment of government agencies charges by the Budget Committee, another appropriate Committee, or Cabinet. In Queensland, the implementation of each government agency’s user charging policy is subject to agreement between its portfolio department and the Queensland Treasury. Agencies are required to report their costing and pricing every three months to the Queensland Treasury and their portfolio department. The New South Wales guidelines do not specifically refer to an accountability mechanism, but agencies have the option of consulting with Treasury analysts for advice and assistance. The guidelines of Victoria, Tasmania and Western Australia require government agencies to review their charging policies internally on an annual basis.

Most Australian State guidelines require government agencies to publish their charging policies. These are required to be published in Victoria as part of an agency's business plan; in Tasmania as specific agency manuals; and in Western Australia in agencies' annual reports.

G.5 Application of cost recovery

The guidelines under consideration raise two questions about the application of cost recovery to government activities: first, should the government be undertaking that activity at all; and second, the cost effectiveness of implementing cost recovery. In relation to the first question, the Canadian guidelines state:

Cost recovery can only be initiated where the Government has deemed the activity in question to be a legitimate and necessary role for the federal government, and one that cannot be provided adequately by the private or voluntary sector. (Treasury Board of Canada Secretariat 1997b, p. 2)

The UK guidelines state 'the presumption is that services should wherever possible be provided by the private sector rather than the public sector'. It even calls for 'periodic review' of the necessity for the activity to be provided by government (UK Treasury 1992, pp. 6, 25).

The New Zealand guidelines require government agencies to consider whether their products could be 'out-sourced' or 'devolved' to the private sector (New Zealand Treasury 1998, p. 10).

In relation to the second question, most policy documents acknowledge the impracticality of undertaking cost recovery if the associated administration costs outweigh the benefits. The emphasis given to consideration of administration costs varies between countries. In the US, the cost of collecting the fee should not be 'unduly large' and in Canada it should not be 'excessive' in relation to the collected revenue.

Full cost recovery

Full cost recovery is the general principle behind the calculation of user charges for statutory activities among the countries examined, but there is some variation in how this rule is applied. Statutory activities are those that are determined to fall within the realm of government, either through legal definition in statutes (UK Treasury 1992, p.2; Vallinheimo and Joustie 1998b, p. 35), or through inadequate alternative provision in the private or voluntary sector (New Zealand Treasury 1998, p. 2; Treasury Board of Canada Secretariat 1997b, p. 2).

Where charging for inter-governmental services is discussed, the normal rule is that full cost recovery should be applied. In the US, *Circular No. A-97* (OMB 1969, p. 5) states ‘such services will be provided only on payment or provision for reimbursement [of] all identifiable direct and indirect cost of performing such services’. In the UK, the guidelines state ‘charges should normally be set to recover the full cost of the service’ (UK Treasury 1992, p. 19). The same policy exists in Finland.

The application of cost recovery differs between the countries studied in three main ways:

- the extent to which a deviation from full cost recovery is allowed on an unintentional or temporary basis;
- the extent to which a deviation from full cost recovery is allowed on an intentional or indefinite basis; and
- the definition of ‘full cost recovery’ and in particular, the treatment of the cost of capital.

Temporary deviations from full cost recovery

In relation to a temporary deviation from full cost recovery, in the UK it is ‘legitimate... to apply a degree of tolerance’ to the full cost recovery principle (UK Treasury 1992, p. 5). In Sweden, costs only have to be fully recovered in the ‘long-run’. A government agency may deviate from full cost recovery in a given year to reflect previous surpluses or deficits (Borild 1998, p. 74). In Iceland, previous deficits must be returned by direct repayments or by charges temporarily lower than the costs and vice versa (Hjalmarsson 1998, p. 42). However in the UK, the retrieval of deficits is encouraged far more than the return of surpluses. It is the ‘normal presumption’ that charges should be set to recover past deficits, but surpluses should not ‘normally be taken into account’ when setting charges (UK Treasury 1992, p. 9).

Less than full cost recovery

A key distinguishing factor between countries appears to be the extent that less than full or partial cost recovery is permissible on an ongoing basis, particularly with respect to the treatment of public benefits. Australian State guidelines generally endorse less than full cost recovery where there are: conflicting policy objectives, legal restrictions, positive spillovers or where a service is provided predominantly for a core user and additional capacity can be supplied at little or no extra cost. For example, a metropolitan public hospital may provide meals to a private hospital at

marginal cost in order to utilise its additional capacity (Tasmanian Department of Treasury and Finance 1998, p. 8).

Partial cost recovery may occur in the UK subject to agreement among Ministers (UK Treasury 1992, p. 5). However, the circumstances under which ministerial agreement is appropriate are not elaborated on.

Public benefits provide a case for partial cost recovery in New Zealand but ‘the loss in public benefits from charging at full cost would have to be significant’ (New Zealand Treasury 1998, p. 2). The description of ‘public benefits’ follows an economic definition of ‘public goods’.

Deviation from the rule of full cost recovery occurs in Canada if the activity has public policy objectives that may be affected or if it contains a mix of private and public benefits. The Canadian *Cost Recovery and Charging Policy* acknowledges the continuum of activities between purely private and purely public goods (Treasury Board of Canada Secretariat 1997b, pp. 3, 6). It identifies four characteristics as useful in determining where an activity lies between the two ends of the scale:

- the extent to which individuals can be excluded from a product for which they have not paid;
- the extent to which charging will influence demand for a product;
- the extent to which a mandatory service confers direct benefits with respect to marketability and reduced liability through the mitigation of risks; and
- the relative importance of policy objectives associated with the activity.

In Sweden, full cost recovery does not apply if the objective of the activity would be adversely affected. For example, Swedish citizens’ constitutional right of access to information means that individuals are only charged the cost of executing an order for information services, with most information being provided free on the Internet (Borild 1998, p. 74).

The relevant public policy areas that qualify for exemptions in Finland are identified as: health care and other welfare services; administration of justice; education; general cultural activities; and environmental protection services (Vallinheimo and Joustie 1998b, p. 36). While this list covers many of the core functions of government, no rationale is given in the legislation for these particular choices.

In the US, *Circular A-25 Revised* (OMB 1993, p. 4) states that full cost recovery applies to identified recipients of government activities, irrespective of whether all or some of the benefits are passed on to others, including the public in general. This

rule does not apply to all government activities, as some government activities qualify for exemption in other documents. *Circular No. A-130* states that user charges for government information products should be set ‘at a level sufficient to recover the cost of dissemination but no higher’ (OMB 1996, p. 9).

Cost of capital

Cost recovery charges may include a rate of return on capital for two main reasons. The first is that the government may seek a return on its capital that is equivalent to what it would receive if the capital was put to its next best use. This opportunity cost of capital is often measured by a long-term bond rate. The second reason is to ensure competitive neutrality in the pricing of government products. Thus, a rate of return may be incorporated in charges for ‘commercial services’, which tend to be provided at the government’s discretion rather than required through statutes, as well as being in more direct competition with the private sector (UK Treasury 1992, p. 2). The guidelines of the Australian States frequently define full cost recovery as including direct costs, indirect costs and imputed costs necessary for competitive neutrality compliance (including, the cost of capital and certain taxes and charges from which public sector organisations are exempt).

In the UK, full cost recovery is defined as including a six per cent annual cost of capital. This is defined as the amount of interest the government could earn on its capital if it were put into an alternative use (UK Treasury 1992, p. 8). In the US, full cost recovery includes an annual rate of return on capital equal to the average long-term Treasury bond rate (OMB 1993, p. 5). One of the objectives of cost recovery in Canada is to ‘earn a fair return for the Canadian public for access to, or exploitation of, publicly-owned or controlled resources’ (Treasury Board of Canada Secretariat 1997b, p. 2). In Finland, there is no requirement for statutory services to earn a return on their capital, as this only applies to commercial services (Vallinheimo and Joustie 1998b, p. 35).

In general, the inclusion of a rate of return is encouraged for government activities that operate in a more commercial environment. In the countries reviewed, it appears general competition legislation had a large influence on policies for charging for commercial services (Hjalmarsson 1998, p 52). In the UK, commercial activities are expected to recover at least full cost, with adjustments being made for the degree of risk and competition surrounding that activity (UK Treasury 1992, p. 26). The more risk and/or competition involved in the activity, the greater the return expected on the capital assets. In the US, the price for commercial services is meant to mimic their potential ‘market price’. Possible methods suggested for determining the market price include competitive bidding and benchmarking (OMB 1993, p. 5). The Finnish and Icelandic approach to user charging for commercial

services is that they should be set through competition in the open market with other sellers and show overall profitability with a return on capital similar to that expected by private investors (Vallinheimo and Joustie 1998b, p. 36; Hjalmarsson 1998, p. 52).

Usually the guidelines did not explore whether charging a rate of return is appropriate to cover the costs to society of a particular activity. It would appear that the guidelines relate to user charges, whereas charging to make allowances for social costs is deemed to be more a matter for taxation (New Zealand Treasury 1992, p. 22).

G.6 Trends

Most governments appear to have made little effort to estimate accurately aggregate levels of cost recovery. The data that are available are frequently dated and incomplete. Hence it is difficult to compare the scale of cost recovery across countries and over time.

In Canada, Can\$4.3 billion was raised from government 'sales of goods and services' in 2000-2001 (Statistics Canada 2001). This figure over-estimates the extent of cost recovery because it includes asset sales. Seventeen per cent of government revenue was generated by user fees in 1990 (Sproule-Jones 1994, p. 7). This figure is likely to have understated the true extent of user fees because it does not include the revenues of government agencies that operate in a more commercial environment. A government-wide summary shows no apparent increase or reduction in the revenue generated from charges to non-government users between 1994-95 and 1997-98 (Treasury Board of Canada Secretariat 1998). However, there have been trends within categories. It seems that there has been a greater shift towards cost recovery in agencies associated with the environment (Canadian Environmental Assessment Agency, Environment and Fisheries and Oceans), law (Federal Court of Canada, Justice, Supreme Court of Canada and Tax Court of Canada), immigration, foreign affairs, trade, finance, and the Canadian Space Agency. Conversely, there appears to have been a significant reduction in cost recovery for Public Works and Government Services.

There is little recent information on cost recovery in the US. In 1995-1996, US\$56.7 billion was raised from 'federal charges' (US Census Bureau, Washington, pers. comm., 20 April 2001). This figure is a very rough approximation of cost recovery because it includes asset sales and excludes revenue received and spent in the same financial year. Furthermore, this is the last year that the US Census Bureau collected finance data for the Federal Government. In the period prior to 1990, there

was a relative increase in the reliance on non-tax revenue sources for federal, state and local government (Anderson 1991, p. 19). At a federal level, non-tax revenue represented 17.6 per cent of total revenue in 1970, 21.8 per cent in 1980 and 24.7 per cent in 1985 (Netzer 1992, p. 498). A similar trend can be found in the user charges imposed by American state and local governments but it appears that much of the increase in user charges at the local level took place in the 1970s rather than the 1980s (Netzer 1992, p. 499).

In Finland, the total amount of user charges in the budget sector rose nearly nine per cent, between 1994 and 1995 with an increase of FIM540 million. This reflected the implementation by government agencies of the *User Charging for Government Services Act 1992*. However, over half of all government services subject to charges under this Act were produced and consumed within government. These inter-governmental charges amounted to nearly FIM2900 million in 1995. Sales to non-government parties amounted to FIM2500 million in 1995 (Vallinheimo and Joustie 1998b, p. 37).

In the UK, approximately £2 billion was raised from ‘government charges’ in 1998-1999 (UK Treasury, London, pers. comm., 13 February 2001). Charges for public services fell from £7.9 billion in 1978-79 to £7.6 billion in 1993-94 (Hills 1995, p. 32). Earmarked taxes, which are likely to contain some charges that can be viewed as cost recovery items, increased between 1978-79 and 1993-4 from almost £31.1 billion to £47.5 billion.

Overall, it seems that most countries increased the scale of their cost recovery activities over the course of the 1980s and 1990s. However, in some cases, such as Finland, a significant portion of this increase was due to a rise in inter-governmental charging.

G.7 Case studies

The following case studies show how the previously discussed guidelines have been implemented in practice by various government agencies. Overseas cost recovery arrangements for the review of prescription drugs, medical devices and dietary supplements are described, followed by overseas cost recovery for selected information agencies.

Overseas cost recovery arrangements for the review of prescription drugs, medical devices and dietary supplements

Government agencies around the world pursue similar objectives in their review of prescription drugs and medical devices, but have different cost recovery mechanisms. There are also differences in cost recovery mechanisms for the review of dietary supplements, and it appears that the objectives differ among countries, as indicated by the diverse regulatory structures for these products.

United States

The Food and Drug Administration is responsible for the regulation of prescription drugs, medical devices and dietary supplements in the US.

The Food and Drug Administration recovers almost 50 per cent of the total costs of prescription drug review (FDA 2000c). The charges were introduced in 1993, under the *Prescription Drug User Fee Act 1992*, and have grown each year since. The Act was enacted to supplement the Food and Drug Administration's resources for the review of human drug and biological applications and the funds may not be used for other purposes, including activities related to the review process such as the surveillance of post-marketed products. There are four fees charged under the *Prescription Drug User Fee Act 1992*: full application fee; half application fee; annual establishment fee; and annual product fee. The Food and Drug Administration's ability to collect these charges is tied to written performance goals. In 1999-2000 these charges generated US\$122 million (FDA, 2000b).

The Food and Drug Administration may also impose user charges for its medical device services. However, its ability to collect these charges is tied to written performance goals which have not been met — so it has not yet been able to collect charges. The estimated revenue from the proposed charges for 2000-2001 was US\$5.8 million (FDA 2001a).

The Food and Drug Administration is responsible for only post-market surveillance of dietary supplements. Manufacturers do not need to register with the Food and Drug Administration or receive its approval before producing or selling dietary supplements (FDA 2001b).

Canada

The Therapeutic Products Programme regulates prescription drugs and medical devices in Canada, while the Natural Health Products Directorate regulates dietary supplements.

The Therapeutic Products Programme's cost recovery mechanisms follow the Canadian Government's policy that charges should be set according to the private benefit associated with the activity. There are almost fifty different charges for Therapeutic Products Programme activities related to prescription drug activities. They comprise: 100 per cent cost recovery for adverse reaction monitoring and 'for cause' inspections; 70 per cent cost recovery for application reviews; and 30 per cent cost recovery for other post-marketing costs. In 1999-2000 the Therapeutic Products Programme collected Can\$37.3 million through these charges (Health Canada 2000, p. 4).

The Therapeutic Products Programme has various charges in place for its activities relating to medical device regulation which commenced in 1998-1999 (Awin, DR119, p. 2). These include: annual fees for medical devices; annual fees for product licensing renewal; and establishment licence fees. The revenue from these fees in 1999-2000 was Can\$2.5 million (Health Canada 2000, p. 4).

The Canadian Government has allocated Can\$10 million towards establishing a separate entity, the Natural Health Products Directorate, for the regulation of complementary healthcare and dietary supplements. The Natural Health Products Directorate is reviewing its current cost recovery policy and although it is anticipated that it will recover at least some of its costs, it is unclear how far such charges will apply to the review of dietary supplements.

United Kingdom

The Medicines Control Agency regulates prescription drugs and dietary supplements in the UK, while the Medical Devices Agency regulates medical devices.

The Medicines Control Agency recovers 100 per cent of all prescription drug regulation costs. Costs were partially recovered following the 1971 amendments to the *Medicines Act 1968*. Full cost recovery was initiated in the early 1990s. There are over 50 different charges. In 1999-2000, the Medicines Control Agency collected £28 million and spent £36 million (using carryover revenue).

In practical terms, the Medical Devices Agency does not engage in cost recovery for its activities relating to the regulation of medical devices. Its Business Plan for 2000-2001 cites £18 000 in revenue from 'device testing' but this is only a fraction of its total expenditure of £9.6 million (MDA 2000).

Dietary supplements fall within the category of 'borderline' products at the Medicines Control Agency, so long as they contain familiar substances and do not

contain pharmacological active substances or make medicinal claims. Cost recovery is not imposed for the review of these products.

Cost recovery by overseas information agencies

National statistical agencies divide their products into those for the general public (basic products) and those that are developed for identified groups of users (additional products). Basic products are charged at less than full cost or not at all, depending on the method of delivery. The differences among countries lie in the scope of products that are identified as providing a service to the general public and the methods of charging for the various additional products.

Some products of national statistical agencies can be substituted for the products of overseas agencies, for example, for research purposes. Over-pricing by one agency relative to others may mean that some of its products are not used. This can lead to research and analysis in a given country being carried out using statistical information from another country. This has been a problem in Canada and Australia, with US data being used as the basis for domestic policy recommendations.

United States

Much US statistical information is available relatively easily and free of charge through media such as the Internet. The general policy on user charges for the US federal Government, as described in *Circular No. A-25 Revised*, is modified for its information products through *Circular No. A-130: Management of Federal Information Resources*. Rather than full costs being recovered, it seems to encourage marginal cost recovery, stating that agencies should:

... set user charges for information dissemination products at a level sufficient to recover the cost of dissemination but no higher. They shall exclude from calculation of the charges costs associated with original collection and processing of information. (OMB 1996, p. 9)

Circular No. A-130 takes the view that information products provide a number of services to US society and economy, such as ensuring the accountability of government, fostering research, and maintaining a healthy economy and a democratic society (OMB 1996, pp. 4–6). The benefits from a free flow of information are argued to outweigh the costs. Marginal cost recovery is seen as supporting this. Further, *Circular No. A-130* recognises that the government is the largest single producer, collector, consumer and disseminator of information in the

US as well as being reliant on public cooperation for its raw data (OMB 1996, pp. 4–5).

The US Census Bureau is the principal US statistical agency. Its activities are categorised into four product lines: decennial censuses, economic statistics, demographic statistics and reimbursable work. The first three activities are taxpayer funded but reimbursable work is cost recovered. Reimbursable work refers to certain products for federal government agencies, the public and foreign entities (Census Bureau 2000, pp. 3–6). In 1999–2000, the US Census Bureau recovered 15.3 per cent of its total costs and 103.2 per cent of the costs of reimbursable work through charges specific to the reimbursable work program (Census Bureau 2000, p. 17).

Canada

Statistics Canada is Canada’s principal statistical agency. Its basic work on public policy issues is taxpayer funded. It is deemed to be in the public interest that Canadians are ‘informed citizens’. This means that all taxpayer funded surveys on public policy issues and outputs from existing surveys are provided free of charge through the Internet. However, information for personal advantage or organisational goals that is not part of the basic work of Statistics Canada is supplied on a cost recovery basis. In 1999–2000, Statistics Canada recovered 19.1 per cent of its total costs (Statistics Canada 2000, p. 9). The costs recovered include direct and indirect costs.

United Kingdom

The Office for National Statistics is the principal statistical agency in the UK. The agency’s basic work is funded by taxation revenue while other work, including alterations to existing data to meet specific client requests, is cost recovered (ONS 1995, p. 1). In 1999–2000, the revenue that the Office for National Statistics recovered through charges met 30.6 per cent of its total costs (ONS 2000, pp. 53–54).

The Office for National Statistics aims to place increasing amounts of its products on the Internet, where they are free to users that do not on-sell these products or make a profit (ONS 2000). The *Guide to Charging for Goods and Services* (ONS 1995) sets out appropriate charging principles for work carried out at client request. There are four main rules: charges recover full costs; no distinction is made between private and public sector customers; rate of return on assets is maximised; and details of how charges are calculated are not revealed (ONS 1995, p. 2).

France

A Prime Ministerial document, *Circulaire du 14 fevrier 1994 relative à la diffusion des données publiques*, sets out the policy for government provision of information and charging arrangements in France. A government agency can provide non-basic or transformed information if it can demonstrate that the provision of such information falls within its mandate, meets a collective need and is not provided by the private sector in a way that meets the public interest. The document acknowledges the argument that if a government agency is fulfilling a public role, it should not charge for its services. However, charging may be appropriate in order to manage demand; to meet competitive neutrality requirements; and to ensure fairness within a ‘beneficiary pays’ model. Charges are not expected to recover costs that have already been taxpayer funded or to generate profit, except where there are competitive neutrality or intellectual property considerations.

L’Institut national de la statistique et des études économiques (INSEE) is France’s principal statistical agency. Its pricing policy for electronic data is set out in *Arrêté du 10 octobre 2000*. INSEE holds intellectual property rights over its products and this forms a component of its charges, along with construction, maintenance and updating costs. The charges distinguish between different types of statistical products and different intended uses of the material. Information on enterprises, public organisations and their institutions has a different set of charges to macroeconomic data. It costs more to use data in an unrestricted or commercial way than it does to use data in a restricted or non-commercial way. The licence fee payable to INSEE for redissemination purposes varies according to the number of users targeted by the redissemination. It is greatest in the case of Internet redissemination. INSEE also provides a selection of its products on the Internet without charge and these can be reproduced without restriction, provided that INSEE is referenced and an effort is made to maintain the quality of the data.

Sweden

Statistics Sweden is the principal statistical agency in Sweden. It has a decentralised structure for determining the content and form of the statistics it produces, based on purchaser-provider agreements with other government agencies. Responsibility for the coordination and quality control of some statistics has been delegated to other government agencies, which can then contract Statistics Sweden to supply statistics to them (see appendix C). This ‘commissioned work’ accounts for about 70 per cent of Statistics Sweden’s turnover (Borild 1998, p. 75).

H Costing approaches

For efficient and effective cost recovery, government agencies need to identify and measure the appropriate costs of their activities and products. When measuring costs, agencies need to account for a number of factors; for example, the effects of accrual accounting, capital cost calculation methods and competitive neutrality principles. Once agencies have identified and measured costs, they can allocate those costs to products. An in-principle decision is also necessary about which approach to cost recovery is to be adopted (for example, recovery of full cost, marginal cost, incremental cost or avoidable cost).

H.1 Some benefits of costing products

If cost recovery charges are based on the wrong costs, or if the costs of agencies are not appropriately allocated among activities and products, then decisions about the production and consumption of government supplied products may be distorted. Environment Australia mentioned some of these issues:

Knowledge about costs is an essential ingredient in ensuring efficient and cost-effective decision making and assists transparency in valuing resources used to provide goods and services.

Undertaking proper costing analysis is useful for program management and can be used to identify cost drivers and eliminate non-value-added activities, leading to more efficient operations and increasing the transparency of business activities. (sub. 76, p. 3)

Costing products accurately can improve an agency's information base, help it to set cost reflective prices and improve the efficiency with which products are produced and consumed. Environment Australia stated:

To the extent that prices may be set in order to recover the costs of a particular good or service, accurate costing will enable the correct pricing signal to be sent to users and producers, thus promoting economic efficiency objectives. (sub. 76, p. 2)

Costing outputs can also be useful for promoting transparency. If costing information is available to the public, then there could be greater scrutiny of the efficiency and effectiveness with which government services are delivered. Where cost recovery occurs, there could also be greater scrutiny of that process. Those who

pay the charge will have an interest in placing pressure on agencies to improve efficiency.

The Australian Customs Service mentioned accountability and transparency mechanisms in relation to its costing system:

Customs maintains ... costing of its services to ensure that ... the charges imposed are limited to the calculated costs of delivery of the functions. Charges are externally reviewed biannually to ensure that they reflect any changes in the costing structure that are recorded in the costing model. The full activity-based costing model is provided to industry representatives through a number of forums. (trans., p. 449)

The need to identify and track costs is not unique to cost recovery agencies. All Commonwealth departments and agencies are required to specify and set prices for the outputs they deliver to Government (see chapter 3).

‘Costing’ should be distinguished from ‘market pricing’. The cost of a product is the value of the inputs that have been used in its production, while market pricing represents the market value of a product. Although this price is influenced by the cost of production, distribution and supply, it is also influenced by demand (DOFA 2000, p. 8). In most instances, cost recovery is not aimed at seeking to ‘price to market’. When costing a product, agencies typically define the product then identify and measure the costs of its production.

H.2 Defining the product to be costed

Before agencies can set charges, they need to define the activity or product, then estimate the associated costs. It is useful for an agency to know the full costs of a particular activity or product, regardless of whether it intends to fully recover those costs. Costing information will assist the agency in, for example, knowing how efficiently it is producing those products. Some commonly used costing terms are defined in box H.1.

To achieve outcomes, governments undertake a range of activities and provide a variety of products. Activities and products need to be defined before they can be costed. When defining the activity or product it is usually desirable to:

- specify the objectives of the activity or product and the targets to be met;
- identify the activity or product and the inputs necessary to produce it;
- identify constraints to producing the activity or product; and
- specify quantity and quality characteristics of the activity or product.

Box H.1 Cost definitions

Direct costs are costs that can be directly and unequivocally attributed to an activity or product. They include labour (and labour on-costs) and materials used to deliver products.

Indirect costs are costs that are not directly attributable to an activity or product and are often referred to as overheads. They can include 'corporate services' costs, such as those of the chief executive officer's salary, financial services, human resources, records management and information technology.

Capital costs comprise the user cost of capital and depreciation. The user cost of capital represents the opportunity cost of funds tied up in the capital used to deliver activities or products. It is the rate of return that must be earned to justify retaining the assets in the medium to long term. Depreciation reflects the portions of assets consumed each period.

Fixed costs are costs that do not vary with the amount of activity or product. Rent and capital are usually fixed costs in the short run.

Variable costs vary with the volume of activity or product and typically include direct labour and materials.

Common or joint costs remain unchanged as the production of different products is varied. These costs are incurred if any one of the goods is provided; for example, the cost of a telephone line remains unchanged whether it is used for local or long distance calls.

Source: CCNCO (1998a).

Quantitative characteristics may cover physical standards, product volumes, product frequencies, and material, safety, accuracy and reliability standards. Qualitative characteristics cover descriptive standards and typically state the objectives that the activity or product is intended to achieve. These include set criteria against which performance can be measured.

If activities or products are defined too narrowly, agencies may devote more resources to determining costs than may be gained in subsequent improvements to allocative efficiency. The Department of Science, Industry and Resources commented that registering objects to be launched into space is a low cost function and so minimal that it would not be cost effective to cost it separately (trans., p. 768). On the other hand, activities or products to be costed should not be defined too broadly; for example, activities subject to cost recovery should be costed separately from activities that are not subject to cost recovery, such as policy advice.

H.3 Measuring costs

This section examines what cost components should be included in the measurement of full cost of a product. It also considers the effect of accrual accounting on the measurement of costs, and provides a description of the different capital cost calculation methods. The effects of competitive neutrality are also considered.

The full cost of a unit of product is the value of all resources used or consumed in the provision of that product. These costs may include:

- direct labour costs (for example, wages and salaries) and other labour costs (for example, allowances, long service leave and superannuation);
- direct materials and services (for example, the costs of stores, computer services and services obtained on a contract basis);
- an appropriate share of indirect labour (for example, executive, office services, personnel, library and audit services);
- an appropriate share of indirect materials and services (for example, office machinery, advertising, insurance and freight and cartage). Some materials classified as indirect costs could be direct costs, but attributing them to a particular product may be impractical or too costly (for example, office stationery);
- accommodation charges, which could be both direct and indirect (for example, rent, repairs and maintenance, cleaning and utility charges); and
- capital costs (for example, depreciation, interest on working capital and return on non-current assets)¹ (see below). Some could be direct costs, such as plant and machinery dedicated to the production of particular products; others could be indirect costs, such as assets used by corporate services.

Accrual accounting and output based budgeting

An accrual based budgetary framework, incorporating output based budgeting, was introduced into the Commonwealth public sector with reporting beginning from 1999-2000. Previously, agencies within the Commonwealth public sector used cash based accounting that recognised revenues and expenses when payments were made or received. Accrual accounting recognises revenues and expenses in the accounting

¹ Non-current assets are assets that are not reasonably expected to be converted to cash, sold or consumed within a year of the balance sheet date. They include property, plant and machinery.

period in which they occur, irrespective of when cash is paid or received. The framework requires all agencies to:

- measure resource consumption and revenues on an accrual basis, recognising costs and revenues when they are incurred;
- set prices for products they deliver, and identify outcomes to which the products contribute;
- levy a capital use charge on net departmental assets;
- identify performance indicators to monitor performance against outcomes; and
- report performance.

The new framework requires agencies to improve their costing so they are able to price all products and monitor and report performance. The former Department of Finance (now Department of Finance and Administration) identified the ability to cost activities properly as a major benefit from the introduction of full accrual accounting. It argued that cash accounts are more open to manipulation and are a poor basis for cost comparisons (DoF 1996).

The move from cash to accrual accounting has had implications for two cost components that are important in determining the full costs of products. First, the measurement of capital has changed. Under the cash based system, the operating statement included the capital expenditures made to acquire assets. Under the accrual system, depreciation rather than capital expenditure is included in the operating statement. Second, the move to accrual accounting has changed the way in which employee entitlements are treated; for example, superannuation is now accounted for when it is accrued, rather than when there is an associated cash flow.

Some agencies have recognised the benefits flowing from accrual accounting. The Australian Bureau of Agricultural and Resource Economics commented that:

The change from cash to accrual accounting means that there is a more realistic account of costs over time and assurance that full account is taken of capital costs. The combination of accrual and market testing/outsourcing changes means that [the bureau's] costings are based on full costs with a competitive market base. (sub. 56, p. 17)

The National Library of Australia stated:

The recent move to accrual accounting has provided a sound accounting base for calculation and attribution of capital costs where this is required. ... Accrual accounting has also prompted the review of indirect cost attribution to ensure that there is a greater degree of accuracy in attributing costs to particular outputs or goods and services within those outputs. Accrual accounting also leads to more accurate reporting of

expenses and revenues as they are incurred, providing improved management information for decision making purposes. (sub. 5, p. 3)

Capital costs

Capital costs consist of the user cost of capital and depreciation. The user cost of capital reflects the opportunity cost of capital used in agencies. Capital can be used elsewhere or it can be used to retire debt. The charge also reflects the cost to the community or taxpayer of government capital raising. To measure the user cost, an agency needs to value the asset and apply a rate of return to that value. Depreciation reflects the portion of the asset value that is notionally consumed each period in the production of products. The inclusion of capital costs and the method used in calculating them will influence the cost of a product. This, in turn, will influence the level of any cost recovery for that product.

Inclusion of capital costs in the cost of product not only accounts for the opportunity cost of capital and depreciation, but it may also improve asset management. In the absence of a capital charge, agencies had an incentive to treat the use of assets as free once they had been acquired. Inclusion of capital costs creates an incentive to dispose of surplus assets and to use an efficient mix of assets.

It can be difficult to value assets and determine a rate of return and several questions arise. What asset valuation method should be used? What is an appropriate rate of return to apply? How should the costs of poorly utilised assets be included? All components of capital costs, asset valuation, rates of return and depreciation need to be assessed together, because they are inter-related.

Asset valuation methods

A number of methods can be used to value non-current assets (box H.2). The method of valuation chosen may lead to significantly different estimates of the value of capital, and different methods can be more suitable under different circumstances. These differences can have significant implications for cost recovery. The methods can be broadly categorised as being cost based, value based or a combination.

Cost based methods

A number of cost based asset valuation methods can be used — for example, historic cost, replacement cost, reproduction cost, depreciated replacement cost and depreciated optimised replacement cost (DORC). Historic cost is simpler and less

costly to use than more complex asset valuation methods and does not require a subjective assessment of the value of the assets. However, historic cost does not account for changes in the value of the asset in response to inflation, improvements in technology and changing market conditions.

Box H.2 **Asset valuation methods**

Historic cost values assets at the original cost to the organisation of acquiring the asset, including relevant financing and set-up costs. The historic valuation can be adjusted for depreciation, where an asset has a limited life, by the subtraction of accumulated depreciation. Accumulated depreciation represents the amount of the assets' service potential that has already been used.

Reproduction cost values assets at the current cost required to reproduce the existing asset, mainly in its present form, using the specifications of the original asset.

Replacement cost values assets at the current cost of replacing the asset with a similar asset that can provide equivalent services and capacity.

Depreciated replacement cost adjusts replacement cost to account for asset consumption by subtracting accumulated depreciation.

Depreciated optimised replacement cost (DORC) values assets at the replacement cost of an 'optimised' asset, less accumulated depreciation. An 'optimised' asset is one that most efficiently produces a specified level of product. The effects of inefficiencies such as excess capacity, duplication, redundancy and poor location are removed from the valuation.

Fair market value uses the price the asset would sell at in a competitive open market, where both the buyer and seller are 'willing but not anxious'. It reflects the value of an asset in its best alternative use.

Net present value uses the present value of the predicted cash flows generated from the use of the asset. It involves estimating the future income generated by an asset, then discounting that income stream at a discount rate that reflects the risks of owning the asset.

Deprival value represents the loss that could be expected by a firm or agency if it was deprived of the service potential or future economic benefits of the asset. If the asset to be lost to the organisation is to be replaced, then the asset should be valued at its market value, replacement cost or reproduction cost, depending on the circumstances. If the asset is not replaced, then it should be valued at its economic value, which is the greater of either the asset's net present value or fair market value. Where the asset is surplus to requirements, it should be valued at its fair market value.

Optimised deprival value is measured by the lesser of DORC and the economic value of the asset, where the economic value is the greater of either the asset's net present value or fair market value.

Sources: SCNPMGTE (1994b); QCA (1999).

When asset values are rising, historic cost will understate both the asset value and the depreciation expenses in each period. For these reasons, historic cost may be more suitable for valuing assets that have a short life.

Replacement and reproduction cost are other cost based methods that have the advantage of valuing the asset at the current cost of replacing or reproducing it. The main disadvantage of these approaches is that the asset is replaced with an asset of equivalent service potential, even though the asset may not be the most efficient asset to use. These inefficiencies could arise from factors such as excess capacity or unsuitable location.

DORC accounts for these inefficiencies. However, it is more expensive and complex to use, and requires more subjective judgment in determining the optimal asset.

Value based methods

The two main value based methods of asset valuation are fair market value and net present value. Fair market value represents the command over cash that the asset comprises at the reporting date. Its main advantage is that the value is based on factual and observable information and is verifiable. Its main disadvantage is that highly specialised assets that may have been costly to acquire, particularly ones that have characteristics that are specific to a particular owner, may not have a high value in the market.

Using net present value overcomes this problem. However, this method has drawbacks because it is difficult to estimate future cash flows and determine an appropriate discount rate. It could be difficult to estimate the future benefits of non-commercial activities such as regulation undertaken by, for example, the Australian Securities and Investments Commission or the Australian Competition and Consumer Commission. There is also a circularity problem, because the selected discount rate will determine the rate of return on assets.

Hybrid methods

The two main hybrid methods of asset valuation are deprival value and optimised deprival value. These methods make use of a combination of value based and cost based valuation methods. Deprival value has the advantage of providing information on the current costs of providing a product and the current value of the assets. It reflects whether the firm or agency has maintained its capacity to continue its present level of production. It avoids inadvertent erosion of operating capacity. The deprival value method has similar advantages and disadvantages to those of the

market value, replacement cost, net present value and fair market value methods, because it is based on a combination of these approaches. Under the Commonwealth Government's resource management framework, agencies are directed to use the deprival model to value assets (DOFA 2001, pp. 1–23).

Optimised deprival value is the lesser of DORC and the economic value of the asset. It differs from deprival value as it makes use of DORC to take account of inefficiency. Optimised deprival value would have the advantages and disadvantages of whichever method (DORC, net present value or fair market value) is used.

Methods of determining the user cost of capital and depreciation

Once a non-current asset has been valued using an appropriate valuation method, the capital cost can be determined via calculation of the capital use charge. The Australian Geological Survey Organisation, CSIRO and the Australian Bureau of Agricultural and Resource Economics are examples of agencies that include a rate of return in their cost recovery charges. They do this as a requirement of competitive neutrality. Agencies that are not fully cost recovered are also required to pay a capital use charge, although they are funded for this charge from appropriations (see below). The user charge should be applied to net assets — that is, assets less liabilities. Agencies also need to calculate depreciation. Capital costs may vary depending on how depreciation is calculated.

User cost of capital

There are a number of ways in which to determine the rate of return used to calculate the capital use charge. One approach is to apply a uniform rate across all agencies. Alternatively, unique rates for each agency can be determined by benchmarking or by calculating the weighted average cost of capital (CCNCO 1998b).

The Commonwealth Government currently applies a uniform rate of return across all agencies. (box H.3). Under these arrangements partly cost recovered agencies could potentially receive both an appropriation for the capital use charge and include a cost of capital in charges to users. This could occur if the capital use charge is funded through both appropriations and cost recovery charges and agencies are able to retain access to the funds raised (see chapter 3). Given that it is sometimes appropriate that cost recovery charges include a cost of capital (for example, when cost recovered activities or products account for a significant proportion of the use of an asset), there may be a risk of 'double dipping' in such circumstances.

Box H.3 The Commonwealth's user cost of capital arrangements

A capital use charge is levied on Commonwealth agencies and authorities that are not fully funded through user charges or industry levies. The rate is standard across agencies, calculated as the risk free long term bond rate (which will vary over time) plus a risk premium. In 2000 the capital use charge comprised a 6 per cent risk free rate and a 6 per cent risk margin; that is, the capital use charge was effectively double the long term bond rate.

The charge is estimated at the beginning of each financial year and included in an agency's price of products. The charge is based on net departmental assets at the end of the previous financial year. Administered assets that are not controlled by the agency, but managed by agencies on behalf of the Commonwealth, are excluded. Most agencies that are either wholly or partly funded from general taxation receive appropriations for the capital use charge. Agencies that are fully funded through user charges or industry levies are excluded from these arrangements.

Source: DOFA (2001).

The former Department of Finance (now Department of Finance and Administration) argued that it should include both a risk free component and a risk premium (DoF 1991). The risk free rate represents the cost to government of raising capital and is set at the long term bond rate. The risk premium represents risk that cannot be diversified via the undertaking of a larger portfolio of projects — for example, risk arising from a project's susceptibility to fluctuations in economic activity. This is a cost that private investors bear and for which they require a higher rate of return. These concepts are based on the capital asset pricing model which is usually applied to private investment decisions. The former Department of Finance argued that these concepts can be usefully applied to determine the risk premium for the public sector as a whole (DoF 1991).

It can be argued, because the cost of capital reflects the cost to the Government of raising capital, that the user cost of capital should not vary across different Commonwealth agencies. However, some uses of capital may be more risky than others — for example, if the Government entered into a commercial operation in competition with other providers. It may be appropriate then for the cost of capital to vary according to the level of risk.

In addition, the majority of activities and products that are the subject of this inquiry cannot be easily characterised as being commercial in nature, even though their costs may be recovered. This can make the task of measuring the opportunity cost of capital more difficult.

Benchmarking to similar private companies or industry averages can be used to determine agency specific rates of return. However, a number of agencies that are the subject of this inquiry are statutory monopolies, for which it may be difficult to find suitable benchmarks. There are also problems with benchmarking itself. It can be difficult, for example, to isolate specific factors affecting an individual agency's rate of return from underlying market conditions.

The weighted average cost of capital can also be used to determine an appropriate rate of return. The Steering Committee on National Performance Monitoring of Government Trading Enterprises has outlined the operation of this method (SCNPMGTE 1996). Broadly, weighted average cost of capital accounts for the costs of debt and equity. These costs arise because an agency must pay interest on debt, and those providing equity expect a return on their investment that is commensurate with the risk of the enterprise. The rate of return on equity is determined using the capital asset pricing model. However, the weighted average cost of capital requires more data and knowledge of theory than needed for other methods. The model also presents problems with estimating the return on equity.

Regardless of the method used to determine the user cost of capital, there could be problems in allocating these costs where there are indirect or joint capital costs. That is, where capital costs cannot be directly attributed to the production of a particular product.

Depreciation

Capital costs can also vary depending on how depreciation costs are calculated. A number of methods can be used to calculate depreciation. For example, the straight line method allocates equal amounts of depreciation to each full accounting period in the asset's useful life. Alternatively, the reducing balance method results in decreasing depreciation each period over the asset's life. Capital costs will be lower in earlier periods under the straight line method than under the reducing balance method, all other factors being equal. Thus, in earlier periods of the asset's useful life, asset valuation methods that subtract depreciation give a higher valuation using the straight line depreciation method than when using the reducing balance depreciation method. Depreciation charges can also be related to use rather than time, which can be appropriate where asset usage varies significantly from one period to another.

Competitive neutrality

When government agencies provide services in areas where there is actual or potential competition, cost recovery charges should be consistent with the competitive neutrality requirements contained in the *Commonwealth Competitive Neutrality Policy Statement* (Commonwealth of Australia 1996).

Current competitive neutrality arrangements aim to allow public and private businesses to compete on an equal basis by removing artificial advantages and disadvantages. Competitive neutrality therefore requires that relevant government businesses (and agencies with commercial activities) set prices that cover a wide range of costs, including a return on capital and all relevant taxes and charges. As a result, when costing products, government agencies with commercial activities should include charges such as company tax, payroll taxes, goods and services tax and stamp duties, along with a rate of return (CCNCO 1998b).

Competitive neutrality does not always mean that agencies must charge ‘market prices’. It may be appropriate for agencies to charge incremental or avoidable cost (as defined below), to allow for efficient use of idle capacity.

Few of the agencies within the scope of this inquiry undertake significant activity in contestable markets, although some information agencies (such as the Bureau of Meteorology, the Australian Bureau of Agricultural and Resource Economics and the CSIRO) provide commercial as well as non-commercial products. It is less likely that the activities of regulatory agencies would be subject to the competitive neutrality principles, although some regulatory activities such as assessments and approvals could be contracted out to the private sector. In that case, if the regulatory agency retained an in-house provider then competitive neutrality principles could apply to competitive tendering with private outsourced providers.

The existence of a competitive private market for the good or service leads to the question of why government provision is necessary. It is important that the Government make clear the rationale for public sector involvement (for example, provision of services to disadvantaged groups).

H.4 Allocating costs

Once agencies have identified and measured costs, they can allocate those costs to activities or products. Allocating direct costs is relatively simple; it becomes more difficult where indirect and capital costs are involved. Methods to allocate costs include using direct cost, Fully Distributed Cost, marginal cost and incremental or avoidable cost. The different approaches are appropriate in different circumstances

(see chapter 7) and give different results. They have very different efficiency implications for different activities and products.

Direct cost

The direct cost method allocates only those costs that can be directly and unequivocally attributed to an activity or product. It is the simplest way of allocating costs but it does not account for indirect costs such as an appropriate share of overheads. In addition, it may not accurately indicate the increase in cost involved from producing an additional unit of product. Cost recovery agencies may choose to charge direct costs where cost recovered activities or products make up only a small proportion of their total activities and make only a small demand on agency overheads. In such cases, the impact of excluding indirect costs may not be significant.

Fully Distributed Cost

Under the Fully Distributed Cost method, the total costs of an agency are allocated across all activities or products. It includes direct, indirect and capital costs. Direct costs are allocated to their respective output, while indirect costs are allocated across all outputs. Indirect and joint costs can be allocated in a number of ways. They can, for example, be allocated on a *pro rata* basis, according to the number of staff involved in an activity, or on the basis of the share of direct costs devoted to an activity.

Regulatory agencies that recover costs for a large proportion of their activities typically use some method of Fully Distributed Cost; for example, the Australian Radiation Protection and Nuclear Safety Authority and the Australian Quarantine and Inspection Service use a *pro rata* approach. Activity Based Costing is a more sophisticated way of fully distributing costs (see below).

Simple *pro rata* methods are relatively easy to implement and most agencies will have the financial data available to attribute direct costs to products and to identify indirect costs separately. However, it is desirable to allocate indirect costs as closely as possible to the actual pattern of resource use, although there is a trade off involved in terms of the complexity and cost of the system.

Activity Based Costing

This is a more accurate form of Fully Distributed Cost. It links an agency's products to the activities undertaken to produce them. Activities are in turn linked to the

agency's costs. While the form of an Activity Based Costing system can vary from agency to agency, it typically comprises:

- identifying full costs;
- identifying products and the agency's user groups;
- identifying all activities that the agency performs to produce products;
- tracing full costs to the activities; and
- identifying cost drivers that link activities to products to give a cost per unit of product.²

Activity Based Costing requires more detailed data than needed for the simple *pro rata* system. Data are required to determine which activities contribute to certain products and how these activities consume resources. As a result, new systems could be needed to record items such as staff time spent on activities and products, numbers of users and indicators of complexity for each product. These requirements are often in addition to data that the agency already has. Typically, agencies collect these data via surveys undertaken at regular intervals. They may also use rosters or timesheets. The increased complexity of Activity Based Costing, and the greater need for data mean that the costs of implementing and using the system are higher than under a simpler Fully Distributed Cost system.

The National Industrial Chemicals Notification and Assessment Scheme, the National Registration Authority for Agricultural and Veterinary Chemicals, the Therapeutic Goods Administration, the Australian Maritime Safety Authority and the Office of Film and Literature Classification make use of Activity Based Costing. The Office of Film and Literature Classification's costing and pricing model is outlined in box H.4.

While an Activity Based Costing system should allocate costs to products in a manner that closely reflects use by each product, some costs can be allocated only on an arbitrary basis because it is difficult to obtain reliable survey information. Corporate overheads can be difficult to allocate, for example, when a number of activities irregularly consume management time. In addition, it can be difficult to record use of capital equipment accurately where it is used to produce several products.

² Cost drivers are factors that affect the level of activity, and thus costs, required to produce a unit of product. They can include, for example, customer numbers or the level of service complexity.

Box H.4 Office of Film and Literature Classification's costing and pricing model

The Office of Film and Literature Classification used an Activity Based Costing model in costing and pricing its products in 1996. Its model involved a four part process:

- **Identification of the cost pool.** The office's budgeted expenditure for 1996-97, as set out in the Budget papers, was adjusted by excluding 'one-off' items, reducing some capital expenditures that could be amortised over future years, and including minor allocated costs that are not shown in the Budget papers. These calculations resulted in the general cost pool.
- **Attributable cost development.** The general cost pool was apportioned between costs recovered from the industry and the costs of community service obligations that were funded from general taxation revenue. Costs were attributed on the basis of staff activities obtained from a survey that allocated staff time across activities and products. Staff time was then converted into salary dollars.
- **Attributable cost allocation.** The cost recovery component from the general cost pool was then allocated. First, direct service delivery costs were allocated to major activities. The activities included scheduling, screening and support activities. The breakdown was based on the staff activity survey. Second, statutory and non-statutory cost recoverable services were identified and a projected service volume was estimated. The salary dollars by activity for each service were then divided by the number of services performed during the survey, to calculate the unit value for each service by activity. Third, costs were allocated over the activities for each service.
- **Calculation of service costs.** The cost of providing each service was calculated by dividing the cost of each activity for each service by the number of services provided. The cost of each of these activities, for each service, was accumulated to provide the total cost for each unit.

Source: OFLC (1996).

Marginal cost

Marginal cost measures the increase in cost of producing an additional unit of product. Conceptually, marginal cost includes variable costs. Short run marginal cost (SRMC) is the cost of supplying an additional unit of product when at least one of the factors of production, quite often capital or capacity, is fixed. Thus, SRMC excludes costs that are fixed in the short run (such as capital costs) and a range of indirect costs that do not vary in the short run (such as generic advertising or some overheads). SRMC gives the best indication of the cost of producing an additional unit of product at any point in time. It is often much lower than the average cost, for

example, where large fixed costs have to be incurred regardless of how many units are produced.

Long run marginal cost (LRMC) is the cost of supplying an additional unit of product when all factors of production (such as capacity) can be varied. While all factors of production are variable in the long run by definition, in a multi-product organisation, LRMC for a particular product may exclude some indirect or joint costs that do not vary with the production of that product. LRMC includes the cost of capital and can be relevant to investment decisions. If demand is high enough, for example, such that SRMC is greater than LRMC through scarce capacity being rationed through higher prices, then investment in new capacity may be needed.

In relation to marginal cost pricing, Environment Australia stated:

Short term marginal cost pricing can be a useful costing and pricing technique in situations where marginal output decisions are made. It can also be used to ration demand in instances where the ... provider is operating at full capacity and an increase in demand requires a change in the scale of operation. (sub. 76, p. 9)

Marginal cost pricing sets the price for a unit of product equal to the additional cost of producing that product. The advantage of this approach is that it will result in an efficient allocation of resources by catering for the demands of all consumers who have a willingness to pay that equals or exceeds the opportunity costs of supplying the product.

Once the first unit has been produced, the marginal costs of producing further units may be quite low. As discussed in chapter 7, this is important for pricing by information agencies. It may be costly to gather information, but once it has been collected, the cost of disseminating it to many users is low. Other forms of pricing may reduce welfare by discouraging users who would have paid the marginal cost of dissemination. Marginal cost pricing is appropriate for information agencies seeking to recover the dissemination costs of information that has already been produced for other reasons (for example, because it has either public good characteristics or positive externalities).

However, there may be problems in measuring marginal cost. How long is the short run? What should be the increment in product — for example, should the increment be a single publication or a print run of publications? In addition, there may be problems with the allocation of joint costs between different products and with allocating indirect costs.

Marginal cost pricing could also lead to significant price fluctuations. Capacity is often expanded in large blocks while demand grows more steadily over time. While capacity is fixed and demand is growing, prices will rise to reflect the increasing

opportunity cost of producing an additional unit of product; that is, scarce capacity would be rationed through higher prices. However, after an increment rise in capacity, the marginal cost will fall because the opportunity cost of producing the additional unit of product will have fallen.

Given the problems with measuring marginal cost, incremental and avoidable cost are often used as proxies.

Incremental and avoidable cost

Incremental cost is the increase in costs attributable to the production of a particular type of product, rather than the marginal cost of producing an additional unit of that product. Incremental cost can also be measured as the increment in cost of producing a product for a particular customer. As such, incremental cost is usually related to larger increments in product and a longer period of time than with SRMC.

Because incremental cost is a longer run concept, it is usual to talk about long run incremental cost (LRIC). LRIC includes incremental capital costs and incremental indirect costs. However, it excludes indirect and joint costs that remain unchanged whether the product is supplied or not, as these costs are often not incremental in providing additional product. Per unit incremental cost can also be used. It is calculated by division of the cost of the increment in the type or block of product, by the number of additional units.

Avoidable costs are the costs that would be avoided if an agency no longer provided a particular product. Direct costs will be included in avoidable cost, as will indirect costs that are avoidable. Indirect costs that remain fixed regardless of whether the product is produced are not avoidable and should not be included (for example, corporate overheads and generic advertising).

In practice, there is generally little difference between avoidable and incremental cost. The cost saved by not producing the product is usually the same as the additional cost of making the product available, at least in the long term.

Incremental and avoidable cost approaches may be used as proxies for marginal cost, but are most suitable for agencies seeking to recover the additional costs incurred for undertaking 'add-on' work outside their basic products. Because there is no public interest reason to subsidise these products, agencies should be seeking to recover all of the costs they would have avoided if they had not produced them.

However, agencies need to consider a number of issues when measuring avoidable or incremental cost. How long is the long run? The longer the period of time, the greater the number of costs that can be included in incremental or avoidable cost.

For example, a lease on office space or equipment could expire in the medium to longer term.

In addition, there are measurement issues with allocating capital costs to joint products. For example, a particular product may use surplus capacity in assets used to produce another product. In this case, it could be difficult to decide which costs are avoidable.

Moreover, the appropriate level of avoidable cost needs to be determined. Avoidable cost can be considered at the agency level or in terms of the products of the agency. If an agency has only one product, or if the products are similar, then avoidable cost could be taken to be the cost of the agency as a whole, including its total indirect costs. However, if the agency has a number of products, or if they are not closely related, then it could be desirable to calculate the avoidable cost of each product. This could lead to difficulties in allocating joint and indirect costs.

The Bureau of Meteorology's charging for meteorological services, including the use of incremental cost, is outlined in box H.5.

Appropriate methods of cost allocation for different circumstances

The method of allocating costs affects the level of any cost recovery charge. For a given circumstance, Fully Distributed Cost and incremental or avoidable cost will give different results and thus would have implications for the level of cost recovery charges. The price charged under the Fully Distributed Cost would be higher than the price charged under incremental or avoidable cost.

In some situations, the Fully Distributed Cost and long run avoidable or incremental cost will give similar results in the costing of products. This could occur because most variable costs will be included under both cost approaches in the long run. For example, capital costs will be included under both approaches if the incremental or avoidable cost is measured over the long run. However, joint costs would still be included under the Fully Distributed Cost but not under incremental or avoidable cost. As a result, Fully Distributed Cost and long run avoidable or incremental cost only give similar results where joint costs are low. In this case, there will be a small increment to long run cost if a particular product is produced, or the long run costs avoided will be small if the product is not produced.

Different methods will be more suitable under different circumstances. A *pro rata* Fully Distributed Cost system is a simple way of allocating all costs to a product. However, it does not measure the costs of an increase in production that an incremental or avoidable costing approach would measure.

Box H.5 Bureau of Meteorology's charging for meteorological services

The Bureau of Meteorology has four charging categories for meteorological services.

- **Free services** include reports of present and expected weather for various locations (including coastal waters) and warnings, made available through the mass media. These services are known as the *basic product set*. They are provided free to emergency services.
- **Cost of access** is charged for the basic national meteorological service that encompasses basic weather, climate, hydrological and consultative services. These services are known as the *basic product service*, which includes the basic product set. Cost of access is charged for the basic product set when it is not provided via the mass media or the Internet, such as by telephone or fax.
- **Incremental cost** is charged for services that satisfy international obligations (for example, weather services to the aviation industry) and services to other government agencies (for example, services to the Department of Defence).
- **Commercial rates** are charged for services that are provided to meet the requirements of a specific user and that are provided in competition, or potential competition, with the private sector.

For the basic product service (including the basic product set when not provided by the mass media or the Internet), the bureau charges only the cost of making access available. The cost of access includes communications and publication costs. The services themselves are provided free of charge.

For services where incremental costs and commercial rates are charged, the bureau includes:

- the cost of additional staff and operating costs involved in providing the service above the basic service;
- the costs of any research and development projects undertaken specifically in support of the service;
- capital costs specific to the service;
- costs in establishing a new service or ceasing an existing service; and
- overhead costs. Where services provided are on a whole-of-program basis, such as aviation and defence, the bureau charges a portion of overhead costs that is determined *pro rata* to product costs. Where services are provided through available capacity, but within a basic service program, the overhead component is attributed *pro rata* to direct labour costs.

For commercial services, the bureau also charges a discretionary component in addition to the other charges.

Source: BoM (sub. 35, att. 7, pp. 4.2–4.6).

It would be desirable to measure increases in costs using incremental or avoidable cost in the short run where there is excess capacity. This capacity could be used if the product is able to earn its avoidable or incremental cost. If a product can earn revenue that is equal to or greater than its avoidable or incremental cost, then idle capacity can be used without imposing an additional cost on the agency.

Incremental or avoidable cost can be appropriate where large fixed costs have to be incurred regardless of how many units are produced. Many information agencies, for example, incur high sunk costs when they collect and compile data required for public policy. Once this information has been collected, the costs of dissemination to many users could be quite low. In these cases the Fully Distributed Cost could overestimate the cost of a product because joint costs will be allocated to that product, even though these joint costs will still be incurred if the product is not produced. A marginal, incremental or avoidable cost approach would exclude these costs.

On the other hand, the Fully Distributed Cost could be more appropriate where full costs, including joint costs, are to be recovered. Agencies will need to choose the appropriate method on a case by case basis, because the circumstances can differ. Agencies will also need to consider competitive neutrality requirements if they are operating in a commercial or contestable market.

I Australian Government Solicitor's legal advice

The Productivity Commission sought legal advice from the Australian Government Solicitor on the Commonwealth's authority to impose fees, charges, levies and taxes in different situations. The advice dated 2 March 2001 is reproduced here.

Fees for services and taxes

1. Thank you for your letter of 16 February 2001 seeking advice on issues arising from the Productivity Commission's inquiry into cost recovery by Commonwealth regulatory, administrative and information agencies.
2. Your questions relate broadly to the Commonwealth's authority variously to impose fees, charges, levies and taxes in different situations. You say that the advice will help the Commission to comment generally on the 'legal constraints on the design and operation of cost recovery arrangements' (term of reference 4[b]). The advice may also be used in the development of suitable guidelines for implementing cost recovery (term of reference 3[g]).

Advice

3. Your questions, together with my answers, are set out below.

1. What is the difference between a fee for service and a tax? What is the distinguishing feature of a tax Act?

Difference between a fee for service and a tax

4. In non-legal contexts, the expressions 'tax' and 'fee for services' sometimes have overlapping meanings. This is because taxes are sometimes imposed for the specific purpose of raising revenue to finance the delivery of specific kinds of government services and fees for services are sometimes structured and imposed as taxes. For constitutional purposes, however, the concept of a tax and the

concept of a fee for services are mutually exclusive. Section 53 of the Constitution, which deals with the powers of the Houses of Parliament in respect of legislation, expressly draws a distinction between the two kinds of imposts. Moreover, the High Court, usually in the context of considering the application of section 55 of the Constitution (which provides, amongst other things, that a law imposing taxation shall deal only with the imposition of taxation), has specifically characterised a tax partly by reference to certain negative characteristics, which include the requirement that the impost not be a fee for services. The classic definition of a tax, albeit qualified in various respects over the years, is: ‘a compulsory exaction of money by a public authority for public purposes, enforceable by law, and ... not a payment for services rendered’ (emphasis inserted) (*Matthews v Chicory Marketing Board (Vic)* (1938) 60 CLR 263 at 276 per Latham CJ; see also *Air Caledonie International v Commonwealth* (1988) 165 CLR 462 at 466–467).

5. A fee for a service may share certain of the positive attributes of a tax. For example, it may (although it may not) be compulsory and enforceable by law. It may be, and often is, imposed by a public authority and for public purposes, for example, where it is imposed in respect of activities which are carried on under the authority of legislation. It is, however, different in one respect from a tax, that is, it is *a payment for services rendered to or at the direction or request of the person required to make the payment* (*Air Caledonie* at 467). The application of this general distinction has been far from clear in practice, given that the delivery of a service may sometimes be made *the occasion of* the imposition of different kinds of imposts, including taxes.
6. Until recently, in practice, fees for services have been distinguished from taxes on the basis not only of their imposition in respect of a service but also on the basis of their relationship to the costs of delivering the service to the individual paying the fee. This approach was based on a statement in *Air Caledonie* suggesting that there had to be ‘a discernible relationship’ between the fee and the ‘value’ of what is acquired (by way of a service) and that to the extent that the fee exceeds that value, the fee could be seen to be a tax (at 467). In the absence of other guidance by the High Court, ‘value’ was assumed to be measured at the level of the individual paying the fee and in terms of the costs of delivering the service to the individual.
7. In December 1999, the High Court handed down a major new decision dealing with the distinction between fees for services and taxes — *Airservices Australia v Canadian Airlines International Ltd* (1999) 167 ALR 392. The High Court confirmed the need for fees for services to be imposed in respect of services delivered to the persons required to pay the fees. However, it endorsed a more

flexible approach to the characterisation of an impost as a fee for services, citing the relationship between the level of the fee and the costs of delivering the service as an important but not exclusive consideration, especially where the provider of the services has a statutory monopoly on the provision of the services. Another important consideration is that the overall fee structure should not be designed with a general revenue raising purpose. For your information, I attach an Australian Government Solicitor Legal Briefing¹ dealing with the decision, which was prepared shortly after it was handed down. This Briefing summarises the approaches in the various separate judgments, which differed somewhat in emphasis.

8. Apart from confirming the important (though not necessarily exclusive) role of cost recovery in the characterisation of imposts as fees for services, the main significance of the decision is in indicating a more flexible approach to cost recovery than was previously thought acceptable. In particular, the High Court indicated that the relationship to the costs of delivering the service can be manifested at the user group level, especially where the services are highly integrated (cf. networks of services with common infrastructure), rather than at the individual level. That is, the fees can be fixed by reference to the costs of delivering services *to all* of the users of the services rather than by reference to the costs of delivering services to a particular individual. Moreover, the High Court has recognised that there can be a degree of flexibility in fixing charges for particular users or classes of users (differential pricing), subject to broad constraints. Those constraints were variously described in the judgments: ‘a rational basis for discrimination’ (Gleeson CJ and Kirby J); ‘a commercial justification for discriminating between different users’ (Gaudron and Hayne JJ); ‘reasonably and appropriately adapted means of achieving a legitimate public purpose’ (McHugh and Gummow JJ).
9. Importantly, too, the High Court acknowledged that a profit component can be included in a fee structure, providing it does not have a revenue-raising purpose and merely allows for a reasonable rate of return on capital or future infrastructure requirements.

¹ Australian Government Solicitor 1999, *Fees for Services and Their Recovery*, Legal briefing number 53, 14 December.

Distinguishing features of a tax Act

10. A tax Act is, of course, an Act which imposes a tax. A tax, as mentioned in paragraph 4 above, is an impost with certain positive attributes and certain negative attributes, one of which is that the impost must not be a fee for services.
11. As also mentioned in paragraph 4 above, the definition of a tax set out in the *Matthews v Chicory Marketing Board (Vic.)*, while a continuing reference point in judicial discussions of what constitutes a tax, has been qualified in various ways over the years. Compulsoriness may be practical as well as legal (see *General Practitioners Society v The Commonwealth* (1980) 145 CLR 542, per Gibbs J at 561). The High Court has also admitted the possibility that an impost constituting a tax may not be in the form of an exaction of *money* as such (*Air Caledonie* at 467). Moreover, the exaction, while made under statutory powers, may not need to be by a public authority, or for public purposes, in order to be a tax (*Air Caledonie* at 467; also *Australian Tape Manufacturers Association Ltd v The Commonwealth* (1992) 176 CLR 480).
12. The High Court has also made it clear that the class of negative attributes which may prevent an impost from being regarded as a tax is not limited to the requirement that the impost not be a fee for services and that indeed the list of negative attributes may not be closed but evolving. In *Air Caledonie* the High Court said (at 467):

... the negative attribute — ‘not a payment for services rendered’ — should be seen as intended to be but an example of various special types of exaction which may not be taxes even though the positive attributes mentioned by Latham CJ are all present. Thus, a charge for the acquisition or use of property, a fee for a privilege and a fine or penalty imposed for criminal conduct or breach of statutory obligation are other examples of special types of exactions of money which are unlikely to be properly characterised as a tax notwithstanding that they exhibit those positive attributes.
13. A tax, even if levied by a non-public authority under a statutory power, must be accounted for as part of the Consolidated Revenue Fund and expended only under an appropriation by Parliament (sections 81 and 83 of the Constitution; *Australian Tape Manufacturers Association Ltd v The Commonwealth* (1992) 176 CLR 480 and *Northern Suburbs General Cemetery Reserve Trust v The Commonwealth* (1992) 176 CLR 555). (The same applies to fees for services if they are received by or on behalf of the ‘Executive Government of the Commonwealth’ — see section 81 of the Constitution).

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14. While the characteristics of a tax are to some extent shifting and it can be difficult sometimes to decide whether a compulsory exaction falls into one of the categories of anomalous compulsory exactions which are not taxes, in most cases it will be a relatively straightforward process to decide whether an impost is a tax.
 15. How Parliament itself regards the impost will itself be significant, though not necessarily decisive. Imposts regarded by Parliament as taxes will generally be structured with constitutional requirements in mind, principally, the requirements of section 55 of the Constitution, which, as mentioned above, provides, amongst other things, that laws imposing taxation shall deal only with the imposition of taxation. Under section 55, a tax Act (or, in other words, an Act imposing taxation) can contain not only provisions specifically imposing a tax but also provisions '*dealing with*' the imposition of tax (such as provisions governing the incidence and rate of the tax). A tax imposition Act cannot, however, contain measures merely *related to* the tax imposed, such as provisions dealing with collection matters.

2. *Is there a legal distinction between a levy and a tax? How are these differences important in choosing one instrument over another?*

16. A levy is merely another expression to describe a tax, although it is sometimes used to refer to a tax that is imposed on a specific industry or class of persons, rather than a tax of general application. The fact that an impost may be imposed on only a limited class of persons does not prevent it from being regarded as a tax, although the notion of a tax carries with it an implication of a certain threshold of generality (thus an impost on one or more named persons may not be tax, but rather an acquisition of property, which under section 51(xxxi) of the Constitution, must be on just terms in order to be valid).
17. For political reasons, taxes can also go under other names, such as charges, surcharges and royalties (although some royalties may not be taxes). The nature of the impost will, however, be determined principally by reference to its legal characteristics rather than by what it is called.

3. *What legal authority do Commonwealth agencies need to impose fees, charges, levies or taxes? Some agencies appear not to have any fee or charge setting powers explicitly set out in an Act, but nevertheless are involved in some cost recovery. Under what authority can they do this?*

18. It is a general principle of English constitutional law received into Australia that there can be no taxation except under the authority of an Act of Parliament (*The Commonwealth v Colonial Combing, Spinning and Weaving Co. Ltd* (1922) 31 CLR 421, per Isaacs J at 433–434). This obviously applies to a tax under any name, including a charge or levy.
19. The position in relation to charging for services is less clear cut. There is no High Court authority on the point but only several old State cases which interpret early English cases. However, those early English cases appear to have been given a wide interpretation in certain respects by a more recent English case, which has not yet been discussed by an Australian court in any jurisdiction.
20. For present purposes it appears unnecessary for me to discuss the various English and Australian cases in detail, but would be happy to do so, if you wish. Instead, I shall summarise the views which the Australian Government Solicitor holds on this issue.
21. We take the view that the imposition of charges in respect of the performance of statutory duties (including the delivery of services as a matter of statutory duty) needs to be authorised expressly by legislation or by necessary implication from legislation. (This proposition is common ground among the early English cases (notably, *Attorney-General v Wilts United Dairies Ltd* (1921) 37 TLR 884 (Court of Appeal); (1922) 38 TLR 781 (House of Lords), the more recent English case of *McCarthy & Stone (Developments) Ltd v London Borough of Richmond upon Thames* (1991) 3 WLR 941 and the early Australian cases, such as *Schilling v City of Melbourne* [1928] VLR 302.) Thus, statutory authority would be required to impose a fee in respect of, say, an inspection which is required to be performed under statute.
22. The position in relation to the performance of *discretionary* activities is more complicated and it is in relation to this that judicial authority appears to be divided (the recent English case *McCarthy & Stone* appears to take a stricter view than required by the earlier English cases, including *Wilts United Dairies*). Our view generally is that whether charges can be imposed in respect of discretionary activities (including the discretionary performance of services) depends on the nature and authority for the performance of those activities.

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23. Discretionary activities can be performed under the express authority of a statute, under general statutory powers (such as under a general statutory incidental power or a general power to enter into contracts conferred under statute) or, in the case of government Departments, in the exercise of the Commonwealth's executive power.
24. In relation to activities carried on under express statutory authority, whether fees can be imposed depends on the nature of the activity. For example, as a matter of statutory interpretation, in the absence of express or necessarily implied legislative authority, it would be unlikely to have been intended that a fee could be imposed in respect of the issue of a statutory licence, albeit issued as a matter of discretion. An express statutory power to conduct activities normally delivered on a commercial basis would, however, not normally preclude the charging of fees, even in the absence of an express legislative authorisation to impose fees. An example might be an express statutory discretionary authority to conduct training courses.
25. In relation to general statutory authority to engage in discretionary activities, such as a general contracting power, we take the view that there is no impediment to the imposition of fees in respect of the activities. The ability to charge fees would be necessarily implied from the ability to do a thing under a contract. The same applies to the performance of activities under contracts entered into under the Commonwealth's executive power. (There may be exceptional circumstances where charges under a contract could be regarded as taxes, which would be invalid without legislative authority — *Commonwealth v Colonial Combing, Spinning and Weaving Co. Ltd* ('*The Wool Tops Case*') (1922) 31 CLR 421 443–445; very generally the circumstances would be where there was some suggestion of compulsoriness, either legal or practical, in relation to the entry into the contracts).

4. *Some agencies have explicit wording in their Acts to the effect that they may set charges but that the charges must be reasonably related to the expenses incurred and must not be such as to amount to taxation (for example, s.53 of the Australian Communications Authority Act 1997). What is the consequence of this clause? Does it, for example, quarantine the rest of the Act from being challenged under s.55 of the Constitution if the charge were found to be a tax? Why do not all fee for service arrangements have such legislative backing? And what does 'amount to taxation' mean?*

26. A provision along these lines was considered in *Canadian Airlines*, namely, section 67 of the *Civil Aviation Act 1988*. Unlike the full Federal Court in the decision appealed to the High Court (*Airservices Australia v Monarch Airlines Ltd* (1998) 152 ALR 656), the High Court accepted that there were two separate

limbs to the provision, which could overlap but which could also raise separate considerations:

In some cases, there would be substantial overlapping between the considerations relevant to the first limb and those relevant to the second limb. However, it would be wrong to say, as a universal proposition, that the two limbs could never raise separate issues. The second limb is related to, and should be understood in the light of, section 55 of the Constitution. (per Gleeson CJ and Kirby J at 409).

27. The first limb imposes a statutory limitation on the level at which fees can be imposed, that is, a reasonable relationship to the ‘expenses incurred’. This involves a consideration of what is ordinarily included in ‘expenses’ and whether those expenses have been ‘incurred’.
28. The purpose of the second limb is, as you suggest and as confirmed in *Canadian Airlines*, to quarantine the validity of other provisions of the Act from the possible effects of section 55 of the Constitution, which generally (except in relation to amendments inserting a tax) invalidates all the provisions of an Act other than the provision imposing a tax (*Air Caledonie*).
29. In the Federal Court at first instance (*Monarch Airlines Ltd v Airservices* (1997) 72 FCR 534), Branson J decided that the relevant charges satisfied the first limb of the provision but not the second. In the light of the High Court’s decision in *Canadian Airlines*, in particular, its more flexible approach to cost recovery, it is possible that the first limb might in certain circumstances lead to a narrower result than the second. In most cases, however, the operation of the two limbs will not produce a different result.
30. Some legislation authorising the imposition of fees does not contain a limitation along these lines or contains one limb of the limitation and not the other. This generally merely reflects different practices or differing degrees of caution on the part of drafters. Some drafters rely on the court’s interpreting a ‘fee’ (where it is used in relation to services) as having its ordinary meaning (that is, a fee for services), particularly in the light of the constitutional provisions. A discretion to impose a ‘fee’ would, in any case, probably be read down within constitutional limits, that is, so as not to authorise the imposition of a tax where this would be contrary to section 55 of the Constitution (*Giris v Federal Commissioner of Taxation* (1969) 119 CLR 365, 378). (I note that the inclusion of the second limb in the case of the Civil Aviation Act was by way of a Senate amendment which was described as being designed ‘to restore the second element of the protection against surreptitious revenue raising’ found in the previous Act dealing with civil aviation (the *Air Navigation Act 1974*) (Senate *Hansard* 1 June 1988 at 3386–3396; see also 27 April 1988 at 1991–1993)).

31. The words ‘not to amount to taxation’ mean that the fees are to be of such a kind and level as not to constitute taxation for constitutional purposes.

Other comments

32. If the Commission proposes to develop suitable guidelines for implementing cost recovery (term of reference 3[g]), it would be highly desirable for such guidelines to be cleared from a constitutional point of view, particularly, in relation any construction that is placed on the High Court’s decision in *Airservices Australia v Canadian Airlines International Ltd*. We would, of course, be happy to provide further advice, if necessary.

33. Please let me know if you would like to discuss any aspect of this advice or require any further assistance.

J Questionnaire

The terms of reference require the Commission to report on the nature and extent of current cost recovery arrangements across Commonwealth regulatory, administrative and information agencies. To fulfil this requirement, the Commission requested agencies and departments to complete a questionnaire regarding their current cost recovery arrangements. The questionnaire was sent to all regulatory, administrative and information agencies with separate financial reporting arrangements, and to all departments with coverage of those agencies without separate reporting arrangements. A copy of the questionnaire is attached at the end of this appendix.

The responses of those agencies included in the inquiry case studies (appendices C to F) are summarised in appendix B. All responses (except those provided confidentially) are available on the Commission's web site (www.pc.gov.au) and on request from the Commission.

J.1 Departments and agencies surveyed

The following departments and agencies were asked to complete the questionnaire. Those departments and agencies marked with an asterisk did not respond to the questionnaire.

Department of Agriculture, Fisheries and Forestry — Australia

Australian Bureau of Agricultural and Resource Economics

Australian Dairy Corporation

Australian Dried Fruits Board

Australian Fisheries Management Authority

Australian Horticultural Corporation*

Australian Pork Corporation

Australian Wine and Brandy Corporation*

Bureau of Rural Sciences

Murray–Darling Basin Commission*

National Registration Authority for Agricultural and Veterinary Chemicals

Wheat Export Authority*

The Woolmark Company*

Attorney-General's Department

Administrative Appeals Tribunal*

Administrative Review Council*

Australian Customs Service

Australian Federal Police

Australian Government Solicitor*

Australian Institute of Criminology

Australian Law Reform Commission

Australian Security Intelligence Organisation

Australian Transaction Reports and Analysis Centre

Human Rights and Equal Opportunity Commission*

Inspector-General in Bankruptcy (Insolvency and Trustee Service)

National Crime Authority*

National Native Title Tribunal

Office of Film and Literature Classification*

Office of Parliamentary Counsel

Office of the Director of Public Prosecutions

Privacy Commissioner*

Department of Communications, Information Technology and the Arts

Australian Broadcasting Authority*

Australian Broadcasting Corporation

Australian Communications Authority

Australian Film Commission*

Australian Film Finance Corporation

Australian Film, Television and Radio School

National Library of Australia

ScreenSound Australia

Special Broadcasting Service

Department of Defence

Department of Education, Training and Youth Affairs

Anglo–Australian Telescope Board

Australian National Training Authority

Australian Research Council*

Department of Employment, Workplace Relations and Small Business

Comcare

National Industrial Chemicals Notification and Assessment Scheme

National Occupational Health and Safety Commission*

Department of the Environment and Heritage

Australian Greenhouse Office*

Bureau of Meteorology

Great Barrier Reef Marine Park Authority

National Parks and Wildlife*

Department of Family and Community Services*

Australian Institute of Family Studies

Centrelink

Department of Finance and Administration

Australian Electoral Commission

Commonwealth Grants Commission*

Commonwealth Superannuation Administration (ComSuper)

Office of Asset Sales and Information Technology Outsourcing

Department of Foreign Affairs and Trade

Australian Centre for International Agricultural Research

Australian Government Overseas Aid Program*

Australian Trade Commission (Austrade)

Department of Health and Aged Care

Australia New Zealand Food Authority

Australian Institute of Health and Welfare

Australian Radiation Protection and Nuclear Safety Agency

Health Insurance Commission

Department of Immigration and Multicultural Affairs

Migration Agents Registration Authority

Migration Review Tribunal*

Refugee Review Tribunal

Department of Industry, Science and Resources

Australian Geological Survey Organisation

Australian Institute of Marine Science

Australian Nuclear Science and Technology Organisation

Australian Sports Commission

Australian Sports Drug Agency*

Australian Surveying and Land Information Group

Australian Tourist Commission

Bureau of Tourism Research

Commonwealth Scientific and Industrial Research Organisation

IP Australia

National Standards Commission

Department of Prime Minister and Cabinet

Aboriginal and Torres Strait Islander Commercial Development Corporation

Aboriginal and Torres Strait Islander Commission*

Aboriginal Benefit Reserve

Aboriginal Hostels Limited

Anindilyahwa Land Council

Australian Institute of Aboriginal and Torres Strait Islander Studies

Australian National Audit Office
Central Land Council*
Commonwealth Ombudsman
Indigenous Land Corporation
Northern Land Council*
Office of National Assessments
Office of the Inspector-General of Intelligence and Security
Office of the Official Secretary to the Governor General
Public Service and Merit Protection Commission
Tiwi Land Council
Torres Strait Regional Authority

Department of Transport and Regional Services

Administration of Christmas Island*
Airservices Australia
Albury–Wodonga Development Corporation*
Australian Maritime Safety Authority
Civil Aviation Safety Authority
National Capital Authority
National Road Transport Commission

Department of the Treasury

Australian Bureau of Statistics
Australian Competition and Consumer Commission
Australian Office of Financial Management

Australian Prudential Regulation Authority

Australian Securities and Investments Commission

Australian Taxation Office

Australian Valuation Office

National Competition Council

Productivity Commission

Reserve Bank of Australia

Royal Australian Mint

Department of Veterans Affairs

Australian War Memorial

PRODUCTIVITY COMMISSION COST RECOVERY INQUIRY

AGENCY QUESTIONNAIRE

The Government has requested the Productivity Commission to undertake a public inquiry into the cost recovery arrangements of Commonwealth regulatory, administrative and information agencies. The terms of reference require the Commission to report on the nature and extent of these cost recovery arrangements. This calls for the cooperation and participation of Commonwealth agencies.

Please complete this questionnaire on behalf of your agency.

All Departments and agencies with separate reporting arrangements are being surveyed.

The worksheet titled 'Attachment A' provides a Contact Officer within your portfolio.

This questionnaire is not meant to take the place of a formal inquiry submission.

An electronic version of this questionnaire is available on the Commission's web site: <http://www.pc.gov.au/costrecovery/index.html>

You are encouraged to use the electronic form and return it by email to costrecovery@pc.gov.au.

PLEASE NOTE: The electronic version of the questionnaire is made up of **FOUR** worksheets: *Instructions, Part I, Part II and Attachment A.*

BACKGROUND

The inquiry has released an Issues Paper which outlines the background to the inquiry, the Commission's procedures and matters about which the Commission seeks comment and information. You are encouraged to read the Issues Paper for further background.

The Issues Paper can be found on the Commission's web site: <http://www.pc.gov.au/costrecovery/index.html>

PART I

ALL AGENCIES ARE REQUESTED TO COMPLETE PART I.

If you cannot answer a question, please indicate whether the question is NOT APPLICABLE or if INFORMATION IS NOT AVAILABLE.

Section 1: Contact details

1.1 Agency

1.2 Reporting and financial arrangements are governed by:
(Please indicate with a 'X' whether one or more of the following Acts apply)

Financial Management and Accountability Act 1997

YES	NO
<input type="checkbox"/>	<input type="checkbox"/>

Commonwealth Authorities and Companies Act 1997

YES	NO
<input type="checkbox"/>	<input type="checkbox"/>

Other

1.3 Contact Officer

Position

Phone

Fax

Email

Address

This section asks about your agency's total revenues, charges and expenses. All agencies should complete this section, whether or not you consider you undertake cost recovery.

Section 2: Agency revenues, charges and expenses

(Please indicate with a 'X' which response applies)

2.1 Has your agency charged any cost recovery fees, levies or other charges in the last five financial years?

YES	NO
<input type="checkbox"/>	<input type="checkbox"/>

Relevant charges include any fees, levies, taxes (including some customs and excise duties programs earmarked for specific purposes) or other charges which arise from the services, or business activities of your agency, and which are collected by your agency or by another agency on your behalf. For example, application fees, processing charges, consultancy fees, publication sales, special industry duties, excises or levies other than general taxation.

2.2 Were any of the appropriations allocated to your agency in the last five financial years linked (hypothecated) to revenue collected from fees, levies or charges (for example, levies paid to the Consolidated Revenue Fund but earmarked for allocation to your portfolio)? (Whether the revenue was collected by your agency or by another agency on your behalf).

YES	NO
<input type="checkbox"/>	<input type="checkbox"/>

2.3 Has your agency considered introducing any cost recovery arrangements in the past that were not implemented? (Please attach any relevant reviews, analysis or other information.)

YES	NO
<input type="checkbox"/>	<input type="checkbox"/>

2.4 Is your agency considering introducing any cost recovery arrangements in the future? (Please attach any relevant reviews, analysis or other information.)

YES	NO
<input type="checkbox"/>	<input type="checkbox"/>

If you answered NO to questions 2.1 and 2.2, you need not answer any further questions. Thank you for your cooperation. Please return the questionnaire to the Commission (see front sheet for instructions).

If you answered YES to EITHER question 2.1 OR question 2.2 OR both, please complete section 3 below, and Part II on the following worksheet.

Section 3: Agency revenues and expenses

YES NO

3.1 Does your agency classify revenues and expenses as agency and administered?

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Agency revenues and expenses are those controlled by the department/agency (for example, employee and administrative expenses). Administered revenues and expenses are those which are controlled by Government and managed or oversighted by the department/agency on behalf of the Government (for example, social security payments).

If your agency classifies revenues and expenses as 'agency' and 'administered' then please fill in both tables below. If your agency does not classify revenues and expenses as 'agency' and 'administered' then please put all revenues and expenses in the 'agency' table below.

AGENCY revenues and expenses (Please use \$'000)

	1995-96	1996-97	1997-98	1998-99	1999-2000
Agency revenue from cost recovery (a)					
3.2 Cost recovery revenue retained by your agency					
3.3 Cost recovery revenue paid to CRF and appropriated to your agency (or another agency for a specific purpose (ie. annotated, hypothecated or earmarked revenues)					
3.4 Cost recovery revenue paid to CRF and not specifically appropriated to your agency (or another agency)					
3.5 Total agency revenue from cost recovery					
Agency revenue from other sources					
3.6 Other appropriations					
3.7 Other sources (eg. asset sales, dividends, interest, funding from other government agencies)					
3.8 Total agency revenue from other sources					
3.9 Total agency revenue					
3.10 Total agency expenses					

CRF Consolidated Revenue Fund

(a) Include all revenue from fees, levies, excises and other charges which arise from the services or activities of your agency and which is paid to your agency to another agency or to the Consolidated Revenue Fund.

ADMINISTERED revenues and expenses (Please use \$'000)

1995-96 1996-97 1997-98 1998-99 1999-2000

Administered revenue from cost recovery (a)					
3.11 Cost recovery revenue retained by your agency					
3.12 Cost recovery revenue paid to CRF and appropriated to your agency (or another agency for a specific purpose (ie. annotated, hypothecated or earmarked revenues)					
3.13 Cost recovery revenue paid to CRF and not specifically appropriated to your agency (or another agency)					
3.14 Total administered revenue from cost recovery					
Administered revenue from other sources					
3.15 Other appropriations					
3.16 Other sources (eg. asset sales, dividends, interest, funding from other government agencies)					
3.17 Total administered revenue from other sources					
3.18 Total administered revenue					
3.19 Total administered expenses					

CRF Consolidated Revenue Fund

(a) Include all revenue from fees, levies, excises and other charges which arise from the services or activities of your agency and which is paid to your agency to another agency or to the Consolidated Revenue Fund.

End of Part I. Please complete Part II, which is on a separate worksheet.

PART II

If your agency operated any cost recovery arrangements in 1999-2000, please complete this part.

Please fill out a separate form for each sub-unit, cost recovery program or activity, or output or outcome for which you are reporting. Similar cost recovery arrangements may be reported in groups.

PART II(a)

Name of sub-unit, agency, program or activity, output or outcome

Section 4: Cost recovery arrangements in 1999-2000

Descriptive material	
4.1	Nature of cost recovery arrangement (eg. licence fee, service charge, hypothecated excise tax or levy etc)
4.2	Basic description of arrangements: (Please attach any relevant documents.)
4.3	Who pays the cost recovery charges?
4.4	Who benefits from the program or activity, output or outcome?
4.5	Do you attempt to measure these benefits? If YES, how?
4.6	Are there alternate providers or substitutes for this program or activity, output or outcome? (Please describe)
4.7	When was this cost recovery arrangement introduced?

PART II(b)

Name of sub-unit, agency, program or activity, output or outcome

Program or activity, output or outcome cost recovery arrangements in 1999-2000 (continued)
(Please use \$'000)

Program or activity, output or outcome revenues

4.8 Cost recovery revenue paid to CRF earmarked for appropriation to same agency	\$			
4.9 Cost recovery revenue paid to CRF earmarked for appropriation to a third party	\$			
4.10 Cost recovery revenue paid to CRF and not earmarked for particular appropriation	\$			
4.11 Cost recovery revenue paid to CRF (subtotal)	\$			
4.12 Cost recovery not paid into CRF			\$	
4.13 Total cost recovery revenue			\$	
4.14 Appropriations not related to cost recovery				\$
4.15 Other sources (please specify)				\$
4.2 Total program or activity, output or outcome revenues				\$

Program or activity, output or outcome expenses

4.17 Direct expenses	\$			
4.18 Indirect expenses (including corporate overheads)	\$			
4.19 Third party expenses (a)	\$			
4.20 Total program or activity, output or outcome expenses	\$			

Administration costs

4.21 What costs are associated with administering the cost recovery arrangements?	\$			
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CRF Consolidated Revenue Fund. Direct costs are those directly related to a particular program. Indirect costs include indirect agency overheads and general running costs. (a) Include third party costs where third parties are involved in a program or activity and their costs are being recovered as part of the cost recovery arrangements.

PART II(c)

Name of sub-unit, agency, program or activity, output or outcome

Section 5: Institutional arrangements

5.1 What was the rationale for introducing these cost recovery arrangements?
(Please attach sources, eg. legislative objects clauses, press releases, second reading speeches.)

5.2 What was the legal basis for establishing these cost recovery arrangements: (Please name and attach relevant documents.)

Legislation (eg. s.31 of the Financial Management and Accountability Act, tax or levy Acts)

Subordinate legislation (eg. regulations, standards)

Co-regulation or quasi-regulation

Commonwealth/State/Territory agreement

Voluntary arrangements (eg. codes of practice)

Other

5.3 Who was consulted about introducing these cost recovery arrangements? (Please name relevant bodies and describe the consultation arrangements.)

Commonwealth government (DOFA etc)

Other governments (state, territory, local)

Industry

Consumers

Other

- 5.4 What guidelines were consulted when establishing these cost recovery arrangements? (Please attach source of information, guidelines etc.)
- 5.5 Which agency is responsible for the following activities? (Please name relevant agency)
- | | |
|--------------------|----------------------|
| Policy setting | <input type="text"/> |
| Price setting | <input type="text"/> |
| Administration | <input type="text"/> |
| Revenue collection | <input type="text"/> |
- 5.6 Is there any ongoing consultation about these cost recovery arrangements? With whom? (Please name relevant bodies.)
- | | |
|---|----------------------|
| Commonwealth government (DOFA etc) | <input type="text"/> |
| Other governments (state, territory, local) | <input type="text"/> |
| Industry | <input type="text"/> |
| Consumers | <input type="text"/> |
| Other | <input type="text"/> |
- 5.7 Please describe these consultation arrangements.
- 5.8 Have the cost recovery arrangements been formally reviewed? What was the outcome? (Please attach copy of review)

PART II(d)

Name of sub-unit, agency, program or activity, output or outcome

Section 6: Price setting arrangements

6.1 How are these cost recovery charges determined? (Please attach any relevant documents)

- (i) How are charges set? (eg. by formula in legislation or based on 'market prices')
- (ii) Are charges directly related to the costs of particular activities, outcomes or outputs, or charged on some other basis? (eg. levies on users' turnover, profits or assets)

6.2 If charges are directly related to the costs of particular activities, outputs or outcomes:

- (i) What costs do charges aim to recover? (eg. only direct costs or indirect costs such as overheads)
- (ii) What proportion of these costs do charges aim to recover? (%)
- (iii) Does the charging regime require assets to be valued? (eg. to allow the calculation of user cost of capital or return on assets)
- (iv) If 'YES' to (iii), on what basis are assets valued? (eg. historic, replacement, deprival or replacement cost)
- (v) Do charges include a user cost of capital?
- (vi) If 'YES' to (iv), how is it calculated?

(vii) Do charges include return on assets? (eg. profit)

(viii) If 'YES' to (vii), on what basis?

(ix) Do charges discriminate between types of users?

(x) If 'YES' to (ix), on what basis?

(xi) Do charges allow for access and equity considerations (eg. waivers, discounts)?

(xii) If 'YES' to (xi), on what basis?

(xiii) Other (Please describe other significant features)

6.3 How are indirect costs allocated for cost recovery arrangements? (eg. activity based costing, according to share of direct costs or other rule.)

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6.4 Are there any price controls on these charges?

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6.5 How often is the level of charges changed?

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6.6 What happens if revenue recovered is greater than costs incurred?

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<p>End of Part II. Thank you for your cooperation. Please return the questionnaire and attachments to the Commission (see front sheet for instructions)</p>
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