

ABS Comments on the Draft Productivity Commission Report on Cost Recovery

General

The ABS was pleased to be able to participate in the recent workshop of Information Agencies which discussed the appropriateness of the guidelines included in the draft report, and appreciates the opportunity provided for further comment on the draft report.

2. ABS supports the Productivity Commission's aim of developing a good set of guidelines to better guide cost recovery arrangements for the future. There are clearly significant benefits in providing a transparent and consistent framework for consideration of issues relating to cost recovery. In particular, the increasing shift to and demand for electronic dissemination raises new issues. There are appreciable costs in the development and maintenance of infrastructure to support electronic services. Marginal costs may be lower until the level of demand is such that additional capacity is required. ABS needs to continue to develop cost recovery arrangements against this background and is looking for the final report from this Inquiry to provide some guidance as it moves into a pricing review later this year.

3. The draft report focuses on many relevant issues and tries to provide a logic to base cost recovery on in the future. However, as explained by the ABS and others at the recent workshop of Information Agencies (and reiterated in this submission), there are concerns about whether the guidelines in the draft report are workable. Several ABS staff tried to use the guidelines and obtained different answers - there is concern that you could use them to obtain the answer you want on whether activities are core or non-core.

4. The Australian Statistics Advisory Council (ASAC) was recently briefed by the ABS on the Cost Recovery Inquiry and Commissioner Sloan attended the session to outline the key findings and issues in the draft report. A draft of this submission was forwarded to a sub-group of ASAC members for comment. Not all members have been able to provide comment in time, however comments received have been considered in finalising the submission. Attachment 1. summarises the main comments made by ASAC that have not been incorporated in this submission.

Main ABS Issues With The Draft Report

5. In addition to vagueness of the definition of "core", the ABS has the following key concerns with the draft report:

- the inappropriateness of the report's recommendation that all core activities are to be provided free of charge;
- the lack of recognition that the report gives to the real costs of running and maintaining a Website; and
- the lack of recognition that a significant cut back in the ABS work program and service to the user community would result if ABS core activities were to be provided free, unless compensation was provided in its budget appropriations.

Not All Core Activities Should Be Provided For Free

6. The ABS does not agree with the report's recommendation that all core activities are to be provided for free.

7. A fundamental point is "what is core"? We believe all collection and dissemination activities undertaken by the ABS, with the possible exception of some consultancy activities, are core activities i.e. they are carried out in the interests of the national statistical service, relate directly with the ABS mission, and provide significant 'spillover' benefits. This is one of the key criteria we use when deciding whether to undertake work, particularly collection work.

8. ABS considers that cost recovery is appropriate for some core ABS activities for the following reasons.

- *Cost recovery encourages users to address their real needs for ABS data.* Charging provides a good mechanism for demand management, and relieves the general taxpayer of those elements of the cost of the statistical service which has a specific and identifiable value to specific users;
- *ABS uses market feedback to help ABS determine how its resources should be prioritised.* This is effected by using indicator information like market demand for ABS products and services provided through cost recovery.
- *Many significant core ABS activities would not have been able to be undertaken without user funding as ABS financial resources are finite.* Of the \$21.5m in revenue raised in 1999/2000, over \$9m was raised through user funded surveys, user funding provided for national statistical centres, statistical outposts and international consultancies (mostly funded by AUSAID). Furthermore some of the innovative ABS products e.g. CData and AusStats, would not have been produced without recovering their development and dissemination costs.

9. The critical issue for the ABS is determining which of its core activities should be undertaken at no charge to the user i.e. our Community Service Obligation (CSO), and which activities should be partially or fully cost recovered. The draft report does not provide any guidance in this regard. ABS believes that its current approach to determining CSO and its charging arrangements is about right, and notes that there was very little disagreement to this in the submissions. ABS also recognises the need for ongoing review of its pricing policy to more closely reflect the changing technological environment and the associated costs to be recovered.

10. ABS' CSO includes the collection and compilation of statistics as well as some dissemination activities. In the case of collection and compilation, this work is undertaken utilising Government appropriation to the ABS, supplemented at times by further funding from Government agencies. We ensure that most publications and electronic products and services are placed in public libraries free of charge, and have taken steps to expand the amount of summary information available on the ABS Website for free over recent years. ABS also works closely with the media to ensure the wide reporting of ABS statistics, and provides a free national inquiry service. ABS is presently looking to make all publications available electronically to interested libraries and to the media, which will further expand the availability of data presented in ABS publications to our traditional CSO channels. The speed at which this happens is dependent on the readiness of libraries and media organisations.

The Internet is a Key ABS Dissemination Channel

11. Provision of information via the Internet is a critical component of the ABS dissemination strategy, with a focus on ensuring that this medium provides a user friendly, flexible, high quality and comprehensive service. A recent review of ABS client servicing and dissemination activities has reaffirmed this and as a result ABS has

committed to moving as quickly as possible to provide the necessary infrastructure and processes for the improved provision of information on the Internet.

12. To meet its CSO, the ABS currently provides basic statistics, which include main findings (features), key economic indicators, socio-demographic statistics about Australia, and some key time series data at no charge on the Internet, and is committed to expanding the range of basic statistics available through this medium. For example, ABS plans to have Basic Community Profiles at the Statistical Local Area level available for the 2001 Census of Population and Housing. Additional products, including ABS publications and more detailed spreadsheets and data cubes, are available on the Internet as part of the charged ABS AusStats service.

13. ABS has consulted widely with its key clients and has closely examined the dissemination approaches used by overseas statistical organisations. ABS publishes statistical data in pdf, spreadsheet and "supertable" format, and it is clear from usage patterns and client feedback that these types of facilities are well regarded. To date, ABS has mainly concentrated on increasing the content of the Website, utilising the above formats. However, over the coming months, increased focus will be given to improving the useability of the site in the interests of not only making more data available but also improving accessibility for the very wide community of Internet users.

14. ABS is amongst leaders in the international statistical community in the use of the Internet for the dissemination of statistics. The ABS Website provides around 30,000 pages of free statistics and information about ABS statistics (meta data such as explanatory notes, classifications, etc). The site includes approximately 7,000 priced downloadable files (pdfs, spreadsheets and supertables), including all ABS publications published since 1998. Use of the ABS Website has increased greatly over the past five years, from average monthly accesses of about 14,000 in 1996 to 2,000,000 in 2001. Around 99% of accesses are to free material. 420 organisations currently subscribe to the charged ABS AusStats service, with approximately 230,000 files downloaded in the last year. In addition, around 75,000 files were downloaded from the ABS@ service - a derivative of the AusStats service purchased by a number of key clients for use on their internal networks. The ABS has managed to cover the costs involved in getting its Website to its current stage of development (approximately \$3 million a year not including authoring costs) within existing resources. However the Internet development strategy, both in terms of content and the speed at which ABS is able to pursue functionality enhancements, has been constrained by available resources.

Websites Do Not Come Free

15. There are significant establishment and on-going costs in providing Internet services. As noted in paragraph 13 above and based on experience internationally, the ABS believes that with no demand management mechanism like pricing in place, access to data on the Internet will grow unchecked and at a very high rate, leading to a significant increase in ABS operating costs. These costs include:

- increased hardware capacity, including server, Internet pipeline, fire wall costs etc. to meet the increased demand; and
- increased and improved technical help and data support services, including staffing and hardware costs, due to an increase in the total number of users.

16. The experience of international statistical agencies supports the ABS view. As a result of a change in Government policy, Statistics Denmark now provides access to a range of statistics on the Internet free of charge. This has resulted in an increase from 1,400 users in 2000 to 10,000 registered users as of January 2001. Statistics Denmark were provided with an increase in appropriation of \$3m per year to cover additional operational costs. Statistics Canada have estimated that their additional operating costs to make standard data available on the Internet free of charge would be approximately \$6m per year.

17. A preliminary estimate by the ABS suggests that additional operating costs associated with the provision of ABS publications free on the Internet is around \$4 to \$5m per year. This is consistent with the experience of Denmark and Canada, after taking into account the relative population sizes of the three countries. It is argued that there should be a significant reduction in dissemination costs through disseminating on the Internet. However, this will only occur when hard copy publication lines are not being produced and we are not at that stage yet.

18. There will be on-going costs to meet the continued requirement for printed outputs by those individuals and organisations which are not yet able, or willing, to rely on the Internet to access ABS information. Unless there was a large degree of subsidisation these costs would lead to a corresponding, and possibly significant, increase in the price of the remaining paper publications, thus raising issues of equity in the provision of data to those who are not currently Internet enabled.

Cut Back in the ABS Work Program and Services to the User Community to Fund Core Activities is Counter-productive

19. The additional costs of providing free access to Internet services is outlined above. There would also be significant additional costs associated with providing hard copy publications free of charge (if this was agreed on the basis of equity) as demand would increase substantially. In addition, there would be a loss of revenue associated with these services. Unless there is an increase in appropriation to the ABS, these additional costs and reductions in revenue can only be met by a reduction in service.

20. ABS could only implement the report's recommendation that all core activities be provided free with a significant cut back in the current ABS collection activities. For example, user funded collections and statistical analyses in such fields as Indigenous health, culture and leisure, crime, corrective services and courts, to name just a few, would not have been undertaken without user funding.

21. Clearly, there are public benefits in the greater use of statistical data. The ABS recognises that some may argue that the public benefit from wider dissemination of data from fewer collections may be seen to outweigh the loss from less data being collected. This is a balance decision that the ABS faces on an ongoing basis. In practice, the demand for new collection work is continuously heavy and to cut back on core user funded ABS collection and charged dissemination activities (where there is a clear willingness to pay) for the free provision of other core ABS activities seems undesirable and counter-productive. It will result in an overall diminution of the national statistical service. The ABS therefore disagrees with this recommendation. At a minimum the implications of such a recommendation on maintaining existing programs should be recognised.

ABS Comments on Selected Recommendations

6.4 - Cost recovery arrangements should not include the cost of activities undertaken for government, such as policy development, ministerial or parliamentary services or international obligations.

22. Although there is clarification of this issue on page 216, the recommendation on its own and Figure 9.2 are ambiguous. The recommendation could be interpreted as supporting taxpayer funded provision of statistics to Government Agencies where the statistics are subsequently used in the development of policy. However the ABS has interpreted the recommendation as proposing that the taxpayer should fund Agencies to undertake the policy development activity, but that the inputs required to provide this service, for example statistics, should be paid for by the Agency. This recommendation and Figure 9.2 needs to be clarified in this regard.

6.6 - The core activities of information Agencies (which may include some defined level of dissemination) should be wholly budget funded and not subject to cost recovery.

23. The ABS agrees with this in principle for its collection activities. In practice, however, ABS is likely to continue to require budget supplementation from other Government Agencies for collections that cannot be undertaken within ABS' ongoing appropriations. As such ABS will need to continue to cost recover such work.

24. For dissemination activities, the ABS considers it appropriate to have some cost recovery if there are private benefits, or where demand management is important.

25. The implications to the ABS work program and ABS services to the user community to provide core activities free of charge, but without alternative sources of funding, have been outlined earlier and are of significant concern to the ABS.

The Commission seeks further views on appropriate independent mechanisms for preparing or reviewing Cost Recovery Impact Statements (CRIS).

26. The ABS supports the development of a CRIS from time to time but suggests that the appropriate mechanisms be determined by the CEO of each Agency in consultation with the Productivity Commission. The ABS preferred approach is for the CRIS to be developed internally (with an external member on the review team), with reports provided to, for example ASAC, for an independent review of the process. The results could be made available through the Annual Report and elsewhere.

The Commission seeks further views on how to improve parliamentary scrutiny of cost recovery receipts.

27. Annual Reports, using a consistent framework, seem to be the appropriate vehicle to provide the required information. The ABS currently reports revenue from cost recovery separately and by broad product group in the ABS Annual Report.

The Commission seeks further views on the establishment of Efficiency Audit Committee to address the efficiency of cost recovery Agencies.

28. The appropriate mechanisms already exist, for example the Australian National Audit Office can undertake efficiency audits. Furthermore, all Commonwealth agencies are subject to an output price review by the Department of Finance and Administration. An output price review for the ABS is scheduled for 2002.

The Commission seeks further views on the effect of cost recovery (as distinct from the effect of Government regulation or normal market factors) on firms (including small business) and consumers, particularly in relation to:

*the introduction of new and innovative products; and
adoption of new technology.*

29. Cost recovery of taxpayer funded information could have a detrimental effect on businesses and certainly on consumers, if there is no alternative but to pay. Therefore, it is important to ensure that basic government information meets sensible access and equity provision, i.e. the information is not only affordable but is able to be accessed easily by all Australians. With respect to ABS information, where a business or consumer cannot or does not want to pay they, and all other consumers, are able to access basic data without payment through libraries participating in the ABS Library Extension Program, by calling the free ABS inquiry service or by accessing data on the ABS Website. In most cases, these sources will provide the information required. Most Australians find out about

official statistics through the media. The ABS puts considerable effort into servicing media needs in the interests of publicising official statistics.

The commission seeks further views on the usefulness of the guidelines contained on the draft report as a framework for deciding whether or not cost recovery should be introduced and for identifying the best approach to recovering costs. Also, it would be helpful if Agencies could advise the Commission on how well the guidelines apply to their own circumstances and the impact their application would have on revenue raising.

30. As noted above, the main ABS concern is that core activities should not necessarily be provided free of charge. Other general observations are provided below:

- terms used in the guidelines (e.g. core data, core activities, core services) are confusing;
- there is no reference in the guidelines to important concepts such as CSO, demand management and private benefit;
- the ABS supports the integration of the guidelines with related processes (e.g. Cost Recovery Impact Statement, application of competitive neutrality); and
- the ABS recommends that a separate set of guidelines be developed specifically for use by Information Agencies.

The Commission considers that these guidelines will need to address a number of specific issues that are common in designing cost recovery arrangements across information Agencies. Therefore it seeks further views on these common problems and how they should be addressed. Possible areas include:

- *charging for information services where the level of future demand for that service is unclear; and*
- *whether Agencies should charge different users different prices to access the same information.*

31. In addition to the two areas mentioned above, some additional, more operational problems, have been listed below:

- the development of policy and procedures to support charging to meet the requirements of new and different technology products;
- technical infrastructure to be developed and maintained to support charging and management information requirements;
- ensuring consistent application of pricing policy across different sites;
- quoting, for example, accurately estimating labour costs prior to undertaking an activity;
- identifying and measuring overheads such as training etc.;
- ensuring that charges are based on efficient practice; and
- difficulties determining how shared costs should be attributed across a range of activities.

32. The ABS has addressed these difficult issues in a number of ways including:

- commitment of dedicated and ongoing staff resource to develop, monitor and review cost recovery policy, processes and procedures;
- development and documentation of clear dissemination and pricing policy;
- developing comprehensive pricing manuals and on-line assistance;
- provision of training;
- implementation of best practice; and
- ongoing review of costs.

33. The issue of charging for services where the level of demand is unclear has become increasingly significant in respect of electronic services. ABS sees no straight

forward answer to this but rather accepts that it has to make the best possible estimate of demand at a particular point in time and then monitor usage over time and adjust prices accordingly.

34. ABS does not engage in differential pricing. Once a price has been determined for a particular product or service, that price is charged to all clients (with the exception of CSO "clients"). ABS does provide discounts for bulk purchases and where sector wide arrangements can be negotiated alleviating the need for the ABS to interact with a large number of clients and hence reducing the costs associated with this interaction.

The Commission seeks further views on the key issues likely to emerge during implementation of the guidelines.

35. The ABS does not believe it could use the guidelines in their current form in determining its charging policy.

Australian Bureau of Statistics

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Attachment 1 : Views of the Australian Statistics Advisory Council

The majority of ASAC members would prefer that most ABS statistics are available free through the Website. There is recognition that this would have some implications on the ABS budget and therefore the extent to which it can continue to fund current activities. To quote one member:

"It is not obvious to me that if the ABS lost the revenue from its sales associated with its core activities, than 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."

2. However assessments like these made above have not been made without knowing the extent to which ABS activities might be affected. The preference of most ASAC members would be increased public funding to support the free access to ABS data on the Internet, and to extend the data that is available. The argument would be that the extra public availability of statistical information would be in the public interest.

3. The majority of ASAC members would also support core collection activities being funded by budget appropriations. However, user funding is seen as an appropriate response if budget appropriations are not sufficient to undertake all desirable collection activity.

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