

Response to Productivity Commission Questions

Cost Recovery Inquiry

Questionnaire-type queries

- 1) **The difference between the total revenue from CR in part I and the sum of the CR from the charges discussed in part II is approx 10 per cent of the total revenue from CR in part I. Only three charges are discussed in part II — the ACLC, SMC and administrative component of the apparatus fees and charges.**
 - a) **What is the reason for the difference between the two amounts of revenue raised through CR?**
 - b) **Has there been an omission of another charge that raises a large amount of revenue?**
 - ACLC, SMC and the administrative component of the apparatus fees and charges make up approximately 90% of the ACA's total cost recovery revenue (including departmental and administered revenue). The remaining 10% comprises other miscellaneous administrative charges. Some qualitative information on these miscellaneous charges was provided in Attachment A ("Summary of ACA Charges/Receipts") of the ACA's submission to the Commission in November 2000.
 - Appendix A outlines the revenue collected for these miscellaneous charges.
- 2) **The questionnaire states that the charges attempt to recover 100 per cent of their associated costs, but only about 50 per CR is achieved across the ACA as a whole.**
 - a) **What is the reason for this difference?**
 - b) **Which ACA activities aim for no or partial CR, to get only 50 per cent CR across the agency?**
 - c) **Are there any internal or external documents that expand on this thinking?**

The ACA does not agree that only 50 percent of its costs are recovered. Calculations attached in Appendix A ("ACA Recovery Calculations – 1999/00 Revenue") indicate that the ACA recovered approximately 90% of its 1998/99 costs (and relevant radio/telecommunications costs for other external organisations) through revenue received in 1999/00. Please see detailed calculations in Appendix A.

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Reasons why the ACA did not recover 100% of costs include:

- Timing of amendments to charges. Apart from an adjustment for GST in June 2000, charges were previously reviewed and amended in April 1999. These charges were based on costs and activity data for 1997-98. A review of fees and charges based upon 1999-00 costs and activity data is currently in progress.
- ACA deliberately under recovers due to exempt/concessional radiocommunications licensing.
 - As outlined in Attachment A (“Summary of ACA Charges/Receipts”) of the ACA’s submission to the Commission in November 2000, the ACA provides radiocommunications licence fee exemptions, concessions and discounts to certain licensees. For example, licence fee exemptions apply to diplomatic and consular missions; organisations providing surf life saving or remote area ambulance services; and certain bodies providing emergency services or services for the safe-guarding of human life.
 - Approximately \$2.4 million in revenue (in relation to Apparatus licence Administrative and Spectrum Maintenance Components) was foregone due to exempt licensing for the 1997-98 financial year. The estimates for 1999-00 have yet to be calculated. They will be available following the completion of the 1999/00 review of fees of charges.
- Pricing accuracy of charges;
- Volume of business outputs (eg number of licences issued) etc.

3) In 1999-2000, the questionnaire states that the ACA incurred 63,000 in expenses in carrying out its administered functions but that it received no government appropriations to be able to do so. How were these activities funded?

- The \$63,000 represents bad debt expense for 1999-2000. The amount is composed of write offs of administered revenue as well as a provision for doubtful accounts. No funding was required for this expense since it is a direct offset to revenue and not a cash outlay.

4) The agency figures in the questionnaire response match the ACA operating statement in its annual report 1999-2000. Where are the administered figures taken from? How is it possible to reconcile them to the figures in the annual report?

- ACA’s 1999/00 administered revenue was recorded in the 1999-00 financial statements of Department of Communications, Information Technology and the Arts (DCITA), not the ACA’s 1999-00 financial statements. I have attached a copy of ACA’s 1999/00 financial statement working papers for administered revenue and expenses. Should you require further information, DCITA should be able to assist.

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- 5) **The questionnaire states that CR for regulation of the telecommunications industry was explicitly introduced in the Telecommunications Act 1991.**
- a) **Can I have a copy of this Act and any internal or external documents that explain the thinking at that time?**
 - b) **Is there any real difference between the content of Telecommunications Act 1991 and Telecommunications Act 1997 with respect to CR?**

The only significant difference between the 1991 Act and the 1997 Act in relation to cost recovery was the change in the basis for determining the annual carrier licence charge, the USO levy and the NRS levy. In the 1991 Act the calculation was based on timed minutes of traffic whereas the 1997 Act stipulates that the method of calculation is to be eligible telecommunications revenue earned by the carrier.

Documents related to the thinking behind these changes are held by the Department of Communications, Information Technology and the Arts.

- 6) **The questionnaire talks about a public inquiry, on instructions from the Minister in December 1993, that resulted in the introduction of the current CR system for ACA radiocommunications activities.**
- a) **Can I have a copy of the document that was the outcome of this inquiry?**

A copy of the Spectrum Management Agency report - "**Inquiry into the Apparatus Licence System — A New Outlook**" (February 1995) is attached. Also attached is the earlier SMA public discussion paper published in December 1993, which formed part of the review.

- b) **What is the strength between this inquiry and the re-reading of the Radiocommunications Act 1992 in April 1994? Did one lead to the other?**

We presume that by "re-reading of the Radiocommunications Act 1992 in April 1994, the Productivity Commission is referring to amendments to the Act made at that time. There is no connection between the review (which in any event did not report until after April 1994) and the 1994 amendments to the Act (which were of a minor, technical nature).

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- 7) **Appendix A of the ACA questionnaire says that the allocation charge is determined ‘by reference to a price-based system’.**
- a) **Can some more information be provided on this? Which specific type of price-based system is used — tender process or auction?**

Currently no allocation charges are being made. The ACA is investigating the basis on which such a charge could be made.

- 8) **Additionally,**
- a) **How does the ACA treat the funds from the ACLC that are related to costs incurred by the ACCC? Are they returned to the CRF as well or do they go to the ACCC?**

All revenue collected from Annual Carrier Licence Charges (ACLC) is treated as administered revenue. Upon receipt, this revenue is transferred to the Consolidated Revenue Fund (CRF). The proportion of this revenue that is attributable to the telecommunication costs of other agencies, such as ACCC, is not returned to these agencies.

- b) **Is the Tax Office going to take over the collection of some of the ACA charges?**

The Government has signalled its intention to transfer the responsibility for determining a carrier’s eligible revenue to the ATO. In the event that carriage service providers (CSPs) are incorporated into the USO levy scheme the ATO would also assess CSP eligible revenue. Eligible revenue is then used to determine a carrier’s ACLC and its contribution to the USO levy and the NRS levy. The Government has indicated its intention that the ATO collect the USO levy, but there has been no indication that arrangements for the collection of the ACLC or the NRS levy are to be changed.

Submission-type queries

- 9) The case study requires comment on the effect of innovation and technology on CR.
- a) What has been the effect of innovation and technology on cost recovery, both in terms of ACA activities and that of its users? Does CR stall innovation of users' technology (for example with apparatus licensing) or inhibit the development of new ACA services or methods of charging? Has technology made ACA charging more efficient, for example, what use has been made of automated billing over the Internet? How much was CR a consideration when the spectrum access system was being developed?

Radiocommunications

- In relation to ACA activities, the ACA is committed in its Corporate Plan to facilitating efficient access to, and use of, the radiofrequency spectrum. In carrying out this role, the ACA seeks to minimise costs to users of accessing the spectrum wherever possible. 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.
- More specifically, the ACA has implemented new systems (notably B-Pay and locked bag arrangements for licence payments) which have had the effect of reducing ACA costs and hence cost recovery charges over time. We expect the impact of these changes (and other planned changes such as electronic processing of licensing applications) will lead to continuing reductions in cost recovery charges over coming years.
- The ACA is not aware of any evidence that cost recovery charges "stall innovation of users' technology" in the radiocommunications field. Cost recovery charges are usually very small, particularly when compared to the cost of buying and operating radiocommunications equipment, and are thus unlikely to act as a significant impediment.
- Nor has cost recovery impeded the development of new ACA services, methods of charging or efficient service delivery. An example is the development of a scheme whereby the ACA accredits external persons to undertake frequency assignment work (in effect in competition with the ACA's own frequency assignment services). In this case, the ACA applies a reduced cost recovery charge where the frequency assignment has been made by an accredited assigner. External assigners are currently undertaking more than half of total assignments (even though the scheme has only been in operation for a period of about 4 years), indicating that cost recovery charges has not impeded the development of this new industry.

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- Cost recovery was a very significant consideration when the spectrum access system was being developed, as can be seen from the fact that cost recovery elements of licence fees are now separately identified and measured.

Telecommunications

- The application charge related to numbering is set at \$348.70 and is considered to have no impact on take-up of innovative technologies by users. The level of charge was reviewed two years ago and it has been reduced slightly to take account of the Government's taxation reforms. The ACA has included on-line capability for applying for numbers in its Government Online Action Plan. However, no assessment has been made as yet of any implications for the level of charge associated with this development.
- The level of ACLC could be regarded as a barrier to entry for smaller potential carriers. However, the 1997 Act substantially lowered the minimum ACLC to \$10,000, which substantially addresses the problem. Additionally the facility for small players to use nominated carrier declarations for a relatively low once-only application charge of \$3,411.10 has the effect of both removing such barriers and enabling small carriers to avoid annual costs related to the ACLC and the USO and NRS levies.
- The amount of a carrier's USO levy also has a potential to act as a barrier to entry. Because of the potential size of the levy payment it may also have an impact on investment planning and cash flow management. The calculation of the USO levy is based on long run incremental costing principles using forward looking technology. In this way the level of the USO levy is minimised from year to year. The Government's intention to determine USO levies in advance for up to three years should help industry manage the impact of this levy on investment planning and cash flow management.
- It should be noted that as of October 2000, the ACA has received no revenue related to cabler licences. The cabler licensing regime has been replaced by an industry registration scheme and registration fees are collected by the industry.
- In 1999 equipment testing charges doubled as the result of a review of cost structures. Since the increase in charges there has been a significant decline in usage. Nevertheless, it should be noted that the automation of many of the testing procedures has resulted in lower costs than would otherwise be the case. The ACA understands that small volume equipment manufacturers consider the testing charges to be a disincentive to innovation.

10) The case study requires comment on the stability of the admin arrangements of CR.

- a) Can the ACA provide an indication of how frequently its charges have been changed and/or provide the relevant policy documents?**

The ACA conducts a major review of its fees and charges every two years. The review adopts a comprehensive activity based costing methodology to ensure that the costings that underpin pricing decisions are as accurate as reasonably possible.

More regular reviews may be conducted where there are significant changes in costs during a period. For example, charges were amended in July 2000 to reflect the impact of indirect cost savings and GST.

11) The case study requires information on the extent to which agencies consult with their users in setting their user charges.

- a) What arrangements does the ACA have to consult with interested parties about its charges, formal or informal?**

With respect to radiocommunications charges, the ACA undertook a public consultation process before the system of fees and charges was introduced. It has consulted about subsequent changes to those fees and charges through the Radiocommunications Consultative Council (an advisory committee to the ACA representing spectrum users). This has usually involved the formation of a working group of the RCC to advise on changes.

The telecommunications charges determined on the basis of CR have not been subject to consultation because the charges are considered the lowest possible to achieve CR.

12) The case study requires information on governance arrangements for CR activities.

a) Who oversees/governs the process by which the ACA sets its charges?

ACA's charging process is overseen by external costing consultants, ACA's Cost Recovery Committee, and the Authority.

The ACA has adopted an Activity Based Costing (ABC) methodology to ensure that the calculation of its costs, which underpin ACA's charges, are as accurate as reasonably possible. An external consulting firm provides:

- advice on the development and implementation of an appropriate costing methodology;
- quality assurance that:
 - the methodology used in the review was soundly based using an activity based costing methodology;
 - the methodology should result in an equitable allocation of costs to activities performed by the ACA; and
 - the calculation of the ACA's activity and output costs was based on the Net Cost of Services shown in the ACA's audited financial statements for the latest financial year.

ACA's Cost Recovery Committee is responsible for:

- ensuring that appropriate costing methodologies are used for calculating the costs of ACA's activities;
- examining the measurement of costs and setting of cost recovery based charges;
- confirming the calculation of costs and charges satisfies relevant legislative provisions; and
- making recommendations to the Authority on the determination of charges.

Cost Recovery Committee members are not directly involved in the calculation of ACA costs and charges, but are responsible for overseeing the process and making recommendations to the Authority.

Finally, the Authority reviews proposed amendments to ACA fees and charges. The Authority is ultimately responsible for final approval and determination of all ACA fees and charges.

13) The case study requires comment on the impact of CR and any changes it has brought about.

a) How has CR altered the way that the ACA performs its activities? Has the ACA noted any access/equity or regional/international competitiveness issues with regard to the provision of its services?

- Cost recovery has led to significant improvements in the spectrum management operations of the ACA, as regular cost recovery reviews have had the effect of casting a "spotlight" on ACA business practices. This regular review leads to pressures to improve the efficiency of these practices and hence reduce the level of charges passed on to spectrum users.
- The ACA does not believe there are significant access and equity or regional competitiveness issues associated with the radiocommunications cost recovery regime. There is provision for exemption from radiocommunications fees and charges for volunteer safety of life organisations.
- Small regional carriers may find the costs of being a carrier (ACLC, USO and NRS levies) to be a disincentive to applying for a licence and certainly these costs will affect their bottom lines and therefore market values. However, as mentioned above, many small players are using the nominated carrier licence arrangements to avoid these costs.
- Higher equipment testing charges may possibly be a barrier to niche equipment manufacturers, leading to lack of competitiveness, if the costs associated with having equipment approved for connection to carrier networks are considered too high to warrant development.

14) The case study requires comment on incidence of CR.

- a) How much does the ACA think that the radiocommunications and telecommunications are able to pass on the costs of ACA charges?**

The extent to which industries may be able to pass on government charges will depend on a number of factors such as the degree of competition in the market and whether affected firms are in the internationally trading sectors of the economy.

As the ACA has about 200,000 radiocommunications licences on issue, it is very difficult to generalise about the extent to which cost recovery charges can be passed on. However, it is worth noting that the ACA seeks to encourage competition through its spectrum allocation processes.

Where Telecommunications charges are concerned the expectation is that these costs are 100% recovered through carrier charges to their customers.

15) Finally (and unlikely?)

- a) Does the ACA have any comments to make on the charges that use industry funding to finance what is essentially government policy, for example the USO and NRS levies and grants for research and consumer representation in the ACLC?**

The USO and NRS levies and grants for research into the health effects of electromagnetic radiation funded through a levy on radiocommunications licence fees are a matter for government policy, as is the requirement for consumer participation. The ACA has no comment on this.

From time to time the industry has been asked to fund ACA managed education campaigns in the telecommunications sector, eg the analogue closure campaign and more recently, a campaign covering the introduction of new number prefixes to metropolitan areas. Generally the carriers have welcomed ACA management of these campaigns.