

PRODUCTIVITY COMMISSION
REVIEW OF
COST RECOVERY ARRANGEMENTS BY COMMONWEALTH GOVERNMENT
REGULATORY, ADMINISTRATIVE AND INFORMATION AGENCIES
SUBMISSION IN RESPONSE TO THE DRAFT REPORT
DIRECTOR OF METEOROLOGY
(June 2001)

INTRODUCTION

The Bureau of Meteorology provided a written submission to the Productivity Commission Inquiry into Cost Recovery on 20 November 2000 and appeared before the Commission in the public hearings in Canberra on 27 November 2000.

2. In April 2001, the Commission released its Draft Report addressing the cost recovery arrangements by Commonwealth Government regulatory, administrative and information agencies.
3. The purpose of this submission is to address the requests for additional information, as identified in the Draft Report, from the perspective of the Bureau.
4. Overall, the Bureau supports the general thrust of the Draft Report and the Draft Guidelines and believes they are appropriate for government information agencies.

INFORMATION REQUESTS

5. The Overview of the Draft Report has identified a number of Information Requests associated with the findings and recommendations of the Productivity Commission. Where relevant and possible, the Bureau has responded to these requests (repeated in the text boxes).

Chapter 3 Legal and fiscal framework

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

6. The Bureau urges that the requirement for Cost Recovery Impact Statements (CRISs) on existing individual products and services be implemented in a way that does not place an excessive administrative load on information organisations that provide a large number of products and services. It is therefore recommended that, for existing products and services, CRISs be required for broad categories of products or services only and that the role of the CRIS be more formally established for future revisions and/or expansions of products and services.

7. The Bureau believes that the responsibility for the preparation of the CRIS should remain with the agency that provides the product or service and it could be expected that the statements would be referred to in agency annual reports. An independent mechanism for the review/endorsement of the CRIS could be implemented, but it should be as simple as possible so as not to introduce serious time delays into the process.

8. The Bureau of Meteorology is expecting to establish an Advisory Board to provide strategic advice to the Minister/Parliamentary Secretary with responsibility for the Bureau of Meteorology and the Director of Meteorology on matters relating to the discharge of the functions specified in Section 6 of the *Meteorology Act 1955*. This will include reviewing the provision of services by the Bureau in the categories of free, cost recovered and commercial. In the case of the Bureau, its Advisory Board could be asked to provide a mechanism for the review and endorsement of CRISs. This review could be undertaken through a range of mechanisms, from the establishment of a specific sub-committee for this task, to the review of CRISs at the Board level.

Chapter 5 Effects of cost recovery on agencies

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

9. Noting that the thrust of this recommendation is aimed at regulatory agencies, the Bureau would support increased oversight of cost recovery revenue (both Section 31 and consolidated revenue) arrangements through more transparent reporting of cost recovery receipts for information agencies as part of the Budget process. Also, it may be appropriate for the Bureau's Advisory Board to monitor Section 31 arrangements in the Bureau as part of its function of review of the allocation of resources within the Bureau. It is proposed that the Board would report to the Minister and Parliamentary Secretary with responsibility for the Bureau on an annual basis. The ensuing information will be included in the Bureau's Annual Report which is tabled in the Parliament.

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

10. The Bureau agrees that the review of the efficiency of cost recovery activities in cost recovery agencies would be a valuable exercise. However, there are several possible mechanisms for an audit of these processes without the establishment of a formal Committee which would add to the administrative load on already heavily committed agencies. The Bureau would propose, therefore, that an audit of the efficiency of cost recovery activities be undertaken as part of its regular rolling program of internal audits (possibly on a rolling 5 year basis).

Chapter 6 Economic Effects

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.*

11. This request for information is not directed towards the Bureau. However, the Bureau will continue to seek the views of users of its products and services in relation to the impact of its cost recovery activities on them. The Bureau proposes to undertake an internal review of its procedures for communicating and implementing its policies for the delineation of free, cost recovered and commercial services. When the Government's decisions in relation to the Productivity Commission Inquiry into Cost Recovery are available, the Bureau will review its charging policy and establish a program to communicate the outcome to its clients and to all staff involved in service provision. Where feasible and allowable within the Guidelines, the Bureau would support private industry in the introduction of valued added products based on the Bureau's basic information.

12. The Bureau strongly supports recommendation 6.6, which states that 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. In the Bureau's case, this represents the Basic Product Set and the Basic Service required to support the Basic Product Set. The Basic Product Set is made available free-of-charge to the public only through the mass media and the Internet, and to not-for-profit emergency services. Other access to the Basic Service is available at "cost of access". The Internet provides a cost-effective way of disseminating information that has wide community usage and benefits. However, while useful, 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.

Chapter 9 Guidelines for cost recovery

The Commission seeks further views on the usefulness of the guidelines contained in this 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.

13. The Bureau supports the development of a government endorsed set of guidelines for application to cost recovery activities of government agencies along the lines provided in the Productivity Commission draft report. Such Guidelines are needed to ensure that there is a consistent and repeatable methodology for the determination of services and products to which cost recovery should apply and to the charges that are applied to these services and products. The Guidelines would also assist agencies that currently do not undertake cost recovery activities, but may be required to do so in the future.

14. The Bureau notes that there is need for a logical basis, firmly rooted in sound public policy principles, for any guidelines, so that agencies have appropriate guidance in applying these in new and novel situations. There should be an education program to ensure wide understanding of the underpinning rationale for the guidelines.

15. The most significant issue facing the introduction of a set of Guidelines will be the desire by agencies that are currently applying cost recovery arrangements to ensure that their methodologies are consistent with the Guidelines (and visa versa). Some agencies will be concerned that the application of the Guidelines may impact on their current levels of cost recovery. This, however, is not sufficient justification for modifying the Draft Guidelines if revenue generation per se is not seen as the objective of cost recovery activities (a perspective which the Bureau strongly supports).

16. After examining the Draft Guidelines, the Bureau would like to comment on the following issues (not covered by the following requests for additional information):

- Definition/terminology of 'core' and 'non-core' services
- Usefulness of flowcharts
- Intergovernmental charging/ transfers
- Impact of guidelines on the Bureau (e.g.funding)
- Completeness of the guidelines

Definition/terminology of 'core' and 'non-core' services

17. The Bureau shares to some extent the concern of the other agencies in respect of the terms 'core' and 'non-core' in that they suggest that the activities undertaken as 'non-core' are not "essential to meeting its charter or policy directives". This is not always the case. In the Bureau for example, it is not always the activity that is the subject of the cost recovery, but the delivery mechanism. That is, the service or product is a 'core' activity, but for a slight cost (recovered from the user) the service or product can be made accessible to more specialised users in a format more convenient to them.

18. The Bureau has identified four broad categories of charging for its services, namely:
- (a) a basic product set (provided free through the mass media and the Internet);
 - (b) services at cost of access (charges relate to cost of access, not the services themselves);
 - (c) cost recovery (incremental) (services such as those to aviation and defence); and
 - (d) commercial services (individually identifiable special users).

19. The Bureau regards all of the services (a) to (c) as 'core'. However, it would see the (a) category as those 'core' services funded by government appropriation, (b) and (c) as 'core' services funded by cost-recovery and category (d) services as 'non-core'. In particular,

the provision of services to aviation and defence which fall under category (c) are identified as statutory functions of the Bureau under the *Meteorology Act 1955*. It is important in this regard to distinguish between cost recovery revenue which is returned to the agency through Section 31 arrangements and that which goes directly to government through consolidated revenue.

Usefulness of flowcharts

20. The Bureau believes that the flow charts provided in the Draft Guidelines are a valuable first step in the categorisation of products and services. However, once categorised, the Bureau believes that it would be valuable to have a further set of “Charging Principles”, consistent with the underpinning rationale for the guidelines, which could be used by an agency to further define the charge made to a particular user of the product or service. For example, the provision of a piece of information may, using the flowchart, result in that information falling into the cost recovery arena. However, the information may be being used by a research organisation for a study that has potential flow-on benefits to the science of meteorology (including especially climatology). In this case, it would be an advantage to have a principle that enables the waiver or reduction of the charge on that basis.

21. Similarly, while a set of products or services may fall into the cost recovery arena, the cost of maintaining a system to recover those costs may be in excess of the cost that will be recovered. Therefore a principle that cost recovery will not apply to services or products of less than a minimum amount may be cost effective. To some extent this is addressed by the last question in the decision tree (Figure 9.5), however additional advice on how to account for issues such as, the hidden costs in the preparation of invoices, collecting monies and financial accounting, the cost of cost recovery systems on the Internet and the cost of recovering bad debts, would be of value to agencies implementing the Guidelines.

Intergovernmental charging/ transfers

22. At this stage, the Guidelines do not differentiate between cost recovery arrangements between government agencies and those between the government agency and the public and private sectors. The Bureau believes that in certain circumstances intergovernmental arrangements must be viewed as “different” and thus that the Guidelines should provide some advice on how best to handle these arrangements. It should be noted that some government agencies would like the relationships between government agencies to be similar to those of a commercial market. Other government agencies would prefer government agency to government agency transactions to be cost recoverable (albeit, minimum cost of provision) or, if related to activities undertaken in their common interest, free. One advantage to government of the latter approach is a reduced administrative overhead. The Bureau supports the latter approach.

23. The Bureau’s Charging Principle in this regard is as follows:
“Services to other Government agencies may be charged for at incremental cost or, when provided as part of the joint fulfillment of shared missions in the public interest, may be subject to reduced charging at the discretion of the Director of Meteorology”

Impact of guidelines on the Bureau (e.g.funding)

24. Once issues such as definitions of ‘core’ versus ‘non-core’ services and products and the application of the CRISs have been addressed, the Bureau believes that it will be able to apply the Draft Guidelines.

Completeness of the Guidelines

25. The Bureau recognises that the Commission considers that the Draft Guidelines are general in nature and that additional more detailed information will be forthcoming once government has endorsed the general thrust of the cost recovery guidelines. However, the Bureau believes that the Draft Guidelines could go further in recommending that agencies develop a set of Charging Principles for application to the charges applied to cost recovery services and products, and to apply these once the price of these services and products have been determined. These principles may also assist agencies in addressing the grey area that continues to exist between the ‘core’ and ‘non-core’ services and products.

26. With respect to Figure 9.5, Provision of Goods and Services, perhaps the first questions could be altered to:

- Is there broad community usage of this product or service?
If yes – taxpayer funded.
If no – then:
- Are there significant spillover benefits?
If yes – this is still a core service, but if excludability is possible, it is provided on a cost recovery (incremental cost) basis.
If no – then follow the right hand branch of the decision tree.

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

- *how to deal with cost recovery in agencies with a high proportion of capital and overhead costs;*
- *the use of minimum and maximum levies and the application of formulae to decide on individual charges within that band;*
- *establishing cost recovery arrangements for new organisations where the start-up costs are high and the regulated industry is small; and*
- *the timing of cost recovery payments, particularly in the case of new product approvals, where the product is still to be marketed.*

27. This request for information relates to regulatory agencies and thus is not addressed in this submission.

The Commission considers that these guidelines will need to address a number of the 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 to consider include:

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

Uncertain Level of Future Demand

28. The Bureau has considered this issue in regard to possible future secondary provision (through private sector agencies) of meteorological (including climatological) information. How many private agencies could the Bureau expect to set up such secondary provision services and how many would the market support into the future. These are difficult questions to answer and the resulting charging regime could significantly impact on the viability of the Bureau continuing to support the private agencies and/or the viability of the private groups themselves within the market place. The prediction of the market for goods and services (especially those above a basic, free service) is a difficult exercise.

29. In this instance, the Bureau believes that it would be unwise for it to enter into any such arrangements until the private sector agencies have reached a mature status, such that their viability was not dependent on the new arrangements. That is, they were relatively self-sufficient within the market place. In that case, a more realistic/better estimate of future demand may be possible.

30. However, this approach is obviously not always possible and therefore, it is essential that, where a changing level of future demand is possible, agencies allow for the review of cost recovery arrangements within their Charging Principles. All relevant parties should be forewarned that charges would be subject to future review especially when future demand is unclear.

Differential charging – across customers, across delivery methods

31. The Bureau believes that charges should generally reflect the incremental cost of provision. However, it also recognises that there should be some flexibility available to an agency for it to either reduce or waive the charges for cost recovery services or products in some specific circumstances. Such circumstances may be in terms of an activity that may lead to improvements in services that are of the nature of public goods, or alternatively an activity, which could be seen as a joint mission between agencies. However, the Bureau firmly believes that such “arrangements” need to be open and accountable and does not believe that differential charging should be used to apply a profit margin to reflect the client’s ability to pay. Further guidelines to assist in the management of the “arrangements” would also be required. There is also potential for the effort associated with the administration of a differential charging regime to become significant.

32. With respect to differential charging across delivery mechanisms, the Bureau, through its current cost recovery mechanism, does have different access costs for the same product. These range from free via the Internet, to delivery costs such as pay for call telephone services, direct computer to computer access, postage, etc. Charges based on the incremental cost of delivery reflect the different costs of different media. The Bureau is currently reviewing its access charges to ensure cost savings from new technology can be passed onto users. In time, we would expect this to encourage users to migrate to the more cost effective means of delivery. This could, over time, affect the Bureau's revenue generation.

Chapter 10 Implementation

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

33. The Bureau believes that the most important issue to be addressed by the Draft Guidelines is for them to provide a transparent process for presentation to the public and private sectors at large. In this regard, the underlying philosophy should be easily interpreted by both providers and users of services and products. The guidelines must ensure that agencies have a reproducible and accountable process in place after they have been applied.

CONCLUSION

34. The Bureau would be pleased to expand on the above comments and any other aspects of service provision by government agencies of relevance to the review.