

Mr Paul Belin

Paul

At the conclusion Productivity Commission hearing on Friday 15 June, I expressed my concern that the sections on overheads in the Draft Report may be confusing. I agreed to provide my comments to the Commissioners.

Overheads (or related information) are mentioned in the following sections (amongst others):

(a) Page 200, Paragraph 5

"mechanisms need to be in place to ensure that the cost recovery agency bases its cost estimates on efficient, rather than actual costs (see Section 9.5). If capital costs are to be included in charges, appropriate methods for calculating capital costs are needed and methods established to allocate capital costs and overheads."

(b) Page 220, Paragraphs 6-7, Page 221, Paragraphs 1-2

As costs of meeting parliamentary and governmental requirements and policy development should not be included in the charges, they cannot be a component of the overhead applied to the cost.

(c) Page 227, Paragraphs 2-5

Information agencies "should calculate the stand alone cost of providing its core services and only charge for the additional costs of providing incremental services. These costs would include few overheads or capital costs, except when they can be attributed directly to the incremental service."

This section goes on to say that agencies like ABARE, however, need to consider overheads and capital costs in pricing the incremental services.

(d) Page 229, Paragraph 2-4

"Only direct costs will be relevant to some cost recovered activities, such as the incremental services provided by information agencies, where charges are usually expected to exclude indirect capital and overheads."

Comments

My confusion stems for the use of terms like "direct costs" and "indirect capital and overheads". Is it correct to assume that direct costs includes the incremental cost of provision, plus the direct overhead and capital related to that provision. Indirect overheads and

capital should not be included.

Also, there seems little real justification to discriminate between high percentage cost recovery agencies and other agencies if the recommendation is that direct overheads are applied to the costs.

The cost definitions on Page H3 don't help as they refer to Direct costs (directly and unequivocally be attributed to an activity) and Indirect costs (referred to as overheads).

Regards
Bruce Stewart

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Bruce Stewart
Bureau of Meteorology
GPO Box 1289k
Melbourne Victoria 3001
AUSTRALIA
Phone: 03 9669 4739 International: 61 3 9669 4739
Fax: 03 9669 4725 International: 61 3 9669 4725
Internet: b.stewart@BoM.GOV.AU
Mobile: 0419 305 409 International: 61 4 1930 5409
