



*Department of the Environment and Heritage*

**ENVIRONMENT AUSTRALIA SUBMISSION  
TO THE PRODUCTIVITY COMMISSION  
INQUIRY INTO  
THE COST RECOVERY ARRANGEMENTS  
OF COMMONWEALTH AGENCIES**

**December 2000**

## **INTRODUCTION**

This submission sets out Environment Australia's suggested approach to cost recovery in Commonwealth agencies based on the inquiry's terms of reference (Attachment A).

The submission is divided into three main sections. It begins by focusing on the rationale for cost recovery and instances where its use may be appropriate in the provision of goods and services in Commonwealth agencies. The second section briefly outlines experience with cost recovery, and the costing of services more generally, within the Department of Environment and Heritage. The submission concludes by discussing the major pricing and costing reviews which are currently being undertaken within the department.

### **RATIONALE FOR COST RECOVERY**

The rationale for applying cost recovery principles to the provision of a good or service by a Commonwealth agency can vary between specific instances and includes the potential for cost recovery to improve economic efficiency and equity in the distribution of costs. These potential benefits are discussed below.

#### **Economic Efficiency**

Cost recovery is capable of improving economic efficiency through its impact on cost-effectiveness, price signals, and product quality.

- Private beneficiaries of a good or service who are contributing to the costs of provision are likely to demand a transparent and thorough process which demonstrates quality and cost effectiveness.
- 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.
- Cost recovery may be used to restrict consumption of government services to economically efficient levels.
  - An efficient price will restrict consumption to situations where the benefit of consumption exceeds the cost to the community of providing the service.

#### **Equity**

Where a government service provides an individual or group with a benefit over and above that which accrues to the general public, cost recovery can be used to improve equity in the distribution of the costs of providing the service.

Equitable cost sharing, which can be achieved through the introduction of cost recovery, is important because:

- recovering costs from users reduces the financial burden on the broader community by targeting those who actually receive the benefits;
- programs and policies that are perceived to be equitable enjoy greater support, and require less external compliance efforts; and because
- equitable cost sharing helps to generate necessary financial resources.

### **APPLYING COST RECOVERY IN COMMONWEALTH AGENCIES**

This section outlines:

- the concept that private beneficiaries of a good or service provided by a Commonwealth agency should pay appropriately for its cost of production;

- a simple framework for costing and cost-recovery; and
- a brief description of desirable design features for a cost recovery regime.

### **Principles for cost recovery**

The basic principle of costing is to ensure that all costs of production are allocated to products and services in a manner that best reflects how resources are consumed. As such, we consider cost recovery should generally be limited to instances where the benefits arising from the use of a Commonwealth good or service are exclusively or predominantly private. If costs are attributed on this basis then unintended subsidies are not provided and suppliers do not incur revenue shortfalls to be covered by budget subventions.

The ratio of public and private benefits from a service should not be considered as static, but as an evolving and dynamic process which changes over time in reaction to market developments and perceptions of equity. Accordingly any framework for applying cost recovery should also be dynamic.

It should also be noted that the character of a particular good or service and the balance between private and public beneficiaries is likely to vary significantly and that distinguishing this balance is often difficult and open to uncertainty.

#### *Framework for the application of cost recovery*

The following steps should be undertaken for all costing exercises and are useful for determining whether cost recovery is appropriate.

1. Clear specification of the good or service to be costed;
2. Determination of the cost of providing the good or service; and
3. Specification of the characteristics and elements of the good or service in such a way as to enable appropriate costing and apportioning of costs.

The determination of the costs of providing a good or service and ways in which the costs of provision can be apportioned between beneficiaries is briefly discussed below.

#### *Determining costs*

Once the activity has been defined the costing exercise should clearly identify the full, average and marginal costs of undertaking the activity. 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.

Once the costs of undertaking the activity have been determined, it then becomes a decision for the provider as to whether they base their cost recovery, or partial cost recovery, on average or marginal costs. While a discussion of this issue is considered beyond the scope of this submission the topic is discussed briefly in Attachment B.

#### *Apportioning costs*

The costing process should also distinguish between the private and public beneficiaries of the good or service so that costs can be apportioned appropriately.

- The public at large is the sole beneficiary of many Commonwealth agency goods and services and these should be funded through the Commonwealth budget as charging would result in a less than optimal level of demand.

- Some Commonwealth agency goods and services have elements of public and private benefits and in these cases partial cost recovery may be a more appropriate form of costing.
- The private component of the good or service will usually be recovered by seeking some financial contribution from the user/beneficiary of the service. This is often in the form of a charge, fee or levy.
  - Charges should be structured to avoid disincentive effects.
  - Disincentive effects could be avoided by concentrating charges on non-discretionary items.

### **Desirable Features**

In general, cost recovery should:

- be undertaken to the extent that it is economically and technically feasible;
- be administratively efficient;
  - A user charge should normally be simple, direct and open to inexpensive collection and enforcement.
  - This reduces the burden for user and Government agency alike.
- take account of the wider economic, social, environmental, and equity considerations;
- not impede economic efficiency; and should
- avoid cross subsidies

### **COST RECOVERY IN THE DEPARTMENT OF ENVIRONMENT AND HERITAGE**

In 1999-2000 less than 5 per cent of the Department of Environment and Heritage agency revenue (excluding the Bureau of Meteorology and the Australian Greenhouse Office) was cost recovered. The low cost recovery of departmental revenue reflects the largely public nature of the work undertaken. Policy advice and Commonwealth program administration represent the bulk of the department's programs.

Those few areas of the department which provide goods or services which have private beneficiaries have implemented cost recovery schemes. These areas can be characterised into the following groups:

- Charging for the administration of chemical and gas collection schemes;
- The administration of wildlife permits;
- Charges outlined in Memorandum of Understanding's for the provision of services to other agencies or private clients; and
- Park entrance and permit fees for National Parks and the Great Barrier Reef.

The types of cost recovery instrument used throughout the department vary but in most cases have been designed to recover the costs of provision from clearly identified private beneficiaries. An outline of the cost recovery activities undertaken in the department, the types of cost recovery instrument used, and the proportion of total costs recovered is provided in Table 1. A more detailed description of these activities is provided in Attachment C.

It should also be noted that the Bureau of Meteorology (BoM) also cost-recovers the provision of a number of its weather services including those provided to defence and aviation. One of BoM's rationales for charging at commercial rates for private good meteorological services provided in competition with the private sector is the requirement for competitive neutrality. These and other issues are covered in greater detail in the separate submission provided to the inquiry by BoM

**Table 1 Outline of cost recovery activities in the department of Environment and Heritage**

Activity	Type of cost recovery	Proportion of costs recovered
<b><i>Environment Australia</i></b>		
Ozone Protection Reserve	Licence Fees	100
National Registration Authority for Agricultural and Veterinary Chemicals (NRA)	Negotiated User Charge	70
National Industrial Chemical notification and Assessment Scheme (NICNAS)	Industry levy	100
National Halon Bank – Ozone protection	Deposit fee	10
Hazardous Waste permits	Permit Fee	40
Australia and New Zealand Environment and Conservation Council Secretariat	User Charge	70
Provision of Corporate Services to Portfolio Agencies	Negotiated User Charge	100
Wildlife Permits and Enforcement	Licensing fee	15
Australian Bird and Bat Banding Scheme	Access Fee	10
Admin of Environment Protection (Sea dumping) Act 1981	Permit Fee	5
<b><i>Parks Australia</i></b>		
Park entrance and permit fees	Park entrance and permit fees	10
<b><i>Australian Antarctic Division</i></b>		
Australian Antarctic Division Joint Venture Agreements	Negotiated User Charge	100
Australian Antarctic Division – Cooperative Research Centre (Antarctic and Southern Oceans)	Negotiated User Charge	100
<b><i>Bureau of Meteorology</i></b>		
Aviation and Defence weather services	Negotiated User Charge	Not available <b>a</b>
Provision of radar/satellite imagery, weather by fax.	Access Charge	Not available <b>a</b>
<b><i>Great Barrier Reef Marine Park Authority</i></b>		
Permit Assessment Fees	Permit Fees	25
Reef HO marine educational facility	Admission Charge	75
<b><i>Supervising Scientist</i></b>		
Contribution from ERA mining to Supervising Scientist research	Levy	Not available <b>b</b>

**Notes:** **a** The costing information for the aviation and defence component is the incremental cost above the cost of provision of the basic public service. The aviation and defence components of the basic public service are not identified. **b** Information on the proportion of costs recovered for the Supervising Scientists research was not available at the time of preparing this submission.

## **CURRENT REVIEWS OF PRICING AND COSTING STRUCTURES**

The Department of Environment and Heritage recognises the need for appropriate pricing frameworks and use of cost-recovery in its future operations. As such two separate reviews have been commissioned to look at these issues:

- The BoM Strategic Review; and
- The Output Pricing Review (OPR).

These organisational initiatives are aimed at developing and delivering high quality and cost-effective policy and programs, in line with the guidelines established by the Department of Finance and Administration, and are discussed briefly below and in greater detail in Attachment D.

### *BoM strategic review*

A strategic assessment of the Bureau of Meteorology's operating environment and organisational/business structures and processes is currently being undertaken by the Allens Consulting group. The review aims to identify and design a dynamic and strategic structure for BoM and will focus on:

- identifying the public good component of BoM's product set and establishing appropriate and dynamic pricing and cost recovery mechanisms; and on
- the scope of BoM's commercial arrangements.

### *Output Pricing Review*

In 1999-2000 the Commonwealth implemented the outcomes/output accruals budgeting framework. The new accrual framework requires agencies to price the outputs they produce to achieve the Governments desired outcomes. The Government is seeking to assess the robustness of the prices of these outputs and as a consequence, a program of pricing reviews has been initiated across the Australian Public Sector.

For the department of Environment and Heritage this process has been specifically aimed at:

- determining whether the department's outputs are being delivered efficiently with regard to the price of those outputs compared with the prices of comparable outputs in other agencies or external providers; and at
- providing guidance for future output structure and reporting practices in the department.

Stage 1 of the Output Pricing Review (OPR) process examined corporate functions and grant administration within the department and resulted in a reduction of \$5 million per year in Environment Australia's resource allocation.

Stage 2 of the OPR process is currently being undertaken for a number of policy advising and related activities within the department. The review of prices of policy services has proven to be more difficult than Stage 1 of the process as these areas rarely follow a predictable, replicable path or process and the criteria for success may change from case to case.

## **LIST OF ATTACHMENTS**

<b>Attachment A</b>	Inquiry terms of reference
<b>Attachment B</b>	Pricing
<b>Attachment C</b>	Cost recovery in the Department of Environment and Heritage
<b>Attachment D</b>	Current reviews of pricing and costing structures

**Inquiry terms of reference****PRODUCTIVITY COMMISSION ACT 1998**

I, ROD KEMP, Assistant Treasurer, pursuant to Parts 2 and 3 of the Productivity Commission Act 1998, hereby refer the cost recovery arrangements of Commonwealth Government regulatory, administrative and information agencies - including fees charged under the Trade Practices Act 1974 (TPA) - to the Commission for inquiry and report within twelve months of receipt of this reference. The Commission is to hold hearings for the purpose of the inquiry.

**Background**

2. This inquiry is principally a general review of cost recovery arrangements across Commonwealth regulatory, administrative and information agencies. In addition, the inquiry will incorporate the review of fees charged under the TPA which is required under the Commonwealth Legislation Review Schedule. The inquiry will take into account the analytical requirements for regulation assessment by the Commonwealth, including those set out in the Competition Principles Agreement, where relevant.

**Scope of Inquiry**

3. The Commission is to report on:

- (a) the nature and extent of cost recovery arrangements across Commonwealth Government regulatory, administrative and information agencies, including identification of the activities of those agencies for which cost recovery is undertaken;
- (b) factors underlying cost recovery arrangements across Commonwealth Government regulatory, administrative and information agencies;
- (c) who benefits from the regulations, administrative activity and information to which cost recovery arrangements are applied;
- (d) the impact on business, particularly small business, consumers and the community of existing cost recovery arrangements, including any anti-competitive effects and incentive effects;
- (e) the impact of cost recovery arrangements on regulatory, administrative and information agencies, including incentive effects;
- (f) the consistency of cost recovery arrangements with regulatory best practice;
- (g) appropriate guidelines for:
  - (i) cost recovery arrangements should be applied;
  - (ii) whether cost recovery should be full, partial or nil;
  - (iii) ensuring that cost-recovered activities are necessary and are provided in the most cost-effective manner;
  - (iv) the design and operation of cost recovery arrangements, including the treatment of small business;
  - (v) the review of cost recovery arrangements; and
  - (vi) where necessary, implementation strategies to improve current arrangements.

4. In reporting on matters in 3 above, the Commission should, where relevant, have regard to:

- (a) implications of recent and emerging technologies; and

- (b) legal constraints on the design and operation of cost recovery arrangements.

5. With respect to fees charged under the TPA, the Commission should have particular regard to:

- (a) those fees charged that restrict competition, or which impose costs or confer benefits on business; and
- (b) whether cost recovery arrangements that restrict competition should be retained in whole or part, taking into account whether the benefits to the community as a whole outweigh the costs, and whether the objectives of those arrangements can be achieved only by restricting competition.

6. In making its assessment of fees charged under the TPA:

- (a) the Commission is to have regard to environmental, welfare and equity considerations; economic and regional development; occupational health and safety; consistency between regulatory regimes and efficient regulatory administration; the interests of consumers generally; the competitiveness of business including small business; compliance costs and the paperwork burden on small business; and the efficient allocation of resources; and
- (b) the Commission should:
  - (i) identify the rationale for fees charged under the TPA;
  - (ii) clarify and assess the objectives of the fee arrangements;
  - (iii) identify whether, and to what extent, the fee arrangements impose costs or confer benefits on business or restrict competition;
  - (iv) identify any relevant alternatives to these fee arrangements;
  - (v) analyse and, as far as reasonably practical, quantify the benefits, costs and overall effects of the arrangements and alternatives identified in (iv);
  - (vi) identify the different groups likely to be affected by these arrangements and alternatives;
  - (vii) list the individuals and groups consulted during the review and outline their views;
  - (viii) determine a preferred option for the fee arrangements, if any; and
  - (ix) examine mechanisms for increasing the overall efficiency, including minimising the compliance costs and paper burden on small business, of the arrangements and, where it differs, the preferred option.

7. The Commission should take account of any recent substantive studies relevant to the above issues.

8. In undertaking the review, the Commission is to advertise nationally, consult with key interest groups and affected parties, and produce a report.

9. The Government will consider the Commission's recommendations, and the Government's response will be announced as soon as possible after the receipt of the Commission's report.

ROD KEMP

## Pricing

The aim of a costing and pricing system is to charge consumers a price which partially, or in full, recovers the cost of providing the good or service, whether it is being funded through general taxation revenue or cost recovered from private beneficiaries.

The type of costing or pricing approach adopted will depend on the environment that the service is being provided in and will usually come down to a choice between market based or cost based prices. Further, cost based prices can be based on either the average or marginal cost of providing the service. These issues are discussed briefly below.

### *Market based or cost based prices*

For Commonwealth organisations operating in a competitive market, a market price is appropriate. In identifying what the market price would be for the organisation's product, account must be taken of any factors that adversely or favourably differentiate its product from products with observable market prices. Where there is no direct competition or weak competition, as is the case for many Commonwealth agency services, this price may be based on either the average or marginal costs of provision.

### *Average cost vs marginal cost pricing*

In practice, application of the principle of average cost pricing based on the full costs of service provision will depend on the market environment which the particular good or service faces. Where public sector producers are not exposed to direct competition from the private sector, pricing to recover all the costs of production, including an appropriate rate of return on capital would be the norm.

Average cost pricing based on the full costs of service provision can provide a relatively simple and practical method for agencies to value their output and provide a more rational and consistent basis from which improved resource allocation can occur.

Under marginal cost pricing the price is equated to the additional cost of providing an additional unit of a product. Marginal cost pricing reflects the opportunity cost of the resources used and encourages the allocation of resources which generate the largest economic returns.

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 cost of providing an extra unit of a good or service is greater than the average full cost. This may occur where the provider is operating at full capacity and an increase in demand requires a change in the scale of operation.

## ATTACHMENT C

### **Cost-recovery in the Department of Environment and Heritage**

A brief outline of those goods and services which are currently being partially or fully cost recovered within the department is provided below.

#### **Charging for the administration of chemical and gas collection schemes**

##### *Ozone Protection – Ozone Protection reserve licence and activity fees*

- Environment Australia administers the collection of licence and activity fees from importers of ozone depleting substances.
- The fees are set in relation to the cost of administration of the legislation and the management of the ozone phase out programs and 100 per cent of direct costs are recovered.

##### *Ozone Protection – National Halon Bank*

- The cost of collection, handling, processing and destruction of halon is recovered by the imposition of a deposit fee on commercial depositors (government and business).
- The fee has been set to recover the actual cost of collection, transport, recovery and destruction.

##### *Hazardous Waste Permits*

- The permit allocation fee has been set to recover the costs for the administration of the permit system which implements, in part and through the Hazardous Waste Act, Australia's obligations under the Basel Convention.
- Fees are set as stipulated in the Hazardous Waste Act which states that the fee must reasonably relate to the expense incurred.

##### *National Registration Authority for Agricultural and Veterinary chemicals (NRA)*

- Charges are set to achieve the full cost recovery for provision of environmental risk assessments by Environment Australia.
  - Full cost recovery is consistent with the government policy for chemical registration functions.
- The level of charges are agreed to in a Memorandum of Understanding between Environment Australia and the National Registration Authority.

##### *National Industrial Chemical Notification and Assessment Scheme (NICNAS)*

- A service level agreement, which is reviewed every three years, has been made between NICNAS and the industry which outlines charges levied on industry to fully cost recover Environment Australia's provision of environmental risk assessments.
- Charges are currently set to achieve full cost recovery.

#### **The administration of wildlife and sea dumping permits**

##### *Bird and Bat banding scheme*

- Eligible researchers pay an annual fee for access to services provided by the Australian Bird and Bat Banding Scheme.
- Charges are not related to the cost of the activity and a flat fee for service is set by formula to raise 10 per cent of the estimated running cost of the scheme.

### *Wildlife trade fees*

- Licensing fees are paid by people who engage in wildlife trade for approved purposes are charged in the form of a flat fee for service.
- The introduction of these fees were legislated under the Wildlife Protection Act.

### *Sea Dumping Permit fees*

- Fees are charged for permits to dump wastes and other matter at sea and are set to partially recover the costs of assessing permit applications.
- The fee levels take into account the need for a reasonable level of cost recovery and to avoid setting fees so high that illegal sea dumping would be encouraged.

## **Negotiated charges for service provision**

### *Australian Antarctic Division*

- Charges are set to recover all the direct costs (providing research capacity to private and foreign research agencies.
  - Cost recovered include costs of providing ship time, transportation and infrastructure.
- The cost recovery charges were set by negotiation at the inception of a Memorandum of Understanding, with reference to service requirements, the service levels and the known cost of providing the service.

### *Supervising Scientist*

- ERA mining pays a levy to the Commonwealth to contribute to the costs of research activities associated with ERA's uranium mining activities in the Kakadu National park..
- The contribution from ERA is renegotiated every few years based on the agreed research work which needs to be undertaken and is also indexed to the CPI.

## **Park entrance and permit fees**

### *Reef HQ charges*

- Admission charges to the Reef HQ marine educational facility are used to offset the costs of operation which were not included in original appropriations.
  - At the present time it costs approximately \$750,000 more to run the facility than is raised in revenue.
  - This money is provided from other programs within the Authority and has an impact upon the Authority's ability to achieve its other program objectives.
- The admission fees are determined by assessing the elasticity of demand for the product and attempting to maximise revenue.

### *Great Barrier Reef Marine Park Authority(GBRMPA) permit assessment fees*

- Assessment fees are set to recover approximately 25 per cent of the total cost of undertaking the permit assessments.
- The assessment fee schedule is included in Marine Park regulations and has been approved by Government.

### *National Parks Fees*

- Park use fees are charged in three reserves that are the management responsibility of the Director of National Parks – Kakadu, Uluru-Kata Tjuta and Booderee National Parks (see Table 2)
- There is no formal process for setting fees to recover costs or a proportion of costs for administration of National Parks and they are generally based on the consumers willingness to pay.
- Levels of park fees are recommended by Boards of Management and are approved by the Minister for the Environment and Heritage.
  - A lengthy lead time of up to 18 months is allowed before introducing new fees to assist commercial operators to take increased costs into account during their planning.

**Table 2. Actual revenue collected in National Park Reserves for 1999-2000**

Reserve	Gross Budget (\$m)	Actual Revenue Collected (\$m)	% Revenue/ Gross Budget
Kakadu National Park	13.6	3.5	26
Uluru-Kata Tjuta National Park	8	5.6	74
Booderee National Park	4.4	0.6	14

### **Charging for publications**

#### *Charge for Australia and New Zealand Environment and Conservation Council Secretariat publications*

- This fee was introduced to fund reprinting and distribution of publications and to contain demand to genuine users.
- The charges are set to recover direct marginal costs such as printing and distribution costs.

## Current reviews of pricing and costing structures

A brief outline of the BoM Strategic Review and the Environment Australia Output Pricing Review is provided below.

### BoM Strategic Review

The department has commissioned consultants to undertake a strategic assessment of the Bureau of Meteorology's operating environment and organisational/business structures and processes.

The key objective of the strategic review is to identify and plan a strategic framework to enable the Bureau of Meteorology (BoM) to respond to current and emerging changes in:

- technology and communications;
- demand for meteorological services;
- competing suppliers of meteorological services; and in
- risks, including financial (eg. Investment, return on commercial products), technological, public safety, and those associated with domestic and international agreements including data access.

The review will make recommendations in order to identify:

- the most efficient and equitable provision of an appropriate level of service by BoM, including an assessment of the current basic product set, cost recovery and commercial arrangements.
- processes to ensure that there is a continuous review of:
  - cost recovered services; and
  - commercial activities.
- the best financial performance, market information and measurement systems necessary to enable costs to be allocated to outputs and outcomes, to assist sound decisions being made on the range and quality of services and associated prices; and
- a policy and regulatory framework which will facilitate appropriate development of the provision of meteorological services, including the appropriate participation by BoM.

The review will establish principles for the future operation of BoM, including determining over time what should constitute its public service role and what should be the scope of its commercial activity, and on what terms it should compete. These principles will guide the Bureau's future operations and will be designed to guide key strategic decisions by the Bureau in the future as circumstances change, including:

- what products and services should be produced as 'public goods' (that is, as part of the basic product set, financed from general revenue);
- given the capabilities that the Bureau will require to perform its basic public service mission will also give it commercial capacities, what should be the scope of the commercial activity?; and
- the terms on which BoM should compete with other parties, and more generally, how the markets in which it competes should be organised and regulated, and their development facilitated.

## **Output Pricing Review**

In 1999-2000 the Commonwealth Government implemented the outcomes/output accruals budgeting framework. The new accrual framework requires agencies to price the outputs they produce to achieve the Governments desired outcomes.

The Government is seeking to assess the robustness of the prices of these outputs and as a consequence, a program of pricing reviews has been initiated across the Australian Public Sector. These reviews are aimed at enabling the Government and its agencies to strike an agreed understanding of the performance criteria for agency outputs in terms of quality, quantity and price.

For Environment Australia the key objectives of the output pricing review (OPR) are:

- determining whether outputs are being delivered efficiently with regard to the price of those outputs compared with the prices of comparable outputs in other agencies or external providers, and to
- provide guidance for future output structure and reporting practices.

The pricing review will allow allowing the government and Environment Australia to agree on the performance criteria in terms of quality, quantity and price of its outputs. This will be achieved through an internal analysis of outputs and also comparisons of the price and quality of comparable outputs in other agencies or external providers.

The OPR process in Environment Australia is currently in it's second stage.

Stage 1 of the Environment Australia output pricing review (OPR) process was primarily focussed on examining the overall cost effectiveness of corporate services. This process was approached as a scoping study to identify outputs with potential for cost reduction. As a result of this process, Environment Australia's overall resource allocation was reduced by \$5 million in the 2000-01 budget year.

For stage 2 of the OPR remaining departmental output groups, including those areas which focus on the provision of policy analysis and advice, were covered. While this review is currently in progress it has become apparent that the pricing of policy services is more difficult than the pricing which was undertaken in Stage 1. This is because policy provision often does not follow a predictable or replicable path or process and the criteria for success may change from case to case. Pricing policy advice requires benchmarked standards for the types of policy advice provided and a comparative basis for the price of that advice.

In addition to undertaking the OPR process it should also be noted that Environment Australia has an excellent track record of market testing operational activities and will continue to use external suppliers where it is deemed efficient to do so. Substantial parts of the Environment Australia outputs are conducted through contractual arrangements including Environmental Resources Information network (ERIN), State of the Environment Report, Regional forest Agreement and Environmental Impact Statements.