

Mrs Helen Owens
Presiding Commissioner
Cost Recovery Inquiry
Productivity Commission

Dear Mrs Owens

COST RECOVERY INQUIRY

Further to my submission of 5 June 2001, I wish to submit additional material in relation to your recent draft report on Cost Recovery by Commonwealth Agencies.

Attached is a "one-page guide" to cost recovery. While there is considerable work involved in applying cost recovery, this guide at least outlines the main steps that must be taken when agencies investigate the scope for and, possible, implement cost recovery. Addressing these issues should at least prevent major omissions when considering recovering costs.

The decision as to whether cost recovery should be applied is a political one, to be made in the light of relevant advice. Associated issues, such as how it should be applied, identifying costs, ensuring the legality of the various methods of cost recovery, the structure of charges/levies, etc. can be very complex, but need to be addressed thoroughly by the Agency concerned if cost recovery is to be implemented in a thorough and professional manner.

I trust that these comments will be of use to your consideration of this sometimes complex and not well understood topic.

Yours sincerely,

Chris Barnes

11 June 2001

Brief Guidelines for Implementation of Cost Recovery

The overriding legal framework means that, when implementing Cost Recovery:

- **Fee for service (where the revenues are paid to the Agency in question and not to Consolidated Revenue) must only be applied where:**
 - a. **There is a service provided to an individual, and**
 - b. **The applicable fee or scale of fees bear a reasonable relationship to the costs of providing the type of service in question;**
- **All other activities can only be cost-recovered through the taxation system; eg, as levies, requiring suitable legislation, with the proceeds paid into Consolidated Revenue, from where they can be paid on to the Agency in question by Special Appropriation, if desired.**

Consistent with this legal constraint, the following steps should be followed by Agencies considering the introduction of cost recovery for some or all of their activities:

1. Identify the nature of the operations that are candidates for cost recovery;
 - a. Identify services to individuals, if any (eg, implementation of standards via approvals, permits and licences, follow-up visits to ensure deficiencies found during compliance inspections have been addressed);
 - b. Identify other discrete functions and categorise them (eg, policy or development of standards, scheduled and random monitoring of compliance with standards, education, investigation, etc.)
2. Consider who, if anyone, should pay for the non-service activities (on equity and administrative grounds).
3. Consider the merits of cost recovery for each service/function/activity;
 - a. economic (eg, is the industry mature enough for cost recovery?)
 - b. social (eg, are there other issues that would justify subsidy or lack of cost recovery; would fee for service negatively impact on safe operations, thus requiring cost recovery by way of levy?)
 - c. equity (eg, is the proposed basis of cost recovery fair and equitable?)
 - d. administrative (eg, are the costs of systems and collection out of proportion to the amount to be recovered; are there excessive compliance costs for the payees; is it impractical to apply fee for service charges or even levies?)
4. Identify the costs of these services/functions
 - a. Consider which costing method is appropriate - fully distributed cost, marginal/avoidable cost?
 - b. Calculate costs, bearing in mind that reasonable averaging of costs is acceptable;
 - c. Consider whether capital costs should be included and, if so, calculate the appropriate return on funds employed for inclusion in the full cost calculation).
5. Consider whether fixed fees would be appropriate, or some scale of charges (eg where there is considerable variation from case to case in the costs of the delivery of the type of service in question) - aim is to have a cost recovery basis/structure that is equitable, while striking a reasonable balance with administrative complexity and costs.
6. Refine cost recovery proposals
 - a. Consider detailed structure of charges/levies;
 - b. If in doubt, seek legal advice on proposed cost recovery regime;
 - c. Consider need for phase-in of charges and other introductory issues; eg, publicity;
 - d. Identify need for appropriate administrative/IT systems;
 - e. Firm up timetable for necessary systems/arrangements/legislation, as required.
7. Consult with the intended payees (usually industry representative associations).
8. Make further adjustments, if any, considered necessary in the light of outcome of consultations.
9. Finalise cost recovery arrangements to be put in place and introduce fees/levies.