

COST RECOVERY

Role of National Library

The National Library of Australia is a statutory authority established under the *National Library Act 1960*. Its functions include:

- Developing and maintaining a national collection of library material, including a comprehensive collection of library material relating to Australia and the Australian people.
- Making library material in the national collection available in the national interest.
- Making available other library services to the Parliament, Commonwealth departments and authorities, and the Territories.
- Cooperating in library matters.

Nature and extent of cost recovery

In achieving the above functions, the National Library provides a wide range of information services to individuals and organisations. In 1999-2000 the value of goods and services sold was \$8.598M. Total operating expenses were \$50.970M, with the sale of goods and services therefore accounting for 16.87% of this figure. The National Library also incurred a Capital Use Charge of \$176.604M in 1999-2000.

The National Library has a long history of charging for certain types of goods and services – adopting a charging basis in which core services are provided free of charge as a community service obligation or public good, while more advanced or added value services are charged at various levels of cost recovery.

Rationale for cost recovery

The main reasons for applying charges are:

- To provide financial resources additional to government appropriations in order to provide a range of added value services sought by National Library customers.
- To control demand for certain services (such as photocopying) which would be likely to be excessively used if charges were not applied.

The National Library's existing Guidelines on Charging have been in place since 1991. (Attached as Appendix 1). The key points within the Guidelines include:

- The Commonwealth provides adequate funding to cover the Library's core services, together with the necessary corporate infrastructure support.
- The majority of the National Library's services will continue to be provided at public cost through appropriations.
- Services other than core services provided to end-users will generally be charged for, unless there is a specific policy decision to the contrary.
- Services provided to other libraries will generally be charged for, unless there is a specific policy decision to the contrary.

- The charging rate for chargeable services should be consistently applied and may vary between a minimum of the extra marginal costs involved to a full profit-making basis, depending on arguments which relate to the public good, market issues, the capacity of identified user groups to pay and, relevant Commonwealth Government policy. Cross subsidisation between services is legitimate, and subsidisation may be necessary during the period of establishing a new chargeable service.
- The Library aims to provide equity of access to all Australians who wish to use its services. Chargeable services will not be offered if they degrade the standard of core services – the aim is that chargeable services will add benefits for some users beyond those of core services.
- The level of charges for a particular service may be set on a cooperative basis through the National Library's discussions with clients and/or other organisations.
- The setting of the level of charges for any service or product that is based on profit, full cost-recovery or marginal cost-plus pricing will be in line with current costing methodology.

The following examples are provided to indicate the range of models in place for partial or full cost recovery for goods and services provided by the National Library.

SERVICE NAME	DESCRIPTION
Kinetica	Kinetica is an online service provided to over 1,000 Australian libraries in order to support those libraries in areas such as cooperative cataloguing and document delivery. The Kinetica service is offered by subscription to organisations with the choice of charging for actual usage or on an agreed site licence basis. Kinetica is operated as a full cost-recovery service.
Publications	The National Library produces and markets trade publications based on its collections. These publications are priced to recover their direct costs of production but not the costs of authorship or editing. The National Library's primary reason for publishing is to make its collections more accessible to the public.
Interlibrary loan/Document delivery	Charges for the loan of items or supply of documents between libraries are set within the Australian library community at a standard rate of \$13. This charge does not represent the actual costs of supply of items between libraries but is considered a reasonable cost in terms of encouraging libraries to share resources in the interests of Australian library users generally. Libraries, including the National Library, may then charge additional fees for guaranteed fast-track delivery of items.

Economic effects

Cost recovery arrangements in the National Library have been successful over several decades in raising the additional funds required to carry out a full range of national responsibilities. The market has not traditionally provided the types of goods and services offered by the National Library. This is also the case overseas and there are strong parallels between the goods and services provided by the National Library and

its overseas counterparts. Where a service is provided efficiently by the market, the National Library would not see the need to compete in providing such a service.

Price elasticity of demand is a key issue in the information services area in which the National Library operates. The majority of customers are other Australian libraries and individuals. There are clear limits to the ability of these groups to pay for services compared with, say, a customer base that is largely comprised of private sector organisations. This fact places considerable pressure on the National Library to ensure that its services are offered in the most efficient manner possible in order to lower the price of those services for which some or all of the costs need to be recovered. This effect tends to mitigate any monopolistic pricing effects that could exist in the library services area. Also, Internet technology now enables Australian libraries to efficiently source information-based goods and services overseas, effectively creating global competition. The National Library also undertakes benchmarking exercises where possible with like institutions in order to gain information on the relevant cost of providing services.

As a statutory authority, the National Library has been able to retain all imposed charges for its goods and services for a number of years. These funds have been factored into budget estimates and effectively form part of the National Library's budget. As mentioned above, in 1999-2000 the sale of goods and services accounted for 16.87% (\$8.598M) of total operating expenses. It could be argued that the availability of these funds has assisted the National Library to meet its statutory and other obligations over time. At all times, though, the ability to retain imposed charges has to be balanced against a range of factors such as the core functions of the agency, public good considerations, and the effects of charges on demand for services.

Another key issue is the need to ensure that the costs of operating cost recovery arrangements are minimised to ensure that revenues earned are not simply covering the cost of collecting that revenue. This is an ongoing efficiency issue that needs to be addressed by any organisation involved in charging for goods or services.

Costing issues

The National Library is currently revising its costing methodology to achieve an improved cost attribution model for indirect costs. Following this, a review of the Guidelines on Charging will be undertaken to ensure that the policy is up-to-date and a consistent approach to charging is being achieved.

The National Library's current Guidelines on Charging allow for the recovery of: marginal costs only; direct costs only; direct plus indirect costs; full costs including capital costs or a charge on equity employed; and, profit in certain circumstances.

The recent move to accrual accounting has provided a sound accounting base for calculation and attribution of capital costs where this is required. Also, the National Library has emphasised the importance of best practice in asset management in recent years with the result that all assets are regularly reviewed in terms of their assessed performance in contributing to the achievement of outcomes. Underperforming assets are routinely disposed of or replaced. Accrual accounting has also prompted the review of indirect cost attribution to ensure that there is a greater degree of accuracy

in attributing costs to particular outputs or goods and services within those outputs. Accrual accounting also leads to more accurate reporting of expenses and revenues as they are incurred, providing improved management information for decision making purposes.

Public administration issues

The following issues will be particularly addressed in the National Library's planned review of its Guidelines on Charging:

- Consistency – given the relatively large number of goods and services provided, it is important that a consistent approach is adopted.
- Transparency – the National Library has in the past and will continue to make available its Guidelines on Charging to the public.
- Accountability – the National Library is governed by a Council and has reporting requirements to the responsible Minister and the Minister for Finance and Administration through the *Commonwealth Authorities and Companies Act 1997*. An annual report is also made to Parliament. Accountability will be explicitly addressed in the review of the Guidelines.
- Appropriateness – there is the ongoing need to differentiate accurately between core services which are considered to be public goods and more added value services for which charging is appropriate.
- Accessibility and equity – a key concern is the ability of the customer base to pay for services. A balance is required between charges imposed and effects on demand. Some differential pricing has been undertaken in areas such as marketing products to schools and other groups that are less able to pay and will be unlikely to use goods and services at regular prices.
- Efficiency – the National Library needs to ensure that charged for services are provided in the most efficient manner in order to reduce costs and charges imposed.

In terms of cost recovery design, the move to develop a government-wide policy on cost recovery would be of considerable benefit to the National Library in terms of achieving consistency between government agencies. The particular circumstances of each agency will also need to be taken into account. The National Library regularly consults with its customer groups when altering its policy or practices in relation to charging. This is particularly important in terms of the issue addressed above concerning the customers' ability to pay for goods and services.

In terms of review of cost recovery policy, the National Library has recently implemented procedures to ensure that all corporate policies are formally reviewed at least every two years. The Guidelines on Charging are included in that ongoing review process.

Legal and constitutional issues

The National Library has not experienced legal and constitutional issues such as those raised in the Issues Paper.

Technology issues

The National Library provides many of its services via the Internet, which has many advantages as an information delivery mechanism for an information-based agency. Generally, the National Library has found that Internet users are often reluctant to pay for services accessed via the Internet. Also, issues associated with electronic commerce security have in the past precluded one-off payments for services as a charging method. This has meant that the Library has offered more of its services free of charge via the Internet and only those services for which a subscription model is appropriate have been charged for.

With regards to the benefits of providing services via the Internet, there are very clear advantages for an agency such as the National Library that has a national role but which is physically located in Canberra. The potential customer reach via the Internet offers many opportunities to improve the overall effectiveness of the National Library's operations in a more national sense.

NATIONAL LIBRARY OF AUSTRALIA

GUIDELINES ON CHARGING

The principles outlined in this document were endorsed for publication by the National Library Council at its meeting on 22 February 1991. The document aims to set out clear guidance for users and for Library staff as to the basis on which existing and newly developed Library services should be provided. The framework outlined is intended to lead to consistency of practice, i.e. once it has been determined how a particular service is to be categorised, charges, if any, will be determined on a similar basis as for all other services in the category concerned.

The principles set out below have been developed within the framework of the Library's legislative mandate, as set out in the National Library Act 1960-1973. Under that Act, the functions of the Library are, on behalf of the Commonwealth -

- (a) to maintain and develop a national collection of library material, including a comprehensive collection of library material relating to Australia and the Australian people;
- (b) to make library material in the national collection available to such persons and institutions, and in such manner and subject to such conditions, as the Council determines with a view to the most advantageous use of that collection in the national interest;
- (c) to make available such other services in relation to library matters and library material (including bibliographical services) as the Council thinks fit, and in particular, services for the purposes of -
 - (i) the library of the Parliament;
 - (ii) the Departments and authorities of the Commonwealth; and
 - (iii) the Territories; and
- (d) to co-operate in library matters (including the advancement of library science) with authorities or persons, whether in Australia or elsewhere, concerned with library matters.

PRINCIPLES

1. The Commonwealth Government has a responsibility under the National Library Act to provide adequate funding to cover the following activities which provide the Library's core services, together with the corporate infrastructure support necessary for those processes to be effective:
 - 1.1 acquisition of a comprehensive collection of Australian materials, and a wide collection of materials from overseas in accordance with the Library's collection development policy.

1.2 cataloguing, physical processing, storage and preservation of all materials required by the Library.

1.3 acquisition, processing and storage of bibliographic data which forms a comprehensive national bibliographic database capable of providing optimum cataloguing support to Australian libraries.

1.4 activities which promote awareness of the Library, its collections and services.

1.5 basic educational activities, including a range of exhibitions.

1.6 activities which facilitate access to the Library's collections.

1.7 activities which provide leadership to, and foster co-operation among, Australian library and information services.

The necessary associated support for these activities includes maintenance and security of buildings, equipment, and other assets; personnel services and human resources development; financial services, and computing/communications facilities.

2. In determining the range of services to be provided, whether charged for or not, the Library shall at all times seek to maximise the benefits delivered to the people of Australia, within its functions set out in the National Library Act. The majority of its services will remain as 'public goods', i.e. provided at public cost via Commonwealth Government appropriations raised through the taxation process.
3. Core services (as defined below) provided by the Library to the 'end-user' (i.e. the final recipient of the service) shall be free to the 'end-user'. There may, however, be limits to the extent of a core service provided to a user.
4. Services other than defined core services provided to the end-user shall be charged for, unless there is a specific policy decision to the contrary, or the cost of administering the charges exceeds the revenue received.
5. Services provided to another Australian library to enable it to provide its end-users with services more effectively or efficiently shall be charged for, unless there is a specific policy decision to the contrary, or the cost of administering the charges exceeds the revenue received.
6. The costing of those services for which charges are appropriate shall be made on a consistent basis, and in a manner which enables the Library to set charges in full knowledge of the relevant marginal, average, direct and overheads costs for providing services. The charging rate for chargeable services may vary between a minimum of the extra marginal costs involved to a full profit-making basis, depending on arguments which relate to public good, market penetration, the capacity of identified user groups to pay, and Commonwealth Government policy. Cross-subsidisation between services is legitimate, and subsidisation will normally be necessary during the period of establishing a new chargeable service.
7. The Library's role as a 'National Library' is to serve the people of Australia as a whole, wherever they may be located. However, the Library at

present also serves de facto as the major general reference library for the people of the ACT. Services provided specifically for the ACT (until such time as they may be provided by the ACT Library Service) may therefore be charged for on a different basis to 'national' services (which of course will be provided to people resident in the ACT on the same basis as for other Australians).

8. The Library aims to provide an equity of access to all Australians who wish to use its services. Chargeable services, and priority services for which higher charges may apply, will not be offered if they degrade the standard of core services - the aim is that such services will add benefits for some users beyond those of core services.
9. The Library recognises that the level of charges for a particular service (e.g. document delivery or supply of cataloguing data) may be set on a co-operative basis through the Library's discussions with clients and/or other organisations.
10. The setting of the level of charges for any particular service or product which relates to profit, full cost-recovery or marginal cost-plus pricing will be in line with the costing methodology for on-cost charging agreed by the Library's Executive Committee on 20 December 1989, as revised from time to time.

TYPES OF SERVICE

Through its provision of library materials, bibliographic records, staffing, buildings and equipment, funded as above, the Library is able to provide a range of services with the resources at its disposal. Services have been categorised as follows:

CORE SERVICES - These are services deriving directly from the Library's purposes to the public good, as set out in the National Library Act, and community and Library expectations of services to be provided by a national library. They are provided free to end-users, in some cases within set limits. Core services are to be free to the user from the point that their initial contact reaches the Library, i.e. users bear the costs of transporting themselves to the Library, and of communicating their enquiries to the Library, e.g. by telephone, facsimile, post or electronic messaging.

Examples: Access to reading rooms and catalogues, reference and referral service, exhibitions of the Library's own collections.

ADD-ON SERVICES - These may be grouped into three broad categories:

1. **Services where there are both 'core' and 'add-on' elements.** These are services which may be distributed to a variety of end-user groups, to whom the 'core' nature may vary. The general approach for this category is to set charges at a rate which would recover all the direct costs of providing the service, with a policy-decided non-chargeable element based on the Library's estimate of the extent of public good contained in the service or involved in delivering the service to a particular target group.

Examples: Newsletters, bibliographical publications.

2. **Services where an individual receives a direct personal benefit from the service received (other than within core service limits), or where a library receives a service provided in line with the Library's role in making the Australian library system as efficient as possible.** The general approach is to set charges at recovery of all costs (including staff time and overheads) of producing and supplying the service involved. However, market factors, and established Government policy, also taking into account principles of social justice, will be applied in a way that may allow loss-leader, subsidy, and differential pricing to different markets, by policy decision. Where ongoing investment is required to develop a service to provide improved benefits to users, consideration will be given to setting charges for supply of the service to include an identifiable 'surplus' towards developments costs. Priority service may be charged at a profit-making premium.

Examples: Inter-library document supply, ABN catalogue-support services.

3. **Services to individuals and organisations who will derive commercial benefit from the service.** The general approach is to set charges at full cost-recovery, including all overheads plus target profit level. Commercial methods will be applied as appropriate, e.g. lease, joint marketing, etc. Profit targets may be adjusted for certain groups, e.g. discounts for Friends of the Library, etc., but charges will be still at least full cost-recovery.

Examples: Catering operations, Library shop, use of building.