| Policy | **PIRSA** |
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**GO P 014**

pirsa cost recovery policy

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This policy establishes principles that enable PIRSA to make consistent decisions on the appropriate recovery of the costs of PIRSA’s goods and services.

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| **REVISION RECORD** | | |
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| 11/08/2010 | 1.0 | Policy approved by PIRSA Chief Executive. |
| 19/11/2013 | 1.1 | Revised policy containing minor edits approved by PIRSA Executive. |
| 23/09/2014 | 1.2 | Revised policy containing minor edits approved by PIRSA Executive. |
| 01/09/2015 | 1.3 | Revised policy to address Deloitte’s 2015 review recommendations. |
| 27/09/2016 | 1.4 | Revised policy containing minor edits approved by PIRSA Executive. |
| 22/05/2018 | 1.5 | Policy responsible position title and logos on front cover updated. |
| 08/05/2019 | 1.6 | Revised policy to address KPMG’s 2018 review recommendations. |

| **RISK ASSESSMENT** | | |
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| **Date** | **Risk Rating** | **Risk Assessment Evaluation** |
| 18/05/2020 | Medium | Moderate consequences/ risk of financial loss. |

# Purpose

The policy will improve the consistency, transparency and accountability of existing and future cost recovery arrangements, assist in establishing the appropriate levels of service delivery, and promote the efficient and equitable allocation of resources.

Used appropriately, cost recovery improves the efficiency with which government products and services are produced and consumed by transmitting an important message to users or their customers about the cost of resources involved.

It improves equity by ensuring that those who use and benefit from government products and services, or who create the need for regulation, bear the costs.

# Scope

This policy should be used when PIRSA is:

* proposing a new cost recovery arrangement
* amending existing cost recovery arrangements, or
* reviewing existing cost recovery arrangements in line with a PIRSA initiated periodic review or as otherwise required.

For the purposes of this policy, ‘cost recovery’ broadly encompasses fees and charges related to the provision of government goods and services (including regulatory and information services) to the private and other non-government sectors of the economy.

This includes regulatory activities such as aquaculture leases and licences, commercial fishing licenses, food safety accreditation, animal health disease control programs and information services (including some scientific and technical services) provided from SARDI and Rural Solutions SA as detailed in Principles 3, 4, 5, 6 and 10 below.

Specifically excluded from cost recovery are PIRSA services required for public policy development, and advice to Ministers and the Government of South Australia.

Other arrangements excluded for the purposes of the policy include:

* regulated fees and charges set using a prescribed rate of increase and which do not involve consultation or negotiation with industry as to the services that will be received by industry or individuals for the regulated fee
* charging arrangements in competitive or potentially competitive markets that comply with competitive neutrality principles (e.g. commercial research)
* resource rents
* receipts from asset sales, rental of property and royalties, including the sale of rights to access resources
* fines, pecuniary penalties and prosecution services
* charges relating to non-Government of South Australia partnerships
* statutory marketing levies
* grants

# Policy Details

This policy adopts principles outlined in the [Australian Government Department of Finance – Australia Government Cost Recovery Guidelines: Resource Management Guide No. 304](https://www.finance.gov.au/publications/resource-management-guides/australian-government-cost-recovery-guidelines-rmg-304) (2005) and (July 2014 – Third Edition), and [Australian Productivity Commission – Cost Recovery by Government Agencies Inquiry Report](http://www.pc.gov.au/inquiries/completed/cost-recovery/report) (2001).

The following 11 principles should be read together and do not stand alone. The 11 principles do not automatically affect existing policy, where for example cost sharing arrangements have been entered into - either with industry or government agencies.

**Principle 1 – When to apply cost recovery**

Consistent with the Australian Government Cost Recovery Guidelines (July 2014), there should be alignment between the expenses of the activity (the costs involved in providing it) and the revenue (the income generated through charges for it). PIRSA Divisions should set charges to recover all the costs of products or services where it is efficient to do so, with partial cost recovery to apply only where new arrangements are phased in, where there are government endorsed community service obligations or for explicit government policy purposes.

*Appropriate cost recovery can contribute to resources across the economy being applied in their most productive use and so contributing to broader community wellbeing through: instilling cost consciousness among PIRSA and users of PIRSA services; and ensuring those who use regulated products or request additional information bear the costs.*

*PIRSA’s services to industry are not free and will be recovered where there are clear beneficiaries. Where individuals or enterprises are being serviced, this should occur on a fee for service basis.*

*As a general principle, full cost recovery should be the aim; however when providing information services there may be circumstances where only avoidable costs or marginal costs are recovered.*

*When determining the full cost of providing a service, that cost should include:*

* *all direct costs such as labour, goods and services*
* *indirect costs (corporate and other overheads), including corporate services, divisional management and support, insurance, information technology and administration services and premises*
* *equipment and other infrastructure use based on the depreciation of assets, and*
* *borrowing or financing costs of capital.*

*Charges should be based on efficient costs where appropriate. This may require benchmarking against similar activities undertaken by government, both domestically and overseas – particularly where charges are high, generate significant amounts of revenue, or impose significant costs on regulated businesses.*

*Costing methods should seek to avoid volatility in charging – consideration should be given to smoothing fluctuating cost items (including transitional costs).*

*Cross-subsidies should be avoided when structuring charges, unless there is an explicit decision of the government to cross subsidise – for example, in order to pursue equity or social policy objectives.*

**Principle 2 – When cost recovery is not appropriate**

Cost recovery should not be applied where it is not cost effective, where it is inconsistent with government policy objectives, or where it would unduly stifle competition or industry innovation.

*If the cost of administering a licence, permit or service fee is high when compared to revenue collected, cost recovery should not be pursued or alternatively, industry levies may be implemented.*

*Trivial amounts may not be cost effective to charge for, if the cost of collection exceeds the chargeable amount for the service.*

*There are a number of instances where the principle of full cost recovery may not be appropriate and hence the price may not reflect full cost recovery where:*

* *users cannot be readily identified (as is often the case with ‘public goods’ such as environmental services), however, there may be good reasons to apply the full cost of regulation to a group of users in these cases*
* *financially disadvantaged groups have no capacity to pay (equity considerations)*
* *Commonwealth expenditures are involved*
* *legislation specifically prevents charging for the good or service, or*
* *government policy stipulates against, or is inconsistent with, the recovery of full costs (e.g. pricing regimes reflected in corporate or policy charters, recreational fishing, specified industry development programs).*

*Cost recovery of regulatory or information services may affect firm decisions on market entry or on the nature of products to be produced. Potentially undesirable impacts associated with cost recovery on reduced competition or on innovation such as through reduced product offerings will be considered in assessing the case for cost recovery.*

**Principle 3 – Cost reflective pricing**

Consistent with the Australian Government Cost Recovery Guidelines (July 2014), there should be alignment between the expenses of the activity (the costs involved in providing it) and the revenue (the income generated through charges for it). Cost recovery charges should be:

* clear and easy to understand
* closely linked to the specific activity
* set to recover the full efficient costs of the specific activity
* efficient to determine, collect and enforce
* set to avoid volatility, while still being flexible enough to allow for changes based on fluctuations in demand or costs.

Expenses and revenue are to be aligned on an annual basis, however, where justified, they can be aligned over a longer period.

Any charges should reflect the costs of providing the product or service and should generally be imposed on a fee-for-service basis or, where efficient, as a levy.

*Cost reflective pricing should be used for cost recovery programs.*

*A fee charges individual firms or consumers for particular activities, while a levy is imposed across a group of firms or consumers.*

*For regulatory activities such as issuing exclusive rights and permits, or registration and approvals (where there is little potential for free riders) cost recovery through fees charged to those receiving these rights may be appropriate. However, where there is potential for significant free riding, or for activities such as monitoring ongoing compliance with regulations, a group based levy may be a more appropriate cost recovery mechanism.*

*For information services, fees may be appropriate for services that don’t have either public good or spillover benefits associated with them. However, where there are public good characteristics and the beneficiaries are a relatively narrow, identifiable group such as an industry or consumer group, a levy may be appropriate.*

*More detailed advice on the structure of charges – i.e. when to apply levies, fees or taxpayer funding- can be found in the* [*Australian Government Department of Finance – Australia Government Cost Recovery Guidelines: Resource Management Guide No. 304*](https://www.finance.gov.au/publications/resource-management-guides/australian-government-cost-recovery-guidelines-rmg-304) *(2005) and (July 2014 – Third Edition), the Australian Government Charging Framework and* [*Australian Productivity Commission – Cost Recovery by Government Agencies Inquiry Report*](http://www.pc.gov.au/inquiries/completed/cost-recovery/report) *(2001).*

**Principle 4 – Legal authority for cost recovery**

PIRSA should ensure that all cost recovery arrangements have clear legal authority for the imposition of charges.

*Regulated fees require subordinate legislation and/or requirements for fees directed through legislation. Unregulated fees require approval by an appropriate authority and information services will be subject to an agreement between the purchaser and PIRSA.*

**Principle 5 – Costs related to provision of product or services**

Costs that are not related or integral to the provision of products or services (e.g. some policy and parliamentary servicing functions) should not be recovered. Regulatory activities should generally include administration costs when determining appropriate charges.

*The cost of services to government such as advice to Ministers and criminal prosecution costs or Freedom of Information costs should not be considered in cost recovery. These services to government include (but are not necessarily limited to) parliamentary briefs, cabinet submissions, ministerial briefings and fundamental development and review of government policies – including regulatory and information services. Whereas business services and records management costs should be included.*

*This principle should be read in conjunction with principle one, in that costs should only be recovered where it is efficient to do so. Overhead or corporate costs incidental to the provision of products or services can be considered, as long as they can reasonably be attributed to the provision of the product or service. However, costs too far removed from the activity should not be charged.*

**Principle 6 – Cost recovery on activity basis**

Where possible, cost recovery should be undertaken on an activity or activity group basis. Cost recovery targets on a PIRSA wide basis will not be pursued, consistent with the requirements enunciated in the [*Australian Government Department of Finance – Australia Government Cost Recovery Guidelines: Resource Management Guide No.304*](https://www.finance.gov.au/publications/resource-management-guides/australian-government-cost-recovery-guidelines-rmg-304) *(2005) and (July 2014 – Third Edition)*.

*Activity based costing or costing based on definable groups of activities should be used in developing costing models (e.g. individual biosecurity tasks outlined for a particular industry group could be bundled together when costing).*

*Activities with similar objectives or characteristics may be grouped for cost recovery purposes to lessen the administrative burden on PIRSA and stakeholders. For example, when determining fees the costs associated with the services provided such as research and compliance may be grouped to form the final fee for efficiency reasons.*

**Principle 7 – Key elements of cost recovery**

Aligned with the Australian Government Cost Recovery Guidelines (July 2014), the PIRSA approach to cost recovery recognises the following key principles:

* efficiency and effectiveness
* transparency and accountability
* stakeholder engagement
* policy review (structured to include self-review, evaluation of outcomes and continuous improvement)

Each PIRSA Division is to implement the above principles as required. This includes the development of tailored stakeholder engagement process as required for each industry sector.

*Integrating these stages provides a systematic process for the ongoing design and review of cost recovery arrangements (see ‘Figure 1: Process for Assessing Cost Recovery’ below). An internal PIRSA Finance Committee will assist PIRSA divisions in the design of programs to ensure consistency with the cost recovery policy.*



**Principle 8 – Cost recovery guidelines**

To ensure consistency with Australian Government Cost Recovery Guidelines, each PIRSA Division will document a risk assessment to describe the risks of charging for the regulatory activity and how they will be managed. Each Division will develop a Cost Recovery Implementation Statement tailored to the activities of the Division (an example can be found at the Australian Government Charging Framework website   
[Australian Government Charging Framework | Department of Finance](https://www.finance.gov.au/government/managing-commonwealth-resources/managing-money-property/managing-money/australian-government-charging-framework)

Extensive economic analysis by the [Australian Productivity Commission](http://www.pc.gov.au/inquiries/completed/cost-recovery/report) (2002) provides a robust policy framework from which PIRSA can operate.

*The guidance provided in these Australian Productivity Commission guidelines follows a relatively simple decision making sequence, with a flowchart approach to guiding through critical decision points and risk assessments. The key questions to be answered through this process include:*

***Initial policy review***

* *Which of PIRSA objectives are relevant to the activities or products being considered for cost recovery?*
* *Should cost recovery be introduced?*
* *What mechanisms, including consultation, should be used for ongoing monitoring of the efficiency and effectiveness of cost recovery arrangements?*
* *How long (not more than five years) before the cost recovery arrangements should be reviewed again?*

***Design***

*Where cost recovery is appropriate:*

* *Who should pay cost recovery charges?*
* *Should cost recovery charges be imposed using fees or levies?*
* *What are the legal requirements for the imposition of charges?*
* *Which issues should any legislation address?*
* *Which costs should the charges include?*
* *How should charges be structured?*
* *How should costs be calculated and allocated?*

*All new methodologies or proposed significant reviews of cost recovery will be provided to the PIRSA Finance Committee to ensure consistency.*

*PIRSA will document analyses conducted and make information available to interested stakeholders through the PIRSA internet website.*

**Principle 9 – Compliance with Government of South Australia approval requirements**

To apply the guidelines, PIRSA will document and gain approval for cost recovery arrangements in a manner consistent with Government of South Australia legislative and policy requirements.

*Cabinet approval processes include addressing economic, financial and budgetary implications, required resources (SA Department of Treasury and Finance costing comments), and regional impact statements on the community and the environment. Further details can be found in* [*SA Department of Premier and Cabinet – Cabinet Submissions Guide*](https://www.dpc.sa.gov.au/responsibilities/cabinet-and-executive-council/cabinet/what-goes-to-cabinet/cabinet-submissions) *and* [*South Australian Department of Treasury and Finance - Treasurer's Instruction 17 : Guidelines for the Evaluation of Public Sector Initiatives Parts A and B*](https://www.treasury.sa.gov.au/budget/compliance-and-resources/treasurers-instructions)*.*

*PIRSA will comply with the guideline for the adjustment of fees and charges that is annually issued by the SA Department of Treasury and Finance.*

**Principle 10 – Transparency and accountability**

Cost recovery arrangements will be decided through the engagement of relevant parties.

*Engagement with stakeholders is an important part of the cost recovery process. Those who will pay for an activity will have an interest in initial policy review and design of cost recovery arrangements and ensuring that charges are based on efficient practices.*

*PIRSA will follow the key elements of cost recovery requirements stakeholder engagement principles outlined in clauses 30, 31 and 32 of the Australian Government Cost Recovery Guidelines (July 2014); together with the PIRSA Engagement Policy (GO P 020); and the Government of South Australia – Better Together: Principles of Engagement in all stages of cost recovery (see Principle 7).*

*PIRSA will document analyses conducted in initial policy review and design stages (see Principle 8) and make information available to interested stakeholders through the PIRSA Internet website. Cost recovery charges should be simple to understand. Where practical the basis for charges should be transparent to stakeholders without compromising administrative efficiency or cost effectiveness. PIRSA Divisions will develop a Cost Recovery Implementation Statement (“CRIS”) where cost recovery is applied.*

*PIRSA will also make publicly available service level delivery and cost performance information relevant to monitoring and reviewing cost recovery arrangements (see Principle 11 below) on the PIRSA Internet website.*

*Decision makers should be made aware of stakeholder engagement conducted, and views expressed, before approving new or amended cost recovery charges. Effective engagement should provide government with an understanding of the likely stakeholder reaction to proposals under consideration.*

**Principle 11 – Monitor and review**

PIRSA will periodically monitor and review, all significant cost recovery arrangements, in line with established cost recovery agreements and the triggers for review outlined within those agreements. An independent verification of cost recovery processes will also be required at least every five years.

*There is a need to program scheduled reviews of the level of service delivery and costing models on a regular basis to keep up with change as costs alter over time. For various reasons industry service requirements may change over time and this may result in PIRSA not providing those services or providing them at a different level.*

*Costs will be monitored on an annual basis and altered according to market and SA Department of Treasury and Finance requirements. Cost recovery arrangements will be reviewed every five years or as directed by the Minister. All major reviews are to be referred to the PIRSA Finance Committee for consideration to ensure consistency with this policy and independent verification of the process undertaken by each PIRSA Division.*

# Roles and Responsibilities

| **Role** | **Responsibilities** |
| --- | --- |
| Chief Executive | Approving the policy |
| Executive Directors | Applying the policy to divisional programs.  Providing policy advice and assistance, including interpreting policy requirements. |
| PIRSA Finance Committee | Checking consistency across PIRSA divisions for new cost recovery proposals and changes in proposals to ensure alignment with this policy.  Providing policy advice and assistance to PIRSA divisions on cost recovery methodology.  Providing policy advice and assistance to PIRSA divisions in their understanding of and ability to apply the key policy principles for all products and services within scope.  Reviewing the policy, and providing advice to PIRSA Executive on progress and potential improvements to the policy. |
| Chair, PIRSA Finance Committee | Ongoing management of the policy (including feedback, review, document and records management requirements, updating policy versions and removal of revoked policies). |

# Definitions

| **Term** | **Meaning** |
| --- | --- |
| Avoidable cost | Those costs that would be avoided if an operation were suspended or closed down and the supply of an output, good, service or activity were ceased. |
| Cost recovery charge | Modes costs that would be avoided if an operation were suspended or closed down and the supply of an output, goods service or activity were ceased.  Fees for goods and services.  Levies or group based charges. |
| Cost reflective pricing | Involves calculation of the cost of outputs adjusted for any competitive advantages due to government ownership and setting a price for the output using the competitively neutral cost as a starting point. |
| Direct costs | Costs which are solely consumed by the activity to which they are attributed, e.g. labour, materials and capital used to produce the goods and services or administer regulation. |
| Economic efficiency | Contributing to community well-being by ensuring resources across the economy are directed to their most productive uses (allocative efficiency) and ensuring outputs are produced at least cost (technical efficiency). Under conditions of market failure, the characteristics of a market are such that its unfettered operation may not lead to the most efficient outcome possible (see also ‘Public good’ and ‘Spillover’). |
| Fee for service | A fee for service has three main elements:  an identifiable service  rendered to the person paying  the fee charged is related to the cost of providing the service to the user group (program) as a whole.  A ‘user group’ in the case of the Plant Health Market Access and Certification Program for example, would be food importers or exporters. Audit services charged by Plant Health Operations to individual businesses would be an example of a fee for service. |
| Fully distributed cost (FDC) | Involves allocating the total costs incurred by an agency in producing an output, good, service or activity. This includes all direct costs, indirect costs and overheads. |
| Incremental cost | The increase in costs attributable to the production of a particular type of product, which could include capital or overhead costs - sometimes used as a proxy for the marginal cost of producing an additional unit of that product. |
| Indirect costs | Costs which are not able to be directly allocated to a particular activity (also known as overheads), e.g. financial services, human resources, IT services, records and information management services, including capital consumed in these activities. |
| Information activities | Activities involved in collecting, compiling and disseminating information or any other activity of a non-regulatory nature (see also ‘Regulatory activities’). |
| Marginal cost | Increase in costs attributable to the production of an additional unit of a good or service, |
| Public good | A good or service where provision for one person means the good or service is available to all people at no additional cost. Public goods are said to be non-rival and non-excludable. These goods are unlikely to be provided to a sufficient extent by the private market. |
| Regulatory activities | Activities involved in administering regulations (see also ‘Information activities’). |
| Spillover | A situation where a decision to produce or consume has positive or negative welfare consequences for those not party to the decision. |

# Related Documents

* [*Australian Government Department of Finance – Australia Government Cost Recovery Guidelines: Resource Management Guide No.304*](https://www.finance.gov.au/publications/resource-management-guides/australian-government-cost-recovery-guidelines-rmg-304)
* [*Australian Government Charging Framework | Department of Finance*](https://www.finance.gov.au/government/managing-commonwealth-resources/managing-money-property/managing-money/australian-government-charging-framework)
* [*Australian Productivity Commission – Cost Recovery by Government Agencies Inquiry Report*](http://www.pc.gov.au/inquiries/completed/cost-recovery/report)
* [*Government of South Australia - Better Together: Principles of Engagement*](http://bettertogether.sa.gov.au/principles-of-engagement)
* [*SA Department of Premier and Cabinet – Cabinet Submissions Guide*](https://www.dpc.sa.gov.au/responsibilities/cabinet-and-executive-council/cabinet/what-goes-to-cabinet/cabinet-submissions)
* *[SA Department of Premier and Cabinet - SA Government Competitive Neutrality Policy and Implementation Guidelines website](https://www.dpc.sa.gov.au/resources-and-publications/competitive-neutrality)*
* [*South Australian Department of Treasury and Finance - Sustainable Budget Commission - Sustainable Budget Commission Phase 1 and 2 Reports (2010)*](https://www.treasury.sa.gov.au/budget/current-budget/previous-budgets/budget-2010-11)
* [*South Australian Department of Treasury and Finance - Treasurer’s Instruction 17: Evaluation of and Approvals to Proceed with Public Sector Initiatives*](https://www.treasury.sa.gov.au/budget/compliance-and-resources/treasurers-instructions)
* [*South Australian Department of Treasury and Finance - Treasurer's Instruction 17: Guidelines for the Evaluation of Public Sector Initiatives Parts A and B*](https://www.treasury.sa.gov.au/budget/compliance-and-resources/treasurers-instructions)