



Australian Government
Department of Finance



Australian Government Cost Recovery Guidelines

Resource Management Guide No. 304

July 2014 – Third edition



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This guide contains material that has been prepared to assist Commonwealth entities to apply the principles and requirements of the *Public Governance, Performance and Accountability Act 2013*, associated rules and any applicable policies.

In this guide, the mandatory principles or requirements are set out as things entities and officials must do. Also, actions or practices that entities and officials are expected to take into account, to give effect to those principles and/or requirements, are set out as things entities and officials should consider doing.

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PART I

AUSTRALIAN GOVERNMENT COST RECOVERY POLICY

Introduction to cost recovery

1. The Australian Government provides a diverse range of services, support and benefits to the Australian public to achieve its policy outcomes. These activities are funded from different revenue sources, including general taxation, sales of public assets, government investments, cost recovery and other revenue-raising measures.
2. Cost recovery involves the Australian Government charging the non-government sector some or all of the efficient costs of a specific government activity. That activity may include the provision of goods, services or regulation, or a combination of them.
3. Cost recovery can:
 - promote equity, whereby the recipients of a government activity, rather than the general public, bear its costs
 - influence demand for government activities
 - improve the efficiency, productivity and responsiveness of government activities and accountability for those activities
 - increase cost consciousness for all stakeholders by raising awareness of how much a government activity costs.



4. The characteristics of a government activity determine the type of cost recovery charge used. There are two types of cost recovery charges:
 - **cost recovery fees**—fees charged when a good, service or regulation (in certain circumstances) is provided directly to a specific individual or organisation
 - **cost recovery levies**—charges imposed when a good, service or regulation is provided to a group of individuals or organisations (e.g. an industry sector) rather than to a specific individual or organisation. A cost recovery levy is a tax and is imposed via a separate taxation Act. It differs from general taxation as it is ‘earmarked’ to fund activities provided to the group that pays the levy.
5. Cost recovery fees and levies fall within the government’s broader charging framework. In addition to cost recovery, other types of government charges include commercial charges, fines and penalties, and general taxation. The Australian Government determines which charging type to use based on the characteristics of the activity. Figure 1 outlines key government charges and their characteristics.¹ Attachment A provides further details.

¹ Different titles may be used for government charges. Regardless of the title, the characteristics of the specific charge determine the requirements that apply.

Figure 1: Key government charges and their characteristics

Type of charge	Commercial charges	Cost recovery fees	Cost recovery levies	Fines Monetary penalties Royalties	Taxes Non-cost recovery levies Excises Customs duties
Relationship between charges and costs	Generally based on market rates	Reflect efficient unit costs of a specific good or service $R \approx E^a$	Reflect efficient overall costs of the activity $R \approx E^a$	May or may not relate to a specific activity or its costs	Generally do not relate to a specific activity or its costs (i.e. raise general revenue)
Statutory authority to charge	Generally not required	Required	Taxation Act required	May be required	Excise, customs or taxation Act required
GFS^b reporting classification	Non-taxation revenue				Taxation revenue
Examples of activities	Activities of GBEs ^c Activities conducted in a competitive or potentially competitive market (e.g. data provision)	Licences Registrations Approvals Patents	Monitoring compliance Investigations Enforcement	Late payment penalties Prosecution costs Court fees	Generally not related to a specific activity

a R = revenue generated from the activity; E = expenses incurred in providing the activity.

b Government Finance Statistics.

c A government business enterprise (GBE) is a Commonwealth entity or Commonwealth company that is prescribed by the rules made under the *Public Governance, Performance and Accountability Act 2013* [PGPA Act; available at www.comlaw.gov.au].



6. Other Australian Government charges and payments that are not cost recovery for the purposes of the policy include:
 - charges between government entities² (intra-government and inter-government payments)
 - repayments of loans to the Commonwealth
 - payments that offset the cost of a specific one-off or ad hoc event, activity or service
 - payments where there is no relationship between the payer of the charge and the recipient of the activity
 - entry fees to exhibitions (e.g. galleries, museums and educational institutions)
 - receipts from asset sales or investments
 - co-payments, where the payments are not made to the Commonwealth
 - payments for the hire, rent or lease of Commonwealth property
 - court fees and similar fees.

The Cost Recovery Guidelines

7. The Cost Recovery Guidelines (the CRGs) must be applied by all non-corporate Commonwealth entities and by selected corporate Commonwealth entities, where the Finance Minister has made a 'government policy order' that applies the Australian Government cost recovery policy to them. Non-corporate and corporate Commonwealth entities are defined under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).
8. The CRGs set out the overarching framework under which government entities design, implement and review cost recovered activities provided on behalf of the Australian Government. The cost recovery framework also includes:

² These involve charges between the Commonwealth and different levels of government, including state or territory governments, local governments and foreign governments. See Attachment B for more information on payments between government entities.

- a range of supplementary tools, such as the cost recovery implementation statement template, the cost recovery risk assessment template and the portfolio charging review template³
 - the schedule of portfolio charging reviews.⁴
9. The CRGs are relevant for:
- Ministers
 - accountable authorities (chief executives and boards) of government entities
 - staff (officials) of government entities
 - non-government organisations that provide cost recovered activities on behalf of the Australian Government
 - individuals and non-government organisations affected by cost recovery, particularly those who pay cost recovery charges.⁵

Cost recovery policy

10. The Australian Government's overarching cost recovery policy is that, where appropriate, non-government recipients of specific government activities should be charged some or all of the costs of those activities. The cost recovery policy promotes consistent, transparent and accountable charging for government activities and supports the proper use of public resources.⁶
11. The Australian Government considers the types of activities that are most appropriate to cost recover on a case-by-case basis. Key considerations are:
- the nature of the government activity (e.g. will government be the only provider?)
 - who might be charged (e.g. is there an identifiable individual, organisation or group that receives the activity or creates the need for it?)

³ These templates are available on the Department of Finance website (www.finance.gov.au).

⁴ The schedule of portfolio charging reviews is available on the Department of Finance website (www.finance.gov.au).

⁵ The roles and responsibilities of key stakeholders are detailed in Attachment C.

⁶ Under the PGPA Act, revenue from cost recovery is a public resource for both corporate and non-corporate Commonwealth entities. Section 8 of the PGPA Act defines 'proper' use or management of public resources as efficient, effective, economical and ethical.

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- the impact of cost recovery on competition, innovation or the financial viability of those who may need to pay charges and the cumulative effect of other government activities
 - whether it is efficient to cost recover the activity (e.g. are the costs of administering cost recovery appropriate to proposed charges for and revenue from the activity?)
 - how cost recovery might affect:
 - the policy outcomes for the activity
 - other government policies and legislation (e.g. policies relating to access to essential community services)
 - Australia's obligations under international treaties (e.g. free trade agreements).
12. It is usually inappropriate to cost recover some government activities, such as general policy development, ministerial support, law enforcement, defence and national security. In certain circumstances, cost recovery may also be contrary to intended policy outcomes, such as the provision of community services or industry support.
13. If the same cost recovered activity is provided to both government and non-government stakeholders, charges should be set on the same basis for all stakeholders.
14. Australian Government entities should generally set charges to recover the full cost of providing specific activities. Partial cost recovery, which occurs when less than the full cost of a government activity is recovered, may be appropriate in some circumstances where:
- charges are being 'phased in'
 - full cost recovery would be inconsistent with community service obligations endorsed by the Australian Government
 - the Australian Government has made an explicit policy decision to charge for part of the costs of an activity.

15. Government entities should aim to minimise cost recovery charges through the efficient implementation of cost recovered activities, in the context of the specific policy outcomes and legislation. The cost recovery framework is underpinned by three principles that must be applied across all stages of the cost recovery process:
 - efficiency and effectiveness
 - transparency and accountability
 - stakeholder engagement.
16. For each cost recovered activity, the responsible government entity must:
 - have policy approval from the Australian Government to cost recover
 - have statutory authority to charge
 - ensure alignment between expenses and revenue⁷
 - maintain up-to-date, publicly available documentation and reporting.
17. In addition, each responsible Department of State must conduct a periodic review of all existing and potential charging activities within its portfolio at least every five years. The review should be in accordance with the published schedule of portfolio charging reviews updated by the Finance Minister from time to time, in consultation with the responsible Minister. The portfolio charging review report must be submitted to the responsible Minister, and a copy must be provided to the Finance Minister.
18. Ministers, government entities and their staff operate within a legislative and policy framework. In addition to the CRGs, other relevant legislation and policies include:
 - the PGPA Act
 - the enabling legislation of the government entity
 - the relevant legislation for the activity
 - policy guidance issued by the Department of Finance (Finance).

⁷ This means that expenses and revenue balance out over a reasonable period (e.g. the business cycle of the activity). For a partially cost recovered activity, the Australian Government decides, as part of the policy approval, the levels of costs that will be partially recovered (e.g. 80 per cent of total costs of an activity).



Cost recovery performance

19. A government entity must measure and assess its performance in achieving government policy outcomes.⁸ Performance can be measured in a number of ways, including:
 - the enforcement of legal standards
 - compliance reviews by audit and regulatory bodies
 - program evaluations
 - assurance reviews
 - capability reviews.
20. A government entity should have a performance framework that is linked to government policy outcomes. It should determine operational outputs that can be used to measure progress in achieving those outcomes. The measures should:
 - include quantitative, qualitative and milestone information or be phrased in such a way that it is clear when the operational outputs have been produced
 - be authorised or endorsed by Ministers, accountable authorities or senior entity staff, whichever is appropriate
 - be documented and shared with stakeholders
 - be reviewed regularly and whenever policy changes are made to the activity.
21. Performance measures and other information are key inputs used by government entities in evaluating whether outputs have been produced and outcomes have been achieved. Outcome measures assess the extent to which the cost recovered activity is meeting government policy outcomes. Output measures show the extent to which the cost recovered activity's operational targets or milestones have been achieved. Input measures show the resources, such as money, consumed by the cost recovered activity.

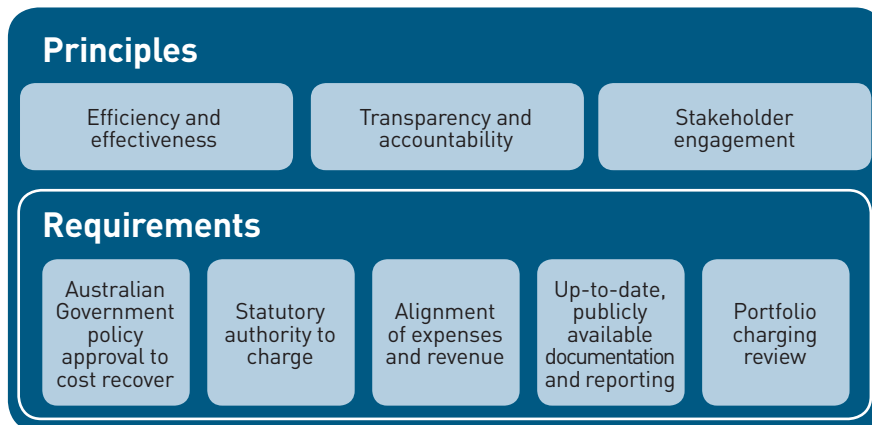
22. When evaluating performance, government entities should consider common traps, which include:
- assuming that the production of outputs secures the desired outcomes
 - assuming that the consumption of inputs results in the desired outputs and outcomes
 - framing performance measures that rely on data that cannot be validated.

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PART II KEY ELEMENTS OF COST RECOVERY

23. The cost recovery framework is based on a set of principles and requirements (see Figure 2). This part of the CRGs provides policy guidance on applying key framework elements to cost recovered activities.

Figure 2: Cost recovery principles and requirements



Cost recovery principles

Efficiency and effectiveness

24. Efficiency and effectiveness in government involve making the proper use of available resources (people, money and other supplies) to achieve government policy outcomes. Government activities should meet quantity, quality and other targets, be undertaken at minimum cost, and be conducted in accordance with applicable policy and legislative requirements.

25. For a cost recovered activity, efficiency also relates to whether it is efficient to provide the activity on a cost recovery basis (i.e. the costs of administering cost recovery should be proportional to the charges for and potential revenue from the activity). This requires a balance between developing a more precise, but more complex and hence more expensive costing model, and developing a simpler and less expensive, but less precise, costing model. Similarly, the effectiveness of cost recovery involves the reliability and accuracy of the cost recovery model and related processes in measuring costs and reflecting those costs in the related charges. Effective cost recovery also includes appropriate revenue management.

Transparency and accountability

26. Transparency is about openness, two-way communication and a willingness to explain activities and actions. It allows appropriate scrutiny of government activities, decisions and processes by providing access to information.
27. For cost recovery, transparency means documenting key information about the activity, such as the policy approval, statutory authority to charge and cost recovery model, in an accessible way for those who pay charges and for other stakeholders. It also involves reporting on performance for the activity on an ongoing basis. Access to cost recovery information can help stakeholders determine whether cost recovered activities are being implemented efficiently, effectively and consistently with Australian Government decisions, cost recovery and other government policies, and relevant legislation.
28. Transparency is closely linked to accountability. The latter is about clear roles and responsibilities for key stakeholders throughout all stages of the cost recovery process and having in place appropriate governance structures. In the cost recovery context, accountability involves ensuring that entities, their staff and the responsible Ministers are answerable for their actions and decisions in relation to cost recovery.

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29. A well-documented costing model is fundamental to transparency and accountability. The level of detail in the costing model should be balanced against the cost of developing and maintaining the model and proportional to the size and complexity of the activity. The documentation for a specific cost recovered activity should be detailed enough to allow the Parliament, those who pay cost recovery charges, and other stakeholders to analyse the activity.⁹

Stakeholder engagement

30. Stakeholder involvement will generally result in better design, planning and implementation of government activities. Successful stakeholder engagement is most likely to occur when it is well planned and when government entities enter into a meaningful dialogue with stakeholders, consider their views and, where appropriate, take action.
31. Entities should engage actively with stakeholders throughout all stages of the cost recovery process, from policy development through to implementation and review. They should develop and implement an ongoing engagement strategy in consultation with stakeholders. They should also consider including performance indicators to measure the effectiveness of stakeholder engagement and revise their processes based on feedback.
32. Stakeholder engagement is particularly important for cost recovered activities, as cost recovery charges have a direct impact on those who pay them. When engaging with stakeholders, government entities should use the consultation principles based on the Australian Government Guide to Regulation,¹⁰ including the following:
 - **continuity**—consultative relationships with stakeholders should be built whenever the opportunity presents itself, not only for the specific policy development process.
 - **broad base**—consultation should capture the diversity of stakeholders affected by the proposed charges. This includes state, territory and local governments, as appropriate, and relevant Commonwealth entities, particularly regulators with similar policy responsibilities.

⁹ Nominating costing information as 'commercial-in-confidence' is not a sufficient reason for withholding it. Government activities provided on a cost recovery basis are not considered commercial in nature.

¹⁰ The Australian Government Guide to Regulation is issued by the Department of the Prime Minister and Cabinet and is available at www.cuttingredtape.gov.au.

- **accessibility**—channels and strategies of consultation should be relevant to stakeholder groups and take into account their resources and ability and the time needed to prepare a submission or response. Government entities should be able to respond promptly to queries from stakeholders, which may be facilitated by the use of social media, inbound calling numbers or face-to-face meetings.
- **transparency**—entities should explain the objectives of the consultation process and the context in which consultation is taking place and provide feedback on how they have taken consultation responses into consideration.
- **consistency and flexibility**—consistent consultation processes can make it easier for stakeholders to participate. However, the form of consultation may need to suit the circumstances of the particular proposal under consideration.
- **evaluation and review**—entities should evaluate consultation processes and continue to look for ways to make them more relevant and effective.
- **timing**—consultation should start when policy objectives and options are being identified. Throughout the consultation process, stakeholders should be given sufficient time to provide considered responses.

Cost recovery requirements

Australian Government policy approval to cost recover

33. Entities and responsible Ministers must obtain approval from the Australian Government to cost recover a specific activity. They should seek approval:
 - to undertake a specific activity on a full or partial cost recovery basis, whether a new or existing activity
 - for a new cost recovery model, or to make significant changes to an existing model
 - to bring forward new legislation or amend existing legislation to provide authority to charge or change charges.

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Statutory authority to charge

34. All cost recovery charges must have a statutory basis and be underpinned by specific legislation or legislative instruments.¹¹ The type of legislation required depends on the activity, the costs involved, whether costs can be attributed to an individual or group, and constitutional requirements (e.g. a cost recovery levy must be imposed via a separate taxation Act).
35. Government entities should consult with Finance and the Department of the Treasury when drafting or amending charging provisions of relevant legislation. In addition, the Department of Foreign Affairs and Trade should be consulted if there is a possibility that international law and other obligations (e.g. treaties that govern the sharing of information) could constrain the application of cost recovery charges.

Alignment between expenses and revenue

36. There must 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 activity¹²
 - 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.
37. Ideally, the expenses and revenue should be aligned on a yearly basis. However, where justified, they can be aligned over a longer period (e.g. the business cycle of the activity). Government entities should develop mechanisms (e.g. internal control systems) to manage any under- or over-recovery. There must not be systematic over- or under-recovery of costs.

11 Relevant legislation may include the enabling legislation of a government entity, legislation for the activity and taxation legislation. Examples of legislative instruments include regulations or ministerial determinations.

12 Or at the level set by the Australian Government if partial cost recovery has been agreed.

38. Entities should explain any variance between actual expenses and revenue in any one year (e.g. a variance may be due to inaccurate estimates of demand, unforeseen impacts or difficulty in recruiting staff). The degree of alignment between expenses and revenue is likely to vary among different cost recovered activities because the business cycles and cost drivers of those activities differ. For partially cost recovered activities, the degree of alignment is agreed by the Australian Government.

Documentation and reporting

39. Each cost recovered activity, regardless of financial value, must be documented in a cost recovery implementation statement (CRIS) before charges commence.¹³ The CRIS is an explanatory document that provides key information on how cost recovery for a specific government activity is implemented. It reports how the activity is performing on an ongoing basis. The CRIS is prepared after the Australian Government makes a decision to cost recover the specific activity and it provides the basis for engagement with stakeholders on various aspects of the activity.
40. For a new activity or an existing activity that has not been cost recovered before, the CRIS should be finalised, approved and published on the responsible entity's website before the charging begins. After that, the CRIS should be amended to reflect any changes to the cost recovery model and updated regularly with financial and non-financial performance information.
41. Each CRIS must include:
- background information on the cost recovered activity, including the outputs that the activity will produce to achieve government policy outcomes
 - details of the Australian Government policy approval to cost recover the activity
 - details of the legislation authorising the charges
 - an explanation of how the activity was costed
 - an explanation of the design of cost recovery charges

¹³ Entities should use the CRIS template, which is available on the Department of Finance website (www.finance.gov.au).

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- an assessment of cost recovery risk
 - the stakeholder engagement strategy, including a summary of the most recent consultation and stakeholder views
 - financial estimates for the activity (i.e. expenses and revenue)
 - reporting on financial and non-financial performance of the activity
 - key forward dates and events, including the next portfolio charging review.
42. Government entities should consult with Finance when developing a CRIS. The CRIS must be:
- certified by the accountable authority of the entity
 - approved by the responsible Minister
 - agreed for release by the Finance Minister, if the cost recovery risk rating for the activity is 'high'.¹⁴
43. In addition to the CRIS, government entities must also report actual cost recovery expenses and revenue at an aggregate level in their financial statements.

Portfolio charging review

44. Departments of State must conduct periodic reviews of all existing and potential charging activities within their portfolios at least every five years, in accordance with the published schedule of portfolio charging reviews or at other times agreed by the Finance Minister.¹⁵ The portfolio charging review report should be based on existing information.
45. The portfolio charging review looks at a broader range of charges than just cost recovery charges. It is an opportunity to:
- assess the extent of charging activities across the portfolio
 - compare and analyse different charging activities
 - evaluate the performance of cost recovered activities
 - identify charging potential for new and existing activities

¹⁴ See Part III, Stage 1 for information on the cost recovery risk assessment.

¹⁵ A portfolio charging review template and the schedule of portfolio charging reviews are available on the Department of Finance website (www.finance.gov.au).

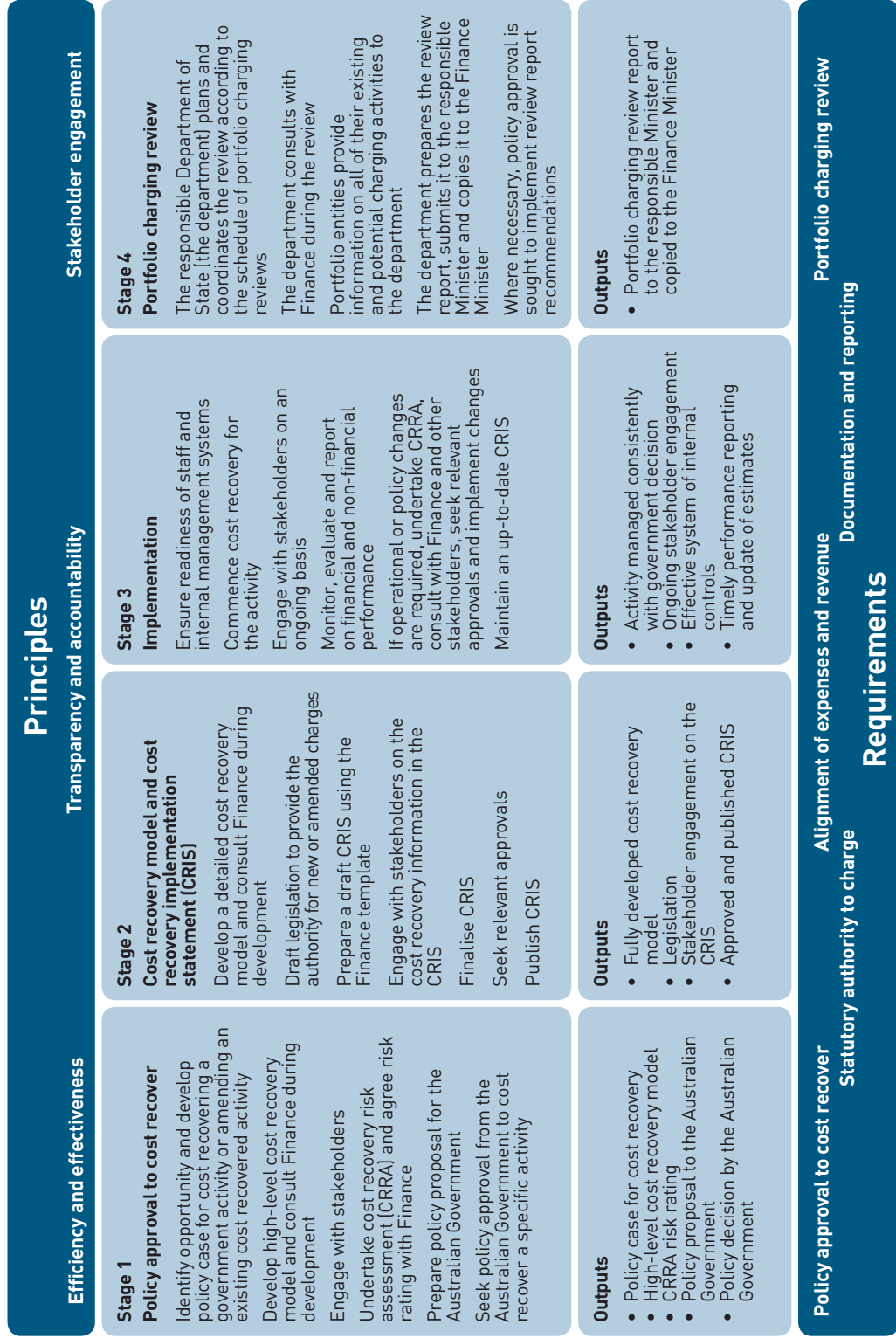
- identify opportunities to amend or discontinue cost recovered and other charging activities
 - assess the effectiveness of stakeholder engagement strategies and opportunities for improvement.
46. The Department of State should gather information from each portfolio entity to inform the portfolio charging review. Most of the information for the review should be readily available through entities' regular monitoring and evaluation of the performance of their charging activities. Additional stakeholder consultation for the portfolio charging review may not be required if portfolio entities have regularly engaged with stakeholders.
47. The review report must be submitted to the responsible Minister and copied to the Finance Minister. Any significant policy recommendations from the portfolio charging review will need to be approved by the Australian Government and documented before changes to cost recovery charges are implemented.

3

PART III COST RECOVERY PROCESS GUIDE

48. This part of the CRGs provides practical guidance on each stage of the cost recovery process. Figure 3 is a snapshot of the cost recovery principles, requirements, processes and key outputs that relate to each stage of the cost recovery process:
- Stage 1: Policy approval to cost recover
 - Stage 2: Cost recovery model and CRIS
 - Stage 3: Implementation
 - Stage 4: Portfolio charging review.

Figure 3: Cost recovery framework



Checklist for Stage 1

Stage 1—Australian Government policy approval to cost recover

Objective

The objective of Stage 1 is to gain policy approval from the Australian Government to cost recover a specific government activity.

Figure 4: Stage 1 of the cost recovery process



Key processes

The following are the key processes in Stage 1:

- Identify an opportunity to cost recover a government activity or a need to amend an existing cost recovered activity
- Develop a policy case and broad implementation strategy for cost recovering a government activity or amending an existing cost recovered activity
- Develop a high-level cost recovery model
- Engage with stakeholders
- Undertake a cost recovery risk assessment (CRRA) and agree on a risk rating with Finance¹⁶
- Prepare a policy proposal for the Australian Government that also meets other relevant requirements (e.g. a regulation impact statement)
- Seek policy approval from the Australian Government to cost recover the specific activity.

Key outputs

The key outputs for Stage 1 are:

- a policy case for the cost recovery of a government activity
- a high-level cost recovery model
- a CRRA risk rating
- a policy proposal to the Australian Government
- a policy decision by the Australian Government.

Requirements

Two requirements are relevant to Stage 1:

- Australian Government policy approval to cost recover
- alignment between expenses and revenue.

¹⁶ The CRRA template is available on the Department of Finance website (www.finance.gov.au).

Policy analysis and rationale for cost recovery

49. Entity staff should conduct appropriate research and analysis when assessing the potential to cost recover new or existing government activities or when making changes to existing cost recovered activities. This analysis will help the entity determine whether there is a policy rationale to undertake the activity on a cost recovery basis.
50. In developing the policy rationale, staff should:
 - consider whether the activity involves the provision of goods, services and/or regulation and whether those outputs can be provided only by government
 - identify government and non-government stakeholders that will be affected, including individuals or organisations that may use or receive the activity, and identify and analyse their characteristics
 - estimate the potential size and scope of cost recovery for the activity (e.g. whether all or some costs of the activity have the potential to be recovered)
 - assess the efficiency of implementing cost recovery, including the level of certainty about the cost recovery revenue and costs associated with administering cost recovery
 - determine the impact of cost recovery on government policy outcomes, such as any impacts on international treaties, access to essential community services¹⁷ or access to government data
 - analyse the effect on competition, innovation and the financial viability of the directly affected individuals and organisations, including the cumulative effect from other government activities
 - consider whether similar activities are undertaken in Australia or overseas and what can be learned from those activities
 - identify any other implementation issues (e.g. the involvement of different levels of government, or stakeholder sensitivity about the introduction of cost recovery for activities that have not previously been cost recovered).

¹⁷ Due to the difficulty in identifying pure public goods, this is not considered to be a criterion in determining whether cost recovery is appropriate. A range of other relevant considerations inform the final decision by the Australian Government about cost recovery for a specific activity.

3

High-level design of the cost recovery model

51. Where there is the potential to introduce cost recovery, entity staff should develop a high-level cost recovery model for the activity. They should consult with Finance early in the model development. If approved by the Australian Government, the high-level model will form the basis for a more detailed cost recovery model to be developed in Stage 2 of the cost recovery process.
52. In developing a high-level cost recovery model, entity staff should:
 - provide estimates of expenses and revenue for the activity
 - discuss how changes in the underlying assumptions will affect financial estimates
 - demonstrate the potential to align expenses and revenue¹⁸
 - propose how the activity could be broken down into distinct outputs¹⁹ (e.g. assessments of permit applications, registrations of goods or compliance audits) that facilitate the achievement of the government policy outcomes
 - identify high-level business processes for the outputs of the activity
 - identify appropriate types of cost recovery charges (fees, levies or both)
 - produce estimates of the cost recovery charges.
53. In addition, entity staff should:
 - build in enough flexibility to minimise the need to seek variations to the policy decision
 - remove incentives for ‘cost padding’, inefficiency and the expansion of the activity beyond the original policy intent
 - where possible, benchmark the activity and its business processes.

¹⁸ For partially cost recovered activities, the Australian Government determines the degree of alignment between expenses and revenue.

¹⁹ Outputs are the expected deliverables that contribute to the achievement of government policy outcomes. Measuring outputs against targets helps to evaluate performance, productivity and efficiency of the activity.

Types of cost recovery charges

54. The characteristics of the activity, its outputs and its business processes should be used to determine which cost recovery charges to use (see Figure 12). A cost recovery fee is the preferred option where the activity and its costs can be linked to a specific individual or organisation (e.g. an application for a licence).²⁰ Where it is not possible to make such a link, a cost recovery levy can be used (e.g. for compliance audits across an industry). However, a cost recovery levy should only recover the costs of the activity provided to a group of individuals or organisations that pay the cost recovery levy. Otherwise, this type of charge could be considered general taxation.
55. The characteristics of the activity may not always be straightforward. Entity staff should seek guidance from Finance and the Department of the Treasury early in the policy development process. Once the nature of the proposed charge is determined, entity staff should consult with Finance on cost recovery and the Department of the Treasury on general taxation matters. Where necessary, they should also seek legal advice about their choice of the types of charges to ensure that constitutional issues are addressed.

Implementation strategy

56. The high-level cost recovery model should be supported by a broad implementation strategy. In developing the strategy, entity staff should consider the following:
 - **timing**—when should charging commence? Should it be phased in? Has adequate time been allowed for the passage of any legislation and for stakeholder engagement?
 - **governance**—are appropriate structures in place to manage cost recovery or do they need to be developed?
 - **staffing**—does the entity have the right skills to deliver the activity? Are special skills required for the detailed design and implementation of the activity?

²⁰ A fee must be related to the cost of providing the activity to the individual or organisation.

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- **stakeholder engagement**—how can stakeholders be given a meaningful opportunity to provide input into the detailed design and implementation of the activity?
- **procurement**—do any goods or services need to be procured for the implementation of the activity?

Risk assessment

57. Risk engagement involves ongoing assessment and management of risk. A key element of planning, designing and managing cost recovered activities is to identify and engage with risk at each stage of the cost recovery process.²¹ While activities and systems may vary between government entities, risk identification and engagement should be built into all stages of the cost recovery process.
58. Risks can be appropriately mitigated through ongoing analysis, the implementation of appropriate risk engagement strategies, regular reviews of processes, and appropriate action as a result of those reviews. Risk identification and engagement should be supported by timely and relevant performance information.
59. When analysing risk, staff of government entities should consider the entity's operating environment and the factors that influence cost recovery, such as:
 - **complexity**, which relates to the structures, processes and implementation of the specific activity. Complexity may be influenced by the number of outputs of the activity being cost recovered; the design of cost recovery charges (e.g. a cost recovery levy based on complex proxies or a combination of fees and levies); the involvement of third parties in the activity; the involvement of a state or territory government or a contracted non-government organisation; tight timeframes; multiple items of relevant legislation; multiple cost drivers; difficulties in forecasting demand; or the type and number of stakeholders involved (e.g. the number of government entities and/or industry sectors)
 - **materiality**, which relates to the financial value of the activity and involves the total cost recovery revenue and the amounts of the individual charges

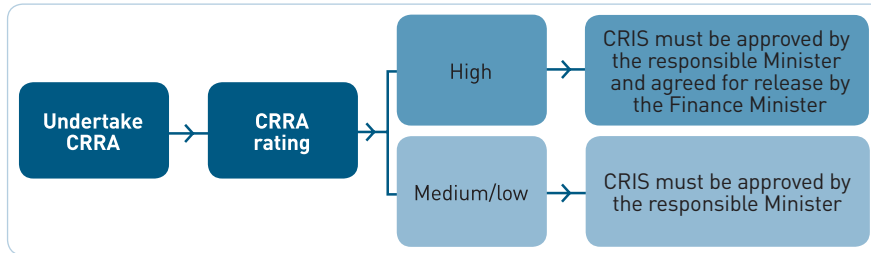
²¹ The PGPA Act includes a duty for accountable authorities to ensure that their entities have appropriate systems of risk oversight and management.

- **sensitivity**, which relates to the level of interest in the activity from government stakeholders, non-government stakeholders, the media and the Parliament. Key considerations include whether, when and why any sensitivities exist. The reasons for sensitivities may include the nature of the charges; the nature of the industry; existing government charges faced by industry; tight timeframes for implementation; and limited consultation.
60. Government entities must self-assess the risks associated with materiality, complexity and sensitivity for any new or amended cost recovered activity as part of the policy proposal process or operational change. They should use the CRRA template²² to undertake this assessment and agree on the risk rating with Finance.
 61. The purpose of the risk assessment is to identify areas of implementation risk and inform the risk engagement strategy adopted by the entity. Responsible entities and Ministers should determine how to engage with the identified risks (e.g. by providing more detailed information in the CRIS, engaging with stakeholders in different ways or other processes).
 62. The outcome of the risk assessment is a rating that determines whether the CRIS needs to be agreed for release by the Finance Minister in addition to the responsible Minister. The risk rating does not determine whether cost recovery is appropriate, or whether some activities are more suitable for cost recovery than others. As shown in Figure 5, a CRRA rating of ‘high,’ ‘medium’ or ‘low’ leads to one of two requirements:
 - **high** means that the responsible Minister will need to seek the Finance Minister’s agreement to the release of the CRIS before charging begins
 - **medium** or **low** means that the CRIS can be approved by the responsible Minister and does not require the Finance Minister’s agreement for release before charging begins.

²² The CRRA template is available on the Department of Finance website (www.finance.gov.au).

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Figure 5: The cost recovery risk assessment process as part of a policy proposal



63. Entity staff should use the CRRRA template for the risk assessment. If they choose not to use the template, they must assess the complexity, materiality and sensitivity of the activity using factors similar to those listed in the template. Regardless of the format, Finance must agree on the risk rating as part of the policy proposal process.

Policy proposal to cost recover

64. The purpose of a policy proposal is to seek explicit approval from the Australian Government to cost recover a specific activity.²³ The proposal may relate to introducing cost recovery for new or existing government activities or may involve policy changes to activities that are already cost recovered. It should contain enough information on the costs, benefits and risks to allow decision-makers to consider the merits of cost recovering or changing an activity relative to other competing priorities.
65. Specifically, the policy proposal should include:
- the rationale for proposing cost recovery for the activity:
 - who is being charged
 - why they are being charged
 - how cost recovery relates to the relevant government policy outcomes
 - whether full or partial cost recovery is proposed
 - an analysis of the impact of cost recovery on stakeholders and of any consultation issues
 - the high-level cost recovery model, including:

²³ Policy proposals must be prepared in accordance with the Budget Process Operational Rules.

- outputs of the activity
 - types of proposed charges (i.e. fees and/or levies)
 - estimates of expenses and revenue for the activity and proposed appropriation mechanisms (e.g. annual departmental appropriation or special appropriation)
 - estimates of proposed charges
 - the broad implementation strategy
 - performance measures for the cost recovered activity
 - a request for authority to bring forward any relevant legislation
 - the CRRA rating, including its impact on the CRIS approval process²⁴ and other risk management measures.
66. Entities should note that the Australian Government may also request that any CRIS be brought forward for agreement.

Stakeholder engagement

67. Stakeholders, particularly those directly affected by charges, should be consulted in developing the rationale for cost recovery of an activity, where possible, before the Australian Government considers the proposal. Early engagement provides an opportunity to refine policy proposals and signals the potential for cost recovery to stakeholders. If early engagement is not possible because of the Budget process or other constraints, entity staff should engage with stakeholders as soon as possible after the government decision. Stakeholders should be given the opportunity to provide input into the detailed design of a cost recovery model for the activity.
68. In some circumstances, broader regulatory reforms, audits and enquiries into government operations may result in the identification of cost recovery opportunities. It is good practice for entity staff to use those mechanisms to seek stakeholder feedback to inform the development of a policy case for cost recovery.

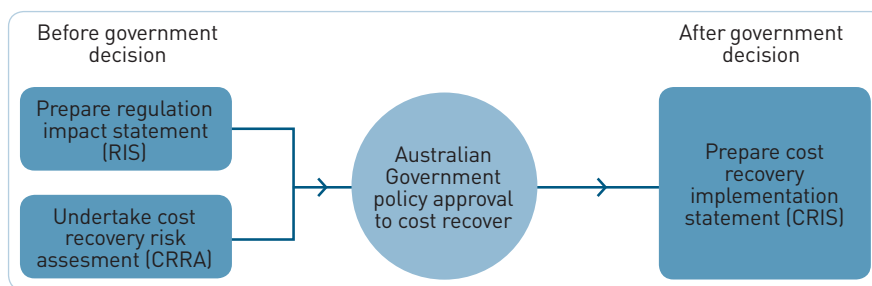
²⁴ The CRIS must be agreed for release by the Finance Minister if the risk rating is 'high'.

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Regulatory impact analysis and cost recovery

69. The cost recovery content complements other requirements that must be met as part of developing a policy proposal (e.g. an assessment of the regulatory impact of the proposal). Most cost recovered activities are regulatory, which means that regulatory impact analysis (RIA) requirements also apply. Entity staff should refer to the Australian Government Guide to Regulation for comprehensive guidance on the RIA process, including the preparation of a regulation impact statement (RIS).²⁵
70. A RIS, a CRRA and a CRIS have distinct, but connected, purposes (see Figure 6):
- a RIS is an analysis of the costs and benefits of a particular proposal and is required to be prepared as part of the policy proposal to inform the Australian Government’s decision-making
 - a CRRA is an assessment of the risk of implementing cost recovery for a government activity and is also required as part of the policy proposal
 - a CRIS is prepared after the Australian Government approves cost recovery for a specific activity to explain how cost recovery will be implemented, but before cost recovery commences.

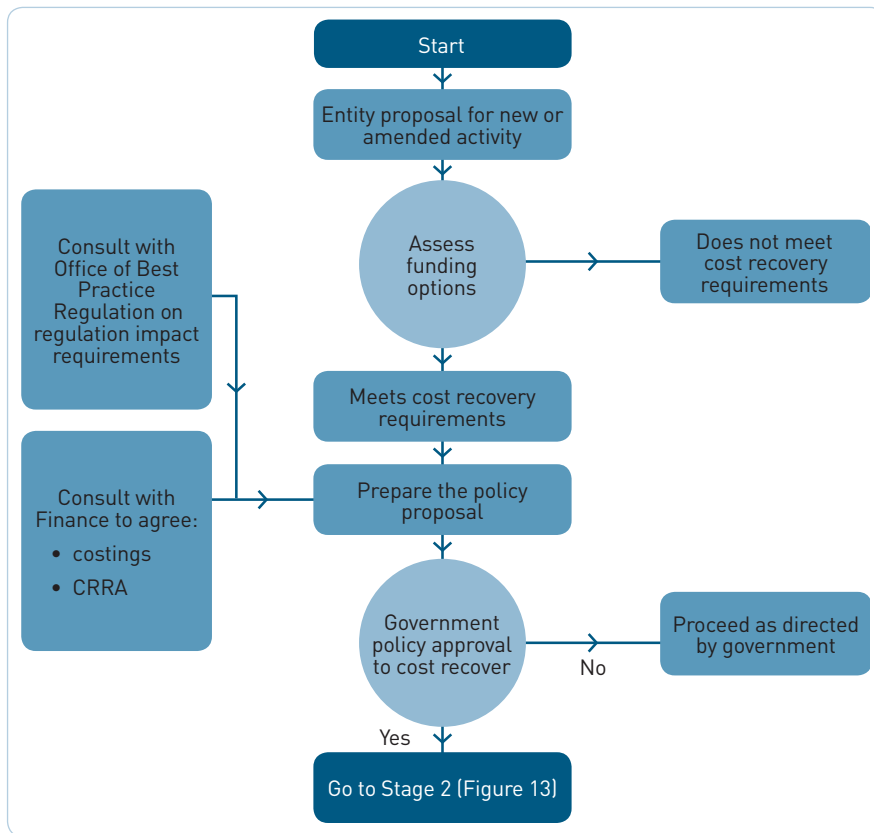
Figure 6: Roles of the RIS, CRRA and CRIS



²⁵ The Australian Government Guide to Regulation is issued by the Department of the Prime Minister and Cabinet and is available at www.cuttingredtape.gov.au.

71. Figure 7 outlines the key cost recovery checkpoints relating to Stage 1.

Figure 7: Cost recovery checkpoints for Stage 1



Checklist for Stage 2

Stage 2—Cost recovery model and CRIS

Objective

The objective of Stage 2 is to develop and document the cost recovery model, prepare legislation, consult with stakeholders and prepare and publish the CRIS on the entity's website.

Figure 8: Stage 2 of the cost recovery process



Key processes

The following are the key processes in Stage 2:

- Develop a detailed cost recovery model
- Draft legislation to provide the authority for new or amended charges
- Prepare a draft CRIS
- Engage with stakeholders on the cost recovery information in the CRIS
- Finalise the CRIS
- Seek relevant approvals for the CRIS
- Publish the CRIS.

Key outputs

The key outputs for Stage 2 are:

- the development of a cost recovery model
- the preparation of relevant legislation
- engagement with stakeholders on the CRIS
- the publication of a CRIS, informed by stakeholder views.

Requirements

Three requirements are relevant to Stage 2:

- statutory authority to charge
- documentation and reporting
- alignment between expenses and revenue.

Cost recovery model

72. The fully developed cost recovery model must be consistent with the high-level design approved as part of the Australian Government decision at Stage 1 and proportional to the materiality, complexity and sensitivity of the cost recovered activity.
73. The cost recovery model should:
 - identify outputs and business processes of the activity
 - accurately measure and assign costs to outputs and business processes
 - use relevant proxies for the allocation of indirect costs
 - track the degree of alignment between expenses and revenue
 - produce relevant and timely performance reports for the activity.
74. A well-developed cost recovery model enables entities to:
 - measure and improve efficiency
 - minimise over- and under-recovery of costs
 - manage costs and monitor performance
 - justify how cost recovery charges have been calculated and how they relate to the costs of the activity (stakeholders who pay cost recovery charges expect to receive value for money).
75. A well-developed cost recovery model improves the entity's understanding of the activity costs (i.e. the entity's cost consciousness). The cost information should be used to promote efficiency and productivity. For example, the entity's costs can be benchmarked against costs of similar activities provided by government, both in Australia and overseas. If activities are not directly comparable, specific business processes can still be benchmarked.
76. The cost recovery model should assist the entity to demonstrate that it has appropriately allocated costs to fees and/or levies should the legal basis or constitutional validity of the cost recovery charges be challenged.

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Outputs and business processes of the activity

77. Entity staff should break down the activity into distinct outputs (e.g. registrations, audits, or the development of standards) and the key business processes that are used to produce those outputs. Outputs should have a discernible link with the costs, charges and performance of the activity, which should be explained in the CRIS. Techniques for identifying business processes include process modelling, performance measurement and workflow analysis. Staff should monitor and re-examine business processes periodically to ensure that the processes continue to produce outputs efficiently and effectively.

78. The level to which the activity is broken down (e.g. outputs versus business processes) for reporting and costing purposes should be proportional to its complexity, materiality and sensitivity. If the activity has multiple outputs and business processes, it may be appropriate to group them together for presentation in the CRIS. As an example, the following business processes may be involved in the assessment of a permit application (i.e. the output of the cost recovered activity):
 - receiving an application
 - checking the accuracy of information in the application
 - assessing the application
 - deciding on the application
 - notifying the applicant of the decision.

Figure 9 uses this example to break down an activity into outputs and business processes (i.e. each individual process has a cost attributed to it. The aggregated total of the processes equals the output cost). The CRIS should explain how business processes transform resources (people, money and supplies) into outputs of the cost recovered activity (Figure 10) and ultimately into government policy outcomes.

Figure 9: Activity outputs and business processes—concept and example

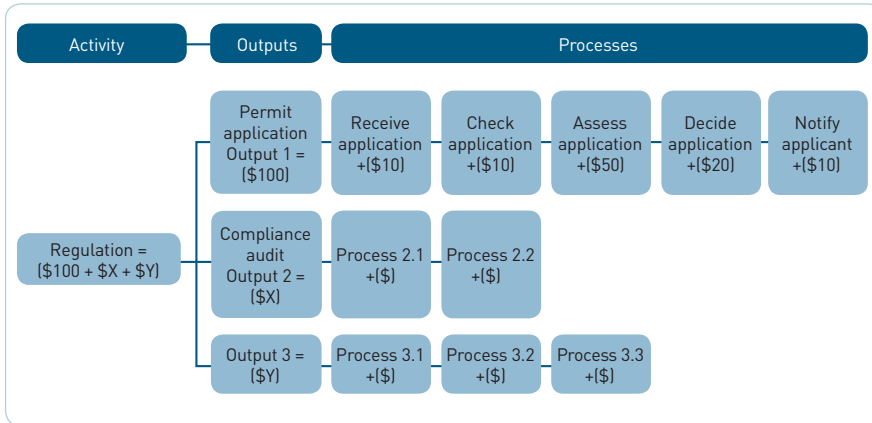
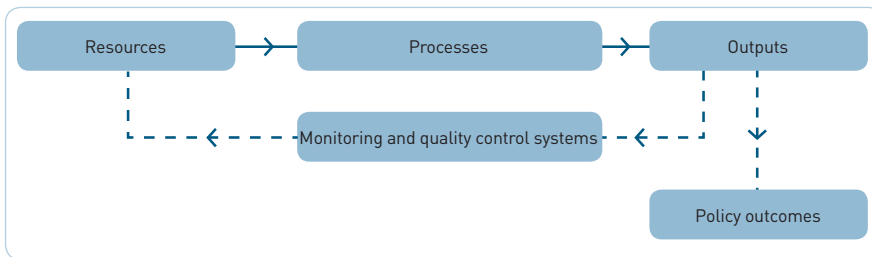


Figure 10: Production of activity outputs and link to policy outcomes



Costing the activity

79. Once entity staff have broken down the activity into outputs and related business processes, the relevant costs need to be identified and attributed to the outputs and processes. The approach used to cost the activity, and the level at which it is costed (e.g. activity, output or process), should be proportional to the complexity, materiality and sensitivity of the activity and be based on clear methods for:

- categorising costs into direct and indirect costs
- measuring direct and indirect costs
- attributing costs to the activity processes and outputs.

Entity staff should document the costing methodology and apply it consistently, preferably across all of the entity’s activities.

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80. It is good practice for entity staff to benchmark activity costs and processes against similar government activities and/or organisations in Australia or overseas. Benchmarking can be against either the whole activity, or where there is no directly comparable activity against part of the activity (e.g. business processes). Benchmarking against the private sector may not always be appropriate, as government entities have a range of accountabilities to the public and the Parliament and some cost recovered activities have unique cost drivers.
81. Assumptions about cost drivers are an important part of costing. They may relate to the expected volume of outputs, the cost of resources or other variables that affect financial estimates for the activity. The choice of assumptions depends on the activity; for example, there may be higher costs in registering a new product compared to an established product; or there may be less activity during an economic downturn compared to a period of economic growth.
82. Furthermore, financial estimates for the activity may be sensitive to changes in the assumptions—the change in the assumed value of a variable (e.g. the number of products submitted for registration) might not result in a proportional change in the affected financial estimate (e.g. registration expenses may rise at a lesser rate due to economies of scale). Where this is the case, the entity should indicate the level of sensitivity in the CRIS.
83. Financial estimates should be based on efficient costs, which are defined as the minimum costs necessary to provide the activity while achieving the policy outcomes and legislative functions of the Australian Government. Efficient costs are particularly important in the context of capital assets. ‘Gold plating’, or installing assets that are unnecessarily large or sophisticated, is an example of inefficient costs that should be avoided.

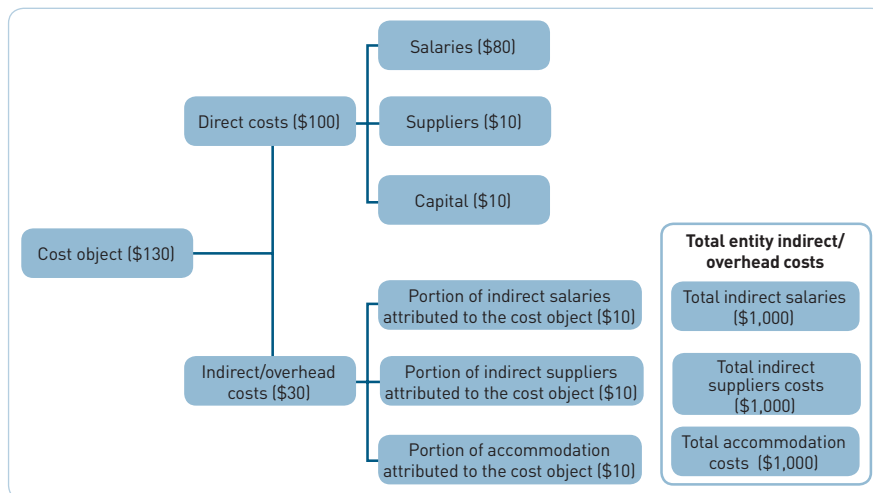
84. Once the method and level of costing are decided, then total costs, which generally consist of direct and indirect costs, are allocated to cost objects (e.g. activities, outputs or processes):
- **direct costs** can be easily traced to a cost object with a high degree of accuracy. The allocation of direct costs to a cost object is relatively straightforward if the entity's financial system is able to generate relevant information.²⁶ The most common direct costs are staff salaries (including on-costs, such as training, superannuation and leave) and supplier costs (e.g. office supplies and workers compensation premiums).
 - **indirect costs** are those costs that cannot be easily linked to a cost object or for which the costs of tracking this outweigh the benefits. Indirect costs should be apportioned to a cost object using the entity's documented internal costing methodology. Common indirect costs include overhead costs such as salaries of staff in corporate (e.g. finance, human resources) and technical support (e.g. legal) areas, or accommodation costs (e.g. rent, maintenance, utilities).
85. Direct and indirect costs can be further detailed, depending on the complexity, materiality and sensitivity of the cost recovered activity. Costs that should be identified separately include:
- different categories of capital costs (e.g. operation and maintenance, depreciation, capital investment). The appropriateness of recovering all or some of these costs is determined on a case-by-case basis. For example, the Australian Government may make an upfront investment in a capital asset for the activity and recover that investment over an appropriate period, which may be close to the useful life of the capital asset.
 - costs split between cost recovered activities and activities funded via other mechanisms (e.g. Budget funded), where the same resources are used in their provision (e.g. shared capital assets). In these circumstances, capital costs should be apportioned accordingly to avoid cross-subsidisation.
 - costs incurred by parties other than the responsible entity (e.g. an outsourced service provider).

²⁶ Wherever possible, entities should align their financial management information systems with the processes and outputs of the cost recovered activity.

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86. Two main methods are used for apportioning indirect costs:
- **traditional based costing** (i.e. simple cost allocation) typically uses volume-based cost drivers, such as floor space or average staffing levels. This method may not suit a complex cost recovered activity if a volume-based cost driver is not representative of the use of resources in the activity outputs and processes.
 - **activity-based costing** focuses on activity-based cost drivers, which convert indirect costs into direct costs and assign them to a cost object. The use of an activity-based costing method enables more informed analysis of the efficiency of outputs and business processes of the activity.
87. Figure 11 shows an example of how direct and indirect costs can be attributed to a cost object (e.g. an output). The costs of staff, suppliers and capital incurred in producing the output are directly allocated to the cost object. Where the same staff work on more than one output, an appropriate method of apportioning their costs to relevant cost objects is required. Indirect costs (e.g. the entity’s overhead supplier and accommodation costs) are apportioned to the cost object using relevant cost drivers.

Figure 11: Allocating and apportioning costs to a cost object



Design of cost recovery charges

88. Once the detailed costs of the activity have been determined, entity staff should confirm whether the type of charge chosen in Stage 1 was the most appropriate. The types of outputs and business processes of the activity influence the type of charge that should be used (see Figure 12).
89. The final design of the cost recovery charges should be consistent with the high-level model approved as part of the Australian Government decision at Stage 1. If the previously agreed high-level model needs to be modified, the entity may need to seek the government's approval to vary the original policy approval.²⁷ If staff are unsure about the design of cost recovery charges, they should seek policy guidance from Finance and consider the need for legal advice.²⁸
90. In some circumstances, the costs of an activity may be recovered using a combination of both fees and levies. For example, a fee may be charged to recover the costs of a permit application process, while a levy may be used to recover monitoring and compliance enforcement costs.

27 This could be done through the Budget process.

28 Entities need to ensure that costs that cannot be reasonably attributed to a specific individual or organisation are not included in fees. Otherwise, there could be a risk that the fees could be considered taxes for constitutional purposes. In addition, entities need to ensure that they are only recovering the costs for activities within the remit of their legislation and to the level allowed by their legislation. This information about the basis of cost recovery charges is particularly important should their validity be legally challenged.

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Figure 12: Composition of cost recovery charges

	Cost recovery fee	Cost recovery levy
Examples of activity outputs and business processes	<p>Activities performed for, or at the request of, or on the application of, a particular individual or organisation, such as:</p> <ul style="list-style-type: none"> the issue of permits, licences and registrations inspections as part of issuing permits, licences and registrations the approval of deviations from common standards the accreditation of agents or facilities. 	<ul style="list-style-type: none"> compliance audits investigations development and promulgation of regulatory standards policy development drafting of legislation development and promulgation of general advisory material advice to the government and the Parliament
Examples of costs that could be included	<p>Costs of the activity output or business process that can be reasonably attributed to an individual or organisation (e.g. direct costs and an appropriate share of indirect costs).</p>	<p>Costs of the activity output or business process that can be reasonably attributed to a group of individuals or organisations (e.g. direct costs and an appropriate share of indirect costs).</p>
Examples of costs that should not be included	<p>Costs of the activity output or business process that cannot be reasonably attributed to an individual or organisation. These could include:</p> <ul style="list-style-type: none"> policy development drafting of legislation development and promulgation of general advisory material provision of general advice to the government and Parliament compliance and enforcement. 	<p>Costs of the activity output or business process that cannot be reasonably attributed to a group of individuals or organisations (this includes general revenue-raising activities).</p>

91. Entity staff should consider the frequency and timing of charges in order to meet the cash flow needs of the activity, while also streamlining interaction with the stakeholders who are being charged. Depending on the activity, charges may be:
- paid by instalments
 - collected in arrears
 - paid up-front
 - averaged over time, to avoid frequent changes
 - fixed
 - variable
 - differentiated among payers
 - timed to coincide with other interactions with government entities.
92. Staff should balance the simplicity of cost recovery charges against the efficiency of closely linking them to corresponding outputs and processes. Predetermined and less frequently changed fees and levies generally provide more certainty for both non-government stakeholders and the entity and are simpler to administer, but may require careful planning, budgeting and management.
93. If the costs of producing a specific output may vary substantially, a variable fee may be more appropriate. For example, an assessment of a permit application may require specialist advice depending on its complexity, which means that it may be difficult to estimate total assessment costs in advance. In these circumstances, tiered fees (based on different levels of assessment complexity) or input-based fees (based on the number of staff hours) could be used.
94. When designing a levy, staff should select a relevant cost driver as the basis for the distribution of levy payments among individual levy payers. The cost driver should approximate the level of resources used to provide the activity to levy payers. Depending on the activity, this may be done by distributing the levy payments on an equal basis (a flat levy rate). Alternatively, differentiated levy rates could be used to more closely reflect resources used by different groups of levy payers based on their risk, size or other criteria. Complex activities may justify the use of more than one cost driver to determine levy rates. The potential for cross-subsidisation among levy payers may increase if a levy rate does not bear a reasonable relationship to the cost driver of the activity.

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95. If the same cost recovered activity is provided to both government and non-government stakeholders, charges should be set on the same basis for all stakeholders and the CRGs apply. If more than one government entity is involved in providing a cost recovered activity to non-government stakeholders, any relevant intra-government or inter-government payments are an input to the overall activity and should be set on a cost recovery basis.

Legislation

96. All cost recovery charges must have a statutory authority. Cost recovery charges can be designed before or when entity staff have begun drafting legislation for the activity. When drafting or amending charging provisions in the relevant legislation, staff should consider:
 - whether the legislation is consistent with the Australian Government policy approval, including any associated conditions (e.g. statutory reviews or partial cost recovery)
 - legal requirements for the imposition of charges (e.g. a fee must relate to the cost of providing the activity to the individual or organisation. The constitution requires a separate taxation Act for a cost recovery levy)
 - ministerial responsibilities (e.g. who is determining charges and through which legislative instruments?)
 - the timing for passage through Parliament or Executive Council before charging begins
 - the level of specificity about charges in relevant legislation (e.g. prescribing details of charges, such as rates, in primary legislation provides a high degree of certainty, but less flexibility).

Stakeholder engagement

97. When developing the cost recovery model and legislation, entity staff should engage with all relevant stakeholders. At this stage of the cost recovery process, engagement is likely to focus on:

- the costing model for the activity
- the design of cost recovery charges
- implementation timing and the readiness of stakeholders for the commencement of cost recovery
- how the activity will be undertaken (e.g. the outputs and business processes of the activity)
- performance measures for the activity
- financial estimates for the activity
- additional information that stakeholders would find useful.

Stakeholder feedback should inform the final design of the cost recovery model and be documented in the CRIS.

98. Entity staff should engage with Finance early when developing the cost recovery model, drafting relevant legislation and preparing the CRIS, particularly where the CRRA rating was 'high'. Where other government entities, including state, territory or local government entities, are involved, staff should consult them before engaging with non-government stakeholders. This will facilitate better inter-government coordination in planning, development and implementation. Plans and drafts can then be presented to non-government stakeholders for further discussion.

99. Responsible Ministers and accountable authorities of government entities should determine appropriate engagement mechanisms based on the activity and stakeholders involved. Entity staff should consider the most effective means of reaching stakeholders, particularly if they include small businesses. Methods may include bilateral and multilateral meetings, targeted consultation rounds and the circulation of options papers.²⁹ The circulation of the draft CRIS is a good basis for engagement with stakeholders.

²⁹ The Australian Government Guide to Regulation contains more information on government consultation processes and is available at www.cuttingredtape.gov.au.

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100. Entities are also expected to consult on draft legislation. Where possible, consultation on the draft cost recovery model and draft legislation should be streamlined, while giving stakeholders adequate opportunity to provide feedback.

Cost recovery implementation statement (CRIS)

101. All cost recovered activities must be documented in a CRIS before charging begins. The level of information in the CRIS should be proportional to the complexity, materiality and sensitivity of the activity. Entity staff should use the CRIS template to develop the statement.³⁰ If the entity chooses not to use the template, it must still meet the CRIS content requirements.
102. The CRIS is an explanatory document that provides key information on how cost recovery for a specific government activity is implemented. After charging commences, the CRIS also becomes a continuous disclosure tool. It is initially prepared after the Australian Government makes a decision to cost recover a specific activity and provides the basis for ongoing engagement with stakeholders on various aspects of the cost recovered activity.
103. A CRIS can document more than one activity (e.g. where the activities are related or have common stakeholders). Where more than one government entity is involved in providing a cost recovered activity, the entity that has the overall operational responsibility for the activity should prepare the CRIS with input from other relevant entities. Where cost recovery charges for an activity are collected by one entity, but the activity is provided by one or more other entities, the responsible entities may choose to prepare a combined CRIS.
104. The level of information included in the CRIS should be proportional to the activity. Each CRIS must include:
 - background information on the cost recovered activity, including its purpose, policy outcomes and outputs
 - a description of the activity and the stakeholders who pay charges or may be affected by the charges

³⁰ The CRIS template is available on the Department of Finance website (www.finance.gov.au).

- details of the Australian Government policy approval to cost recover the activity—this may include the date and details of any relevant public announcements
- details of the legislation authorising the cost recovery charges, including links to primary and subordinate legislation
- an explanation of the costing model for the activity—a description of how the activity has been broken into outputs and processes and how those have been costed, including cost drivers and assumptions
- the design of cost recovery charges—which types of charges have been used and why, including their link to the outputs and processes of the activity
- the CRRA rating—the result of the risk assessment and factors contributing to the rating
- a stakeholder engagement strategy, including a summary of the latest engagement round—who was consulted and when, what their views were, and how those views have been considered
- financial estimates for the activity (i.e. expenses and revenue) for the budget year and forward estimates
- reporting on the financial and non-financial performance of the activity
- key forward dates and events, including the next portfolio charging review.

105. The CRIS must be:

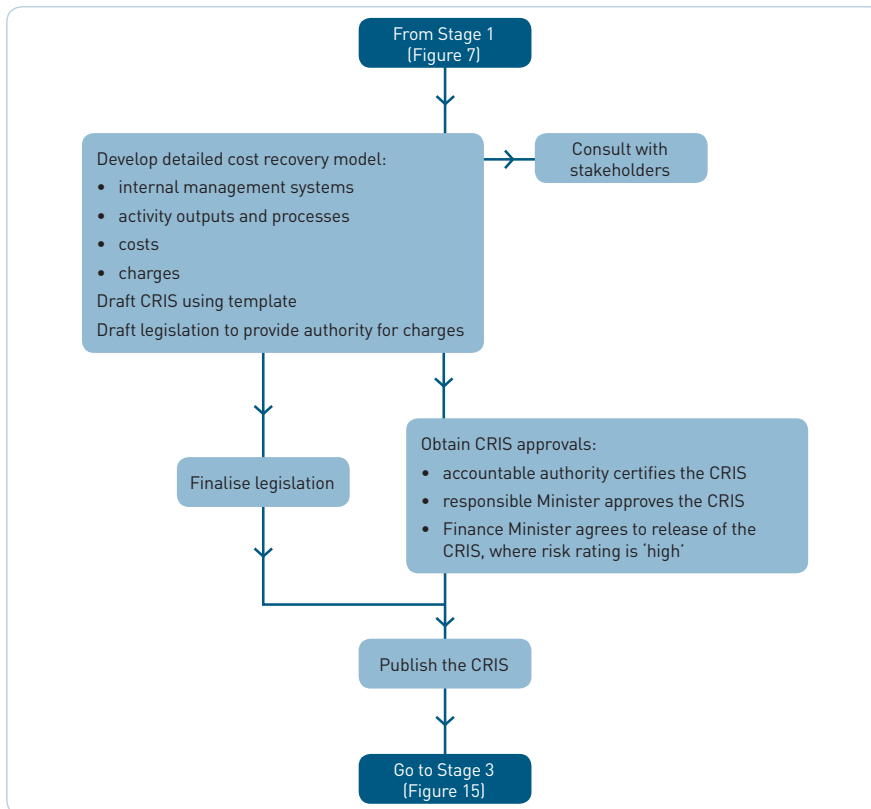
- certified by the accountable authority of the government entity
- approved by the responsible Minister
- agreed for release by the Finance Minister, where the CRRA rating for the activity is 'high'
- published on the responsible entity's website before charging begins.

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106. Where the Finance Minister’s agreement for release is required, entity staff should factor in enough time to allow for that involvement. For a new activity or an existing activity that has not been cost recovered before, the CRIS should be finalised, approved and published on the responsible entity’s website before charging begins. After that, it should be amended and updated regularly as new financial and non-financial information becomes available and changes occur. Approval of the CRIS should be obtained before amending legislation or legislative instruments.

107. Figure 13 outlines the key cost recovery checkpoints relating to Stage 2.

Figure 13: Cost recovery checkpoints for Stage 2



Checklist for Stage 3

Stage 3—Implementation

Objective

The objective of Stage 3 is to implement and manage the cost recovered activity, while ensuring appropriate transparency, accountability and performance.

Figure 14: Stage 3 of the cost recovery process



Key processes

The following are the key processes for Stage 3:

- Ensure readiness of staff and internal management systems
- Commence cost recovery for the activity
- Engage with stakeholders on an ongoing basis
- Monitor, evaluate and report on financial and non-financial performance
- If operational or policy changes are required, undertake CRRRA, seek relevant approvals and implement the changes
- Maintain an up-to-date CRIS.

Key outputs

The key outputs for Stage 3 are:

- the management of the activity, consistent with the government decision to cost recover, the cost recovery policy and other government policies, and legislation
- ongoing engagement with stakeholders
- the implementation of internal systems and controls that enable:
 - the alignment of expenses and revenue for the activity
 - monitoring and evaluation, including the need for any operational or policy changes to the activity
- timely performance reporting and regular updates to financial estimates.

Requirements

Two requirements are relevant to Stage 3:

- documentation and reporting
- the alignment of expenses and revenue.

3

Management of the cost recovered activity

108. Accountable authorities are responsible for the implementation of cost recovered activities, consistent with the Australian Government policy approval, relevant legislation, the CRGs and the broader resource management framework. This involves:

- establishing internal controls (e.g. systems and procedures to monitor and report on the production of outputs of the activity against financial estimates and performance targets)
- ensuring that staff have the skills to manage the cost recovered activity and continue to improve those skills.

109. Other entity staff support these processes (e.g. chief financial officers are usually involved in developing, monitoring and updating financial estimates for the activity). As part of this work, staff should:

- explain performance variances and analyse implications for the activity to support decision-making
- monitor business processes and make them more efficient
- ensure that the costing methodology remains relevant and any relevant documentation is up to date (e.g. by assessing whether cost drivers, cost allocation methods and other assumptions are still relevant)
- undertake ongoing and open stakeholder engagement
- identify the need for operational or policy changes, and implement them in a timely manner in accordance with the appropriate approval procedures (e.g. through the Budget process).

110. Before commencing a cost recovered activity or implementing significant changes to a cost recovered activity, staff may need to make adjustments to their information management systems. In particular, the systems should enable the collection of relevant, up-to-date and accurate information (financial and non-financial) to support performance monitoring, evaluation and decision-making. This information may also be useful when providing input to the portfolio charging review.

111. Relevant internal systems and controls include:

- workflow systems or databases, such as those that:
 - maintain records for decision-making and audit purposes
 - track performance (e.g. progress in the processing of applications)
 - contain compliance histories for regulated individuals or organisations
- financial management information systems, such as those that:
 - collect timely and accurate cost information to determine charges
 - track financial performance against budget
 - identify gaps between financial estimates and actual results
 - record details of those liable to pay charges and their payment status
 - issue invoices or notifications for payments
- payment systems, which enable receipting, banking or processing of refunds by entities and provide payers with flexible and easily accessible payment options
- debt recovery procedures
- risk management and other internal procedures.

112. In addition to the information generated by internal systems, stakeholder feedback or the findings of internal and external enquiries, audits and other reviews of the entity's operations are likely to identify further opportunities to improve the management of the activity.

Changes to cost recovered activities

113. From time to time, entities may need to make changes to their cost recovered activities as a result of stakeholder feedback, changes in policy or internal monitoring and evaluation. The nature of the changes will determine how they should be approved and implemented. Staff may need to seek advice on the potential policy or legal implications of expected or potential changes to the cost recovered activity.

114. There are two broad types of changes:

- **operational changes**—relate to the day-to-day management of the activity within the boundaries of the existing policy approval from the Australian Government.³¹ Examples are increases or decreases in cost recovery charges and forward estimates due to changes in costs or business processes. Changes to the legislation imposing cost recovery charges may be required.
- **policy changes**—involve variations that are beyond the policy approval for the activity. Examples are moving from partial to full cost recovery, the provision of waivers and exemptions from cost recovery charges, or structural change in the activity, such as the adoption of a risk-based approach to regulation. These changes are likely to require new policy approval from the Australian Government and amendments to the relevant legislation.

115. The treatment of changes also depends on their complexity, materiality and sensitivity. A risk assessment (using the CRRA template) should be undertaken to assess the likely impact of expected changes and to determine the approvals that may be required. Generally, where the risk rating is ‘medium’ or ‘high’, the changes are likely to be considered to be policy changes; where the rating is low, the changes are likely to be operational.

116. For operational changes, relevant approvals should be provided by accountable authorities of entities and/or responsible Ministers. Where required, legislation should be amended and internal processes updated.

117. Policy changes will most likely require policy approval by the Australian Government in accordance with the Budget Process Operational Rules. Entity staff should consult Finance and the Department of the Prime Minister and Cabinet about the processes and timeframes for submitting proposals to the Australian Government.

118. Because the CRIS must be kept up to date, entity staff must amend it accordingly once the change is approved and make it publicly available before the change to cost recovery charges takes effect.

³¹ If entity staff are unsure whether the change is within the existing policy approval, they should consult Finance and the Department of the Prime Minister and Cabinet.

119. Over time, a cost recovered activity may become inefficient or charging may no longer be consistent with government policy priorities. In such circumstances, entity staff should consider whether the activity or the cost recovery for the activity should continue. These changes are also likely to require the Australian Government approval, which may be sought either as part of the portfolio charging review or as part of the Budget.

Ongoing stakeholder engagement

120. Effective ongoing engagement with stakeholders should result in a more efficient and effective cost recovered activity. Entity staff should develop and implement an ongoing engagement strategy in consultation with stakeholders. Common considerations are the government consultation processes outlined in the Australian Government Guide to Regulation.³²
121. Stakeholder feedback is an important part of implementation, particularly where changes are expected. Staff should engage with stakeholders in relation to policy changes. Stakeholder engagement on operational changes may be decided on a case-by-case basis, particularly where changes in cost recovery charges are involved. One of the CRIS content requirements is a summary of the most recent engagement with stakeholders on cost recovery matters. Stakeholders should be provided with an opportunity to check that summary before its inclusion in the CRIS.
122. Stakeholder feedback is also an important input to the portfolio charging review. It is best achieved by maintaining open channels of communication with stakeholders, including beyond scheduled engagement rounds. The feedback should be analysed to identify any trends or common issues. Where justified, such issues should be addressed as part of the portfolio charging review or in the day-to-day management of the cost recovered activity, as appropriate.

³² The Australian Government Guide to Regulation is issued by the Department of the Prime Minister and Cabinet and is available at www.cuttingredtape.gov.au.

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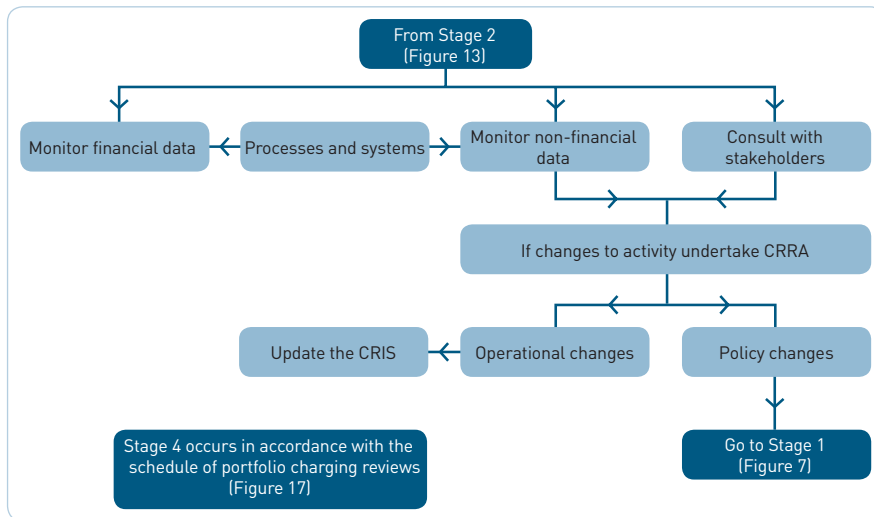
Cost recovery performance and reporting

123. An entity must report on cost recovery:
- at an aggregate level in the entity's annual financial statements, in accordance with the financial reporting rules
 - at the cost recovered activity level on the entity's website as part of the CRIS.
124. Entity staff must provide estimates of expenses and revenue for the cost recovered activity in the CRIS at the commencement of every budget year for the budget year and forward estimates period. As financial estimates are progressively updated throughout the year (e.g. at Additional Estimates or Supplementary Budget Estimates), entities should update relevant information in the CRIS.
125. Staff must include financial outcomes for the cost recovered activity in the CRIS on an annual basis. The outcomes include expenses and revenue for the activity and an explanation of any material difference between them.
126. Staff must report on performance of the activity in the CRIS. This may be based on relevant information from a range of sources, such as:
- **outcome measures** that assess the extent to which the cost recovered activity is contributing to meeting government policy outcomes. They relate to changes effected in the community and may include such things as minimised risks of exotic pests and diseases harming the Australian natural environment, food security and economy, or more timely access to safe and effective therapeutic goods for the Australian community.
 - **output measures** that show the extent to which the cost recovered activity's operational targets or milestones have been achieved. They may include such things as the numbers of permit applications processed, the numbers of permit applications processed within statutory timeframes, or the numbers of compliance audits that were required over the reporting period.
 - **input measures** that show the resources, such as money, labour and other supplies, consumed by the cost recovered activity. They may include the costs of administering cost recovery, the number of staff employed or the costs of processing applications.

127. The entity’s internal management information systems are one source of information that can assist in measuring and reporting on the performance of the cost recovered activity. That information should be relevant, up to date and accurate to enable appropriate decision-making about the cost recovered activity. Other sources of information include stakeholder feedback or findings from other reviews that occur during the implementation of the activity. Feedback can provide valuable information on how stakeholders perceive the entity’s performance. Entity staff may also actively seek stakeholder feedback (e.g. by conducting stakeholder surveys).

128. Figure 15 outlines the key cost recovery checkpoints relating to Stage 3.

Figure 15: Cost recovery checkpoints for Stage 3



Checklist for Stage 4

Stage 4—Portfolio charging review

Objective

The objective of Stage 4 is for the responsible Department of State to review all charging activities within its portfolio.

Figure 16: Stage 4 of the cost recovery process



Key processes

The following are the key processes for Stage 4:

- The responsible Department of State (the department) plans and coordinates the review according to the schedule of portfolio charging reviews
- Portfolio entities provide information on all of their existing and potential charging activities to the department
- The department prepares the review report, submits it to the responsible Minister and provides a copy to the Finance Minister
- Where necessary, policy approval is sought to implement review report recommendations.

Key outputs

The key output for Stage 4 is:

- a portfolio charging review report.

Requirements

Two requirements are relevant to Stage 4:

- documentation and reporting
- portfolio charging review.

Planning for the portfolio charging review

129. The department is responsible for conducting the portfolio charging review, in consultation with the portfolio entities and Finance. The department should plan the review, allowing enough time for it to coordinate the review across all portfolio entities and for the responsible Minister and the Finance Minister to consider the review report before the relevant Budget. This will allow time for the Australian Government to consider the review outcomes and/or recommendations, where necessary.
130. The timeframe for the review will depend on:
- the number of entities in the portfolio
 - the number and complexity of the entities' existing charging activities
 - internal processes involved in the preparation, approval and submission of the review report to the responsible Minister and the Finance Minister.

Stocktake and analysis of existing charging activities

131. At the request of the accountable authority of the department, the accountable authority of each portfolio entity should provide the following information as part of the review:
- a list of all the entity's existing cost recovered and other charging activities, including a description of who is charged and what they are charged for
 - the types of charges used for each activity (Attachment A sets out different types of government charges)
 - the policy approval to charge (e.g. accountable authority, Cabinet)
 - the legal source of the authority to charge
 - the rationale for charging for each activity
 - the amount of revenue raised each year and the rates of charges
 - an analysis of any policy, legal and operational issues and risks identified during the implementation of each activity

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- a summary of ongoing stakeholder feedback for each activity (further stakeholder engagement may not be required where government entities have regularly engaged with stakeholders)
 - an evaluation of the effectiveness of stakeholder engagement
 - an assessment of whether amendments need to be made to each activity and whether charging should continue and on what basis (e.g. cost recovery, commercial charges, general taxation).
132. For each cost recovered activity, the following additional information should be included:
- the Australian Government policy approval to cost recover the activity
 - the statutory authority to impose cost recovery charges
 - data on expenses, revenue and any cumulative balance for the activity over the past five years (or another period for which data is available if the activity has been in place for less than five years)
 - a website link to the CRIS for the activity
 - an evaluation of performance of the activity.

Potential to charge for new or existing activities

133. In addition to the stocktake and analysis of existing charging activities, entity staff should assess the potential to charge for existing and/or new activities, including on a cost recovery basis. This may include charging for activities that have previously been provided free of charge or for activities that have not previously been provided.
134. Stage 1 of the cost recovery process contains guidance on the analysis that should be undertaken when considering a new cost recovered activity or amending an existing one. The CRGs should be used to determine whether a new or existing activity has the potential to be cost recovered. The outcomes of the assessment should be included in the information provided to the department.
135. If the assessment does not support the case for cost recovery, entity staff should consider whether another charging option should be used or whether charges should be used at all. The outcome should be included in the information provided to the department.

Information sources for the portfolio charging review

136. For cost recovered activities, most of the information for the review should be collected as part of the day-to-day implementation of the activity. For example, the CRIS for the activity already reports on financial and non-financial performance on a continuous basis.
137. In preparing information for the review, portfolio entities may use information from a variety of sources, including internal and external enquiries, audits and other reviews of operations or specific activities. This information may relate to cost recovered or other charging activities but should be recent (i.e. produced in the preceding two or three years).
138. The scheduled timeframe for the review does not prevent portfolio entities from undertaking operational reviews of their charging activities at other times. Where entities maintain effective monitoring, evaluating and reporting processes that provide relevant, up-to-date and accurate information, their charging activities do not need to be specifically reviewed for the portfolio charging review. If one or more of the charging activities have not been recently reviewed, entities should review them in time to provide the necessary information to the department.
139. Stakeholder feedback is a valuable source of information about the performance of cost recovered and other charging activities. If entity staff regularly engage with stakeholders, they should have a good understanding of the common issues their stakeholders might raise. Therefore, there may not be a need to conduct additional stakeholder consultation for the review. However, portfolio entities may decide to consult, particularly if consultation has not occurred recently or its scope was not broad enough for the review. In such circumstances, consultation should occur in time to provide the necessary information to the department.

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Preparing the portfolio charging review report

140. The department is responsible for coordinating information supplied by portfolio entities and preparing the review report.³³ The report should:

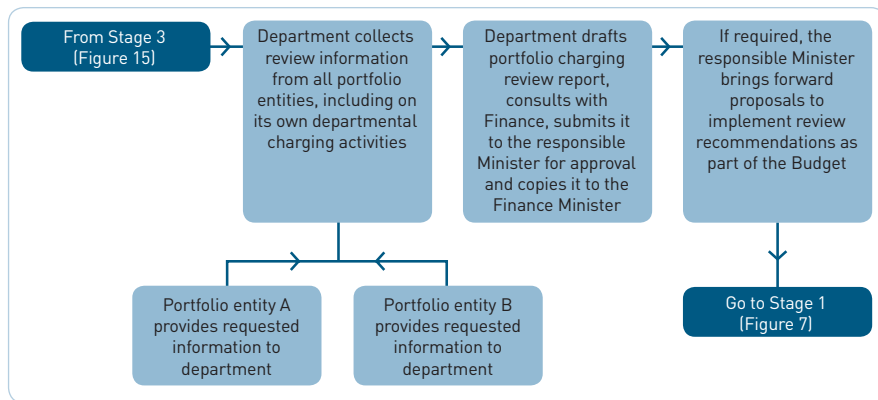
- briefly describe all existing cost recovered and other charging activities across the portfolio
- assess the performance of all existing cost recovered and other charging activities
- identify better practices and their potential for application to other activities
- outline any policy, legal and operational issues and risks related to existing charging activities
- provide a summary of stakeholder feedback
- assess the effectiveness of stakeholder engagement across the portfolio
- evaluate the relevance of existing charging activities and their consistency with the planned policy outcomes of the Australian Government
- assess the potential to charge for new or existing activities undertaken by portfolio entities on a cost recovery or other basis
- state whether changes to cost recovered and other charging activities are needed
- state whether charging should continue for existing charging activities, and on what basis
- draw portfolio-wide conclusions and make relevant recommendations.

141. The department should consult with Finance during the preparation of the review report. Early engagement, particularly during the planning and conduct of the review, will assist in finalising the review. There may also be a further need for the department to liaise with portfolio entities to clarify provided information, assure its accuracy and quality, or seek additional information.

³³ Tools to assist in the preparation of the portfolio charging review report are available on the Department of Finance website (www.finance.gov.au).

142. The department must submit the review report to the responsible Minister for approval and provide a copy to the Finance Minister. Review reports should be submitted to the responsible Minister in time for policy proposals to implement recommendations, if any, to be brought forward for the Australian Government’s consideration in the relevant Budget context.³⁴

Figure 17: Cost recovery checkpoints for Stage 4



³⁴ Entities should consult Finance and the Department of Prime Minister and Cabinet about the processes and timeframes for submitting proposals to the Australian Government.

ATTACHMENT A

General characteristics of government charges

Type of charge	General description and characteristics
Commercial charges	<ul style="list-style-type: none">• Charging that occurs for a product or service in a commercial environment where potential or actual competitors exist• Generally not compulsory• Involves charges imposed by government business enterprises or other commercial charging arrangements and may be subject to competitive neutrality principles• May relate to ad hoc, discretionary activities of an entity, including offsetting the costs of an activity• Revenue from the activity need not equal expenses (it may be more than, less than or equal to expenses)
Cost recovery fees	<ul style="list-style-type: none">• Charging activities are directed by the government• Charging is in relation to an ongoing activity undertaken on behalf of the Commonwealth• Charges have a legislative basis• Involve charging an individual or non-government organisation• Revenue is aligned with expenses incurred in providing the activity to the individual or non-government organisation

Type of charge	General description and characteristics
Cost recovery levies	<ul style="list-style-type: none"> • Charging activities are directed by the government • Charging is in relation to an ongoing activity undertaken on behalf of the Commonwealth • Charges are in the nature of a tax and must have a legislative basis • Involve charging a group of individuals or non-government organisations • Revenue generated is earmarked to the activity provided to the group of levy payers • Revenue is aligned with expenses incurred in providing the activity to the group of levy payers
Monetary penalties and fines, royalties	<p><i>Penalties and fines</i></p> <ul style="list-style-type: none"> • Generally used to deter certain behaviour • Revenue does not need to match expenses • Usually have a legislative basis <p><i>Royalties</i></p> <ul style="list-style-type: none"> • Relate to rent received for the use of non-produced assets, such as deposits of minerals or fossil fuels
Taxes, non-cost recovery levies, excises, customs duties	<ul style="list-style-type: none"> • Usually compulsory • Imposed by reference to general criteria • Usually imposed for general revenue-raising or public purposes rather than for a specific activity • Statutory marketing levies usually fit within general taxation <p><i>Excises and duties</i></p> <ul style="list-style-type: none"> • Commodity-based taxes levied on quantity or value of the good

ATTACHMENT B

Intra-government and Inter-government payments

Government entities may undertake activities that involve payments to each other. These intra-government and inter-government payments may be between entities from the Australian Government or state, territory, local or foreign governments, and may involve activities performed by an individual entity or as part of joint service provision. The Australian Government cost recovery framework does not apply to government activities for which only government entities are charged.

Although the cost recovery framework does not apply to government activities for which only government entities are charged, where these activities are ongoing, those entities should apply the following principles, consistent with other government requirements:

- the accountable authority (or delegate) provides authority to charge for the specific activity
- the government entity should recover only the efficient costs of the specific activity and should not retain amounts that have already been appropriated to the entity for the activity
- the government entities to be charged should be consulted and where possible agree on the charges, the costs included in charges and the standard of the product or service being provided
- the charging activity should be documented in proportion to the size and complexity of the activity. The documentation should include information on how the charge was determined (the types of documentation can include an inter- or intra-government agreement, service level agreement, exchange of letters or memorandum of understanding).

ATTACHMENT C

Roles and responsibilities of stakeholders

This attachment lists key stakeholder roles and responsibilities in developing, implementing and reviewing cost recovered activities.

Non-government stakeholders, including individuals and organisations that pay cost recovery charges, should:

- actively engage with government entities on cost recovered activities (e.g. by suggesting how cost recovery can be carried out more efficiently and effectively, in accordance with the government policy)
- pay relevant cost recovery charges.

Staff of government entities are responsible for:

- developing policy proposals and legislation for cost recovery
- documenting a cost recovered activity, informed by the cost recovery risk assessment (CRRRA), in a cost recovery implementation statement (CRIS)
- managing cost recovered activities from day to day, including monitoring, evaluating and implementing changes as required
- engaging with stakeholders
- briefing accountable authorities and responsible Ministers on their roles and responsibilities in relation to cost recovered activities
- reporting on the financial and non-financial performance of cost recovered activities
- participating in portfolio charging reviews.

Accountable authorities of government entities should:

- ensure that cost recovered activities conducted by entity staff comply with the CRGs, other government policies and legislation
- certify CRISs
- oversee the provision of timely input to portfolio charging reviews.

In addition, the accountable authorities of responsible Departments of State should coordinate and prepare portfolio charging review reports, submit the reports to responsible Ministers and provide copies of them to the Finance Minister.

Responsible Ministers for cost recovered activities should:

- seek policy approval from the Australian Government for new cost recovered activities or changes to existing cost recovered activities
- approve CRISs
- ensure legislative authority for cost recovered activities.

The **Finance Minister** is responsible for:

- the cost recovery framework
- the schedule of portfolio charging reviews
- agreeing to release CRISs, in some circumstances
- aspects of the Budget process.

The **Department of Finance** is responsible for:

- advising on the application of cost recovery policy
- assisting entities to develop, implement and review cost recovered activities
- providing advice to entities on portfolio charging reviews
- agreeing on the CRRA rating
- other Budget process requirements.

The **Australian Government**, as represented by Cabinet, the Prime Minister or the Finance Minister approves, changes or ceases cost recovery for a specific activity.

GLOSSARY

accountable authority of a Commonwealth entity—as defined under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act; available at www.comlaw.gov.au).

activity-based costing model—allocates indirect costs to cost objects using activity-based cost drivers, such as the consumption of legal support resources or external technical assessments.

Australian Government—for the purposes of the cost recovery policy, means the Cabinet, the Prime Minister or the Finance Minister.

Australian Government Cost Recovery Guidelines (CRGs)—set out the overarching framework under which government entities design, implement and review cost recovered activities on behalf of the Australian Government.

commercial charge—a type of government charge used where there is no policy or statutory obligation to supply goods or services on a cost recovery basis. A commercial charge may be less than, more than or equal to the cost of goods or services (i.e. there is a degree of discretion in pricing and supply).

cost object—a specific process, output or activity to which costs are assigned.

cost padding—occurs where an entity unreasonably increases its costs above the efficient costs for a specific cost object.

cost recovered activity—the provision of government goods, services or regulation, or a combination of them, to the non-government sector on a full or partial cost recovery basis.

cost recovery—involves the Australian Government charging the non-government sector some or all of the efficient costs of a specific government activity.

cost recovery fee—a type of government cost recovery charge used when a good or service or, in certain circumstances, regulation is provided directly to a specific individual or organisation.

cost recovery implementation statement (CRIS)—a tool for documenting cost recovery design and operation and reporting on a cost recovered activity. A CRIS must be prepared for each cost recovered activity conducted by a government entity.

cost recovery levy—a type of government cost recovery charge used when goods and services, but primarily regulation, are provided to a group of individuals or organisations (e.g. an industry sector) rather than to a specific individual or organisation. A cost recovery levy is legally a taxation charge and needs to be imposed in a separate taxation Act to comply with constitutional requirements. A cost recovery levy differs from general taxation, as it is earmarked to fund activities that relate to the group being charged.

cost recovery model—a combination of resources and processes involved in a cost recovered activity in order to achieve government policy outcomes in an efficient and effective manner, in which the costs of the activity are linked to cost recovery charges.

cost recovery policy—the policy of the Australian Government to recover, where appropriate, some or all of the efficient costs of specific government activities from individuals or non-government organisations to which the activities are provided.

cost recovery risk assessment (CRR)—a tool that helps to identify areas of implementation risk and informs the cost recovery aspects of a risk engagement strategy adopted by a government entity.

Department of State—as defined under the PGPA Act.

direct costs—costs that can be traced to a cost object (e.g. an output or process of the activity) with a high degree of accuracy.

effectiveness of cost recovery—relates to whether the cost recovery model and related processes reliably measure and allocate costs to cost recovery charges.

efficiency and effectiveness of government activity—making the proper use of available resources to achieve government policy outcomes.

efficiency of cost recovery—relates to the proportionality between the costs of administering cost recovery and potential charges for or revenue from the activity.

efficient costs—the minimum costs necessary to provide the activity while achieving the policy objectives and legislative functions of the Australian Government.

enabling legislation for a government entity—an Act or legislative instrument that establishes that government entity.

Finance—the Department of Finance.

Finance Minister—the Minister who administers the PGPA Act.

financial statements—statements prepared by government entities as required under the PGPA Act.

full cost recovery—involves charging the non-government sector all of the efficient costs of a specific government activity.

general taxation—a type of government charge, usually defined as ‘a compulsory exaction of money by a public authority for public purposes, enforceable by law.’³⁵ This is not a cost recovery charge, as the activities funded through general taxation revenue do not have to relate to the individuals or organisations being charged. General taxation charges are imposed in separate taxation Acts in accordance with constitutional requirements.

gold plating—overinvestment in resources involved in the provision of cost recovered activity (e.g. installing capital assets that are unnecessarily large or sophisticated).

government entities—for the purposes of the cost recovery policy, means accountable authorities and officials of all non-corporate Commonwealth entities and specified corporate Commonwealth entities, where the Finance Minister has made a ‘government policy order’ that applies the Australian Government cost recovery policy to them. Non-corporate and corporate Commonwealth entities are defined under the PGPA Act.

government policy order—an order made by the Finance Minister under the PGPA Act that specifies a policy of the Australian Government that is to apply in relation to one or more corporate Commonwealth entities (section 22(1)) or wholly-owned Commonwealth companies (section 93(1)).

35 Matthews v Chicory Marketing Board (1938) 60 CLR 263 at 276 (Latham CJ).

indirect costs—costs that cannot be easily linked to a cost object, or where the costs of doing so outweigh the benefits. Indirect costs are apportioned to a cost object using an appropriate cost driver.

Office of Best Practice Regulation—administers the Australian Government regulatory impact analysis requirements (available at www.obpr.gov.au).

official of a government (Commonwealth) entity—as defined in the PGPA Act.

operational changes to a cost recovered activity—changes to the day-to-day management of the activity within the boundaries of existing policy approval from the government. Typically, these changes may be authorised by accountable authorities of government entities or responsible Ministers, but may require amendments to the relevant legislation.

partial cost recovery—charging the non-government sector some of the efficient costs of a specific government activity.

performance measures for a cost recovered activity—may include outcome, output and input measures that form part of the entity’s performance framework. Outcome measures assess the extent to which the cost recovered activity is meeting government policy outcomes. Output measures show the extent to which the activity’s operational targets or milestones have been achieved. Input measures show the resources, such as money, consumed by the cost recovered activity.

policy changes to a cost recovered activity—involve variations in the activity that are beyond the boundaries of existing policy approval from the government. These changes are likely to require a new policy approval from the government and amendments to the relevant legislation.

portfolio charging review—a periodic review, at least every five years, of all existing and potential charging activities conducted by Departments of State within their respective portfolios, in accordance with the schedule of portfolio charging reviews (available at www.finance.gov.au).

proper—in relation to the use or management of public resources, means efficient, effective, economical and ethical.

Public Governance, Performance and Accountability Act 2013 (PGPA Act)—an Act about the governance, performance and accountability of, and the use and management of public resources by, the Commonwealth, Commonwealth entities and Commonwealth companies, and for related purposes (available at www.comlaw.gov.au).

public resources—relevant money, relevant property, or appropriations as defined in the PGPA Act.

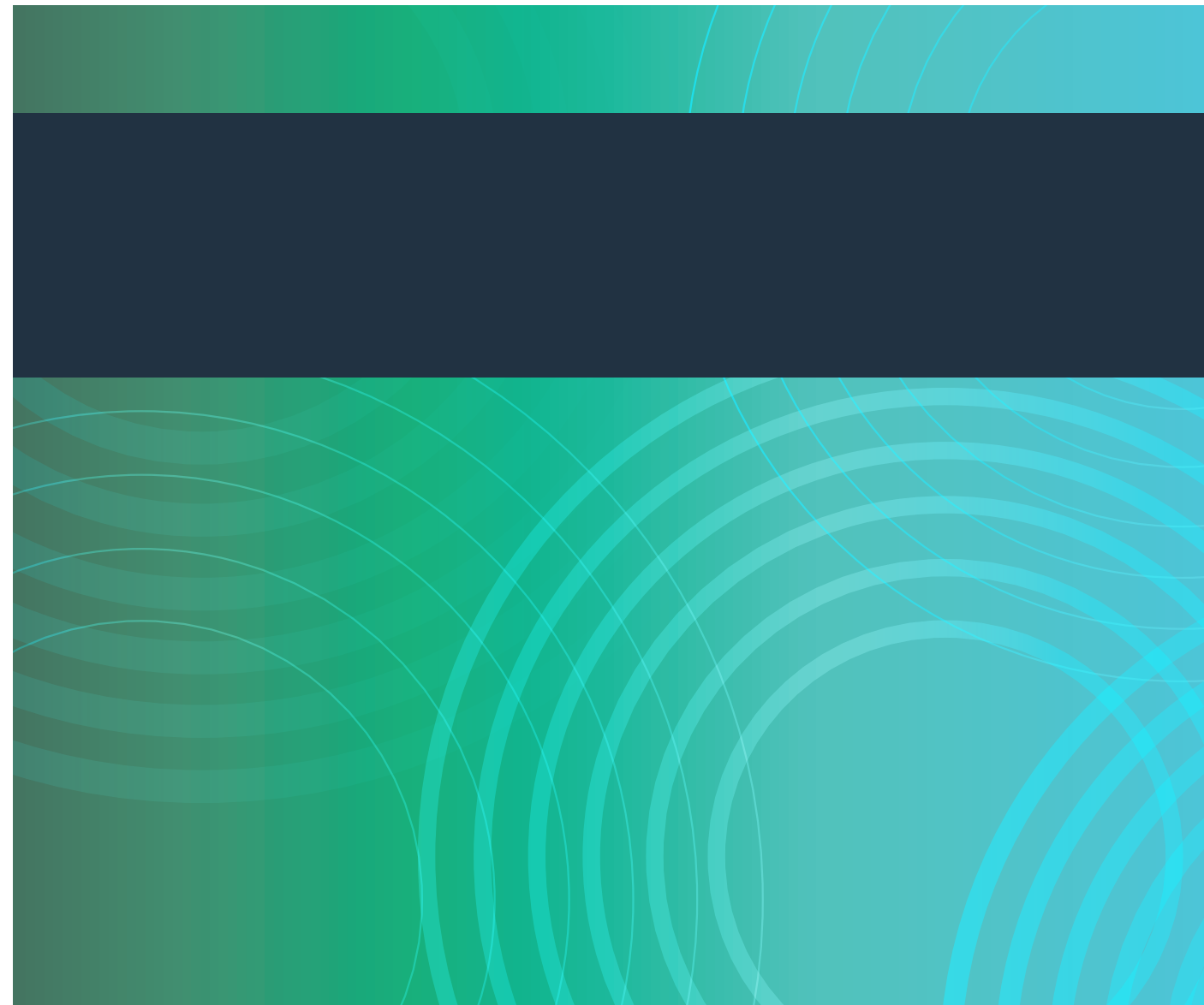
regulation impact analysis (RIA)—as defined in the Australian Government Guide to Regulation (available at www.cuttingredtape.gov.au).

regulation impact statement (RIS) – as defined in the Australian Government Guide to Regulation (available at www.cuttingredtape.gov.au).

responsible government entity—the entity, the accountable authority and officials that are responsible for administering a particular government activity.

responsible Minister—depending on the circumstance, the Minister or Ministers with responsibility for a particular government activity, entity, or portfolio.

traditional based costing model—typically allocates indirect costs to cost objects using volume-based cost drivers, such as floor space or average staffing levels.



For more information see www.finance.gov.au