



COST RECOVERY IMPACT STATEMENT (CRIS)

Noise amelioration – Sydney and Adelaide Airports

1	GOVERNMENT COST RECOVERY POLICY AND GUIDELINES	2
1.1	WHAT IS COST RECOVERY?	2
1.2	WHY HAVE COST RECOVERY?	2
2	PRINCIPLES THAT UNDERPIN COST RECOVERY ARRANGEMENTS	3
2.1	GENERAL PRINCIPLES RELATING TO ECONOMIC EFFICIENCY	3
2.2	DESIGN PRINCIPLES	4
2.3	OPERATIONAL PRINCIPLES	4
2.4	EFFICIENCY PRINCIPLES	4
2.5	OVERARCHING PRINCIPLES	4
3	NOISE AMELIORATION - DESCRIPTION OF ACTIVITIES.....	5
3.1	SPECIFIC ACTIVITIES THAT ARE COST RECOVERED	5
3.2	COST RECOVERY INCOME AND COSTS	6
4	PRINCIPLES THAT UNDERPIN COST RECOVERY ARRANGEMENTS	6
4.1	GENERAL PRINCIPLES RELATING TO ECONOMIC EFFICIENCY	7
4.1.1	<i>Findings of the review</i>	7
4.2	DESIGN PRINCIPLES	7
4.2.1	<i>Findings of the review</i>	7
4.3	OPERATIONAL PRINCIPLES	8
4.3.1	<i>Findings of the review</i>	8
4.4	EFFICIENCY PRINCIPLES	9
4.4.1	<i>Findings of the Review</i>	9
4.5	OVERARCHING PRINCIPLES	9
4.5.1	<i>Findings of the Review</i>	9
4.6	CONSULTATION WITH STAKEHOLDERS	10
4.6.1	<i>Sydney Airport</i>	10
4.6.2	<i>Adelaide Airport</i>	10
4.6.3	<i>Further consultation</i>	10
5	ALTERATIONS TO COST RECOVERY ARRANGEMENTS.....	11
6	FURTHER REVIEW OF THE COST RECOVERY ARRANGEMENTS.....	11
7	CERTIFICATION.....	11



1 GOVERNMENT COST RECOVERY POLICY AND GUIDELINES

In December 2002 the Australian Government (the Government) adopted a formal cost recovery policy to improve the consistency, transparency and accountability of the Government's cost recovery arrangements and promote the efficient allocation of resources.

In order to apply the new policy the Department of Finance and Administration (Finance) issued Cost Recovery Guidelines for Information Agencies and Cost Recovery Guidelines for Regulatory Agencies. The Guidelines must be applied to review cost recovery activities either under:

- an agreed schedule of reviews announced by the Government;
- whenever there is a change to the cost recovery arrangements; or
- where new cost recovery arrangements are to be introduced.

1.1 WHAT IS COST RECOVERY?

Cost recovery is the recovery of some or all of the costs of a particular activity. Government cost recovery charges fall into two broad categories:

- fees for goods and services; and
- cost recovery taxes (primarily levies, but also excises and customs duties).

Cost recovery is different from general taxation. Some levies or taxes are used to raise cost recovery revenues, but the direct link - or 'earmarking' - between the revenue and the funding of a specific activity distinguishes such cost recovery taxes from general taxation.

1.2 WHY HAVE COST RECOVERY?

Used appropriately, cost recovery can improve economic efficiency. Cost recovery may also have equity effects. It may improve equity by ensuring that those who use regulated products and those who request additional information bear the costs. For regulatory agencies these broad principles suggest that the price of regulated products should incorporate all of the costs of bringing them to market, including the administrative costs of regulation. For information agencies the principles disseminate between general information products produced for the Australian community and information products produced at the request of specific groups or individuals.

The principles suggest the cost of the products should be assessed on a case by case basis, with regard to efficiency and cost effectiveness.



Regulatory and information agencies undertake a range of activities and produce a range of products; cost recovery may not be appropriate for some of these activities and products. Therefore, a mix of cost recovered and taxpayer funded activities would be expected for most regulatory and information agencies.

The guidelines require the following activities of regulatory activities to be assessed for cost recovery:

- registration and approvals;
- issuing exclusive rights and licenses;
- monitoring and compliance;
- information and education; and
- services to government that are integral to the regulatory activity

2 PRINCIPLES THAT UNDERPIN COST RECOVERY ARRANGEMENTS

The Cost Recovery Guidelines for Regulatory Agencies and the Cost Recovery Guidelines for Information Agencies require that cost recovery arrangements be assessed against cost recovery principles contained in the Guidelines. These principles can be broadly grouped into:

- general principles relating to economic efficiency
- design principles
- operational principles
- efficiency principles; and
- overarching principles

2.1 GENERAL PRINCIPLES RELATING TO ECONOMIC EFFICIENCY

The general principles relating to economic efficiency support cost recovery as an important means of improving economic efficiency by:

- sending important pricing message to users or customers about the costs of resources involved;
- reducing the call on general taxation revenue and avoiding the high efficiency losses from higher taxation revenue;
- improving horizontal equity by ensuring that consumers or beneficiaries of products, pay for the costs; and
- improving agency performance through transparency of costs and increased cost consciousness in both the agency and users.



2.2 DESIGN PRINCIPLES

Design principles require that the cost recovery arrangements:

- do not cross-subsidise across user groups;
- do not allow automatic access to revenues from cost recovery activities;
- be subject to the same public administration principles that apply to all government activities; and
- involve a degree of industry consultation to help drive agency efficiency.

2.3 OPERATIONAL PRINCIPLES

Operational principles require that:

- all cost recovery arrangements should have clear legal authority (for regulatory agencies);
- cost recovery charges should be linked as closely as possible to the actual costs of activities or products;
- costs recovered should relate to specific activities, not the agency that provides them;
- targets should not be set for the level of costs recovered;
- over recovery is inappropriate;
- outputs or activities that have ‘public good’ characteristics should be taxpayer funded;
- costs recovered may exclude activities undertaken for government where they are not integral or directly related to the provision of regulatory activities; and
- partial cost recovery is generally not appropriate.

2.4 EFFICIENCY PRINCIPLES

A key principle is that cost recovery should be based on ‘the efficient costs’ of the activity and should avoid:

- regulatory creep, where additional regulation is imposed without adequate scrutiny;
- gold plating, where unnecessarily high standards or facilities are adopted or there is simply over-regulation; and
- cost padding, where costs are artificially inflated in the knowledge that all costs can be recovered.

2.5 OVERARCHING PRINCIPLES

Notwithstanding that the Report supports cost recovery for economic efficiency reasons, it does not support cost recovery, specifically where it:

- is not cost effective;
- is inconsistent with policy objectives; or
- would unduly stifle competition and industry innovation.



3 NOISE AMELIORATION - DESCRIPTION OF ACTIVITIES

DOTARS manages the Sydney and Adelaide Noise Amelioration Programme. The Sydney regime was introduced in 1994 after the opening of the third runway at Sydney airport and the Adelaide programme was introduced in May 2000. The noise levy arrangements were designed to recover the costs of the Government-funded noise amelioration programmes which involve the acquisition and insulation of homes and certain public buildings in high noise areas near the Sydney and Adelaide airports. The geographical boundaries for eligibility under the programme are reviewed annually and reflect any annual changes in aircraft activity at the airports. The Government funds the cost of insulation works up to a maximum limit of \$0.06 million per household in Sydney and \$0.07 million in Adelaide. The Government funds the noise amelioration for eligible public buildings on an actual cost basis.

Costs are recovered through a levy charged to aircraft operators for each aircraft using Sydney and Adelaide airports.

3.1 SPECIFIC ACTIVITIES THAT ARE COST RECOVERED

The levy is designed to recover the administered costs of the programmes which include:

- costs of insulating homes/buildings (i.e. supplier costs, contractor costs);
- legal expenses;
- property acquisition;
- compensation;
- annual production of Australian Noise Exposure Index;
- levy collection fees to Airservices Australia; and
- contract costs for the outsourced project manager function for both Sydney and Adelaide.

DOTARS has an agreement with Airservices Australia to collect the levy on its behalf. Airservices Australia is paid a fee by DOTARS (\$0.3 million in 2003-04) for its services based on a proportion of actual amounts collected. Airservices Australia undertakes all activities associated with the collection of the levy from aircraft operators.

Departmental costs related to salaries of staff assisting in the administration of the programmes (1 FTE) are not cost recovered. At the time of introduction of the levy the Government specifically required that this cost be internally funded and was not to be recovered through the levy.



3.2 COST RECOVERY INCOME AND COSTS

The table below shows accumulated revenue streams and accumulated noise amelioration costs for the Scheme from 2000-01 to 2003-2004. The table shows for example, that by the end of 2003-04, total expenditure at Sydney Airport under the programme had reached \$407.7m, while levy collection had reached \$331.7m.

Sydney Airport	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Progressive total expenditure	365.5	395.3	403.8	407.7
Progressive total levy collection	220.9	256.7	292.2	331.7
Expenditure minus levy collection	-144.6	-138.6	-111.6	-76

Adelaide Airport	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
Progressive total expenditure	1.2	12.4	26.2	40.1
Progressive total levy	1.1	6.7	12.3	18.3
Expenditure minus levy collection	-0.1	-5.7	-13.9	-21.8

The tables demonstrate the design of the scheme. Essentially, the Government incurs expenditure which is reimbursed over a different time period through the levy until such time as all expenditure has been recovered. It is expected that the levy relating to Sydney airport will cease in 2006 and the Adelaide levy will cease in 2010.

4 PRINCIPLES THAT UNDERPIN COST RECOVERY ARRANGEMENTS

The Guidelines for Regulatory Agencies have been used to assess the cost recovery arrangements. Cost recovery principles contained in these Guidelines can be broadly grouped into:

- general principles relating to economic efficiency
- design principles
- operational principles
- efficiency principles; and
- overarching principles



4.1 GENERAL PRINCIPLES RELATING TO ECONOMIC EFFICIENCY

The general principles relating to economic efficiency support cost recovery as an important means of improving economic efficiency by:

- sending important pricing message to users or customers about the costs of resources involved;
- reducing the call on general taxation revenue and avoiding the high efficiency losses from higher taxation revenue;
- improving horizontal equity by ensuring that consumers or beneficiaries of regulated products, pay for the costs; and
- Improving agency performance through transparency of costs and increased cost consciousness in both the agency and users.

4.1.1 Findings of the review

The review found that the noise amelioration programme cost recovery arrangements comply with the general principles. The cost recovery arrangements are designed such that the organisations responsible for noise pollution (i.e. a negative spillover) pay the cost of amelioration.

The levy is charged to the airlines, on a jet aircraft landing basis. The airlines may then decide to pass this cost to the passengers through ticket prices.

4.2 DESIGN PRINCIPLES

Design principles require that the cost recovery arrangements:

- do not cross-subsidise across user groups;
- do not allow automatic access to revenues from cost recovery activities;
- be subject to the same public administration principles that apply to all government activities; and
- involve a degree of industry consultation to help drive agency efficiency.

4.2.1 Findings of the review

The review found that the noise amelioration cost recovery arrangements comply with the design principles. There is no cross subsidisation between user groups. The levy is based on the noise characteristics of each particular aircraft using the following formula:

$$\text{Levy unit} \times 2^{(\text{assessed noise} - 265)/15}$$

Assessed noise means the number equal to the effective perceived noise level of the aircraft concerned, in Effective Period Noise Decibels, determined in accordance with the regulations.



Levy unit means the amount calculated in accordance with the regulations.

The levy is applied to all aircraft irrespective of whether the aircraft is operating on international and domestic routes and whether it is carrying passengers or not.

The cost recovery arrangements are of the nature of a reimbursement scheme and as such revenues are not available to DOTARS. The costs of insulation work are provided through an annual appropriation which is subject to the normal scrutiny of the Government and the Parliament.

The costs of departmental administration are not recovered. These costs are estimated at 1 FTE at the EL1 level (\$0.1 million including overheads). The Government required that this cost be absorbed within internal departmental budget appropriations and not recovered through the levy. This arrangement ensures that DOTARS operates the arrangements as efficiently as possible.

4.3 OPERATIONAL PRINCIPLES

Operational principles require that:

- all cost recovery arrangements should have clear legal authority;
- cost recovery charges should be linked as closely as possible to the actual costs of activities or products;
- costs recovered should relate to specific activities, not the agency that provides them;
- targets should not be set for the level of costs recovered;
- over recovery is inappropriate;
- outputs or activities that have ‘public good’ characteristics should be taxpayer funded;
- costs recovered should exclude activities undertaken for government where they are not integral or directly related to the provision of regulatory activities; and
- partial cost recovery is generally not appropriate.

4.3.1 Findings of the review

The Aircraft Noise Levy Act 1995 and the Aircraft Noise Levy Regulations provide the legal authority for both the Sydney and Adelaide levy arrangements.

The operational principles suggest that partial cost recovery is not appropriate. In this regard, DOTARS’ internal costs would be considered integral to the activity but are not cost recovered. DOTARS has taken the position not to alter the cost recovery arrangements to include these costs as:



-
- Government specifically required that these costs should be internally funded;
 - levy arrangements are well established and stakeholders understand that the levy is intended to recover external costs only; and
 - cost recovery arrangements are a one-off arrangement and have a limited time horizon.

Aside from the partial cost recovery issue, the review found that the arrangements comply with the operational principles.

4.4 EFFICIENCY PRINCIPLES

A key principle is that cost recovery should be based on ‘the efficient costs’ of the activity and should avoid:

- regulatory creep, where additional regulation is imposed without adequate scrutiny
- gold plating, where unnecessarily high standards or facilities are adopted or there is simply over-regulation; and
- cost padding, where costs are artificially inflated in the knowledge that all costs can be recovered.

4.4.1 Findings of the Review

As the costs being recovered do not include administrative costs (ie costs internal to DOTARS) gold plating or cost padding does not impact on the amounts recovered from operators. The Aircraft Noise Levy Act 1995 has remained unchanged since its introduction which means regulatory creep has not occurred.

4.5 OVERARCHING PRINCIPLES

Notwithstanding that the Guidelines support cost recovery for economic efficiency reasons, it does not support cost recovery, specifically where it:

- is not cost effective
- is inconsistent with policy objectives, or
- would unduly stifle competition and industry innovation

4.5.1 Findings of the Review

The levy is collected by Airservices Australia who is paid a fee by DOTARS based on a proportion of actual amounts collected. The arrangement is simple and cost effective.

Cost recovery to fund noise amelioration costs is government policy and is not inconsistent with other policy. The calculation of the levy ensures airline operators are treated equitably and does not confer competitive advantage to one operator over another.



4.6 CONSULTATION WITH STAKEHOLDERS

4.6.1 *Sydney Airport*

The consultation process for the Sydney noise amelioration programme commenced in 1985 when The House Of Representatives Select Committee on Aircraft Noise (HORSCAN), which included representatives from Commonwealth and State Government departments, local government bodies, community groups and industry and individuals, tabled a report on aircraft noise management for Sydney airport. The report included submissions and evidence obtained during fifteen public hearings held in all the State capitals.

A Steering Committee was subsequently formed to prepare a draft Noise Management Plan. The report was to examine the various options for the funding of a noise amelioration programme. The Steering Committee was convened by the Federal Airports Commission, and included representatives from the CAE, NSW Department of Planning and NSW Environment Protection Authority.

The draft Noise Management Plan was released for public comment in June 1994 and included the preferred method for funding the noise amelioration programmes by a way of a charge on the aviation industry which related to the noise level produced by individual aircraft operations. There were approximately 900 written submissions in response to the draft plan which were considered and incorporated into the final report.

4.6.2 *Adelaide Airport*

The model for the recovery of costs for noise amelioration works for Adelaide Airport was based on the Sydney Airport experience. As airline operators had previously been extensively consulted in relation to Sydney airport minimal consultation was undertaken in relation to Adelaide Airport.

4.6.3 *Further consultation*

The Guidelines require that the cost recovery arrangements should be subject to appropriate stakeholder consultation. As this has already occurred it is not proposed to undertake further consultation.



5 ALTERATIONS TO COST RECOVERY ARRANGEMENTS

DOTARS does not propose to alter the current cost recovery arrangements relating to noise amelioration.

6 FURTHER REVIEW OF THE COST RECOVERY ARRANGEMENTS

The Guidelines require that each CRIS should identify when cost recovery arrangements will next be reviewed. Due to the unique one-off nature of the noise amelioration cost recovery arrangements, its reimbursement design and the finding of this review it is not proposed to re-review the arrangements.

7 CERTIFICATION

This cost recovery impact statement was certified by the Secretary of DOTARS on 10 May 2005.