
COST RECOVERY IMPACT STATEMENT (CRIS)

Vehicle Safety Standards

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1. AUSTRALIAN GOVERNMENT COST RECOVERY POLICY AND GUIDELINES

In December 2002 the Australian Government adopted a formal cost recovery policy to improve the consistency, transparency and accountability of Australian Government cost recovery arrangements and promote the efficient allocation of resources. In order to apply the new policy the Government 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 Department of Finance and Administration or whenever there is a change to the cost recovery arrangements.

1.1. WHAT IS COST RECOVERY?

Cost recovery is the recovery of some or all of the costs of a particular activity. Australian 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 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.

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

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

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

2. VEHICLE SAFETY STANDARDS - DESCRIPTION OF REGULATORY ACTIVITIES

The Vehicle Safety Standards (VSS) Branch of the Department of Transport and Regional Services provides regulatory services under the *Motor Vehicles Standards Act 1989* (the Act). As such it is defined as a regulator under the Cost Recovery Guidelines for Regulatory Agencies.

Fees are charged to cover registration and approval activities, monitoring and compliance activities, and research integral to the regulatory activity. There are 25 different fees prescribed in the Motor Vehicle Standards Registration Regulations 1989.

2.1. REGISTRATION AND APPROVAL ACTIVITIES

Before a road vehicle can be registered for the first time in Australia it must meet the requirements of the Act, which applies to new and used imported vehicles and locally manufactured vehicles. The Act requires vehicles to meet the national standards covering safety and emission requirements known as the Australian Design Rules (ADRs). When a new vehicle has been certified as meeting the ADRs it can be fitted with a compliance plate. The fitting of a compliance plate is mandatory under the Act, and it indicates to the State/Territory registering authority that the vehicle meets all the required ADRs.

Registration and approval activities cover:

- vehicles manufactured in Australia;
- high volume imported vehicles;
- low volume vehicles included on the Register of Specialist and Enthusiast Vehicles; and
- workshops used to inspect imported second hand vehicles and apply compliance plates.

The process of obtaining approval to fit a compliance plate is called vehicle certification. Manufacturers are responsible for carrying out tests to ensure vehicles comply with ADRs and to submit to VSS, a summary of the evidence of compliance to the applicable ADRs.

The Registered Automotive Workshop Scheme (RAWS) commenced in May 2003. The Scheme allows approval holders to inspect and fit compliance plates to second hand imported vehicles.

2.2. MONITORING AND COMPLIANCE

VSS undertakes monitoring and compliance activities as follows:

- Inspection and audits of test facilities for high volume vehicles both within Australia and overseas; and
- Inspection and audits of workshops under the RAWS scheme.

2.3. RESEARCH

VSS undertakes research activities relating to Australian Design Rules and overseas developments in vehicle design and regulatory systems. The results of research activities feed into development of new vehicle technical regulations, monitoring and compliance activities and policy development.

2.4. POLICY DEVELOPMENT

VSS is required to advise government on developments in the vehicle regulation, ADRs and policy relating to vehicle compliance. Policy development activities relate directly to regulatory activities.

3. COST RECOVERY INCOME AND COSTS

The table below shows revenue streams and associated costs for the financial year ended 30 June 2004.

	2003-04 (\$'000)		
	Revenue	Expenses	Net Balance
RAWS	736.5	1,748.1	-1,011.6
Vehicle Imports	811.0	672.0	139.0
Vehicle Compliance	8,012.3	3,513.8	4,498.5
Total	9,559.8	5,933.9	3,625.9

COMMENTARY ON 2003-04 INCOME AND COSTS

Key features of the table are that:

- RAWS is a relatively new scheme and is yet to strike normal volumes – it is expected that revenues will match costs as volumes stabilise;
- costs incurred by VSS are not linked to revenues;
- revenues on vehicle identification plates are driven by the number of vehicles plated. In this regard, buoyant motor vehicle sales over recent years has led to significant increases in income while costs have remained relatively constant; and
- cost drivers are the number of vehicle models, the number of vehicle manufacturers and the number and complexity of new ADRs - not vehicle numbers.

4. PRINCIPLES THAT UNDERPIN COST RECOVERY ARRANGEMENTS

The Cost Recovery Guidelines for Regulatory 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

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 VSS cost recovery arrangements comply with the general principles. Appropriate pricing signals are sent to the immediate beneficiaries of the regulatory activity being certain participants in the motor vehicle industry who are given rights to sell product in Australia through the certification process. The ultimate beneficiaries are the motoring public who obtain assurance that vehicles comply with safety and emissions standards.

The ultimate beneficiaries of the regulatory activity pay the costs of the activity – manufacturers, importers and registered automated workshops are required to pay fees on various applications which are then passed on their customers.

This arrangement is seen as being cost effective and results in the ultimate consumer of the regulatory activity paying the costs of regulation – thereby complying with the ‘beneficiary pays principle’.

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 findings of the review are presented in the table below:

Principle	Finding
Cross-subsidisation	<p>There is no cross-subsidisation between user groups as costs are not linked to cost recovery revenues.</p> <p>Basing fees on vehicle numbers is considered to be an efficient mechanism of charging as it does not discriminate between manufacturers who are subject to the same regulatory activities including:</p> <ul style="list-style-type: none"> • registration and approval; and • monitoring and compliance. <p>Each manufacturer also benefits from research and policy development integral to the regulatory activity.</p>
Access to revenues	Receipts are credited to the consolidated revenue fund. These monies can not be accessed by DOTARS.
Public administration principles	The VSS branch is subject to the same administrative principles that apply to all government activities including scrutiny by government through the budget process and by the Parliament (and its Committees) through the passing of Appropriation Bills.
Consultative committees	Established consultation committees exist through the Australian Motor Vehicle Certification Board and the Technical Liaison

Principle	Finding
	<p>Group (comprising State and Territory regulatory authorities and industry).</p> <p>A RAWs Industry Committee was established in 2000 when the RAWs programme was established and a fee structure set in place. The committee was consulted on potential cost recovery options.</p>

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 findings of the review are presented in the table below:

Principle	Finding
Legal authority	Fees are able to be charged pursuant to section 24 of the Motor Vehicle Standards Act 1989.
Are cost recovery charges linked as closely as possible to the actual costs of undertaking the regulatory or information activity?	<p>The costs of audit activities such as Conformity of Production (COP) audits and Test Facility Inspections (TFI) are cost recovered through the registration and approval fee.</p> <p>This arrangement provides the most appropriate compromise between linking charges to activities and maintaining the independence of the Regulator.</p>



Principle	Finding
Do charges and costs relate to specific activities?	<p>The fees and charges structure is not designed to fund the organisational unit, but to recover the costs of specific activities as follows:</p> <ul style="list-style-type: none">• registration and approvals;• monitoring and compliance through audits and inspections;• research and development; and• services to government integral and closely related to the regulatory activity.
Externally imposed targets	All regulatory activities provided are subject to full cost recovery. There are no externally imposed targets in place.
Over-recovery is not appropriate	<p>The VSS cost recovery arrangements have over-recovered in the year under review and several preceding years. This is primarily due to the revenue stream being based on vehicle numbers and the cost of activities being based on the number of models requiring a compliance plate. The drivers of total revenues and total costs are not directly related and may behave differently in any set of economic circumstances. For example, buoyant economic conditions will increase the number of vehicles requiring compliance plates thereby increasing total revenues. However, the number of individual models requiring compliance plates may not change which means costs would not increase through volume variances.</p> <p>The fee schedule itemises 25 separate items and fees. The fees were originally set in 1989 using vehicle volumes current at that time. Total revenues have increased reflecting vehicle sales volumes increases since 1989 whereas costs have not increased at the same rate. Vehicle volumes have increased by 27 per cent from 2000-01 to 2003-04.</p> <p>The amount over-recovered is not automatically available to DOTARS – all expenditure must be authorised by an annual appropriation of Parliament before funds are available.</p>
Public good characteristics	There are specific beneficiaries of the regulatory activity. Accordingly they cannot be classed as ‘for the public good’.

Principle	Finding
Do the cost recovery charges include the costs of services to government that are not integral or directly related to the regulatory?	An activity based costing model conducted for the 2003-04 financial year demonstrates that revenues recover the costs associated with the development of Australia Design Rules (ADRs), RAWs policy and general research which are integral and directly related to the regulatory activities provided by VSS. Standard development costs are allocated to light and heavy vehicle certification and RAWs policy is allocated to RAWs certification.
Are revenues from cost recovery arrangements identified separately in budget documentation and the Consolidated Financial Statements?	The revenues received from cost recovery arrangements are separately identified in the DOTARS Consolidated Financial Statements but not budget documentation.
Partial cost recovery is not appropriate	Cost recovery revenues recover the full costs of the regulatory activities.

4.4. OVER-RECOVERY ISSUES

4.4.1. Future projections

The CRIS found that current projections indicate over recovery will continue over the budget and forward estimates period. As a result, the Government has agreed in the 2005-06 Budget to address the gap through a combination of maintaining an ongoing level of funding previously agreed for one year only in 2004-05, and reducing fees for vehicle compliance.

The extra funding made available is intended to increase turnaround times of applications, increase audit activities and provide for extra research.



4.4.2. Revenues and costs gap

The table below identifies the revenues and expenses for each activity under the Act and the projected revenue and costs gap following the Government's 2005-06 Budget decisions.

Revenue and costs of administering the Motor Vehicle Standards Act 1989

2003-04 (\$'000)			
	Revenue	Expenses	Net Balance
RAWS	736.5	1,748.1	-1,011.6
Vehicle Imports	811.0	672.0	139.0
Vehicle Compliance	8,012.3	3,513.8	4,498.5
Total	9,559.8	5,933.9	3,625.9
2004-05 (\$'000)			
	Revenue	Expenses	Net Balance
RAWS	1,261.0	2,148.0	-887.0
Vehicle Imports	811.0	685.0	126.0
Vehicle Compliance	7,779.0	5,067.0	2,712.0
Total	9,851.0	7,900.0	1,951.0
2005-06 (\$'000)			
	Revenue	Expenses	Net Balance
RAWS	1,919.0	2,190.0	-271.0
Vehicle Imports	844.0	699.0	145.0
Vehicle Compliance	6,252.0	5,090.0	1,162.0
Total	9,015.0	7,979.0	1,036.0
2006-07 (\$'000)			
	Revenue	Expenses	Net Balance
RAWS	2,295.0	2,234.0	61.0
Vehicle Imports	878.0	713.0	165.0
Vehicle Compliance	6,326.0	5,222.0	1,104.0
Total	9,499.0	8,169.0	1,330.0
2007-08 (\$'000)			
	Revenue	Expenses	Net Balance
RAWS	2,671.0	2,279.0	392.0
Vehicle Imports	913.0	727.0	186.0
Vehicle Compliance	6,402.0	5,363.0	1,039.0
Total	9,986.0	8,369.0	1,617.0

4.5. 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.

4.5.1. Findings of the Review

The findings of the review are presented in the table below:

Principle	Finding
Is there regulatory creep?	Regulations are modified to cater for variations in applications/certifications received. Some regulations have been removed. All regulation charges are subject to public scrutiny through the Government’s processes for managing regulatory change.
Cost padding	No cost padding noted. There have been no changes in the fees and charges since cost recovery arrangements were set in place.
Gold plating	No gold plating noted. There have been no significant changes in standards or facilities provided since the since the cost recovery arrangements were set in place.

4.6. 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

4.6.1. Findings of the Review

The findings of the review are presented in the table below:

Principle	Finding
Cost effectiveness	Cost recovery arrangements are cost effective as it is simple to identify users and collect fees.
Consistency with broader policy objectives of the agency	Cost recovery of regulatory activities is consistent with broader policy objectives of the VSS branch and DOTARS as a whole.
Innovation and industry competition	<p>Cost recovery arrangements do not stifle competition as the current fees are not excessively high and therefore do not preclude new entrants from importing vehicles into the Australian market.</p> <p>There are no “free rider” effects associated with the regulatory activities provided by VSS.</p>

5. CONSULTATION WITH STAKEHOLDERS

The Cost Recovery Guidelines for Regulatory Agencies require that where cost recovery activities are defined as being significant (over \$5m per annum) the CRIS process include stakeholder consultation.

The Government asked DOTARS to provide options to reduce the gap between revenues and costs as part of the 2005-06 budget process. As the option to reduce application fees for motor vehicles canvassed in the CRIS has been agreed by Government, no further consultation is envisaged.

6. FUTURE REVIEWS OF VSS

DOTARS has scheduled a further review of VSS in two years after the fee reduction.



7. CERTIFICATION

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