



Summary

Setting and administration of fees and levies for cost recovery: Good practice guide

The Office of the Auditor-General provides Parliament and the public with an independent view on how well public organisations operate and account for their performance. In terms of fees and levies, we want to ensure that:

- the costs public organisations recover through fees and levies are justified;
- public organisations use the revenue they gather from fees and levies appropriately; and
- the practices of public organisations are transparent to fee and levy payers.

What has been updated since the 2008 guide

The guide has been updated and expanded from the 2008 version to:

- cover levies designed to recover the costs of services;
- provide detail on the use of levies;
- update the principles to be considered when setting and administering fees and levies;
- provide further discussion on aspects of cost allocation public organisations need to keep in mind for fees and levies; and

- provide an increased focus on monitoring fees or levies and reporting on them to promote greater transparency.

What charges are covered by the guide

The guide covers fees and levies that public organisations charge for goods and services they are required to produce or provide. It does not cover levies designed to create a fund (for example, road user charges and Accident Compensation Corporation levies) or contractual payments for goods and services that a public organisation provides to a third party on a discretionary basis.

A principles-based approach

It is not possible to set out a single standard that must be followed when setting or administering fees or levies. This is because a fee or levy can be charged for a variety of reasons. Therefore, we provide four principles, in Part 2 of the guide, that public organisations should consider when making decisions about setting a new charge or reviewing an existing one:

- **Equity** – Public organisations should administer and manage fees and levies in a way that is



administratively fair and ensure that they do not seek to recover costs from one group that might benefit a previous or future group.

- **Efficiency** – Public organisations should produce as many goods or provide as many services as possible to the desired level of quality from a given quantity of resources. This achieves value for money.
- **Justifiability** – The costs public organisations recover through fees or levies should reasonably relate to the goods or services they are charging for, and, where possible, it means eliminating cross-subsidisation.
- **Transparency** – Public organisations are accountable to Parliament and the public. This requires them to have transparent processes in place for setting and managing fees and levies. It is about providing enough information to fee and levy payers so they can understand and assess charges.

There might be tension between the principles in different circumstances, and public organisations will need to consider any trade-offs that need to be made.

Matters to consider when setting fees and levies

Legal authority

A public organisation must always ensure that it has the appropriate legal authority to set a fee or levy and to administer it in the way it intends. Although legislation authorising charging is often permissive, and sometimes presents a range of options to consider, this is not always the case. It is important to thoroughly check the provisions in the relevant Act and any related regulations.

Other considerations

Although there is no single standard that you must follow when setting fees or levies, there are a range of matters that public organisations need to consider, including:

- the purpose and scope of the legal authority to charge a fee or levy;
- the general principle of cost recovery;
- policy and other considerations that might affect the amount of the fee or levy;
- the need to consider cross-subsidisation; and
- any waivers, refunds, or exemption provisions.

Justification for any charge and the type of charge

Charges need to be justified. This is about public organisations ensuring that there is a sound basis for any charge found in:

- the policy basis for the charge and its legal authority;
- the choices made on the design of any charge; and
- the efficient and fair allocation of the costs (for example, direct and indirect costs) incurred in producing the good or providing the service.

Public organisations then need to decide on the type of fee or levy to charge from the following options:

- the use of fixed charges to individuals (fees);
- charges to groups of individuals (levies); or
- variable/differentiated charges to individuals.

More information on these matters can be found in Part 3 of the guide.

Administering fees and levies

As well as ensuring that there is robust decision-making for setting fees and levies, we expect the administration of fees and levies to include:

- clear documentation of decisions about fees or levies, the charging system used, and the expected level of revenue and costs;
- consideration of the use of memorandum accounts for tracking;
- ongoing monitoring and review of fees and levies; and
- regular engagement with fee and levy payers.

More information on these can be found in Part 4 of the guide.

External review

External parties with a role in ensuring that public organisations are setting fees and levies lawfully are:

- the Regulations Review Committee;
- the courts; and
- the Auditor-General.

More information on the role of each can be found in Part 5 of the guide.