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In-House Memorandum

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Cost Recovery and Growth Corridors

Cost recovery is a technique used by government to charge the non-government sector for the provision of government goods and services¹. This may take the form of fees for goods and services or 'cost recovery' taxes (e.g. levies, excises, duties)².

The Victorian Government is currently seeking to apply Treasury cost recovery procedures to recoup the costs of habitat conservation in Melbourne's growth corridors³. The Victorian Government's *Cost Recovery Guidelines* require that cost recovery arrangements be: consistent with and supportive of its cost recovery policy objectives, imposed directly where possible, cost effective and practical, feasible, legal and consistent with other policy objectives⁴.

Under arrangements for cost recovery in growth corridors, those obliged to provide habitat conservation – for example, on-ground management, habitat construction, ecological monitoring or reporting – may be asked to pay for these services through a cost recovery arrangement⁵.

The aptly named Habitat Compensation Scheme ('HCS') provides three methods:

- a flat fee for the removal of native vegetation or the loss of habitat for threatened species through urban development;
- a stable 'habitat offset' framework;
- an in-lieu payment⁶.

It is important that the HCS cost recovery strategy ensures that the costs of habitat construction are not inadvertently drawing on funds from other sources (e.g. waterways and drainage charges imposed with water rates). In line with the principles set out in the *Cost Recovery Guidelines*, the HCS advises against these types of arrangement as:

"...they result in inequitable outcomes and create incentive effects contrary to desired outcomes. The risk of cross-subsidisation is reduced by structuring charges so that they most accurately reflect the effort involved in the corresponding activity."

If used appropriately, cost recovery has the potential to improve equity by ensuring that those who use government products and services bear the costs.

Cameron Algie
7 July 2014

¹ <http://www.finance.gov.au/financial-framework/financial-management-policy-guidance/cost-recovery.html>

² *Australian Government Cost Recovery Guidelines* (Commonwealth of Australia: Department of Finance and Administration, 2005), p.10

³ Including in the expanded 2010 Urban Growth Boundary (UGB), in 16 of the existing 28 urban precincts in the 2005 UGB, and in the Outer Metropolitan Ring Transport Corridor/E6 Road Reservation. This is in addition to the Growth Areas Infrastructure Contribution (GAIC) applicable in Melbourne's urban growth areas.

⁴ *Victorian Government Cost Recovery Guidelines* (Victorian Government: Department of Treasury and Finance, 2013), p.8

⁵ i.e. rather than have them funded from general taxation revenues.

⁶ *Victorian Government Cost Recovery Guidelines* (Victorian Government: Department of Treasury and Finance, 2013), p.3

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