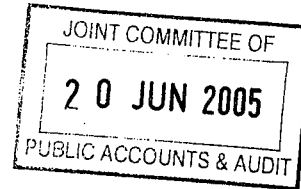




Australian Government
Department of Transport and Regional Services

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Ms Rebecca Gordon
Inquiry Secretary
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Ms Gordon

Review of Auditor-General's Reports Fourth Quarter 2003-2004
ANAO Performance Audit Report No. 50 Management of Federal Airport
Leases – Follow-up from Public Hearing 7 March 2005

Dear Ms Gordon

I refer to your letter of 2 June 2005 seeking further information as a result of discussion at the Committee's public hearing on 7 March 2005. In particular, you have sought a report on the outcome of the Department's review in relation to the recovery of airport lease administration costs. This report is provided below.

In accordance with the Government's schedule of cost recovery reviews, in 2004-05 the Department undertook an assessment of its cost recovery arrangements, including airport lease administration, against the Department of Finance and Administration's *'Commonwealth Cost Recovery Guidelines for Information and Regulatory Agencies'*. This assessment resulted in Cost Recovery Impact Statements (CRIS) being prepared and a copy of the relevant CRIS is attached¹. As noted in Part 4 of the CRIS, "DOTARS does not intend to alter any of the current arrangements for minor cost recovery activities".

In relation to airport lease administration costs (estimated to be some \$0.3m in 2003-04), the CRIS noted that advice provided to airport bidders during the Phase 2 sale process "would seriously undermine the Clause 11.2 contractual right to recover lease administration costs ...". The CRIS also noted that "... furthermore work undertaken by external consultants suggests there is some uncertainty on the cost effectiveness of a compliant cost recovery regime should it be introduced".

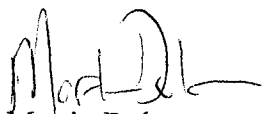
¹ The CRIS for the Department's minor cost recovery arrangements can also be found on the Department's website at www.dotars.gov.au.

As further background for the Committee, legal advice provided by the Australian Government Solicitor (AGS) to the Department in March 2005 concluded that for Phase 2 airports "there would be legal arguments of substance available to the airport lessees to support the contention that the Commonwealth is not entitled to recover those costs". The advice also stated "Given the relatively small amount of money involved compared with the likely expenditure necessary to resolve the matter, it may not be worthwhile to pursue this issue". Comment was also made in relation to Phase 1 airports "unless similar statements were made in the context of the Phase 1 airport sales, there is nothing to suggest that the Commonwealth is not, in reliance upon cl.11.2, able to recover internal departmental administrative costs from those airports". For the information of the Committee, a copy of the AGS advice is attached.

In accordance with the Department of Finance and Administration's Guidelines, the Department's minor cost recovery arrangements are scheduled for review again in five years.

Do not hesitate to contact me if the Committee requires further information.

Yours sincerely



Martin Dolan
Executive Director
Aviation and Airports

16 June 2005