



Australian Government

Department of Infrastructure, Transport, Regional
Development, Communications, and the Arts

Australian Maritime Safety Authority

AUSTRALIAN MARITIME SAFETY AUTHORITY

COST RECOVERY IMPLEMENTATION STATEMENT

National System for Domestic Commercial Vessel Safety Revised Marine Order 505 – Certificates of Competency

2022-23

October 2022

Cost recovery involves government entities charging individuals or the non-government sector some, or all, of the efficient costs of a regulatory charging activity. This may include goods, services, or regulation, or a combination of them. The Australian Government Charging Framework, which incorporates the Cost Recovery Guidelines (the CRGs)¹, sets out the framework under which government entities design, implement, and review regulatory charging activities.

¹ The Australian Government Charging Framework and the Cost Recovery Guidelines are available on the Department of Finance's website www.finance.gov.au.

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1 Executive Summary

After extensive consultation with industry, AMSA has revised Marine Order 505 (Certificates of Competency), which comes into effect on 1 January 2023. This is a nationally consistent and simplified qualifications framework for people working on domestic commercial vessels.

Summary of reforms

These reforms will provide an easier to navigate career pathway for people working on domestic commercial vessels by:

- Combining as appropriate existing exemptions and introducing new professional pathways for qualifications
- Revising sea service requirements and removing restrictions which will assist in more employment opportunities without compromising safety outcomes
- Clarifying duties and definitions

Five new near coastal (NC) certificates of competency will be created:

- Coxswain Grade 3 NC
- Master <45m NC
- Master <100m NC
- Sailing Master Coastal
- Sailing Master Offshore

Three existing certificates will be phased out and replaced:

- Master <35m NC (replaced with new Master <45m NC)
- Mate <80m NC (replaced by existing Master <24m NC)
- Master <80m NC (replaced by new Master <100m NC)

Action required

Existing certificate holders (including grandfathered holders of state or territory issued certificates) can continue to operate as these certificates remain valid until expiry. However, a person may voluntarily choose to transition to the new simplified qualifications framework.

Transitional arrangements will be in place for a 12-month period until 1 January 2024 to allow adequate time for people to meet the new regulatory requirements under the revised qualifications framework. These arrangements are for existing holders of Exemption 38 (Low Complexity Duties), and Mate <80m NC and General-Purpose Hand certificate holders.

It is important that domestic commercial vessel operators and people working on domestic commercial vessels familiarise themselves on how the revised Marine Order 505 may affect their operations.

Financial impacts

Proposed charge-out rates for the five new certificates will be commensurate to those currently existing, being \$163 or \$282 for initial certificates, and \$150 or \$238 for renewals, depending on the nature of the certificate.

AMSA has thoroughly reviewed and assessed regulatory effort and associate costs required for these reforms, offset by savings from phasing out existing certificates. At this point in time, AMSA is only proposing to recover **partial** costs from industry with any shortfall funded by cash reserves.

2 Introduction

2.1 Background

Brief history of National System

On 2 July 2009 the Council of Australian Governments (COAG) reached consensus that the Australian Maritime Safety Authority (AMSA) will become Australia's sole maritime safety regulator for the design, construction, operation, crewing, qualifications, and vessel safety equipment for the domestic commercial vessel industry (National System) by 1 July 2013.

An [Intergovernmental Agreement](#) (IGA) was entered into on 19 August 2011, the purpose of which was to enable a consistent national regulatory approach of the National System across Australia. This would be achieved through a regulatory framework that promoted continuous improvement in marine safety, promoted public confidence in the safety of marine operations, ensured effective identification and management of safety risks, and sought to reduce the regulatory burden without compromising safety.

Legislation to give this effect encompassed:

- [Marine Safety \(Domestic Commercial Vessel\) National Law Act 2012](#) (National Law),
- [Marine Safety \(Domestic Commercial Vessel\) National Law Regulation 2013](#) (National Law Regulation).

All states and territories (jurisdictions) were encouraged to apply the National Law to the extent necessary to ensure a national coverage and application of consistent standards.

The IGA highlighted the ongoing role of jurisdiction maritime agencies in service delivery being integral to the National System. Specifically, paragraph 38 of the IGA provided that,

[AMSA] will be responsible for the operation and administration of safety regulation of commercial vessels in Australian waters. State and Territory jurisdictions will deliver a range of [AMSA's] operational and enforcement functions within their respective jurisdictional territory.

Effectively, AMSA's responsibility was for the development of subordinate legislation, such as Marine Orders and other standards, forming part of National Law, with jurisdiction maritime agencies acting as AMSA's delegates, delivering services required by the National System, and recovering costs for those services.

However, in 2014 a [Streamlining Review](#) of the National System was undertaken in response to industry's concerns about the effectiveness and costs of regulation. The review found that the National System was not operating as intended, concluding there were inconsistencies in the approach to service delivery across the jurisdictions and these were potentially limiting the benefits of a single maritime national regulator.

In response, the Transport and Infrastructure Council agreed in November 2014 that AMSA should assume full responsibility for the National System from 1 July 2017. However, following feedback from industry on proposed cost recovery approaches, the Australian Government decided that the implementation date for National System should be delayed twelve months until 1 July 2018, with a transitional period anticipated for the gradual roll-out of regulatory functions (levy-based activities), with a target date for achieving full cost recovery by 1 July 2021.

Effectively fee-based activities would be recovered from industry from 2018-19, while there would be no cost recovered domestic commercial levy until 2021-22. This provided three years for AMSA to engage with stakeholders on a range of important matters including the most efficient and effective ways to delivery services to industry, and opportunities to reduce costs to industry without compromising safety.

However, in recognition of the impact that COVID-19 pandemic was having on the domestic maritime commercial industry, the Australian Government decided to delay a review on the National System for a further twelve-months.

In December 2021 the Australian Government announced the commissioning of an *Independent Review of Domestic Commercial Vessel Safety Legislation, and Costs and Charging Arrangements* (Review). This will consider the appropriateness of legislation, costs, and charges in an informed manner by an independent expert Panel, with the benefit of nationally consistent data on the risk and effort required to implement the National System. Consequently, any potential domestic commercial vessel cost recovered levy will be delayed until after the Panel reports recommendations to the Australian Government, with a consolidated report expected in late 2022-23.

Revision of Marine Order 505

During the period from 2016 to 2018, AMSA began a 'back to basics' review of the near coastal qualification framework, specifically a review of [Marine Order 505 \(Certificates of Competency – National Law\) 2013](#) (MO505 2013) and [Part D of the National Standard for Commercial Vessels \(Crew Competencies\)](#).

By mid-2018 AMSA had established a Near Coastal Qualifications Review Industry Reference Group (IRG), reflective of all sectors of the domestic commercial maritime industry. The purpose of the IRG was to provide advice and recommendations during the development of a revised qualifications framework.

Over the next three years and after extensive consultation with industry, AMSA has developed a nationally consistent and simplified qualifications framework for seafarers working on domestic commercial vessels through the revised [Marine Order 505 \(Certificates of Competency – National Law\) 2022](#) (MO505 2022), which commences on 1 January 2023.

Effectively, MO505 2022 provides for the following:

- National Standards for crew competencies will be incorporated in MO505 2022,
- Five new certifications of competency will be created:
 - Coxswain Grade 3 NC
 - Sailing Master Coastal NC
 - Sailing Master Offshore NC
 - Master <45 metres NC
 - Master <100 metres NC
- Three old certifications of competency will be phased out and replaced:
 - Master <35 metres NC replaced with new Master <45 metres NC
 - Mate <80 metres NC replaced by existing Master <24 metres NC
 - Master <80 metres NC replaced with new Master <100 metres NC
- Several exemptions will be repealed or phased out under transitional arrangements, as these are combined in MO505 2022, and

- Modernised standard for the assessment of medical fitness has been created for longer validity.

2.2 Purpose of this Cost Recovery Implementation Statement

The purpose of this Cost Recovery Implementation Statement (CRIS) is to provide information to industry participants, interested parties, and the public (stakeholders) on how AMSA intends to implement cost recovery arrangements under MO505 2022. In particular, the implementation of the five new certifications, partially offset by savings in three older certifications being phased out and replaced.

This document provides key information on the application of cost recovery activities, including proposed charge-out rates, financial estimates, and risk assessment. It assists stakeholders to understand AMSA's costs and drivers, which strengthens accountability, provides transparency, and demonstrates compliance with the Australian Government Charging Framework, Cost Recovery Guidelines (CRGs), and general policy order issued by the Finance Minister.

2.3 Description of regulatory charging activity output

2.3.1 Description of the activity

From 1 July 2018, AMSA transitioned to deliver safety services for domestic commercial vessels and seafarers, previously delivered by the jurisdiction maritime agencies. As part of transitional funding arrangements, regulatory function-based activities continue to be government funded with jurisdiction contributions, while fee-based activities are cost recovered from the domestic commercial vessel operators and seafarers.

The activity output for MO505 2022 is seafarer certificates of competency, near coastal. This output includes the business processes of assessing applications, approvals, and issuing certifications for recognised domestic marine qualifications. Under MO505 2022 there will be five new certificates of competency created, while three current certificates will be phased out and replaced. Each certificate will involve an initial application and a renewal at or before the fifth-year anniversary.

2.3.2 Appropriateness of cost recovery

It is government policy that when an individual or an organisation creates a demand for a government activity, there should generally be a charge for the provision of that regulatory service or activity. Instances where cost recovery may not be appropriate are where it is not cost effective and is inefficient, there are inconsistencies with other government policy objectives, or it would unduly stifle competition or industry innovation within the non-government sector (crowding out).

AMSA has assessed MO505 2022 and deems that cost recovered fees are an appropriate regulatory charging mechanism. Participants in the domestic commercial shipping industry, in particular domestic seafarers, will pay for costs attributable to the provision of certificates, similar to current certificates of competency arrangements under the National Law.

2.3.3 Stakeholders

The principal stakeholders for the National System are:

- commercial vessel owners and operators (~31,000),

- seafarers and associated organisations (~66,000),
- accredited marine surveyors (~250),
- registered training organisations,
- Commonwealth, and State and Northern Territory maritime agencies, and
- the Australian community.

3 Policy and statutory authority to recover

3.1 Government policy approval to cost recover

The Explanatory Memorandum of the [Australian Maritime Safety Authority Act 1990](#) states that the Australian Government's intents that AMSA 'will run on a self-funded basis, with services which cannot be provided on a self-funded basis (such as search and rescue coordination services) to be paid by the Commonwealth'. This effectively means AMSA recovers costs for service delivery from regulated industry participants by applying a 'user-pays' principle.

The Australian Government authorised AMSA to fully recover fee-based activity costs for service delivery for the National System through a Cabinet decision on 4 December 2017. Further, AMSA recovers costs in adherence with [Public Governance, Performance and Accountability \(Charging for Regulatory Activities\) Order 2017](#), which refers to the Australian Government Charging Framework and CRGs.

3.2 Statutory authority to charge

AMSA's statutory authority to charge domestic commercial vessel operators and seafarers arises under section 150(1), Schedule 1 of the National Law.

Section 163(1)(c) of the National Law provides that fees imposed under section 150(1) may only be prescribed in the National Law Regulation. To give effect to the proposed cost recovery fee arrangements under MO505 2022, as prescribed in this consultative CRIS, AMSA will require an amendment to the National Law Regulation, specifically subsection 50(B)(1), (2), and (3).

Drafting instructions to incorporate the five new certifications in the National Law Regulation have been prepared and provided to Office of Parliamentary Counsel (OPC). The OPC has commenced work of these amendments. The three phased out certificates will continue to be included in the National Law Regulation as certificates issued prior to 1 January 2023 will remain valid until expiry, which may be up to five years from the date of issue.

4 Cost recovery model

4.1 Outputs and business processes

Driven largely by transactional business processes specifically performed upon the receipt of an application from a particular individual or an organisation, there is a clear and distinct linkage of time and effort to the associated costs for the issuance of a certificate.

However, in practice time and effort for the assessment and decision-making process may vary from application to application. This depends on the certification requested, information

received to support the application, potential re-work, and level of communication (and wait-times) between the applicant and AMSA. Accordingly, when estimating time AMSA has applied an average time considering more complex and labour extensive applications, as well as simple applications when all information is provided.

Business processes identified for the fee-based activity under MO505 2022 include:

- Receiving and assigning application,
- Lodging application into system,
- Assessing application, and where necessary assessing qualifying sea service and requesting further information,
- Decision on application, and
- Reviewing decision and issuing certificate

Estimations of time in minutes required to undertake the business processes for each of the certificates for an average application relating to the revision of MO505 2022 is summarised in **Table 1**.

Table 1 – Estimated time (in minutes) of business processes

Certificate	Receipt & assign application	Lodging application into system	Assess application & decision made	Review decision & issue certificate	Total time (in minutes)
New certificates					
Coxswain Grade 3 - initial application	2.00	4.00	19.00	5.00	30.00
Coxswain Grade 3 - renewal	2.00	4.00	6.00	3.00	15.00
Sailing Master Coastal NC - initial application	2.00	4.00	49.00	5.00	60.00
Sailing Master Coastal NC - renewal	2.00	4.00	34.00	5.00	45.00
Sailing Master Offshore NC - initial application	2.00	4.00	49.00	5.00	60.00
Sailing Master Offshore NC - renewal	2.00	4.00	34.00	5.00	45.00
Master < 45 metres - initial application	2.00	4.00	49.00	5.00	60.00
Master < 45 metres - renewal	2.00	4.00	34.00	5.00	45.00
Master < 100 metres - initial application	2.00	4.00	49.00	5.00	60.00
Master < 100 metres - renewal	2.00	4.00	34.00	5.00	45.00
Certificates phased out and replaced					
Master < 35 metres - initial application	2.00	4.00	49.00	5.00	60.00
Master < 35 metres - renewal	2.00	4.00	34.00	5.00	45.00
Master < 80 metres - initial application	2.00	4.00	49.00	5.00	60.00
Master < 80 metres - renewal	2.00	4.00	34.00	5.00	45.00
Mate < 80 metres - initial application	2.00	4.00	34.00	5.00	45.00
Mate < 80 metres - renewal	2.00	4.00	19.00	5.00	30.00

4.2 Costs of regulatory charging activities

AMSA applies an activity-based costing methodology to all its modelling to determine costs for activity outputs and regulatory charging activities, as depicted in **Appendix 1**. This holistic methodology allocates all costs to activity outputs based on estimated time and effort basis and associated cost drivers.

In developing costings for MO505 2022, AMSA undertook a bottom-up activity-based costing exercise to build-up direct costs using a traditional style. The approach in developing the costing model is detailed in **Appendix 2**, which includes details on cost categories and sensitivities in developing the MO505 2022 costing model.

Estimated net costs from the revision of MO505 2022, broken down into estimated volumes, direct average staffing levels (ASL), direct and indirect costs, and unit costs are set out in **Table 2**.

Table 2: Breakdown of net costs estimates for 2022-23

Certificate	Estimated volumes	Direct ASL*	Direct costs (\$)	Indirect costs (\$)	Total costs (\$)	Unit cost (\$)
Costs for new certificates						
Coxswain Grade 3 - initial application	2,500	0.90	273,672	196,829	470,502	188.20
Coxswain Grade 3 - renewal	-	-	-	-	-	-
Sailing Master Coastal NC - initial application	25	0.02	3,692	3,937	7,629	305.16
Sailing Master Coastal NC - renewal	-	-	-	-	-	-
Sailing Master Offshore NC - initial application	25	0.02	3,692	3,937	7,629	305.16
Sailing Master Offshore NC - renewal	-	-	-	-	-	-
Master < 45 metres - initial application	75	0.05	11,077	11,810	22,887	305.16
Master < 45 metres - renewal	352	0.19	46,704	41,570	88,275	250.78
Master < 100 metres - initial application	9	0.01	1,329	1,417	2,746	305.16
Master < 100 metres - renewal	29	0.02	3,848	3,425	7,273	250.78
Total costs for new certificates	3,015	1.20	344,016	262,924	606,940	
Savings from certificates replaced or cancelled						
Master < 35 metres - initial application	(75)	(0.05)	(8,802)	(11,810)	(20,612)	274.82
Master < 35 metres - renewal	(352)	(0.19)	(45,287)	(41,570)	(86,857)	246.75
Master < 80 metres - initial application	(9)	(0.01)	(1,056)	(1,417)	(2,473)	274.82
Master < 80 metres - renewal	(29)	(0.02)	(3,731)	(3,425)	(7,156)	246.75
Mate < 80 metres - initial application	-	-	-	-	-	-
Mate < 80 metres - renewal	(6)	(0.00)	(655)	(472)	(1,127)	187.89
Total savings from certificates replaced or cancelled	(471)	(0.27)	(59,531)	(58,694)	(118,225)	
Grand Total	2,544	0.93	284,485	204,230	488,715	

* Direct ASL does not include line manager support, corporate support, or executive functions.

The revised MO505 2022 will commence on 1 January 2023, and as such will only incorporate half a financial year (2022-23). Afterwards, costings are for full financial years, with variances in estimated volumetric data. Costs for budget (2023-24), and three forward year estimates (2024-25 to 2026-27) are provided in the financial estimates of **Table 6**.

4.3 Design of regulatory charges

4.3.1 Charging structure

AMSA applies a 'user pays' principle to its regulatory charging activities.

The design for MO505 2022 considers whether the provision is to an individual (or an organisation) with benefits reasonably attributed to that entity, or whether benefits are

provided to a group of entities or broader community. The former involves recovery of costs through charging fees, whereas the latter may involve an imposition of a cost recovery levy.

A fixed charge-out rate for fee-based activities is applied where the range for typical service delivery times do not vary significantly from the standard average. Where there are wide variations, indicated by significant divergences from the standard deviation, the basis of the relevant charge is an hourly rate and any reasonable unavoidable travel costs.

The nature of the reforms to MO505 2022 are that the benefits are directly related to the provision of certifications to individuals, or group of individuals through batch applications by registered training organisations. Further, times to assess and issue certificates is estimated to not vary widely from a standard average. Accordingly, AMSA will apply cost recovered fees using fixed charge-out rates for the provision of the new certificates.

In relation to the charge-out rates, AMSA is proposing to apply similar rates for the initial and renewals of certificates based on current charges, as summarised in **Table 3**.

Table 3: Proposed charge-out rates for 2022-23

Certificate	Initial certificate	Renewal certificate
Current certificates of competency		
Coxswain grade 1	\$ 163	\$ 150
Coxswain grade 2	\$ 163	\$ 150
General purpose hand	\$ 163	\$ 150
Marine engine driver grade 2	\$ 163	\$ 150
Marine engine driver grade 3	\$ 163	\$ 150
Master inland waters	\$ 163	\$ 150
Master < 24 metres	\$ 163	\$ 150
Engineer class 3	\$ 282	\$ 238
Marine engine driver grade 1	\$ 282	\$ 238
Master < 35 metres	\$ 282	\$ 238
Master < 80 metres	\$ 282	\$ 238
Mate < 80 metres	\$ 282	\$ 238
New certificates of competency		
Coxswain grade 3	\$ 163	\$ 150
Sailing Master Coastal	\$ 163	\$ 150
Sailing Master Offshore	\$ 163	\$ 150
Master < 45 metres	\$ 282	\$ 238
Master < 100 metres	\$ 282	\$ 238

In accordance with subsection 52 of the National Law Regulation, annual indexation shall apply to specified fees contained within the provisions. This is a mandatory legislative requirement, with indexation based on the March quarterly Consumer Price Index (all groups weighted average of the eight capital cities) published by the Australian Statistician each year.

The indexation factor applied for 2022-23 was 5.1%, with an effective date of the increase being 1 July 2022. There will be a similar indexation process to apply from 1 July 2023 to both current and the new certificates.

4.3.2 Revenue estimates

Based on the proposed charge out rates, revenue estimates for current year (2022-23), budget (2023-24), and three forward year estimates are summarised in **Table 4**.

Table 4: Revenue estimates for 2022-23 to 2026-27

Certification	Estimate	Budget	Forward Year Estimates		
	2022-23 (\$)	2023-24 (\$)	2024-25 (\$)	2025-26 (\$)	2026-27 (\$)
New certification					
Initial certification					
Coxswain Grade 3*	407,500	635,700	456,400	456,400	456,400
Sailing Master Coastal NC	4,075	8,150	8,150	8,150	8,150
Sailing Master Offshore NC	4,075	8,150	8,150	8,150	8,150
Master < 45 metres	21,150	42,300	42,300	42,300	42,300
Master < 100 metres	2,538	4,794	4,794	4,794	4,794
Total for initial certification	439,338	699,094	519,794	519,794	519,794
Renewals of existing certification					
Coxswain Grade 3*	-	-	-	-	375,000
Sailing Master Coastal NC	-	-	-	-	3,750
Sailing Master Offshore NC	-	-	-	-	3,750
Master < 45 metres	83,776	205,870	179,214	176,596	154,224
Master < 100 metres	6,902	20,468	12,614	18,564	16,422
Total for renewals of existing certification	90,678	226,338	191,828	195,160	553,146
Total for new certification	530,016	925,432	711,622	714,954	1,072,940
Less: Phased out and removed certification					
Initial certification					
Master < 35 metres	(21,150)	(42,300)	(42,300)	(42,300)	(42,300)
Master < 80 metres	(2,538)	(4,794)	(4,794)	(4,794)	(4,794)
Mate < 80 metres	-	(1,128)	(1,128)	(1,128)	(1,128)
Total for initial certification	(23,688)	(48,222)	(48,222)	(48,222)	(48,222)
Renewals of existing certification					
Master < 35 metres	(83,776)	(205,870)	(179,214)	(176,596)	(154,224)
Master < 80 metres	(6,902)	(20,468)	(12,614)	(18,564)	(16,422)
Mate < 80 metres	(1,428)	(3,094)	(2,618)	(476)	(1,904)
Total for renewals of existing certification	(92,106)	(229,432)	(194,446)	(195,636)	(172,550)
Total for phased out and removed certification	(115,794)	(277,654)	(242,668)	(243,858)	(220,772)
Net estimated revenue	414,222	647,778	468,954	471,096	852,168

* Coxswain Grade 3 revenue varies in accordance with estimated volumes. For example, we are expecting 2,500 applications in 2022-23 (half year), rising to 3,900 application in 2023-24, and then 2,800 in each of the forward year estimates. Further, we are estimating volumes for voluntary renewals to commence in 2026-27.

Estimated net revenue varies from \$0.414 million in 2022-23, which is a half year as the revision to MO505 commences from 1 January 2023, to \$0.852 million in 2026-27. The variances between financial years are driven largely by estimated changes in volumes and demand. This revenue is provided in the financial estimates in **Table 6**.

4.3.3 Independent Review of Domestic Commercial Vessel Safety

In late 2021, the Australian Government commissioned an independent expert panel to conduct a comprehensive review of the National Law and associated legislative framework, and to consider costing and charging arrangements for the National System.

This review will be conducted in these two distinct phases. Phase 1 will focus on the legislative framework of the National Law in the context of safety objectives and assess whether legislation is fit-for-purpose. The Phase 1 [Draft Interim Safety Report](#) was published on 8 August 2022 and has been released for public consultation until 30 November 2022, with a final report to follow. Phase 2 will focus on the National System delivery costs, charging, and future funding options, with a report expected in mid-2023.

The independent review will be informed by significant and comprehensive stakeholder engagement, including public discussions supported by efforts to encourage submissions from industry participants, interested parties, and the public in general.

A final consolidated report will include recommendations to the Australian Government on options for future funding arrangements for the National System, including considering alternative service delivery approaches for AMSA's regulatory activities, and cost recovery arrangements. Recommended options will seek to improve safety, reduce costs for participants where appropriate, and provide financial stability and certainty for industry and for AMSA. The timing is expected to align with the 2024-25 Commonwealth Budget Process.

5 Risk assessment

AMSA's risk assessment was facilitated by using a Charging Risk Assessment (CRA) template provided by the Department of Finance. A CRA identifies areas of implementation and regulatory charging risks stemming from cost recovery arrangements. AMSA self-assessed the overall risk rating for the reforms under MO505 2022 as Medium, which was agreed by the Department of Finance.

Risks identified as relevant for the recovery of costs for fee-based activities under MO505, including mitigation strategies are provided in **Table 5**.

Table 5 – Risk assessment for revision from MO505 2022

Risk identified	Inherent risk	Mitigation strategy and controls	Residual risk
<p>Demand for certificates</p> <p>Costs and revenue estimates are based on expected demand (volumes) of certificates; wild fluctuations will adversely affect estimates.</p> <p>For example, an increase in volumes may result in a short-term lack of resources (increasing time to respond), while a</p>	Medium	<ul style="list-style-type: none"> Estimated volumes (demand) are based on historical averages for similar applications, assuming no change in industry composition. For new certificate volumes, known pathways where AMSA has data are used. 	Low

Risk identified	Inherent risk	Mitigation strategy and controls	Residual risk
decrease may lead to inefficient costs in delivery of services as resourcing is based on a higher volume.			
Rising costs and inefficiencies Costs for the delivery of certificates are rising faster and above fees collected from industry, and beyond that deemed efficient.	Medium	<ul style="list-style-type: none"> National System fee-based charge-out rates are indexed annually. AMSA will manage, monitor, and report on financial and non-financial performance for regulatory charging activities to ensure inefficiencies are identified and mitigation strategies may be implemented with stakeholder engagement. 	Low
Financial imbalances AMSA is currently under-recovering costs in the delivery of certificates of competency under National Law. This could be the result of inefficiencies, actual processes, costs, and volumes exceeding initial assumptions, or a combination.	Medium	<ul style="list-style-type: none"> The Independent Review Panel will consider service delivery, efficiencies, associated costs, and determine whether industry may be able to pay for full cost-recovery fee-based activities. Work with stakeholders on proposed resolutions to address these financial imbalances. 	Low

6 Stakeholder engagement

Communication with stakeholders is an essential requirement of cost recovery, and developing a CRIS, aligning with AMSA's [Statement of Regulatory Approach](#).

AMSA has undertaken extensive consultation with industry on proposed amendments to near coastal qualifications since 2018. This involved two separate rounds of public consultations. The first round involved information sessions held across Australia between 5 August 2019 and 29 September 2019 on proposed draft amendments to Marine Order 505. The second round occurred from 20 September 2021 to 14 November 2021 seeking feedback on key issues and proposals to address concerns identified during the first round of consultation.

To facilitate industry input, AMSA established an Industry Reference Group (IRG) to work on a co-design of the revised qualifications framework. The IRG consists of representatives from:

- ferries, sailing, tourism, and charter vessel,
- fishing, pearling, and aquaculture,
- construction and towage,
- Australian sailing,
- Maritime Industry Australia Limited, and
- Maritime Union of Australia.

Key issues raised by industry are detailed in our [Near Coastal Qualifications Review Consultation Report, March 2022](#), including AMSA solutions to address concerns raised.

AMSA is now engaging with external stakeholders on the proposed cost recovery arrangements from the reforms to Marine Order 505.

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Once we receive feedback on this consultative CRIS this section will summarise comments and potentially incorporate suggestions on AMSA's final design of cost recovery arrangements for the reforms on the domestic commercial vessel certificate of competency (MO505 2022) as well as detail our responses to external stakeholders.

7 Financial estimates

Financial estimates from the reforms to Marine Order 505 for current year (2022-23) budget (2023-24), and three forward year estimates is summarised in **Table 6**.

Table 6: Financial estimates for revision to MO505

	Estimate	Budget	Forward Year Estimates		
	2022-23 (\$)	2023-24 (\$)	2024-25 (\$)	2025-26 (\$)	2026-27 (\$)
New certification					
Revenue	530,016	925,432	711,622	714,954	1,072,940
Expenses	606,940	1,067,832	832,013	846,750	1,220,881
Surplus / (deficit) for new certification	(76,924)	(142,400)	(120,391)	(131,796)	(147,941)
Less: Savings from phased out and removed certification					
Revenue	(115,794)	(277,654)	(242,668)	(243,858)	(220,772)
Expenses	(118,225)	(287,254)	(253,574)	(258,366)	(235,952)
Surplus / (deficit) for phased out and removed certification	2,431	9,600	10,906	14,508	15,180
Net surplus / (deficit)	(74,493)	(132,800)	(109,485)	(117,288)	(132,762)
Cumulative net surplus / (deficit)	(74,493)	(207,293)	(316,778)	(434,066)	(566,828)

The net shortfall in cost-recovered fees for 2022-23 (\$0.074 million) and for 2023-24 (\$0.133 million) are expected to be met though AMSA's current cash reserves.

The Australian Government is likely to consider the recommendations from the *Independent Review of Domestic Commercial Vessel Safety National System* in 2024-25. Consideration may affect future charging and funding arrangements for activity outputs under MO505 2022. On this basis, we are anticipating financial imbalances to largely be rectified from 2024-25 onwards.

8 Financial performance

Historical financial performance is not possible as there are brand new charges proposed under the MO505 2022, and the current charges that will be phased out and removed are not costed at an individual fee-based level. This is due to complexity and materiality of modelling at this lower level. Rather, current models are costed as an aggregated level for all certificates of competency activity output.

Nevertheless, following three years of detailed activity-based costing and two years of zero-based budgeting exercises, AMSA can advise that there has been an under-recovery of fee-based activities for the National System, including for certificates of competency – as illustrated in AMSA’s [2022-23 Budget CRIS](#). This under-recovery is being funded by an over-recovery in levies collected largely from the international commercial sector.

Subject to recommendations from the Independent Review Panel, AMSA will develop strategies to address these financial imbalances and funding options with the assistance of the Australian Government, with extensive stakeholder consultation on any proposed changes to occur as part of the obligations under the Charging Framework and CRGs.

9 Non-financial performance

Costing outputs through activity-based costing techniques is a powerful tool in management, providing accurate information on the costs of activities and processes in which to make informed decisions. However, it does not provide any in-depth analysis that may be symmetrically tracked (or measured) to assess achievement of predetermined objectives in support of AMSA’s policy outcomes. To achieve a more comprehensive analysis, alignment of costing to performance indicators (or targets) is essential.

Effective performance measurement is key to ensure objectives are met in keeping with stakeholder expectations. Reporting on key performance indicators provides a consistent and repeatable framework to communicate goals, create measurable objectives, and it allows for benchmarking.

Performance indicators and measurements are based on non-financial, as well as financial information. These can be tricky to develop as indicators are usually confused with business metrics. A relevant performance indicator provides information that is significant and useful to AMSA and its stakeholders and is attributable to activities.

In establishing key performance indicators, the SMART criteria are used:

- S** Is the goal of the activity **specific**?
- M** Can you **measure** progress towards that goal?
- A** Is the goal realistically **attainable**?
- R** How **relevant** is the goal to AMSA?
- T** What is the **timeframe** for achieving the goal?

Overtime, the SMART criteria will be expanded to SMARTER with the additional of **Evaluation** and **Revaluation**. These last two steps are important to ensure the ongoing relevance of each measure.

Measures for MO505 2022

AMSA is in the process of developing externally reportable non-financial performance measures for fee-based activity outputs under the National Law, including those for MO505 2022 and will circulate these in future publications. An example of such a measure that may be included is the average time to issue a certificate from the receipt of a completed application.

10 Key forward dates and events

Indicative dates for expected updating tasks for the revision of Marine Order 505 are listed below in **Table 7**.

Table 7: Indicative events and forward dates

Event	Description	Indicative dates
Stakeholder engagement	Consult with external stakeholders on cost-recovery (through the publication of this consultative CRIS)	14 to 30 October 2022
	External consultation on policy settings for proposed amendments to National Law Regulations	
Formally respond to feedback received during stakeholder engagement	AMSA considers feedback and comments received during stakeholder engagement for inclusion in final design of cost-recovery and policy settings, formally responding to each submission	31 October to 7 November 2022
Federal Executive Council (ExCo) to consider legislative amendments	ExCo to meet to consider amendments to National Law Regulations made by Governor-General	Early December 2022
Final approval	Final Ministerial approved CRIS published on AMSA's website, and amended Regulations published on Federal Register of Legislation	12 to 16 December 2022
MO505 2022 commences	Regulatory services and charging from the reforms of MO505 2022 commences	1 January 2023

11 CRIS approval and change register

CRIS approval and change register.

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This section will be updated once a final CRIS is completed, incorporating feedback received from external stakeholders and our responses in the final design for cost-recovery arrangements of revised MO505.

Appendix 1: Methodology of AMSA's costing models

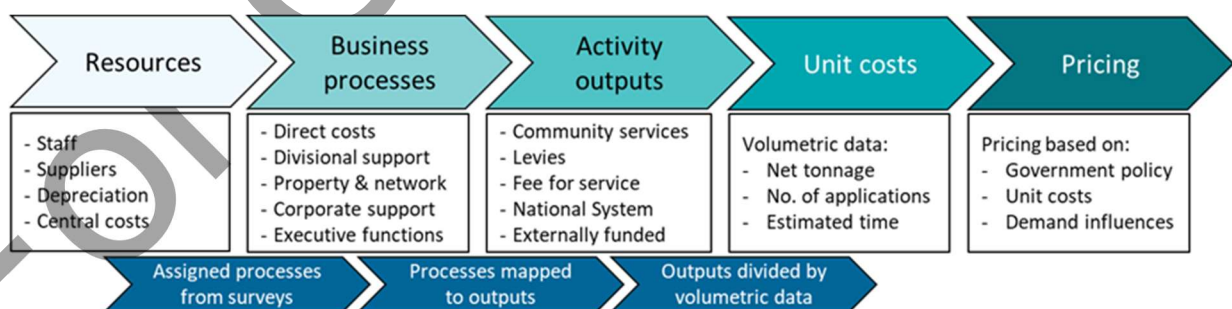
Principles applied

There are five principles that support the development of our costing models:

- (1) **Linked to strategic business planning:** costing is not just an accounting exercise. It should be linked to the strategic direction and planning of AMSA and inform executive at a strategic and tactical level.
- (2) **Holistic approach:** a modelling exercise should include all revenue and operating expenditure, as well as capital expenditure (capital allowances or depreciation). Further, it should focus not just on cost recovery activities, but all activities for AMSA. This will result in a model that can fulfil multiple demands for costing information.
- (3) **Comprehensive and consistent:** a simple approach that applies consistency in the application of modelling rules across all business areas and activities, creating a robust model understood by stakeholders. It should be developed over short timeframes, with a relatively small input of resources.
- (4) **Flexibility:** it is important to recognise that demands for service delivery change over time, driven by various internal and external circumstances. A costing exercise must be dynamic in nature to evolve with changes to AMSA's business requirements and circumstances.
- (5) **Institutionalised as a 'normal' function:** modelling should be a living database that requires regular updating on a periodic basis. This is successful when the model receives official endorsement with an AMSA wide involvement. Costing will then become a routine task and a 'foundation stone' for improving and reporting on financial performance.

Methodology

A summary of methodology for modelling AMSA's costs is summarised in the illustration below. It adheres to activity-based costing principles, which enables more analysis on the efficiency of activity outputs and/or business processes for cost recovery and other activities. It focuses on cost drivers, which allocates indirect costs to direct costs and then to an output.



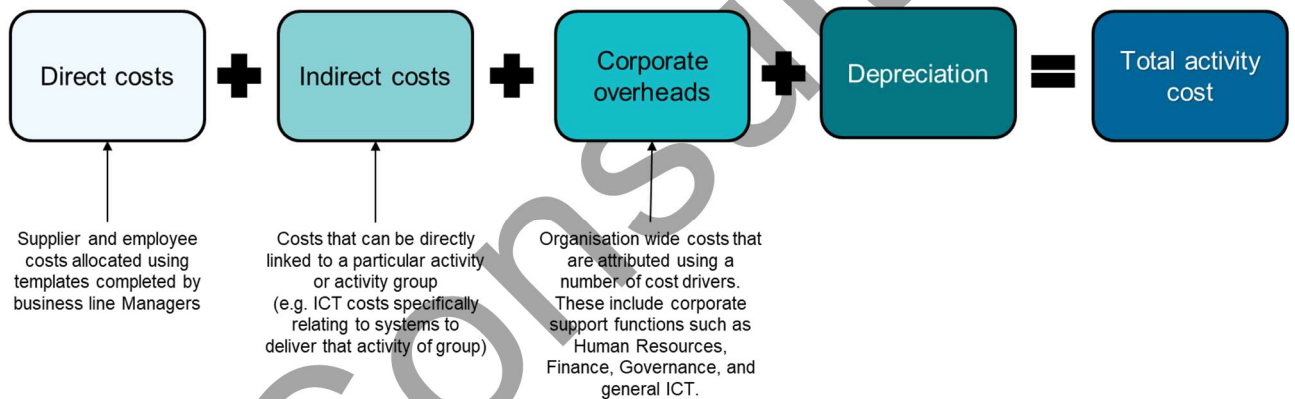
Not all business processes are specific or direct in the provision of activity outputs. Several tasks are support related activities that simply enable the delivery of AMSA's core activity outputs to stakeholders. Nevertheless, these should form part of the activity costing model.

Cost categories

As part the costing methodology, we assign each business process to one of the following four cost categories to ensure appropriate identification of overheads for allocation to an activity.

- **Direct:** representing direct business processes (or tasks) relevant in-service delivery of activity outputs.
- **Indirect:** exists to support the delivery of a direct activity. Examples include divisional support activities such as general management, specific ICT costs relating to systems to enable service delivery, and supporting property operating expenditure, ICT networking, and communication. Indirect processes are allocated to direct activities based on a cost object using an appropriate driver.
- **Corporate overheads:** enabling tasks and activities to support service delivery of AMSA's activity outputs through provision of standard corporate and executive functions. Corporate overheads include executive, human resources, finance, governance, and general ICT support, accompanying their respective share of property operating expenditure, ICT networking, and communication. Like indirect, corporate overheads allocated to direct activities based on cost drivers.
- **Depreciation:** representing capital costs, asset register assessed on an asset-by-asset basis. Where there is a specific direct link to an activity, depreciation is assigned to an activity group, where corporate support related, depreciation is assigned to the appropriate overhead classification.

Below is an outline of the composition of an activity cost.



Appendix 2: Approach in costings for MO505 2022

Approach

As well as the principles in methodology detailed in **Appendix 1**, an effective costing model must be:

- Robust – in addition to the allocation of direct costs, a model must be capable of reliably allocating indirect and corporate overheads to direct business processes,
- Defensible – assumptions and approach applied in determining cost allocations must be clearly documented and capable of withstanding external scrutiny, and
- Repeatable – must be capable of supporting a repeatable process in future periods.

Cost categories for costing model

Direct costs

Direct costs are those that are directly and clearly attributed to the delivery of certificates under MO505 2022. These include employee (or staff costs) and supplier expenditure.

The responsible business line manager provided direct inputs in assigning estimated volumes and expected time and effort for business processes for each certificate, including staff utilisation to achieve operational outcomes, and direct supplier costs based on an analysis and nature of expenditure for current certificates of competency.

Indirect costs

Indirect costs include property operating expenditure, ICT networking and communication costs, indirect support activities (such as operational managerial oversight), and corporate support (or enabling tasks) to assistance in service delivery for certificates through provision of corporate services and executive functions.

Corporate support comprises a proportion of expenditure from executive, human resources, finance, governance, and general ICT support – accompanying their respective share of property operating expenditure, and ICT networking and communication costs.

Capital costs

Depreciation and amortisation are a representation of capital costs, used to determine capital expenditure requirements for replacement and enhancement of assets. However, for the purposes of the revised MO505 2022 costing model, it was assessed there is no additional (or savings) in depreciation. Accordingly, no capital costs are included.

Data collection and collation (direct costs)

The typical approach is to use data collection systems, such as timesheets, to gather information about drivers and use this data for the allocation of costs to business processes and to activities. AMSA does not currently collect timesheet data. Instead, the approach applied in developing the costing model for MO505 2022 was to develop and use a costing template with direct inputs to variables provided by the responsible business line manager.

The manager provided details on estimate volumes and expected business processes for each certificate, assigning time and effort (in minutes) and an AMSA grade to each task.

Using the productivity annualised hour rate² for a full-time equivalent staff, the MO505 2022 costing model calculated salary and on-costs for direct staff costs, accompanying an estimated direct average staffing level (ASL).

Direct staff costs are an aggregate of using the following formula for each AMSA grade:

$$\left(\frac{\text{Expected Volumes} \times \text{Estimated Time for Each Application}}{\text{Annualised Productivity Hours}} \right) \times (\text{Salary} + \text{On Costs})$$

Direct supplier costs, such as data capture, form lodgement, and application processing services, as well as printing and dispatching costs, were estimated using a variable rate which was applied to estimated volumes.

Overheads (indirect costs)

To calculate fully absorbed costs, an attribution of direct overheads, indirect support, and corporate support costs to each certification is required. For the purposes of the MO505 2022 costing model, a standardised overhead rate was applied to each direct ASL. This was calculated using the average of the overheads for National System fee-based activities from 2021-22 actual results and the 2022-23 Budget – summarised in the following table.

Overhead category	Actual 2021-22	Budget 2022-23	Average
Direct overheads*	\$ 80,000	\$ 73,000	\$ 76,500
Indirect support	\$ 79,000	\$ 71,000	\$ 75,000
Corporate support	\$ 65,000	\$ 70,000	\$ 67,500
Total	\$ 224,000	\$ 214,000	\$ 219,000

* Direct overheads include property operating expenditure (AMSA operates numerous locations throughout Australia which corresponds to a sizeable property footprint), ICT networking and communications costs, and associated depreciation.

Sensitivities

Cost drivers and assumptions underlying the modelling are developed to reduce or constrain any significant sensitivity from changes in demands of certifications. Nevertheless, it is recognised that certain costs are 'sticky' in the short term, predominately consisting of staff resourcing and contracted labour. For example, a significant permanent reduction in volumes in one year, will not result in an equivalent decrease in costs as AMSA will not be able to reduce or reassign staffing immediately, rather costs will be adjusted in the medium term.

Supplier costs are largely longer-term contracts where expenditure relates to service requirements or deliverables. These are generally not dynamic or responsive to short-term changes in demand of regulatory charging activities. Staff costs have a similar constraint for short-term movements and are based on long-term expected time and effort requirements to meet policy outcomes to an acceptable standard, as identified by business unit managers.

In determining staff and supplier cost, AMSA estimated expected level of demand (volumes) for certifications. This process is based on historical data, trends, and understanding known economic factors. Although, externalities such as COVID-19 disruptions, trade disputes, or austerity measures may impact resourcing and service delivery.

² Annualised productivity hours for each full-time equivalent staff are estimated at 1,390 hours (or 70.4%) of baseline hours. This represents non-productive time, such as annual and personal leave, public holidays, performance management, training and development, and internal non-work-related meetings, being removed for costing purposes.