



Australian Government

**Department of Infrastructure, Regional Development and Cities
Australian Maritime Safety Authority**

COST RECOVERY IMPLEMENTATION STATEMENT

National System for Domestic Commercial Vessel Safety

June 2018

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1. HISTORY & BACKGROUND

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 of a single national regulatory framework for the safe design, construction, operation and equipping of the Domestic Commercial Vessel (DCV) fleet in Australian waters by 1 July 2013.

Legislation, encompassing the *Marine Safety (Domestic Commercial Vessel) National Law 2012* (the National Law Act) and the *Marine Safety (Domestic Commercial Vessel) National Law Regulation 2013* (the National Law Regulation), has been passed by the Australian Government to give effect to this decision, resulting in the consolidation of the eight State and Territory¹ legislative and regulatory frameworks into one nationally consistent approach. Known as the *National System for Domestic Commercial Vessel Safety* (the National System), this is now overseen by AMSA which has assumed the role of the National Regulator². Since 1 July 2013, jurisdictional marine safety agency staff have been appointed as AMSA delegates. Delivery of the National System's services, in addition to the recovery of costs incurred in delivering services continued via the jurisdictions in a similar manner to that which occurred prior to 1 July 2013.

The move towards cost recovery for the National System was disclosed at the onset of the establishment of the National System through the *Council of Australian Governments (COAG) Intergovernmental Agreement (IGA)* dated 19 August 2011, which states that where costs are not being fully recovered, moving towards cost recovery progressively is desirable.³

In early 2014, a review of the National System found that the above model limited the potential benefits that could otherwise have been delivered to the DCV industry due to inconsistencies in service delivery standards and cost recovery arrangements between jurisdictions⁴. Accordingly, in November 2014, the Transport and Infrastructure Council (the Council) agreed that AMSA was to assume full operational responsibility for the National System from 1 July 2017. This necessarily involved the introduction of new National System Cost Recovery measures so that consistent charging would apply Australia wide from 1 July 2017⁵.

AMSA then set about developing an Activity Based Costing model, which documented the processes required to deliver the services required under the National Law Act, quantified the estimated regulatory effort required to execute such processes and then develop a charging regime, which sought to recover the total costs of such regulatory effort.

AMSA undertook consultations with industry via an Australia-wide "roadshow" in August and September 2016 presenting (amongst other things), the proposed Cost Recovery Framework, a crucial part of which was the Council's November 2014 agreement to the *Transitional Funding Model* which recognised that if AMSA was to immediately introduce the proposed Cost Recovery Framework economic limitations on the DCV industry may be imposed which did not previously exist under the

¹ Collectively known as the jurisdictions.

² As defined in section 10 of the National Law.

³ Refer Part 6, Paragraph h of said document.

⁴ These inconsistencies led to a variety of charges, often for the same product or services across Australia because each jurisdiction historically provided a different rate of subsidisation for services to industry and as a result, the extent to which cost recovery was achieved between jurisdictions (and the charges to industry) has fluctuated broadly.

⁵ A small number of cost recovery arrangements were introduced prior to 1 July 2017 with an effective date of 1 September 2016. These cost recovery mechanisms only related to services delivered by AMSA in its capacity as National Regulator, which were not being delivered by the jurisdictions and largely related to AMSA's Surveyor Accreditation Scheme. The Australian Government announced this intention in the 2016-17 Budget on 3 May 2016 with anticipated revenues from these activities totalling \$325,880 from 2016-17 through to 2020-2021 and a copy of this document can be located at <http://www.amsa.gov.au/forms-and-publications/domestic/publications/index.asp>.

jurisdictional frameworks due to their different rates of subsidisation. The cost recovery models presented to industry for consultation at that time incorporated a subsidy amount of \$6.65 million from 1 July 2017 and \$2.65 million from 1 July 2018 to ease the economic impost on industry in the first two years of the National System.

The response from industry was negative predominantly reporting that cost recovery represented a material constraint on the industry's already struggling economic capacity.

On 4 November 2016, in response to industry feedback, the Council announced a deferral to the transition of the National System from 1 July 2017 to 1 July 2018. AMSA was required to take into account the feedback from industry and re-develop the proposed cost recovery models.⁶ In order to assist AMSA to do this and to gain a deeper understanding of the nature of the economic challenges raised by industry through the DCV process, AMSA engaged Deloitte Access Economics (Deloitte) to undertake an economic review of the DCV industry. Deloitte found that the DCV industry's capacity to pay all the regulatory costs originally put forward in the 2016 consultation rounds varied significantly across the industry.

Following consultation, the two year *Transitional Funding Model* was replaced with a \$102 million 10-year subsidisation model approved by the Council. This was in response to industry concerns regarding the economic impost of moving to cost recovery so quickly.

A number of agencies, including the Department of Infrastructure, Regional Development and Cities and the Department of Finance, have reviewed the Activity Based Costing (ABC) model developed to quantify the costs of the National System. Whilst the methodology employed in the ABC model has been accepted and endorsed, the inputs into the model were based on a set of assumptions that applied to a system that is yet to be rolled out. Accordingly, a mandatory review of the cost recovery arrangements for the National System was expected to be legislated to be conducted in the 2020/21 financial year.

In early 2018 the Department of Infrastructure, Regional Development and Cities released the exposure drafts of the legislative instruments to progressively implement cost recovery for public comment. Industry feedback was again negative and, accordingly, only direct activities where the recovery of costs are classified as 'fees for service' will be implemented from 1 July 2018.

A review of AMSA's operating model for the National System will commence in the 2020/21 financial year. This will include discussion with Industry on the service delivery model and will be a further opportunity to address stakeholder concerns previously raised that could not be addressed as part of the cost recovery proposal.

As such, this CRIS will focus on the fees for service alone.

⁶ http://minister.infrastructure.gov.au/chester/releases/2016/November/dc176_2016.aspx

2. INTRODUCTION

2.1 Purpose of the Cost Recovery Implementation Statement (CRIS)

This CRIS details AMSA's cost recovery arrangements for the National System. Cost recovery involves government entities charging individuals or organisations, some or all, of the efficient costs of a specific government activity. This may include goods, services, regulation or a combination. The Australian Government Charging Framework, which includes the Cost Recovery Guidelines, sets out the overarching requirements under which Australian Government agencies design, implement and review cost recovered activities. It is designed to be iterative, allowing for incorporation of stakeholder feedback and should be read in conjunction with the *2016-17 CRIS for the National System for Domestic Commercial Vessel Safety Marine Surveyor Accreditation, Exemptions and Equivalent Means of Compliance*.

2.2 AMSA's cost recovery model

The ABC model allows AMSA to test scenarios around different financial variables, including (but not necessarily limited to):

- revenue forecasts driven by projected demand for the National System's products and services;
- certification trends (for example, changes in renewal or DCV industry entry activity);
- operational resource requirements (people, infrastructure and systems as well as external support); and
- changes to input costs (such as labour & lease costs and corporate overheads).

AMSA can model the impacts of workload drivers, resource requirements, cost impacts and the impact of different fee scenarios on AMSA's financial position, cost recovery outcomes for different groups and the possible impacts on various customers. Direct costs of the National System relate to employee, supplier and depreciation expenses. Indirect costs originate from the corporate areas of AMSA and are allocated to cost pools, which are assigned to the core primary activities undertaken by the business groups responsible for service delivery within the National System.

3. RECOVERY MECHANISMS OVER THE FORWARD ESTIMATES

3.1 Fee for Service regulatory activities

For the 2018/19 financial year, the total rate of effort required by AMSA, as National System Regulator to deliver fees for service activities, has been estimated at 20 Full Time Equivalent (FTE) staff with annual gross costs of \$5.53 million.

3.2.1 Breakdown of fee for service costs, by function

AMSA anticipates fee for service costs will be \$5.53million from 1 July 2018 and are reconciled in the table below against function, over the forward estimates:

FTE ⁷	Fee for Service function	2018/19 \$m
10.8	Management of Certificates of Operation	\$2.59
2.4	Management of Certificates of Survey	\$0.51
3.6	Management of Certificates of Competency	\$1.56
3.2	Other general services	\$0.87
20.0		\$5.53

AMSA is charging the anticipatory rate of regulatory effort for each process, AMSA expects to recover all costs associated with fee for service regulatory activities.

3.2.2 Management of Certificates of Operation

AMSA anticipates the aggregate rate of effort required to manage this function will require 10.8 FTE with annual costs of \$2.59 million from 1 July 2018. AMSA's volume, FTE, costs and estimated revenue estimates for this functional group for 2018/19 are detailed below:

Activity	FTE	Total costs	Unit cost	Volumes	Unit price	Expected revenue
Apply and issue a new certificate	2.5	\$586,168	\$193.90	3,023	\$194	\$586,462
Renew an existing certificate	6.62	\$1,551,804	\$193.90	8,003	\$194	\$1,552,582
Vary an existing certificate	1.31	\$363,728	\$181.33	2,005	\$181	\$362,905
Revoke and suspend	0.14	\$39,593	\$207.70	191	\$208	\$39,728
Issue a replacement certificate	0.01	\$1,102	\$36.72	30	\$37	\$1,110
Apply for a UVI	0.19	\$47,611	\$158.70	300	\$159	\$47,700
	10.77	\$2,590,006		13,552		\$2,590,487

3.2.3 Management of Certificates of Survey

AMSA anticipates the aggregate rate of effort required to manage this function will require 2.4 FTE with annual costs of \$0.51 million from 1 July 2018. AMSA's volume, FTE, costs and estimated revenue estimates for this functional group for 2018/19 are detailed below:

Activity	FTE	Total costs	Unit cost	Volumes	Unit price	Expected revenue
Apply and issue a new certificate	0.81	\$143,930	\$366.00	393	\$366	\$143,838
Renew an existing certificate	1.45	\$322,780	\$206.91	1,560	\$206	\$321,360
Vary an existing certificate	0.13	\$37,079	\$190.15	195	\$190	\$37,050
Revoke and suspend	0.01	\$4,154	\$207.70	20	\$208	\$4,160
Issue a replacement certificate	0.01	\$2,203	\$36.72	60	\$37	\$2,220
	2.41	\$510,146		2,228		\$508,628

⁷ Relating to the 2018/19 year only.

3.2.4 Management of Certificates of Competency

AMSA anticipates the aggregate rate of effort required to manage this function will require 3.6 FTE with annual costs of \$1.56 million from 1 July 2018. AMSA's volume, FTE, costs and estimated revenue estimates for this functional group for 2018/19 are detailed below:

Activity	FTE	Total costs	Note
Apply and issue a new certificate	0.72	\$309,585	1
Renew or revalidate an existing certificate	2.48	\$1,077,102	2
Other services	0.30	\$152,645	3
Conduct of examinations	0.06	\$23,460	4
	3.56	\$1,562,792	

Note 1 Apply and issue new certificates

AMSA will be required to assess, manage and issue certificates for new seafarers coming into the National System. AMSA's volume, FTE, costs and estimated revenue for this activity group are detailed below:

Certificate category	FTE	Total costs	Unit cost	Volumes	Unit price	Expected revenue
Master <24 m	0.11	\$46,633	\$151.41	308	\$151	\$46,508
Master <35 m	0.02	\$5,947	\$258.56	23	\$259	\$5,957
Master <80 m	0.00	\$517	\$258.56	2	\$259	\$518
Master (inland waters)	0.00	\$681	\$151.41	5	\$151	\$755
Coxswain Grade 1	0.22	\$94,629	\$151.41	625	\$151	\$94,375
Coxswain Grade 2	0.14	\$61,471	\$151.41	406	\$151	\$61,306
Mate <80 m	0.00	\$388	\$258.56	2	\$259	\$518
Marine Engine Driver Grade 1	0.03	\$8,015	\$258.56	31	\$259	\$8,029
Marine Engine Driver Grade 2	0.05	\$21,045	\$151.41	139	\$151	\$20,989
Marine Engine Driver Grade 3	0.05	\$23,771	\$151.41	157	\$151	\$23,707
Engineer Class 3	0.01	\$2,844	\$258.56	11	\$259	\$2,849
General Purpose Hand	0.1	\$43,644	\$151.41	288	\$151	\$43,488
	0.72	\$309,585		1,997		\$308,999

Note 2 Renew or revalidate an existing certificate

AMSA will be required to renew or revalidate existing certificates. AMSA's volume, FTE, costs and estimated revenue for this activity group are detailed below:

Certificate category	FTE	Total costs	Unit cost	Volumes	Unit price	Expected revenue
Master <24 m	0.46	\$228,347	\$138.14	1,653	\$138	\$228,114
Master <35 m	0.49	\$155,103	\$218.76	709	\$219	\$155,271
Master <80 m	0.06	\$20,126	\$218.76	92	\$219	\$20,149
Master (inland waters)	0.00	\$2,348	\$138.14	17	\$138	\$2,346
Coxswain Grade 1	0.34	\$169,361	\$138.14	1,226	\$138	\$169,188
Coxswain Grade 2	0.19	\$96,284	\$138.14	697	\$138	\$96,186
Mate <80 m	0.01	\$3,500	\$218.76	16	\$219	\$3,504
Marine Engine Driver Grade 1	0.24	\$76,786	\$218.76	351	\$219	\$76,869
Marine Engine Driver Grade 2	0.30	\$150,435	\$138.14	1,089	\$138	\$150,282
Marine Engine Driver Grade 3	0.18	\$91,587	\$138.14	663	\$138	\$91,494
Engineer Class 3	0.11	\$33,908	\$218.76	155	\$219	\$33,945
General Purpose Hand	0.10	\$49,316	\$138.14	357	\$138	\$49,266
	2.48	\$1,077,101		7,025		\$1,076,614

Note 3 Other services

AMSA will be required to undertake minor processes from time to time and these are detailed below:

Activity	FTE	Total costs	Unit cost	Volumes	Unit price	Expected revenue
Remove restriction	0.06	\$27,628	\$138.14	200	\$138	\$27,600
Add endorsement	0.14	\$69,070	\$138.14	500	\$138	\$69,000
Replace a lost or stolen qualification	0.06	\$28,319	\$138.14	205	\$138	\$28,290
Vary an existing qualification	0.04	\$27,628	\$138.14	200	\$138	\$27,600
	0.30	\$152,645		1,105		\$152,490

Note 4 Conduct of examination

A flat fee of \$340⁸ will be charged for an examination regardless of the certificate category. It is envisaged though that AMSA will only conduct examinations for the higher complexity certificate categories. Revenue, cost and FTE forecasts for these certificate categories are outlined in the following table:

Activity	FTE	Total costs	AMSA fee	Volumes	Expected revenue
Master <35 m	0.02	\$7,820	\$340	23	\$7,820
Master <80 m	0.00	\$680	\$340	2	\$680
Mate <80 m	0.00	\$680	\$340	2	\$680
Marine Engine Driver Grade 1	0.03	\$10,540	\$340	31	\$10,540
Engineer Class 3	0.01	\$3,740	\$340	11	\$3,740
	0.06	\$23,460		69	\$23,460

3.2.5 Other general services

AMSA anticipates the aggregate rate of effort required to manage this function will require 3.2 FTE with annual costs of \$0.85 million from 1 July 2018. AMSA's volume, FTE, costs and estimated revenue estimates for this functional group for 2018/19 are detailed below:

Activity	FTE	Total costs	Unit cost	Volumes	Unit price	Expected revenue
Application for EX02	0.90	\$245,740	\$183.01	1,350	\$183	\$247,050
Application for EX40	0.25	\$92,939	\$315.00	295	\$315	\$92,925
Application for EX06	0.95	\$246,231	\$223.85	1,100	\$224	\$246,400
Application for EX07	1.09	\$288,989	\$288.99	1,000	\$289	\$289,000
	3.19	\$873,899		4,875		\$875,375

⁸ Calculated as 1.25 hours at the AMSA inspection rate as per the AMSA CRIS of \$272/hr

4. APPLICATION OF THE GOODS AND SERVICES TAX (GST)

AMSA's fees are excluded from GST. AMSA's Australian Business Number is 65 377 938 320.

5. AUTHORITY TO COST RECOVER

Government policy approval to cost recover the activity

The Australian Government has endorsed a graduated, approach to the introduction of cost recovery measures to fund AMSA's role as National Regulator. The Australian Government announced the introduction of Stage One fees for service on 3 May 2016 in the 2016-17 Budget. AMSA's obligation to cost recover is specifically addressed in the broader AMSA CRIS.

6. RISK ASSESSMENT

AMSA's risk assessment was facilitated by using the Charging Risk Assessment (CRA) template provided by the Department of Finance to identify areas of implementation risk stemming from the previously proposed cost recovery arrangements outlined in the 2016 Consultation CRIS. AMSA identified the overall risk rating as High at that time and provided mitigation strategies to address the risks.

With the announcement to implement cost recovery for fee for service activities alone, the risk level was reassessed under this premise. AMSA identified the overall risk rating was now Medium.

Only one risk previously identified is relevant to the recovery of costs for fee for service activities. The risk and the mitigation strategy is as follows:

6.1 Level of demand from industry

The extent to which activities under the National System are required by the DCV industry will depend upon the industry's safety performance and size. This can lead to difficulties in forecasting demand levels. If the industry contracts, then this is likely to result in a reduction in forecast revenue to be derived by the National System. AMSA, like all agencies operating under cost recovery arrangements, will seek to mitigate this risk by continuing to drive efficiencies in the way services are designed and delivered.

7. STAKEHOLDER ENGAGEMENT

The main stakeholders impacted by the implementation of the National System include vessel owners, operators, seafarers, jurisdictional maritime safety agencies, and registered training organisations. Clear communication is vital to ensure high levels of transparency and accountability are maintained.

The move towards cost recovery for the National System was disclosed at the onset of the establishment of the National System through the *Council of Australian Governments (COAG) Intergovernmental Agreement (IGA)* dated 19 August 2011, which states that where costs are not being fully recovered, moving towards cost recovery progressively is desirable.⁹ The November 2014 Council decision gave practical effect to the intent that recovery of the costs of regulating the DCV industry should occur. Since the Council decision, AMSA has been pro-actively engaging with its

⁹ Refer Part 6, Paragraph h of said document.

stakeholders. The transition to a new single, cost recovery framework under the National System has been communicated through a variety of industry consultative groups, inter-governmental forums and to the broader DCV industry through the AMSA web site.

The 2016 consultation rounds, whilst embraced by the industry, allowed numerous industry participants to provide AMSA with constructive feedback, which allowed for the development of fairer and more equitable cost recovery. Further to that public consultation round, AMSA ran a series of workshops where a cross section of the industry was invited to discuss the issues and challenges facing the industry and to determine if AMSA could accommodate any of these into the new charging models.

In December 2017, AMSA met with its industry advisory committees and shared the proposed revisions to the cost recovery model together with the Council decision on a \$102 million funding package over ten years.

In early 2018 the Department of Infrastructure, Regional Development and Cities released the exposure drafts of the legislative instruments to progressively implement cost recovery for public comment. Industry feedback was again negative and, accordingly, only direct activities where the recovery of costs are classified as ‘fees for service’ will be implemented from 1 July 2018.

A review of AMSA’s operating model for the National System will commence in the 2020/21 financial year. This will include discussion with Industry on the service delivery model and will be a further opportunity to address stakeholder concerns previously raised that could not be addressed as part of the cost recovery proposal.

8. FINANCIAL AND NON FINANCIAL PERFORMANCE

Historical information is not available as these are new cost recovery measures for AMSA.

9. KEY DATES & EVENTS

Date	Event
15 June 2018	CRIS approved by AMSA Chief Executive Officer.
27 June 2018	CRIS approved by Portfolio Minister.
27 June 2018	Publish CRIS on AMSA website.