



Joint Committee on Public Accounts and Audit

Inquiry into Efficiency and Effectiveness: Inquiry into Auditor-General's Reports 25, 29, 38, 42, 44, 45 and 51 (2018-19)

Performance audit (Auditor-General Report No. 38 of 2018–2019)

Application of cost recovery principles

Answers are due to the secretariat by 5pm on 28 November 2019. Answers can be sent to jcpaa@aph.gov.au. If you require additional information, please call the secretariat on 6277 4615.

The following questions were put on notice by Ms Lucy Wicks MP, Chair.

18 November 2019

1. The report states 'each entity has scope to improve the transparency and accountability of its cost recovery arrangements, mainly through more current and/or comprehensive reporting of performance in cost recovery implementation statements'. In what ways will this add extra complexity to your department's current cost recovery arrangements?

Answer:

Improvements in levels of transparency and accountability in reporting performance will not be difficult to implement. AMSA has already incorporated changes within its costing framework to improve financial performance reporting. With regard to past data, reporting at an improved level may involve additional complexities and these will be evaluated based on materiality of information.

2. The report states that there is a scope for all three entities to implement performance measures for consultation on cost recovery – how will your department do this?

Answer:

AMSA has already commenced the stakeholder consultation process on cost recovery for the 2019-20 financial year and will be developing a program to further improve the scale and effectiveness of stakeholder engagement for next year's Cost Recovery Implementation Statement.

3. The report states that there is scope for all three entities to improve their costing practices. What are the additional costs that will be imposed to your department by improving costing practices?

Answer:

AMSA has dedicated resources in the administration, management, and reporting of cost recovery arrangements. Nevertheless, there may be additional costs associated with improvements to models and governance documentation, as well as conducting internal assurance services, which, given its nature, cannot be quantified at this time.

4. With regards to recommendation one, what needs to be done in your Department to ensure that cost recovery implementation statements are fully compliant with Cost Recovery guidelines?

Answer:

AMSA is currently preparing to publish its 2019-20 Cost Recovery Implementation Statement in December 2019, with plans to publish 2020-21 in June 2020 (prior to commencement of budget year).

The 2019-20 statement addresses many of the items identified in the recommendations, such as greater explanation of costing model, more appropriate cost-drivers for corporate functional costs, break-down of financial performance at regulatory functions level, providing financial estimates of budget and forward estimates, and engagement with stakeholders.

Further, AMSA has identified internal governance as a key to implementing and maintaining a consistent and transparent approach to cost modelling. AMSA is working towards implementing procedures and enhanced costing rules as part of developing the 2020-21 Cost Recovery Implementation Statement.



Joint Committee on Public Accounts and Audit

Inquiry into Efficiency and Effectiveness: Inquiry into Auditor-General's Reports 25, 29, 38, 42, 44, 45 and 51 (2018-19)

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Performance audit (Auditor-General Report No. 38 of 2018–2019) **Application of Cost Recovery Principles**

The following questions were put on notice by Mr Julian Hill MP, Deputy Chair.

20 November 2019

5. Regarding structure and pricing for levies, the Authority proposes to work with both the Department of Infrastructure, Regional Development and Cities and the Department of Finance, to dovetail any structural considerations to the upcoming review of the domestic commercial vessel regulatory charging activities in 2020-21

- a. Has any forecasting been done for this review to be actioned in 2020?
- b. Have any further reviews been identified for the future?

Answer to Q5:

- (a) AMSA is working with the Department of Infrastructure and representatives from various industry groups to develop terms of reference for the upcoming review of the national system funding in 2020. AMSA has also had some preliminary discussions with the Department and internal consultants on the basis of charging levies. These will need considerable development and stakeholder feedback before progressing it to the forecasting stage.
- (b) Other than the domestic commercial vessel safety review from 2020 and the Department of Finance enhancement to Australian Government Charging Framework and Cost Recovery Guidelines, there are no other external official reviews identified relating to cost recovery operations.

6. In your response to the ANAO, you referred to a range of work underway to review your cost recovery arrangements.

a. What is the status of this work?

Answer to Q6:

AMSA has undertaken a comprehensive activity-based costing exercise where operational activities are analysed, together with corporate functional costs. The purpose is to build an evidence-based detailed costing framework in order to understand operations from a cost recovery perspective and to assist in developing options to resolve cost recovery imbalances.

It is expected that initial results of this exercise will be completed in late-December 2019. This exercise will also feed into a zero-based budgeting approach for the development of the 2020-21 budget. Both the activity and zero-based budgeting are anticipated to be completed in February 2020, and will be included in the Portfolio Budget Statements and 2020-21 Cost Recovery Implementation Statement.

7. Recommendation no.2 asks that the Department of Finance advises entities at the start of each fiscal year of their obligation to update cost recovery Implementation Statements.

a. Has this information been received?

b. Have your Cost Recovery Information Statements been updated and have the relevant stakeholders been advised of these updates?

Answer to Q7:

(a) There has been no specific information provided at this stage; however, AMSA is conscious of its cost recovery obligations. Further, AMSA is also aware that the Department of Finance is currently working on enhancing cost recovery governance documentation (i.e. Australian Government Charging Framework and Cost Recovery Guidelines) and has been actively engaging with departments and agencies on this exercise.

(b) AMSA's 2019-20 Cost Recovery Implementation Statement has been updated and will be published on its website in December 2019. Engagement on cost recovery with stakeholders was undertaken as part of this process, with feedback received incorporated within the statement.

8. The ANAO suggested there is scope to improve the transparency and accountability of cost recovery arrangements, particularly through more comprehensive reporting in Cost Recovery Implementation Statements. Can you update the Committee on your progress implementing this recommendation?

Answer to Q8:

AMSA has committed to reporting on cost recovery performance at the regulatory function activity level, principally through regular publishing of Cost Recovery Implementation Statements. The 2019-20 statement is to be published in December 2019, with plans for the 2020-21 Cost Recovery Implementation Statement to be published in June 2020 and updated with actual results in October 2020.

9. The ANAO suggested there is scope for benchmarking against like agencies to determine the efficient costs of regulatory activities.
- What assurance can you provide that you are recovering the efficient costs of your regulatory activities?
 - What opportunities for benchmarking have you identified? Are there any impediments to doing this on an ongoing basis?

Answer to Q9:

(a) AMSA has undertaken an activity-based budgeting exercise, which is due to be finalised in February 2020. This is an evidence-based approach that will provide information and data for the upcoming review from 2020 and assist in assessing administrative costs, whether and where inefficiencies may be occurring.

Any option to align the level of effort to the regulatory activities provided (and associated charging structures) must be weighed up against the ease of operation and associated costs of administration.

(b) AMSA is currently working on two approaches to benchmarking activities; one based on internal measures and trends over time, and the other based on comparing activity costs, prices and service delivery provided by similar external regulatory agencies.

For internal benchmarking, AMSA actively monitors and reviews services and costs, including corporate overheads, on a regular basis. With full service delivery and almost twelve months of service delivery for the national system for domestic commercial vessel safety, AMSA is now approaching a more established operating position and is confirming the extent of 'business-as-usual' activities, and associated costs of service delivery.

The zero-based budgeting exercise currently underway will provide AMSA with a baseline in which to commence benchmarking activities post-national system implementation, with potential leveraged tasks including work force planning and business process mapping. This will enable AMSA to identify evidence where inefficient practices may be occurring and developing appropriate responses, while engaging with stakeholders. This will take time.

With regard to the second approach, it is very challenging to usefully benchmark against external agencies. This is because of the uniqueness of each regulators operations, differing activities and funding arrangements in each jurisdiction, varying legal obligations and constraints, and inherent sensitivities with sharing information. Nevertheless, AMSA has identified two agencies that provide somewhat similar regulated services, that being the Civil Aviation Safety Authority and Maritime New Zealand. AMSA will engage with these agencies, as well as the Department of Infrastructure, to develop an appropriate approach to benchmarking activities on an on-going basis.

10. The ANAO recommended your agencies implementing ongoing stakeholder engagement strategies for your respective cost recovery arrangements. Can you update the Committee on your progress implementing this recommendation?

Answer to Q10:

AMSA regularly engages with stakeholders. Nevertheless, it is recognised that until very recently, stakeholder engagement in respect of cost recovery arrangements has largely focused on the national system for domestic commercial vessel safety. With full service delivery of the national system implemented from 1 July 2018, AMSA is now able to focus on a review of all regulatory function activities. Now is an opportune time to do this and develop a stakeholder engagement strategy for AMSA's revised cost recovery arrangements. This will involve stakeholder participation in the development of financial and non-financial performance indicators as part of the upcoming national system review from 2020.

For the 2019-20 Cost Recovery Implementation Statement, AMSA published a consultative statement on its website and invited industry groups and participants to comment on its cost recovery arrangements. The consultation period was over three-weeks, commencing on 16 October 2019 and closing on 10 November 2019. Feedback received was appropriately responded to, with details included in the Cost Recovery Implementation Statement to be published on AMSA's website in December 2019.

11. Recommendation no.2 asks that the Department of Finance advises entities at the start of each fiscal year of their obligation to update cost recovery Implementation Statements.

a. Has this information been received?

- b. Have your Cost Recovery Information Statements been updated and have the relevant stakeholders been advised of these updates?

Answer to Q11:

Repeated question – refer to 7.

- 12.** The ANAO suggested there is scope to improve the transparency and accountability of cost recovery arrangements, particularly through more comprehensive reporting in Cost Recovery Implementation Statements. Can you update the Committee on your progress implementing this recommendation?

Answer to Q12:

Repeated question – refer to 8.

- 13.** The ANAO suggested there is scope for benchmarking against like agencies to determine the efficient costs of regulatory activities.
 - a. What assurance can you provide that you are recovering the efficient costs of your regulatory activities?
 - b. What opportunities for benchmarking have you identified? Are there any impediments to doing this on an ongoing basis?

Answer to Q13:

Repeated question – refer to 9.

- 14.** The ANAO recommended your agencies implementing ongoing stakeholder engagement strategies for your respective cost recovery arrangements. Can you update the Committee on your progress implementing this recommendation?

Answer to Q14:

Repeated question – refer to 10.

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Auditor-General's Reports Nos 25, 29, 38, 42, 44, 45 and 51 (2018-19)

AMSA Questions taken on Notice

Answers due to the Committee by 5pm Thursday 28 November 2019

Question 15

Mr HILL: I understand that a number of the marine orders introduced in recent years have significantly scaled back the amount of inspection work that needs to be undertaken by AMSA. Can you outline what savings, if any, have been made due to the decreased inspection activity?

Ms Enders: I'm not entirely sure we've decreased the inspection activity. We do inspect international ships on a risk basis and we have adjusted those settings over the last few years; however, I would have to take on notice and come back to you with the specifics about how that relates to savings, as you'd asked.

Mr HILL: If you could. If indeed the information I've been provided is correct, would you therefore plan to review and perhaps reduce the fees and levies associated with new marine orders given the cost reductions.

Answer to Question 15

The Australian Maritime Safety Authority (AMSA) performs inspections on international ships based on multiple assessment criteria to categorise vessels into priority groups to calculate a risk factor for the 'probability of detention'.

Inspection rate targets against those priority groups are part of AMSA's regulatory performance framework indicators and AMSA has consistently exceeded these targets.

During 2018, AMSA simplified inspection approaches for ships in lower risk categories. AMSA also redirected resources to resource the Authority's expanded inspection responsibilities under the National System for Domestic Commercial Vessel Safety. During this time AMSA exceeded inspection targets.

No monetary savings were realised during this period.

Question 16

Mr HILL: All right. Perhaps you could take it on notice and provide some further information. In the same vein, could you outline for the committee—this is probably a question on notice—the costs that you see as being associated with each of AMSA's regulatory activities at this point in time?

Mr Kumar: We can take that on notice.

Answer to Question 16

Regulatory charging costs budgeted for 2019-20 and as reported in the 2019-20 Cost Recovery Implementation Statement, which is to be published in December 2019, are as follows:

Activity output	(\$'000)
Navigational infrastructure (Marine Navigation Levy)	\$ 36,868
Environmental marine protection (Protection of the Sea Levy)	\$ 34,901
Seafarer and ship safety under Nav. Act (Regulatory Functions Levy)	\$ 36,202
Marine services under Nav. Act and ship registration	\$ 6,474
Marine services under National Law	\$ 6,902
Total regulatory charging	\$ 121,347

For National System, costs budgeted for 2019-20 are:

Activity output	(\$'000)
Seafarer and ship safety under National Law (transitional funding)	\$ 32,485
Marine services under National Law	\$ 6,902
Total for National System	\$ 39,387

Question 17

Mr HILL: I've got a set of questions then around broader performance and capability. Many of these you might want to take on notice as well. Is it possible to provide the committee with a sense of staff turnover by year and section going back five years, so we have a baseline to understand the changes that may arise?

Ms Enders: Yes. That's possible.

Answer to Question 17

The table below lists the AMSA staff turnover by division for the last 3 years.

Division	Turnover rate		
	Jun-19	Jun-18	Jun-17
CEO	8.3%	19.4%	0.0%
DCEO	0.0%	0.0%	18.2%
Corporate Services	21.8%	18.7%	23.1%
Operations	12.0%	9.2%	14.1%
Response	9.6%	5.1%	20.0%
Standards	21.2%	12.0%	7.5%
Total	14.9%	11.4%	16.7%

Notes:

- Turnover includes all terminations (which can include ongoing and non-ongoing employees).

- Division names are current names noting there was a significant

restructure of the organisation in 2016 resulting in division changes and functional movement of positions/sections.

- Turnover data by division for the year ending June 2016 and June 2015 is not provided as it can't be aligned directly to the current divisions due to this restructure.

Question 18 –

Mr HILL: Do you know roughly how many roles are in Coffs Harbour and how many roles remain in Canberra?

Ms Enders: The exact number I would have to take on notice.

Mr HILL: If you could provide FTE and headcount, that would be helpful.

Ms Enders: Okay.

Mr HILL: How many staff are attached to the Shipping Registration Office? The answer to that would be embedded in the answer to the previous question.

Ms Enders: That's correct.

Answer to Question 18

Part A:

As at 26 November 2019 there are 16 positions (16 FTE) located in the Coffs Harbour Office of which 12 (12 FTE) are currently filled. In addition to these 16 positions, there are also eleven (11) labour-hire workers located in the Coffs Harbour Office.

As at 27 November 2019 AMSA has 302 employees (289.3186 FTE) located in Canberra.

AMSA's plan to have 50 per cent of all AMSA staff based in regional offices by 2022 will be achieved incrementally through natural attrition, and the review of vacant positions in line with regulatory and service requirements. It is expected that the decentralisation of AMSA's workforce will occur progressively over the next two to three years.

Part B:

There are four (4) positions in the Shipping Registration team.

- Head of Section, Registration & Certification
- Deputy Registrar of Ships
- Shipping Registration Coordinator
- Support Officer, Shipping Registration

Question 19

Mr HILL: I also had a couple of concerns raised with me regarding the approach to consultation. Could you fill me in on how long the position of Head of Section, Registration and Certification has been in place, and why it was created?

Ms Enders: I'd have to take that on notice.

Mr HILL: Do you have any answer, Mr Kumar?

Mr Kumar: No. I'll have to take it on notice.

Ms Enders: It's been established for some time.

Mr HILL: In responding, could you also provide when the position was advertised, how long applications were open for and the usual length of time for advertising a position like that? There are three aspects.

Ms Enders: We can do that.

Answer to Question 19

Question 19 response

Part A:

The position of Head of Section, Registration and Certification has been in place since 10 June 2019.

This position was a result of reclassification of the Registrar of Ships position and was designed to take on additional functions previously assigned to the Ship Inspection and Registration team.

Part B:

1. Position was advertised from the 24th of July 2019 until the 31st of July 2019
2. Applications were open for one week and three applications from AMSA staff were received.
3. It is usual for (internal) Expressions of Interest to be open for one week.

Question 20

Mr HILL: When conducting reviews of marine orders and other regulatory instruments—and the consultations imported in those—does AMSA ensure it responds to all those that make submissions and contributions?

Ms Enders: I understand that that's our aim. That's correct.

Mr HILL: So do you respond to everyone?

Ms Enders: I can't say that categorically here, but I understand that's our aim. Sometimes there are responses provided in a general broadcast as opposed to addressed individually. For example, with the recent release of the latest marine orders, there was a fairly comprehensive response provided to the questions raised in consultation. But I'm happy to take on notice any particular—

Mr HILL: Particularly in relation to marine order 47, I'd like to know whether there have been concerns raised with AMSA about the time lines for consultation or requests for extending the implementation time lines for new regulations.

Ms Enders: Yes. I am aware there were some questions. We will take those on notice.

Answer to Question 20

Formal public consultation on the draft Marine Order 47 (Offshore industry units) 2019 took place for four weeks commencing on 4 June 2019. Several stakeholders requested extensions and AMSA granted an extension to make a submission by 15 July 2019.

AMSA's practice is to publish a consultation report on its website at the conclusion of regulatory consultations.

The consultation feedback report for Marine Order 47 is publically available on the AMSA website.

In the case of Marine Order 47, AMSA did spend time with the Maritime Union of Australia discussing their submission and provided additional information directly to them.