

Determination and Collection of Financial Industry Levies

Australian Prudential Regulation Authority
Department of the Treasury

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Canberra ACT
7 November 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Australian Prudential Regulation Authority and the Department of the Treasury in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament. The report is titled *Determination and Collection of Financial Industry Levies*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely



Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

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Contents

Abbreviations.....	7
Glossary	8
Summary and Recommendations	11
Summary	13
Introduction	13
Audit objective, criteria and scope	16
Overall conclusion.....	16
Key findings by chapter.....	18
Summary of agencies' responses.....	22
Recommendations	24
Audit Findings	25
1. Background and Context	27
Introduction	27
APRA's funding and levies collection arrangements	31
Determining, calculating and collecting levies	34
Audit objective, criteria, scope and methodology	38
Structure of the audit report	40
2. Industry Consultation	41
Introduction	41
Applying industry consultation principles	43
Preparing Cost Recovery Impact Statements.....	55
Conclusion	56
3. APRA's Levy Methodology	59
Introduction	59
Policy intent and legal authority	60
APRA's cost recovery and levy setting methodology	61
Compliance with the Cost Recovery Guidelines.....	69
Conclusion	76
4. Calculating and Collecting Levies	78
Introduction	78
Modelling for the annual consultation paper	79
Billing levies	86
Collecting levies	90
Conclusion	92

Appendices 93

Appendix 1:	Agency responses	95
Appendix 2:	Financial industry and financial assistance levies, 2012–13.....	99
Appendix 3:	Sample of ANAO testing of APRA levies calculations for individual entities, 1 July 2012 to 31 October 2012.....	100
Index.....		101
Series titles.....		102
Current Better Practice Guides		104

Tables

Table 1.1:	Number of APRA-regulated entities, 2007 to 2013	29
Table 1.2:	Assets of APRA-regulated entities (\$ billions), 2007 to 2013.....	29
Table 1.3:	APRA's levies funding requirement, 2012–13 and 2013–14.....	32
Table 1.4:	Total levies collected by APRA: 2006–07 to 2012–13 (\$ million).....	34
Table 1.5:	Financial industry peak bodies	37
Table 1.6:	Structure of the report.....	40
Table 2.1:	Financial industry levies consultations for 2012–13	43
Table 2.2	Number of working days for industry consultation	45
Table 3.1	Minimum and maximum levy caps by industry, 2013–14.....	67
Table 4.1:	Achievement of key performance indicator for complete and timely submission, June and September 2012 and March 2013	82
Table 4.2:	Levy entities tested, having provided relevant data to APRA in the period 1 July 2012 to 31 October 2012	88
Table 4.3	APRA's unpaid levies debt, June 2011 to June 2013	90

Figures

Figure 1.1:	APRA's organisational structure, as at June 2013	30
Figure 3.1	APRA's levy methodology for 2012–13.....	64
Figure 3.2	APRA's costs 2004–05 to 2012–13.....	74
Figure 4.1:	Key processes and timeline for calculating levy payments	78
Figure 4.2	Under and over collection of APRA levies, 2007–08 to 2012–13	84
Figure 4.3	Automated calculation and billing process for APRA levies	87

Abbreviations

ADI	Authorised deposit-taking institution
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
Cost Recovery Guidelines	<i>Australian Government Cost Recovery Guidelines</i>
CRIS	Cost Recovery Impact Statement
DHS	Department of Human Services
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FTE	Full time equivalent
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
The Treasury	Department of the Treasury

Glossary

Activity Based Costing	A form of fully distributed costing that links an organisation's outputs to activities used to produce those outputs, which in turn are linked to the organisation's costs.
Benchmarking	The process of measuring an organisation's performance and practices in key areas and comparing them to other organisations, to find ways of achieving better results.
Cross-subsidisation	Cross-subsidisation occurs when one group of users pays more than the cost of the goods and services they receive, and the surplus is used to offset the cost of goods and services provided to other users.
Direct costs	Costs that can be directly and unequivocally attributed to a service or activity. They include labour (including on-costs) and materials used to deliver services and activities.
Full time equivalent	A measure of the total level of staff resources used. The FTE of a full-time staff member is equal to 1.0. The calculation of FTE for part-time staff is based on the proportion of time worked compared to that worked by full-time staff performing similar duties.
Fully distributed costing	A costing method under which an activity's cost base comprises all costs exclusive to the activity and a pro-rata share of the agency's overheads and capital costs.
Indirect costs	Indirect costs are not directly attributable to a service and are often referred to as overheads. They can include corporate services costs, such as accounting, human resources, records management and information technology.

System impact	A concept denoting that the larger and more complex a financial institution, the greater its likely impact on the financial system.
Vertical equity	The principle that levies should reflect, as far as practicable, the effort incurred in supervision, determined by the size and complexity of the individual entity.

Summary and Recommendations

Summary

Introduction

1. The Australian Prudential Regulation Authority (APRA) was established on 1 July 1998 by the *Australian Prudential Regulation Authority Act 1998*, and is the prudential regulator of the Australian financial services industry. Its role is to develop and enforce a robust framework of legislation, prudential standards and guidance that promotes prudent behaviour by authorised deposit-taking institutions (such as banks), superannuation funds, general insurers, and life insurers and friendly societies. The key aim is to protect the interests of financial institutions' depositors, policyholders and members.¹ In June 2012, APRA regulated 4265 financial institutions holding over \$4.2 trillion in assets.

2. APRA is funded through Commonwealth Budget appropriations, which are largely recovered from levies on those institutions it regulates, on a cost recovery basis. The underlying principle of cost recovery is that agencies can set charges to recover all the costs of a product or service where it is efficient and effective to do so, where the beneficiaries are a narrow and identifiable group and where charging is consistent with government policy objectives.

3. The costs of prudential regulation differ each year, subject to government priorities and initiatives as well as the cost pressures and savings involving APRA's operations. In 2012–13, APRA had a budgeted cost of \$125.2 million to cover the activities required to prudentially regulate financial institutions. Of this amount, APRA aimed to recover \$112.9 million (or 90 per cent of its total estimated budgeted cost) through the imposition of industry levies, after allowing for various cost offsets, and the return to industry of \$3.1 million in levies that were over-collected in 2011–12.

1 APRA has one outcome which is: 'enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality.' Department of the Treasury, *Portfolio Budget Statements 2013–14*, Budget Related Paper No. 1.18, p. 137, available from <<http://www.treasury.gov.au/PublicationsAndMedia/Publications/2013/PBS-2013-14>> [accessed 19 August 2013].

4. As well as collecting levies to recover the costs of its own prudential regulation services, APRA administers levies that cover costs incurred by other Australian Government agencies that provide consumer protection and other functions in respect of prudentially regulated entities.² The total value of levies to be collected by APRA for all agencies in 2012–13 was \$266.4 million. A major proportion of the levies in 2012–13 (46 per cent) was as a consequence of the SuperStream package of reforms that aim to make the superannuation system easier to use for members, employers and funds.

Methodology for calculating levies

5. The methodology used by APRA to calculate the levies is based on a single, volume-based driver: hours worked by staff in APRA's four 'frontline' operating divisions³ are used to allocate all indirect and capital costs pro rata to the four financial industry sectors. This methodology is designed to fully recover costs from each industry sector and minimise cross-subsidisation⁴ across sectors. The estimated asset value of each institution is used as the basis for allocating the quantum of the sectoral levy to each regulated institution.

6. Under the levy methodology, APRA's activities, and staff time spent on these activities, are also allocated into one of the following two levy components:

- the restricted levy component: based on a 'cost of supervision' rationale, is structured as a percentage rate on assets subject to minimum and maximum amounts.⁵ Activities covered by this component include the costs associated with APRA's onsite and offsite supervision of individual institutions, and its legal and enforcement activities; and

2 These agencies include the Australian Securities and Investments Commission (ASIC), Australian Taxation Office (ATO), and the Department of Human Services (DHS).

3 Direct supervision of regulated financial entities is mostly undertaken by APRA's Diversified Institutions Division and Specialised Institutions Division. Staff in these divisions are supported by staff in the Supervisory Support Division and the Policy, Statistics and International Division. Activities undertaken by staff from the Corporate Services Division are generally not apportioned to industry segments and are not included as inputs to the model.

4 Cross-subsidisation is the practice of charging one group of users more than the costs of the services (or products) they receive, and using the 'surplus' to offset the costs of services provided to other users.

5 Levy ceilings prevent the costs to large institutions greatly exceeding the costs incurred by regulators in supervising them. Minimum levy amounts are set at a sufficiently high level to cover the costs of supervising small institutions so that the cost of supervision does not rise disproportionately with the value of assets held by an institution.

- the unrestricted levy component: based on a rationale that involves ‘system impact’ (for example, the larger a financial institution, the greater its likely impact on the financial system) and ‘vertical equity’ (the notion that levies should reflect, as far as practicable, the effort incurred in supervision, determined by the size and complexity of the individual entity). This component is structured as a low percentage rate on assets with no minimum or maximum amounts. Activities covered by this component include the development of APRA’s prudential framework for the industries it supervises, as well as costs associated with its role as the national financial statistical data collection and publications agency.⁶

7. The same methodology is applied to levies collected for other agencies, including with respect to SuperStream. However, the introduction of SuperStream and other initiatives in recent years has changed the composition of the financial industry supervisory levies. By way of illustration, in 2006–07, 83 per cent of total levy funding was related to APRA’s responsibilities; in 2012–13, the proportion was 42 per cent.

8. Annually, the Department of the Treasury (the Treasury), supported by APRA, consults with stakeholders on the proposed levies calculations for the coming year. Stakeholders are also consulted periodically on the design and operation of the levies framework. The responsible Minister determines the final levies rates and the maximum and minimum caps that will apply. APRA then calculates the levy amounts, based on the lodgement of financial entity annual returns. The levies are calculated by an automated billing system unless entities become regulated part way through the financial year—in which case the levies are manually calculated on a pro rata basis. APRA has a framework for collecting levies that are due and payable, and also for following up any unpaid debts (or for waiver or write-off as appropriate).

6 Department of the Treasury, *Financial Industry Supervisory Levy Methodology*, <<http://www.treasury.gov.au/ConsultationsandReviews/Submissions/2013/Financial-Industry-Supervisory-Levy-Methodology>> [accessed 16 May 2013].

Audit objective, criteria and scope

9. The objective of the audit was to assess the effectiveness of the administration of the APRA financial industry levies.

10. The audit examined:

- the Treasury's consultation practices, and APRA's support, in relation to the formulation of levies, and the extent to which they were appropriate and effective;
- APRA's policies, procedures and resources in place to effectively support the implementation of the financial levies legislation, consistent with the *Australian Government Cost Recovery Guidelines*; and
- APRA's processes for calculating and collecting levies, including minimising the risk of cross-subsidisation between industry sectors and entities.

11. The audit did not examine the levies raised by APRA on behalf of other agencies, although the report makes reference to these levies where they influence the administration of the APRA financial industry levies.

Overall conclusion

12. APRA was established in 1998 as part of a package of measures to strengthen consumer protection functions in the financial system. To meet APRA's resourcing needs, the Government decided to 'establish an administratively simple and uniform funding scheme based on the principle of full cost recovery'⁷ from those industries it would prudentially regulate. APRA is subject to the *Australian Government Cost Recovery Guidelines* (the Guidelines) and, in 2011–12, was the fifth largest cost recovery agency in the Commonwealth, raising \$101.3 million in levies. The Guidelines require, among other things, that APRA recovers only those costs that are integral to prudential regulation and are the minimum necessary to deliver services, and that industry is consulted about the levy methodology and its application.

13. APRA's administration of financial industry levies has been generally effective. The methodology developed to apply the levies has met the

7 Explanatory Memorandum, Financial Sector Levy Bills (Cth), paragraph 1.5, available from <http://www.aph.gov.au/binaries/library/pubs/explanmem/docs/1998authoriseddeposittakinginstitutionsupervisorylevyimpositionem.pdf> [accessed 24 September 2012].

Government's intent of recovering the full costs of APRA's administration, and been administratively simple and uniform. APRA, and the Treasury, have continued to apply the principles of equity and competitive neutrality when imposing levies on financial entities. This has been an ongoing process, involving review of the levy methodology and its application, stakeholder consultation and feedback. In an environment where it is difficult to set levies precisely to reflect the cost of regulation and equity considerations, the ANAO has identified three aspects of the levy methodology that would benefit from further analysis and could be considered as part of the levy methodology review being conducted by the Treasury and APRA throughout 2013:

- the levy methodology is based on the activities of staff from four of APRA's five divisions and excludes many indirect costs (such as property and information technology) as inputs to the model. While the approach adopted over the past 15 years of allocating these indirect costs to industry sectors according to the allocation of staff activities may be reasonable, there is some risk of cross-subsidisation between sectors;
- the methodology includes 'restricted' and 'unrestricted' components, which respectively relate to prudential supervision and 'system impact and vertical equity'. However, as the model is currently specified, some activities included in the unrestricted component do not always bear a close relationship with functions addressing system impact and vertical equity⁸; and
- the significant increase in levies funding for other Australian Government agencies dealing with financial institutions in recent years⁹ has introduced additional complexities in setting the APRA levies according to the cost of its prudential regulation. It has also brought into question whether the methodology for setting the APRA levies is an appropriate approach for calculating these other levies.¹⁰

8 For example, cost centres relating to the administration of the Supervisory Support Division and the Policy, Statistics and International Division are allocated to the unrestricted component but do not relate to either system impact or vertical equity.

9 The share of levy funding for other agencies dealing with financial institutions in recent years increased from 17 per cent of total funding collected by APRA in 2006–07 to 58 per cent in 2012–13.

10 Notably, to recover the costs of the ATO administering SuperStream in 2012–13, the maximum levy for the superannuation sector increased from around \$1 million to \$2 million. This maximum cap was applied to the APRA financial industry levies and all other levies administered by APRA, including on behalf of ASIC, the ATO and DHS.

14. APRA advised the ANAO that all activities funded through the financial industry levies relate to its regulatory role. It provided information about a range of activities to contain costs, noting that the cost of industry regulation has declined in recent years when measured with regard to the cost of assets regulated. There is scope, however, for APRA to provide more information to stakeholders to demonstrate that it is charging the minimum costs necessary and that these are directly related to prudential regulation.

15. More broadly, the majority of stakeholders consulted by the ANAO raised some concern about the level of information provided about APRA's costs and activities and the specification of the levy methodology. Also raised was the short time frames to respond to the annual processes and the methodology reviews. One option to address these shortcomings could be to establish an industry consultative committee or panel, which could meet periodically outside the levies determination cycle to broadly consider and discuss levies and resourcing matters.¹¹ Stakeholders did not raise any concerns about APRA's billing and collection arrangements, which the ANAO found to be effective.

16. The ANAO has made two recommendations to improve the administration of the APRA financial industry levies. The first recommendation is aimed at the Treasury and APRA improving consultation with stakeholders about the levy methodology and its application. The second recommendation involves the two agencies' further considering aspects of the levy methodology as part of their current review.

Key findings by chapter

Industry consultation (Chapter 2)

17. The Treasury, supported by APRA, has long-standing processes to consult with stakeholders about the financial industry levies. These processes are based on the release of an annual paper seeking industry views on the proposed financial sector levies to apply for the following financial year, supplemented by periodic reviews of the levy methodology. Periodic reviews were undertaken in 1999, 2003 and 2009, and one is underway in 2013.

11 A number of cost recovery agencies have well established industry consultative committees or panels. An example is the Therapeutic Goods Administration, which has an Industry Consultative Committee that meets twice yearly to examine progress against key projects, agreed targets and financial performance.

18. The annual consultation paper is made available to a broad range of financial industry stakeholders affected by the proposed changes to levies parameters. With consistent timing each year, stakeholders are generally well aware of the annual process. Since 2005, the content of the paper has remained relatively stable, providing stakeholders with a sound understanding of the context and purpose of the discussions, and of the main parameters of the levy methodology.

19. Nevertheless, stakeholders have raised concerns about having insufficient time to provide considered responses to the annual consultation paper. In the last five financial years, the average length of time given for industry to provide feedback and comment on the proposed financial levies paper has been 10 working days. While the timeframe for annual consultation is constrained by the Budget process and legislative framework, there would be merit in the Treasury and APRA considering ways to increase the level of consultation with industry about the annual levies process. Options that could be considered that do not require legislative change include:

- under existing arrangements, releasing the consultation paper closer to the date of the Budget if there are no major changes to the levy methodology from the previous year—although this would allow only an additional week or so for the consultation period; and
- creating a formal opportunity at an early stage in the financial year for APRA and relevant stakeholders to discuss issues relating to the levies processes. This could involve the establishment of a stakeholder panel, potentially led by the Treasury, and including all Australian Government agencies with responsibilities for financial industry levies.¹²

20. Seven of the nine stakeholders consulted by the ANAO considered that there was not sufficiently detailed information about APRA's activities and expenditure to inform discussions on proposed industry levies. This feedback indicates scope for more detailed explanation of APRA's costing approach and its activities and expenditure—either in the methodology review papers, annual consultation papers or through a Cost Recovery Impact Statement

12 A further option is to move the setting of levies to another time of year to enable a longer consultation period. Such a decision would be a matter for the Government, however, and require public consultation and legislative change.

(CRIS). Similarly, stakeholders considered there could be a greater level of disclosure about the levy methodology.

21. A CRIS (which is often prepared as a draft in the first instance) is the normal means for cost recovery agencies to inform stakeholders about their adherence to cost recovery principles.¹³ While APRA has adhered to many requirements of the *Australian Government Cost Recovery Guidelines* in the annual consultation papers¹⁴, it has not prepared a CRIS since 2006–07. APRA has undertaken to prepare a CRIS regarding its financial industry levies following completion of the levies methodology review, which is likely to occur in 2014. The CRIS will provide APRA with the opportunity to demonstrate that it is recovering only those costs that are ‘efficient’ (that is, based on the minimum cost necessary to deliver services and still maintain quality over time) and integral to its core activities.

APRA’s levy methodology (Chapter 3)

22. The levy methodology is consistent with the Government’s policy intent of an ‘administratively simple and uniform funding scheme based on the principle of full cost recovery’. However, as it excludes many indirect costs¹⁵ as inputs to the model, there is a risk of misallocation of costs between industry sectors. One way to mitigate this risk is to examine the major indirect costs excluded as inputs to the levy methodology to determine whether any industry sector is incurring a disproportionate share of these costs. The results of such an exercise could then be analysed to assess the benefits and costs of adopting alternative cost allocation approaches.¹⁶

23. Rather than focussing on types of prudential regulation activities, the levy methodology includes ‘restricted’ and ‘unrestricted’ components, which relate to supervision and ‘system impact and vertical equity’. The activities being included in the system impact component mainly cover indirect aspects

13 Although there is no formal requirement to do so, the Department of Finance and Deregulation has advised that most agencies initially prepare a draft CRIS, which they subsequently finalise having received and considered consultation feedback.

14 APRA has considered suggestions provided by Finance when preparing annual consultation papers in recent years to better incorporate the requirements of a CRIS.

15 In 2011–12, around \$65.3 million or 56 per cent of APRA’s costs were used as direct inputs in the levy methodology, for the purpose of allocating across industry sectors all of APRA’s costs to be recovered through the financial industry levies.

16 For example, the Australian Government Cost Recovery Guidelines state that a form of fully distributed costing, known as Activity Based Costing, is more accurate in how it allocates indirect costs.

of entity regulation, such as policy development and international relations. However, some of these activities do not bear a close relationship with functions addressing system impact and vertical equity.

24. The Treasury has considered aspects of vertical equity in past methodology reviews, including in 2005 where it examined whether the profile of levies associated with the caps had a clear relationship to the cost of regulation. In recent years, the significant increase in levies funding for other agencies dealing with financial institutions (such as the ATO through SuperStream) has in one instance broken the nexus between the application of the maximum caps and the cost of prudential regulation. While the Treasury did attempt to take into account equity considerations, the limited time available for implementing the levies funding arrangements for the SuperStream initiative¹⁷ did not allow for a full consideration of vertical equity issues. The Treasury has advised that it is subsequently examining vertical equity from the perspective of the levies impost per fund member, according to the size of funds.

25. As an agency that is recovering a large portion of its costs in levies, it is important that APRA be able to demonstrate that it is only charging for functions that are integral to prudential regulation and that these are being conducted efficiently. As previously discussed, APRA advised that it is only imposing levies in relation to functions that are directly related to prudential regulation, and that it is undertaking these functions efficiently (that is, based on the minimum cost necessary to deliver services and still maintain quality over time). However, APRA could provide more information to stakeholders about its costs, for example through benchmarking and/or market testing, and explain in its forthcoming CRIS how it is only charging for the efficient costs of activities that are integral to its regulatory functions.

Calculating and collecting levies (Chapter 4)

26. APRA's processes for applying the levy methodology are sound. Through the use of regularly updated registers of regulated entities, APRA has a high degree of confidence of capturing all leviable entities, and has developed extensive processes for ensuring the quality of asset data.

¹⁷ While the Government announced the levy in the May 2012 Budget, there were delays in finalising the funding arrangements due in part to consideration of the SuperStream legislation by the Parliamentary Joint Committee on Corporations and Financial Services in June 2012.

27. The ANAO examined APRA's levy model and found that it was operating correctly. While the model had been largely replicated in APRA's management accounting system, providing a high degree of assurance, spreadsheets are still used for entering data and for calculating the applicable levy rates. To provide greater assurance of calculation accuracy, there would be benefit in APRA considering the benefits and costs of a fully automated levy modelling system.¹⁸

28. APRA's processes for collecting levies are effective. The ANAO's testing, which covered both automated and manual calculation procedures, found no errors in the operation of APRA's levies calculation and billing systems. The levies collection process is also sound, with a strong legislative framework leading to high levels of compliance, and effective policies for late payment penalties, waivers and write-offs.

Summary of agencies' responses

29. The proposed audit report issued under section 19 of the *Auditor-General Act 1997* was provided to the Treasury and APRA. The agencies' responses to each recommendation are included in the body of the report, directly following each recommendation. Agencies' general comments on the audit report are below; the full responses are at Appendix 1.

Australian Prudential Regulation Authority

APRA welcomes the ANAO's findings that the methodology is consistent with the Government's intent of recovering the full costs of APRA's administration, and that the levy methodology is administratively simple and uniform. APRA notes the finding that APRA and the Treasury have continued to apply the principles of equity and competitive neutrality in imposing the levies on financial entities.

In conjunction with the Treasury, APRA supports further work to investigate and implement the recommendations of the report, subject to time and resourcing constraints.

18 APRA has an internal policy governing spreadsheets, databases and other end user developed applications. The policy states that spreadsheets used for 'business-critical' functions or processes must be moved to an IT-managed system over the life of the spreadsheet, wherever possible.

The Department of the Treasury

The Treasury agrees there is scope to improve the consultation process used to determine allocation of the Financial Industry Levies. We also agree stakeholders would benefit from more transparency around the determination of the levies, including a clearer explanation of how the various elements of the levies are allocated. These issues are being considered by the Treasury and APRA as part of the *2013 Financial Industry Supervisory Levies Methodology Review*.

Recommendations

Recommendation No. 1
Para 2.51 To improve the effectiveness of consultation with stakeholders about proposed levy parameters and the financial industry levy methodology encompassing APRA's costs, the ANAO recommends that the Treasury, supported by APRA:

- (a) provide additional time and opportunities for stakeholders to participate in the annual levies consultation process; and
- (b) increase the extent of public information available about the levy methodology, and how APRA's prudential regulation activities are linked to its costs.

Treasury response: *Agreed.*

APRA response: *Agreed.*

Recommendation No. 2
Para 3.56 To help ensure that the levies imposed on financial entities reflect the costs of efficient prudential regulation, the ANAO recommends that the Department of the Treasury and APRA review the financial industry levy methodology and consider the:

- (a) impact on levy distribution between industry sectors of more fully allocating APRA's indirect costs;
- (b) application of the restricted and unrestricted components, including with reference to the activities being allocated to them and the minimum and maximum caps; and
- (c) appropriateness of applying the APRA financial levy methodology to calculate the levies collected by APRA on behalf of other Australian Government agencies.

Treasury response: *Agreed.*

APRA response: *Agreed.*

Audit Findings

1. Background and Context

This chapter provides the background and context for the audit, including an overview of the Australian Prudential Regulation Authority's role in regulating the Australian financial services industry and its funding model. The audit objective is also outlined.

Introduction

1.1 The Australian Prudential Regulation Authority (APRA) is the prudential regulator of the Australian financial services industry.¹⁹ Established on 1 July 1998 by the *Australian Prudential Regulation Authority Act 1998* (APRA Act), APRA is an agency within the Treasury portfolio.

1.2 APRA's role is to develop and enforce a robust framework of legislation, prudential standards and prudential guidance that promotes prudent behaviour by authorised deposit-taking institutions (such as banks), insurance companies, superannuation funds and other financial institutions it regulates. Its key aim is to protect the interests of financial institutions' depositors, policyholders and members. Prudential regulation focuses on the quality of an institution's systems for identifying, measuring and managing the various risks in its business. By promoting prudent behaviour by regulated entities, the likelihood that entities will be able to meet their financial obligations to their depositors, policyholders or members is increased.²⁰

1.3 APRA promotes safety and soundness in business behaviour and risk management on the part of the institutions it regulates.²¹ In practice, APRA seeks to strike a balance between minimising risk and facilitating a flexible, efficient and competitive financial system, consistent with the requirements of its governing legislation.²² Accordingly, in its 2007 Statement of Expectations for APRA, the then Government recognised that prudential regulation should

19 APRA website, available from <<http://www.apra.gov.au/pages/default.aspx>> [accessed 14 Feb 2013].

20 Department of the Treasury, *Portfolio Budget Statements 2013–14*, available from <http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2013/PBS%202013-14/Downloads/PDF/05_APRA.ashx> [accessed 8 August 2013].

21 APRA Brochure, p. 4, available from <http://www.apra.gov.au/AboutAPRA/Publications/Documents/APRA_CB_022012_ex_online.pdf> [accessed 27 March 2013].

22 *Australian Prudential Regulation Authority Act 1998*, subsection 8(2).

not seek to guarantee a zero failure rate or provide absolute protection for market participants.²³

1.4 APRA has one outcome which is: 'Enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality'.²⁴

APRA's regulation of the financial sector

1.5 Australian financial institutions controlled assets of around \$5.1 trillion as at September 2012. Authorised deposit-taking institutions (ADIs) account for nearly 60 per cent of financial sector assets, a share that has continued to increase since 2007. Collectively, Australia's four major banks hold about 75 per cent of total ADI assets. Life insurance companies, general insurance companies and superannuation funds account for about one-quarter of Australian financial system assets. Australia's superannuation industry is relatively large by international standards, with assets of \$1.4 trillion as at 30 June 2012.²⁵

1.6 Of the \$5.1 trillion in total assets, APRA supervises financial institutions holding over \$4.2 trillion in assets. The number of APRA-regulated institutions and the assets they held from June 2007 to June 2013 are set out in Table 1.1 and Table 1.2, aggregated by industry sector.

23 Department of the Treasury, *Government's Statement of Expectations*, p. 2, available from <<http://www.apra.gov.au/AboutAPRA/Documents/Statement-of-Expectations-from-Treasurer-20-Feb-07.pdf>> [accessed 21 February 2013].

24 Department of the Treasury, *Portfolio Budget Statements 2013–14*, Budget Related Paper No. 1.18, p. 137, available from <<http://www.treasury.gov.au/PublicationsAndMedia/Publications/2013/PBS-2013-14>> [accessed 19 August 2013].

25 Department of the Treasury, *Financial industry supervisory levy methodology discussion paper*, April 2013, p. 5, available from <<http://www.treasury.gov.au/ConsultationsandReviews/Submissions/2013/Financial-Industry-Supervisory-Levy-Methodology>> [accessed 2 July 2013].

Table 1.1: Number of APRA-regulated entities, 2007 to 2013

Industry sector	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
Authorised deposit-taking institutions	220	211	193	182	177	174	172
Superannuation ⁽¹⁾	6 823	6 252	4 919	4 458	4 054	3 675	3 379
Life insurers	34	32	32	32	31	28	28
General insurers	131	130	132	130	127	124	121
Friendly societies	25	24	19	16	14	13	13
Foreign bank representatives	19	18	17	17	18	17	16
Licensed trustees	306	292	278	251	225	209	190
Non-operating holding companies	14	18	17	21	25	25	25
TOTAL	7 572	6 977	5 607	5 107	4 671	4 265	3 944

Source: APRA Annual Reports 2008 to 2012.

Note 1: The superannuation sector has seen major consolidation, for example through mergers and acquisitions, and accordingly the total number of funds has reduced substantially in recent years.

Table 1.2: Assets of APRA-regulated entities (\$ billions), 2007 to 2013

Industry sector ⁽¹⁾	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
Authorised deposit-taking institutions	1 946	2 419	2 663	2 693	2 813	3 040	3 177
Superannuation entities	708	673	614	723	811	833	968
Life insurers	251	237	213	228	235	238	258
General insurers	91	91	95	99	115	118	118
Friendly societies	7	7	6	6	6	6	6
TOTAL	3 003	3 427	3 591	3 749	3 980	4 234	4 528

Source: APRA Annual Reports 2008 to 2012.

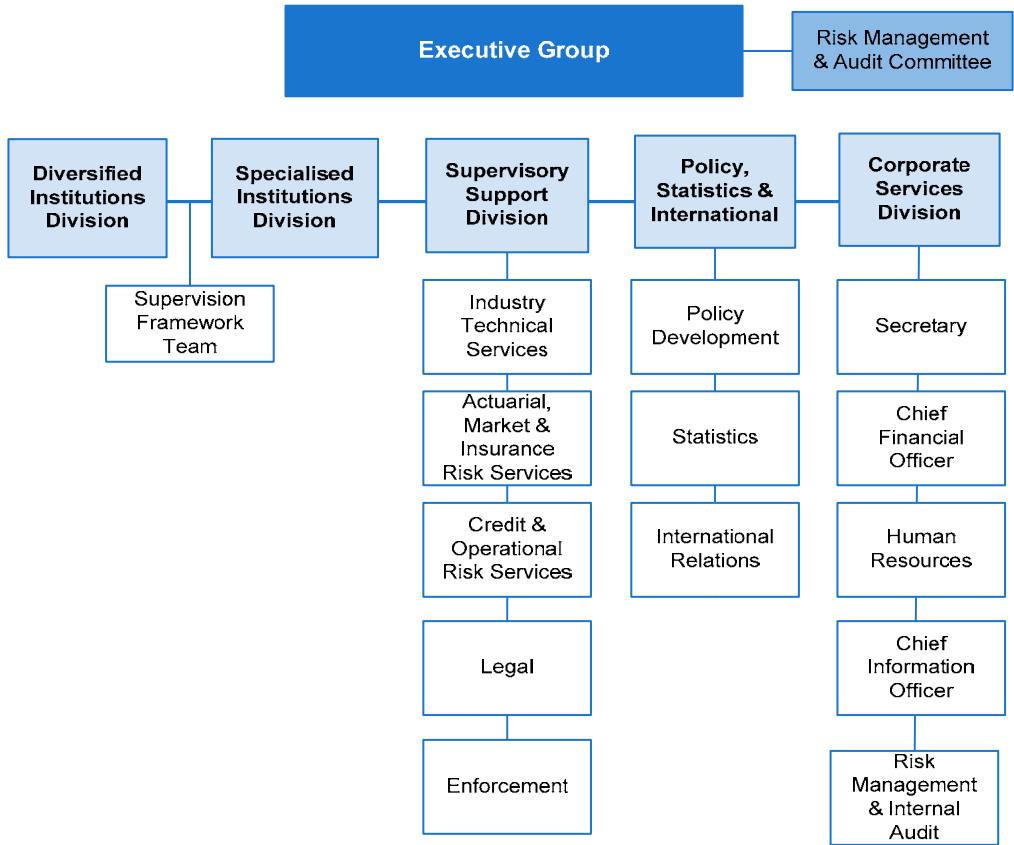
Note 1: Not all industry sectors shown in Table 1.1 contain entities that hold assets on their own account, and so are not represented in Table 1.2.

APRA's administrative arrangements

1.7 As at 30 June 2013, APRA employed 598 full time equivalent staff operating from six locations across Australia, with the majority of staff located

at its Sydney head office. APRA’s operation and performance is managed by a full-time Executive Group currently comprising three members appointed by the Treasurer, including a Chair and Deputy Chair. APRA’s organisational structure is set out in Figure 1.1.

Figure 1.1: APRA’s organisational structure, as at June 2013



Source: APRA Annual Report 2012 and discussions with APRA.

1.8 APRA’s five divisions have the following roles and responsibilities:

- **Diversified Institutions:** supervises over 250 functionally diversified financial institutions such as large financial conglomerates, banks, insurance companies and superannuation funds;
- **Specialised Institutions:** supervises approximately 500 licensed financial entities including regional banks, credit unions, building societies, friendly societies, insurers and superannuation funds;

- Supervisory Support: provides advice and support to APRA's supervisors, for example actuarial services, risk management methodology and legal services;
- Policy, Statistics and International: provides analytical tools and information to support APRA's supervisors and staff in their risk analyses and supervisory interventions; and
- Corporate Services: provides policy and services with respect to corporate governance, public affairs, human resources, compliance, risk assessment and internal audit, information technology, finance and administration.²⁶

APRA's funding and levies collection arrangements

1.9 APRA is funded through Commonwealth Budget appropriations²⁷, which are largely recovered from levies on those institutions it regulates, on a cost recovery basis. These levies are administered transactions collected on behalf of the Government and paid into consolidated revenue. An amount equivalent to the levy revenue that is attributable to APRA's activities is credited to a special account for APRA's operations. APRA's levies are categorised as 'cost recovery' taxes.²⁸ According to the *Australian Government Cost Recovery Guidelines* (the Guidelines), administered by the Department of Finance (known as the Department of Finance and Deregulation until September 2013):

Cost recovery is different from general taxation. Some levies or taxes are used to raise cost recovery revenues, but the direct link—or 'earmarking'—between the revenue and the funding of a specific activity distinguishes such cost recovery taxes from general taxation.²⁹

26 APRA, *Divisions of APRA* [Internet], available from <<http://www.apra.gov.au/AboutAPRA/WorkingAtAPRA/Pages/divisions-of-apra.aspx>> [accessed 22 February 2013].

27 APRA's budget is included in the annual Treasury Portfolio Budget Statements. If APRA is asked to undertake significant new activities, or considers it is inadequately funded to meet future demands, it will submit a new policy proposal. As part of the standard Budget process, any public comments or concerns about APRA's resourcing and activities are able to be raised in pre-Budget submissions.

28 ANAO Audit Report No.23 2007–08, *The Management of Cost Recovery by Selected Regulators*, p. 8.

29 Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, Financial Management Guidance No. 4, July 2005, available from <http://www.finance.gov.au/publications/finance-circulars/2005/docs/Cost_Recovery_Guidelines.pdf> [accessed 28 October 2013].

All cost recovery arrangements for Commonwealth agencies must comply with these Guidelines.³⁰

APRA's funding requirements

1.10 Each year, following consideration by government of the nature and cost of APRA's activities to fulfil its stated outcome, APRA's budget for the forthcoming financial year is announced in the May Federal Budget. The amount that APRA recovers on behalf of the Commonwealth through the levies process is limited by the appropriation specified in the Budget.

1.11 In 2012–13, APRA had a budgeted total cost of \$125.2 million to cover the activities required to prudentially regulate financial institutions. As shown in Table 1.3, this included \$120.4 million for operating expenses and \$4.8 million to support capital expenditure requirements. Taking into account various cost offsets (\$9.2 million)³¹, and over-collected 2011–12 levies to be returned to industry (\$3.1 million), APRA's net levies funding requirement was \$112.9 million or 90 per cent of its total estimated budgeted cost.

Table 1.3: APRA's levies funding requirement, 2012–13 and 2013–14

	2012–13 Budget (\$m)	2013–14 Budget (\$m)	Change (\$m) (%)	
Operating expenses	120.4	124.7	4.3	3.6
Capital expenditure	4.8	5.7	0.9	18.8
Budgeted total cost	125.2	130.4	5.2	4.1
Net cost offsets	(9.2)	(8.0)	1.3	(13.6)
Unspent 2012–13 expenses re-phased into 2013–14	0	(3.6)	(3.6)	0
Under/(over) collected revenue	(3.1)	(3.2)	(0.1)	3.8
Net funding met through industry levies	112.9	115.6		

Source: APRA and the Treasury, *Financial Industry Levies for 2013–14*.

30 APRA is a prescribed agency for the purposes of the *Financial Management and Accountability Act 1997* and, as such, is subject to the Guidelines.

31 'Net cost offsets' include direct cost recoveries from government funding or through fees. They represent a component of APRA's cost base that is not recovered through general industry levies. In 2012–13 these offsets consisted of the sale of goods and services, such as charges for making authorisation applications (\$5.2 million), other appropriations such as additional departmental funding (\$3.3 million) and a special levy for the national claims and policies database (\$0.7 million).

APRA's levies collection arrangements

1.12 APRA also administers the collection of revenue from levies that cover costs incurred by other Australian Government agencies in providing services related to consumer protection and other functions undertaken in respect of prudentially regulated institutions. Leveraging off processes to administer the financial industry levies, APRA calculates and collects levies on behalf of the:

- Australian Securities and Investments Commission (ASIC), to partially defray expenses in relation to consumer protection, financial literacy and enforcement activities relating to the products and services of APRA-regulated institutions;
- Australian Taxation Office (ATO), to partially cover the cost of administering the Superannuation Lost Members Register and Unclaimed Superannuation Money;
- Department of Human Services (DHS), in relation to the early release of superannuation on compassionate grounds; and
- ATO, the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education and the Department of the Treasury (the Treasury), in implementing the SuperStream package of reforms that aims to make the superannuation system easier to use for members, employers and funds.³²

1.13 The total value of levies to be collected by APRA for all agencies in 2012–13 was \$266.4 million. A major proportion of the levies in 2012–13 was due to the SuperStream component, which accounted for 46 per cent of the total. The introduction of SuperStream and other initiatives in recent years has changed the composition of the financial industry levies. For example, in 2006–07, 83 per cent of total levy funding was related to APRA's responsibilities; in 2012–13 the proportion was 42 per cent.³³ The total levies collected by APRA from 2006–07 to 2012–13 are shown in Table 1.4. In 2011–12 (the latest year for which figures are available), APRA was the fifth largest cost

32 Explanatory Statement, Australian Prudential Regulation Authority (Commonwealth Costs) Determination 2013, available from <<http://www.comlaw.gov.au/Details/F2013L01309>> [accessed 10 July 2013].

33 SuperStream covers some costs not directly associated with prudentially regulated institutions. In particular, it covers self-managed superannuation funds, which are regulated by the ATO but not prudentially regulated by APRA.

recovery agency in the Commonwealth in terms of the total value of receipts from levies payers.³⁴

Table 1.4: Total levies collected by APRA: 2006–07 to 2012–13 (\$ million)

Agency component	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13 (est.)
APRA	95.4	77.7	85.9	98.2	89.7	100.4	112.9
ASIC	13.1	16.1	14.6	18.5	19.3	20.7	20.7
ATO	3.8	9.8	6.4	7.3	6.8	7.2	7.1
DHS	n/a	n/a	n/a	n/a	n/a	2.7	4.2
SuperStream	n/a	n/a	n/a	n/a	n/a	n/a	121.5
TOTAL	112.3	103.6	106.9	124.0	115.8	131.0	266.4

Source: The Treasury, Proposed and Final Financial Sector Levies Discussion Papers, 2006–07 to 2013–14, APRA Annual Report Financial Statements.

Notes: The figures for APRA are net of waivers and penalties. n/a is not applicable.

Determining, calculating and collecting levies

The Financial Levies Acts

1.14 The legal basis for the financial industry levies is the *Financial Institutions Supervisory Levies Collection Act 1998* and seven other Acts applying to the main industry sectors or types of entities (the Financial Levies Acts):

- *Authorised Deposit-taking Institutions Supervisory Levy Imposition Act 1998;*
- *Authorised Non-operating Holding Companies Supervisory Levy Imposition Act 1998;*
- *Life Insurance Supervisory Levy Imposition Act 1998;*
- *General Insurance Supervisory Levy Imposition Act 1998;*

34 According to the Department of Finance, the largest cost recovery agencies in 2011–12 were the: Department of Foreign Affairs and Trade (\$603 million), Australian Quarantine and Inspection Service (\$164.4 million), IP Australia (\$152.2 million), Australian Customs and Border Protection Service (\$149.6 million), and then APRA (\$131.0 million). Deducting the amount collected by APRA on behalf of other agencies (\$30.6 million) APRA collected \$101.3 million, which still placed it above the next largest agency, the ATO (\$92.5 million).

- *Retirement Savings Account Providers Supervisory Levy Imposition Act 1998*;
- *Superannuation Supervisory Levy Imposition Act 1998*; and
- *First Home Saver Account Providers Supervisory Levy Imposition Act 2008*.

1.15 The policy intent of the Financial Levies Acts is set out in the relevant Explanatory Memorandum. According to the Memorandum, one reason for choosing industry levies over Budget funding as the preferred funding model for APRA is that levies would enable the regulated institutions to scrutinise the cost effectiveness of APRA's activities. The Explanatory Memorandum then states in relation to the preferred model (industry levies):

This method of funding may also tend to encourage the institutions paying the levy to act as a constraint on empire building or other excessive cost increases on the part of the regulator.³⁵

1.16 The model for calculating supervisory levies is not a direct charging or 'fee-for-service' model. Rather, APRA advised the ANAO that the underlying principle is one of 'reasonableness' in recovering the full costs of APRA's activities across the financial industry sectors.

1.17 After APRA's funding requirement has been specified for the forthcoming year (as discussed in paragraph 1.10), further key stages in the annual levies process are:

- applying APRA's levy methodology to develop a proposal on how APRA intends to collect levies from industry to meet its funding requirement;
- consulting with industry to obtain feedback about the proposed application of the levy methodology;
- preparing legislative instruments in accordance with the provisions of the Financial Levies Acts to determine the levy methodology; and
- billing and collection of levies from supervised institutions.

35 Explanatory Memorandum, Financial Sector Levy Bills 1998, paragraphs 3.7 and 3.10.

Application of APRA's levy methodology

1.18 The levy methodology used to recoup APRA's costs is based on the time APRA estimates it spends on prudential regulation activities, relative to each industry sector. This methodology is designed to fully recover costs from each industry sector³⁶ and minimise cross-subsidies³⁷ across sectors. The estimated asset value of each institution is used as the basis for allocating the quantum of the sectoral levy to each regulated institution.

1.19 In the levy methodology process, APRA's activities, and staff time spent on these activities, are allocated into one of two levy components: restricted and unrestricted. The restricted levy component has a 'cost of supervision' rationale and is structured as a percentage rate on assets subject to minimum and maximum amounts. Activities covered by this component include costs associated with APRA's onsite and offsite supervision of individual institutions and its legal and enforcement activities.

1.20 The unrestricted levy component is structured as a low percentage rate on assets with no minimum or maximum amounts. This element is based on a rationale that involves 'system impact' (for example, the larger a financial institution, the greater the likely impact on the financial system in the event of it failing or facing financial difficulties) and 'vertical equity' (the notion that levies should reflect, as far as practicable, the effort incurred in supervision, determined by the size and complexity of the individual entity). Activities covered by this component include costs associated with the development of APRA's prudential framework for the industries it supervises, as well as its statistical data collection and publications.³⁸

1.21 Levy ceilings prevent the costs to large institutions greatly exceeding the costs incurred by regulators in supervising them. Minimum levy amounts are set at a sufficiently high level to cover the costs of supervising small

36 In the levy model, four industry sectors are defined, based on the sectors listed in Table 1.2, with friendly societies combined with life insurance institutions.

37 Cross-subsidisation is the practice of charging one group of users more than the costs of the services (or products) they receive, and using the 'surplus' to offset the costs of services provided to other users.

38 Department of the Treasury, *Financial Industry Supervisory Levy Methodology*, <<http://www.treasury.gov.au/ConsultationsandReviews/Submissions/2013/Financial-Industry-Supervisory-Levy-Methodology>> [accessed 16 May 2013].

institutions so that the cost of supervision does not rise disproportionately with the value of assets held by an institution.³⁹

Consultation with industry and making of determinations

1.22 The Treasury, supported by APRA, consults with relevant peak financial industry bodies and individual supervised institutions during the annual levies consultation process, in which APRA's levies funding requirement for the following financial year is set out and industry views are sought on proposed levies parameters (such as the maximum and minimum caps by sector). Stakeholders are also consulted during levy methodology reviews, which occur periodically and provide industry with an opportunity to comment on the design and operation of the levies framework. The main peak bodies representing levy paying entities are listed in Table 1.5.

Table 1.5: Financial industry peak bodies

Sector	Representative bodies
Superannuation	Association of Superannuation Funds of Australia, Australian Institute of Superannuation Trustees, Industry Super Network, Corporate Super Association
Authorised deposit-taking institutions	Australian Bankers' Association, Customer Owned Banking Association
Insurance	Insurance Council of Australia
Cross-sectoral	Financial Services Council, Australian Financial Markets Association

Source: ANAO analysis of industry submissions to the Treasury.

1.23 During the annual consultation process, any stakeholders can raise issues about the proposed levies calculations, and in practice generally suggest minor variations to key levies parameters, such as the value of the minimum and maximum amounts.⁴⁰ When this process is complete, the responsible Minister is advised.

39 Department of the Treasury and APRA, *Review of Financial Sector Levies Issues and Discussion Paper*, April 2003, available from < <http://archive.treasury.gov.au/documents/587/PDF/FSL.pdf> > [accessed 14 May 2013].

40 Also, approximately every four years, the two agencies have undertaken a levy methodology review during which (except in 2008–09) the major stakeholders have been consulted. These two processes are examined in detail in Chapter 3.

1.24 Once the Minister gives approval, he or she must make determinations under each of the levy imposition Acts outlined in paragraph 1.14.⁴¹ Determinations include the levy percentages for the restricted and unrestricted components, the maximum and minimum amounts applicable to the restricted levy components, and the date at which the regulated institutions' levy base will be calculated. Appendix 1 summarises the financial industry levies that were imposed in 2012–13.

Levies billing and collection

1.25 The levies paid are based on each supervised institution's annual return. The levies are calculated by an automated billing system unless entities become regulated part way through the financial year—in which case the levies are manually calculated on a pro rata basis. Levy rates are entered into APRA's financial system and, upon submission of the entity's relevant annual return, an invoice is automatically generated.⁴² APRA then collects levy payments and deals with any outstanding amounts.

Audit objective, criteria, scope and methodology

Audit objective

1.26 The objective of the audit was to assess the effectiveness of the administration of the APRA financial industry levies.

Audit criteria and scope

1.27 The audit examined:

- the Treasury's consultation practices, and APRA's support, in relation to the formulation of levies, and the extent to which they were appropriate and effective;
- APRA's policies, procedures and resources in place to effectively support the implementation of the financial levies legislation, consistent with the *Australian Government Cost Recovery Guidelines*; and

41 A determination is a category of delegated legislation, and is required to be registered with the Federal Register of Legislative Instruments.

42 Levies are collected by means of cheques, Australia Post, and electronic funds transfer to the APRA Official Administered Receipts Levy Account.

- APRA's processes for calculating and collecting levies, including minimising the risk of cross-subsidisation between industry sectors and entities.

1.28 The audit did not examine the levies collected by APRA on behalf of other agencies, such as the SuperStream levy and those raised on behalf of ASIC, the ATO and DHS.⁴³ However, the report makes reference to these levies where they influence the administration of the APRA financial industry levies.

Audit methodology

1.29 The ANAO reviewed relevant documentation, interviewed key staff at APRA and the Treasury, and consulted industry stakeholder groups and the Department of Finance. The ANAO also undertook substantive testing and analysis of APRA's systems and processes for levies modelling, calculation and collection.

Previous ANAO audits

1.30 The ANAO has conducted one previous performance audit covering APRA's levies management, and three previous performance audits on APRA's prudential supervision of banks and superannuation funds:

- Audit report No.32 1999–00, *Management of Commonwealth Non-primary Industry Levies*;
- Audit Report No.42 2000–01, *Bank Prudential Supervision*;
- Audit Report No.6 2003–04, *APRA's Prudential Supervision of Superannuation Entities*; and
- Audit Report No.2 2005–06, *Bank Prudential Supervision Follow-up Audit*.

1.31 The 2003–04 audit made five recommendations regarding improvements to APRA's supervisory practices, including improving its administration of one of the financial industry levies. The 2005–06 follow-up audit found that APRA had implemented or was in the process of implementing all five recommendations.

⁴³ The audit also did not examine financial assistance levies, which do not fund APRA's operations but are designed to recoup the costs of reimbursing beneficiaries of regulated institutions for fraud or other misadventure.

1.32 The audit was conducted in accordance with ANAO’s auditing standards at a cost of approximately \$502 000.

Structure of the audit report

1.33 Table 1.6 outlines the structure of the report.

Table 1.6: Structure of the report

Paper	Overview
Industry Consultation	Examines the industry consultation processes conducted by the Treasury, with the support of APRA, for alignment with the policy intent of the levies legislation and the Australian Government's Cost Recovery Guidelines and Consultation Requirements.
APRA's Levy Methodology	Examines the levy methodology used to recover APRA's costs, and whether it complies with the cost recovery requirements specified in the Cost Recovery Guidelines.
Levies Calculation and Collection	Examines APRA's processes for applying the levy methodology, billing entities and collecting levy payments. APRA's financial controls and management of levies risks are also discussed.

2. Industry Consultation

This chapter examines the industry consultation processes conducted by the Treasury, with the support of APRA, for alignment with the policy intent of the levies legislation and the Australian Government's Cost Recovery Guidelines and Consultation Requirements.

Introduction

2.1 Stakeholder consultation is an important element of the levies formulation process. As the entities regulated by APRA pay the levies, they are in a position to provide relevant input regarding the impact and fairness of levies formulation proposals. In practice, regulated entities generally belong to one (or more) industry peak body and it is the peak bodies that normally represent their members' views to the Treasury.

2.2 The Treasury, supported by APRA, manages the consultation processes, involving both the application of the levy methodology, and the review of the methodology:

- In late May or early June each year, an annual consultation paper setting out APRA's levies funding requirement for the following financial year and seeking industry views on proposed levies parameters is issued to industry stakeholders. The paper is drafted in consultation with APRA. In this report, this process is referred to as the annual consultation.
- Periodic reviews of the levies arrangements and methodologies are also undertaken, with the aim of ensuring that the arrangements have the capacity to provide stable and effective funding for APRA on a sustainable basis and to meet the evolving needs of prudential supervision into the future at a reasonable cost.⁴⁴ The review process involves distributing a discussion paper and seeking industry feedback.

44 Australian Government, *Terms of Reference for the 2002–03 Review of Financial Sector Levies*, available from <<http://assistant.treasurer.gov.au/DisplayDocs.aspx?pageID=&doc=pressreleases/2002/115.htm&min=hlc>> [accessed 14 August 2013].

Past reviews were undertaken in 1999, 2003 and 2009, and one is underway in 2013.⁴⁵ This is referred to as the levy methodology review.

2.3 The *Australian Government Cost Recovery Guidelines* (the Guidelines) require agencies with significant cost recovery arrangements to undertake appropriate stakeholder consultation and generally to prepare a Cost Recovery Impact Statement.⁴⁶ The Guidelines do not, however, set out detailed standards for agencies to apply in undertaking consultation.

2.4 The Department of Finance (Finance), through the Office of Best Practice Regulation, has also outlined *Australian Government Consultation Requirements*.⁴⁷ These requirements focus on seven consultation principles: targeting; timeliness; accessibility; transparency; continuity; consistency and flexibility; and evaluation and review. The requirements have their origins in the Regulation Impact Statement process. In June 2010, Finance set out whole-of-government consultation principles in its Best Practice Regulation Handbook.⁴⁸ Subsequently, Finance published the requirements on a separate consultation page on its website. The requirements and principles represent better practice for agencies to adopt in consulting stakeholders, which is an integral part of all regulatory activities.

2.5 The ANAO examined the Treasury's and APRA's levies consultation processes, including the:

- extent to which the consultation processes reflected the principles outlined in the *Australian Government Consultation Requirements*; and
- preparation of cost recovery impact statements in respect of APRA levies, consistent with the requirements of the *Australian Government Cost Recovery Guidelines*.

45 Also, in April 2005, the Treasury issued a discussion paper providing details on the potential impacts of the new financial sector levy framework that resulted from the 2003 review.

46 A Cost Recovery Impact Statement documents compliance with the cost recovery process: Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, July 2005, p. 3, available from <http://www.finance.gov.au/publications/finance-circulars/2005/docs/Cost_Recovery_Guidelines.pdf> [accessed 10 July 2013].

47 Department of Finance and Deregulation, *Australian Government Consultation Requirements*, July 2012, available from <www.finance.gov.au/obpr/consultation/gov-consultation.html> [accessed 24 July 2013].

48 Department of Finance and Deregulation, *Best Practice Regulation Handbook*, June 2010, pp. 51–57, available from <<http://www.finance.gov.au/obpr/proposal/handbook/docs/Best-Practice-Regulation-Handbook.pdf>> [accessed 12 August 2013].

2.6 During the course of the audit, the ANAO held discussions with nine peak bodies representing the financial industry to ascertain their views regarding the levies consultation processes and received submissions from four of these bodies.⁴⁹ To provide additional context for the audit, the ANAO also examined 15 industry submissions provided to the Treasury during the 2012–13 and 2013–14 annual levies consultations, and 11 submissions provided to the Treasury during the 2013 methodology review.

Applying industry consultation principles

2.7 The main features of the most recent annual consultation and methodology review are set out in Table 2.1.

Table 2.1: Financial industry levies consultations for 2012–13

	2013 annual consultation	2013 methodology review
Objectives	To seek industry views on the proposed financial industry levies that will apply for 2013–14.	To provide industry with an opportunity to comment on the design and operation of the levies framework.
Scope	Seeks comments on proposed outcomes for the next financial year which are generated by the current methodology.	Focuses on the methodology that is applied in calculating the levies. Examines specific issues identified by APRA and the financial services sector.
Timing	Consultation opened 30 May 2013, closed 14 June 2013, and a final paper was released in early July 2013.	Consultation opened 5 April 2013, closed 29 April 2013, and the final paper has not yet been released.

⁴⁹ The industry bodies consulted by the ANAO were the Australian Bankers' Association, the Australian Financial Markets Association, the Australian Institute of Superannuation Trustees, the Association of Superannuation Funds of Australia, the Corporate Superannuation Association, the Customer Owned Banking Association, the Financial Services Council, the Industry Super Network and the Insurance Council of Australia.

	2013 annual consultation	2013 methodology review
Key features	<ul style="list-style-type: none"> • Explains APRA's proposed activities and funding needs for 2013–14. • Explains changes in non-APRA components of the levies. • Explains APRA's levy methodology and sets out the components of APRA's proposed levies requirement. • Summarises impacts on industry sectors. • Compares the modelled 2013–14 scenario with the 2012–13 structure. • Sets out the impact of SuperStream levy for 2013–14. 	<ul style="list-style-type: none"> • The discussion paper calls for submissions to the review. • Provides an overview of the levy methodology and rationale for the levies process. • Explains the calculation of levies components. • Provides detail on the current financial industry and economic environment. • Lists the issues to be considered by the review.
Feedback	The Treasury and APRA release a final paper which sets out the outcomes decided. The Treasury provides feedback by phone to the stakeholders who provided submissions.	Once the Treasury has worked through submissions, it will test various proposals with stakeholders before providing final advice to Ministers, who will decide the final form of any response.

Source: ANAO analysis of the Treasury's consultation papers.

2.8 The ANAO examined the annual consultations and methodology reviews for adherence to the principles contained in the *Australian Government Consultation Requirements*. The audit focussed on the principles of targeting, timeliness, accessibility, transparency, evaluation and review⁵⁰, covering all annual levies consultation processes since 2005, and the methodology reviews undertaken in 2009 and 2013.⁵¹

Targeting, timeliness and accessibility

2.9 The Australian Government Consultation Principles state:

Consultation should be widely based to ensure it captures the diversity of stakeholders affected by the proposed changes.

50 Stakeholder feedback and ANAO analysis indicated fewer concerns about the application of the principles of continuity, consistency and flexibility, so these are not covered in detail in this paper.

51 Although the 2003 periodic review was not analysed in detail, it is referred to where relevant for comparison purposes.

Consultation should start when policy objectives and options are being identified. Throughout the consultation process stakeholders should be given sufficient time to provide considered responses.

Stakeholder groups should be informed of proposed consultation, and be provided with information about proposals, via a range of means appropriate to those groups.⁵²

Annual consultation process

2.10 As noted in paragraph 2.2, the Treasury releases a consultation paper in late May or early June on the proposed financial industry levies that will apply for the ensuing financial year. Following consultation, the Government issues the relevant determinations⁵³ for each industry for the following financial year. The consultation paper is provided to a broad range of financial industry stakeholders affected by the proposed changes to levies and is also made available on the Treasury's internet site. The timing is consistent each year, and stakeholders were generally well aware of the annual consultation process.

2.11 Stakeholders, however, are normally provided with a short timeframe for providing responses to the consultation paper. In the last five financial years, the average length of time given for industry to provide feedback and comment on the proposed financial levies paper has been 10 working days, as shown in Table 2.2.

Table 2.2 Number of working days for industry consultation

Year	Submissions opened	Submissions closed	Consultation period (working days)
2009–10	10 June 2009	19 June 2009	7
2010–11	27 May 2010	11 June 2010	11
2011–12	18 May 2011	1 June 2011	10
2012–13	1 June 2012	15 June 2012	10
2013–14	30 May 2013	14 June 2013	12

Source: Customer Owned Banking Association submission to the Treasury, 3 May 2013 available from www.treasury.gov.au, and ANAO analysis.

52 Department of Finance and Deregulation, *Australian Government Consultation Requirements*, July 2012, available from <<http://www.finance.gov.au/obpr/consultation/gov-consultation.html>> [accessed 21 June 2013].

53 A determination, which is a form of legislative instrument, is defined in paragraph 1.24.

2.12 The timeframe for the annual consultation process is constrained by the Budget process and the legislative framework for the levies. According to Treasury advice, the total amount to be recovered through levies is confidential until it is publicly released on Federal Budget night (the second Tuesday in May). This means that public consultation on the levies cannot occur until that time. However, the determinations for the following year need to be in place by 30 June.⁵⁴ These constraints allow little opportunity to significantly extend the consultation period.⁵⁵

2.13 A number of stakeholders raised the consultation process during discussions with the ANAO, stating that there was insufficient time to provide considered responses, taking into account the year-to-year impact on particular industry sectors, which is often significant. For example, one peak body highlighted the process in 2009–10, when the levy for a particular sub-group was increased by more than 30 per cent. It suggested that an appropriate consultation period for the annual process would be four weeks. One superannuation peak body mentioned the 2012–13 process where there had been an increase in the APRA supervisory levy of 13.8 per cent, as well as the imposition of the SuperStream levy.⁵⁶ It considered that the consultation period had been short considering the impact on its funds.⁵⁷

2.14 Another stakeholder indicated that a longer consultation process would facilitate better engagement by its members. These comments would suggest that the present timeframe does not allow the peak bodies sufficient time to canvass their members (or even their own boards) and obtain feedback, and that there would be merit in the Treasury and APRA considering options to extend the consultation period as part of the current review.

54 The levies relating to agencies other than APRA, such as the ATO, ASIC and DHS, are also confirmed on Budget night (including announcements of new policy initiatives) which impact on the total levies funding requirement.

55 An additional constraint on consultation timing occurs if measures to be funded via the levies are treated as decisions taken but not yet announced in the Budget. For example, the levies for 2013–14 included an amount to recover the cost of the MoneySmart teaching and online MoneySmart program, which was not disclosed until announced as part of the Economic Statement on 2 August 2013. This requires a judgement between either consulting without disclosing the amount to be collected and then imposing levies based on collecting a different total, or consulting without disclosing what part of the levy revenue is being used to recover the costs of particular activities.

56 A proportion of the 13.8 per cent increase was due to the ending of funding relating to the Global Financial Crisis, which industry was not required to contribute to, as it was provided through general taxation revenue. This funding commenced in 2008–09 and concluded in 2011–12.

57 APRA advised that the nature of the SuperStream and related policies and their expected impact on the superannuation industry had been widely and publicly communicated.

2.15 Under existing arrangements, it may be possible to release the consultation paper on, or shortly after, Budget night if there are not fundamental changes to levies arrangements from the previous year.⁵⁸ This approach would allow an additional week or so for industry consultation.

2.16 A more fundamental change would be to create an opportunity for APRA, Treasury and relevant stakeholders to meet periodically outside the levies cycle to broadly consider and discuss levies and resourcing matters. As the annual consultation process is intended to focus on industry views about proposed levies parameters, such discussion could address the overall quantum of levies funding, giving stakeholders better access to the pre-Budget submission process which is integral to such decisions. It would also provide an opportunity to consider any particular methodology issues arising. As APRA has increasingly been collecting levies on behalf of other agencies both within and outside the Treasury portfolio, it would be appropriate for the Treasury to have the lead role in coordinating input from, and potentially discussions involving, all relevant levies agencies.

2.17 A number of cost recovery agencies have well-established industry consultative committees or panels which, amongst other things, provide major customer groups and stakeholders with opportunities to discuss the agency's performance and how its costs relate to its activities. An example is the Therapeutic Goods Administration (TGA). The TGA has an Industry Consultative Committee which meets twice yearly to examine progress against key projects, agreed targets and financial performance. The TGA also consults with industry associations separately on cost impacts relating to specific sectors. Meetings are held with key industry representative bodies each year to discuss financial forecasts and as a part of the consultation process on cost recovery.⁵⁹

2.18 The Treasury could also consider recommending to government that the setting of levies be moved to another time of year to enable an extended consultation period. Such a decision would be a matter for the Government and would require public consultation and legislative change.

58 In recent years, significant changes to overall levies arrangements announced in the Budget, such as the introduction of SuperStream, have delayed the finalisation of the annual consultation paper as further levy modelling has been conducted and subsequent Ministerial approval required for the paper.

59 Therapeutic Goods Administration, *Cost recovery impact statement – Prescription medicines, 1 July 2013 - 30 June 2014*, <<http://www.tga.gov.au/about/fees-cris-pm-130628-04-engagement.htm>> [accessed 9 August 2013].

Methodology review process

2.19 For the 2013 methodology review, the Treasury sought to consult widely with the financial industry sectors paying APRA levies. The consultation was announced on its website, public submissions sought, and an email sent to a distribution list of eight stakeholder groups advising them of the review. The objectives of the consultation process were well explained, and 13 submissions were received from a broad mix of industry associations and entities, including two confidential submissions.⁶⁰ At the time of writing this report, the Treasury was considering the submissions and the nature of its advice to government in response.

2.20 This consultation approach was in contrast to the 2009 methodology review, where the Treasury advised the Government that it had already gathered sufficient information regarding the majority of stakeholders' concerns and that it was appropriate to conduct targeted consultations with stakeholders on a limited range of issues⁶¹ rather than a broad review of the levies framework.

2.21 For the 2013 review, the Treasury allowed stakeholders a period of just over three weeks to make submissions.⁶² As in 2009, Treasury and APRA were able to leverage the views of stakeholders gathered in the course of the past four years. Further, the consultation period was restricted to three weeks to avoid any conflict with the annual consultation process. Nonetheless, three weeks was a relatively short period of time, bearing in mind the time taken to release the reports on the findings of methodology reviews.⁶³ In contrast,

60 Department of the Treasury, *Financial Industry Supervisory Levy Methodology*, <<http://www.treasury.gov.au/ConsultationsandReviews/Submissions/2013/Financial-Industry-Supervisory-Levy-Methodology>> [accessed 16 May 2013].

61 In that advice, the Treasury indicated that, to finalise its recommendations on some specific issues, it was appropriate to conduct targeted consultations with specialist credit card institutions, providers of purchased payment facilities and a pooled superannuation trustee.

62 The consultation process for the 2013 review was restricted to 17 working days, in order that it did not clash with the annual consultation paper. In contrast, the 2003 review opened on 8 April and closed on 20 May 2003 (31 working days). In the 2009 review, Treasury drew upon views that some stakeholders had expressed during the 2009 annual review (which opened on 28 May and closed on 13 June 2008, allowing stakeholders 13 working days to respond): Department of the Treasury, *Proposed Financial Sector Levies for 2008–09*, available from <<http://archive.treasury.gov.au/contentitem.asp?ContentID=1380>> [accessed 9 July 2013].

63 Consultation on the 2009 review ended in June 2009, the report of the review was completed in the same month and released by the Government in January 2010, six months after the closing date. Similarly, the Government released the report on the 2003 review in May 2004, 12 months after submissions closed in May 2003: Available from <<http://archive.treasury.gov.au/contentitem.asp?ContentID=587>> [accessed 27 August 2013].

stakeholders were given six weeks to make submissions to the 2003 review, which better supported them in providing a considered response and is in line with the Office of Best Practice Regulation's 2010 Handbook suggested timeframe for responses.⁶⁴

2.22 Allowing opportunities for stakeholders to participate in methodology reviews after submissions had been considered would improve the level of industry engagement about the levy methodology. One potential mechanism for such involvement would be through a standing consultative committee or panel as discussed in paragraphs 2.16 and 2.17.

Transparency

2.23 To provide transparency in consultations with stakeholders, the Consultation Requirements state that:

policy agencies need to explain clearly the objectives of the consultation process, the regulation policy framework within which consultations will take place and provide feedback on how they have taken consultation responses into consideration.⁶⁵

Annual consultation process

2.24 The annual consultation process has followed a similar format for a number of years, and its objectives and framework are well explained and well understood by stakeholders. The objectives are outlined in the annual consultation paper, which typically states that the Government is continuing to consult with industry, and the purpose of the paper is to seek industry views on the proposed levies for the forthcoming financial year.

2.25 The consultation process is briefly outlined on the Treasury website, in the consultation paper and in notification emails sent to key stakeholders. While many participants are familiar with the process, it could be described in greater detail, including that the views provided on the paper will be taken into account in the levies determination process and that APRA and the Treasury will be releasing a final paper on their websites (and specifying any other feedback to be provided).

64 Australian Government, *Best Practice Regulation Handbook*, June 2010 edition, Appendix C, p. 57. Available from <<http://www.finance.gov.au/obpr/proposal/handbook/docs/Best-Practice-Regulation-Handbook.pdf>> [accessed 27 August 2013].

65 Department of Finance and Deregulation, *Australian Government Consultation Principles*, available from <<http://www.finance.gov.au/obpr/consultation/gov-consultation.html>> [accessed 21 June 2013].

2.26 Before 2012–13, the Treasury and APRA issued a discussion paper but not a final paper prior to the release of the levies determinations (which are made available through the Federal Register of Legislative Instruments and APRA websites). Consequently, there was no public indication of how and to what extent consultation responses were taken into account. In the last two years, the Treasury and APRA issued both a discussion paper (on the Treasury website) and a final paper (on the APRA website).⁶⁶ In 2013–14, the proposed and final papers were identical.

2.27 A number of changes were made between the proposed and final papers in 2012–13, all of which related to the levy parameters for the restricted component. For example, the consultation paper put forward a maximum cap of \$1 million (and a levy rate of 0.05659 per cent) for superannuation funds, whereas in the final paper the maximum cap and the rate were reported as having been changed to \$2 million and 0.02434 per cent respectively.⁶⁷ This change would be expected to have a significant impact on some superannuation funds, and accordingly a meaningful explanation could have been provided.

2.28 By way of explanation, the final paper stated that ‘further adjustments’ had been made to ensure fair sharing of the levy burden in each industry; and the maximum amount for the superannuation levy had increased to \$2 million (rather than \$1 million as originally indicated) to accommodate the SuperStream component. While issuing a final paper is a useful improvement, there would be benefit in the final paper providing sufficient explanation of the reasons for any changes and the extent to which consultation responses were taken into account.

2.29 It has also not been the Treasury’s practice to upload to its website the submissions received as part of the annual consultation process.⁶⁸ This is inconsistent with the Treasury’s common practice, which is to publish

66 Department of the Treasury and APRA, *Proposed Financial Industry Levies for 2012–13*, available from <<http://www.treasury.gov.au/ConsultationsandReviews/Submissions/2012/Proposed-Financial-Industry-Levies-for-2012-13>>; *Financial Industry Levies for 2012–13*, available from <<http://www.apra.gov.au/CrossIndustry/Documents/Financial-Industry-Levies-FY12-13-Updated-signed-determination.pdf>> [accessed 21 May 2013].

67 Chapter 3 discusses these elements of the levy methodology.

68 However, Treasury did upload non-confidential submissions following the 2013 consultation process. Department of the Treasury, *Proposed Financial Industry Levies for 2013–14*, available from <<http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2013/Proposed-Financial-Industry-Levies/Submissions>> [accessed 21 October 2013].

consultation responses on its website, unless the provider of the submission has requested confidentiality. Providing submissions on its website would improve the transparency of the process.

2.30 There has also been some inconsistency in the Treasury's practice of writing to stakeholders to acknowledge their submissions and to provide feedback. For example, in 2009–10, the Treasury prepared and sent tailored emails to stakeholders. In 2012–13, it prepared a pro forma letter for the entities that had lodged submissions. This letter stated that the Government had decided to adopt a variant of one of the scenarios outlined in the consultations, and explained the effect of the variation. However, the Treasury advised that the letter was not finalised. Given that this is an annual process, Treasury could consider preparing a general response which summarises comments received through submissions and the final position taken by government.

Explanation of the cost recovery process in annual consultation papers

2.31 The Guidelines also address transparency, indicating that, to meet their transparency obligations, an agency should provide sufficient information about their costing models to allow stakeholders to analyse its production costs and understand how these costs relate to charges.⁶⁹ In the absence of an APRA Cost Recovery Impact Statement ((CRIS)⁷⁰—discussed later in this chapter)), the ANAO examined information about APRA's costing model contained in consultation papers.

2.32 In relation to APRA's costs and revenue requirements, the 2013–14 annual consultation paper includes a:

- summary of the Government's cost recovery policy and of the policy and legislative basis for the financial industry levies;
- summary of the 2013 levy methodology review;
- high-level description of the global environment in 2012–13 and APRA's projected activities and strategic objectives for 2013–14;
- description of APRA's non-levy funded activities (for which the costs are recovered by direct user charges or direct government funding);

69 Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, p. 47.

70 A CRIS is a statement documenting compliance with the cost recovery policy.

- summary of the supervisory levies funding requirements for 2013–14; and
- detailed explanation of the levy calculations by industry and the nature and reasons for any changes.⁷¹

2.33 A high-level description of APRA's planned activities is useful, and complements the information provided in APRA's Annual Reports and Portfolio Budget Statements. However, there is scope for annual consultation papers to provide a more detailed explanation of APRA's activities, costs, and reasons for resource allocation decisions, so that changes in the level and allocation of resources across industries are transparent and stakeholders can determine whether APRA's costs are the minimum necessary to deliver its services and maintain quality over time. These issues are discussed in Chapter 3.

2.34 As part of the 2013 methodology review, there has been a call from seven stakeholders for improvements in disclosures about the levies formulation process, which is currently being considered by the Treasury and APRA. Points raised included the extent of discussion of the levies formulation process in the annual consultation papers, and the benefit of preparing a CRIS for the APRA levies. While the ANAO notes that the reports of previous methodology reviews can be accessed electronically, given the changes that have occurred since 2003, it would be useful to provide an updated and consolidated explanation, for example in the CRIS that APRA intends developing following the 2013 levy methodology review.

2.35 As mentioned in Chapter 1, the Government's policy intent was partly to provide institutions with sufficient scrutiny to ensure that APRA is regulating in a cost-effective manner. Further, the Guidelines state:

... cost recovery arrangements need to ensure prices are based on the minimum cost necessary to deliver the product and still maintain quality over time.⁷²

2.36 APRA last discussed savings in its 2006–07 consultation paper, in which it noted that increased employee costs were being 'offset by the

71 Department of the Treasury and APRA, *Proposed Financial Industry Levies for 2013–14*, May 2013, <http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/2013/Proposed%20Financial%20Industry%20Levies/Key%20Documents/PDF/Proposed_Financial_Sector_Levies.ashx> [accessed 17 October 2013].

72 Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, p. 47.

continuing focus on savings in discretionary costs including travel, office administration and internal projects'. There has not been a similar discussion in more recent consultation papers. The 2012–13 paper states that additional levies funding is required to support increases in operating expenditure and capital expenditure, the latter being funding for major project work in APRA's supervisory systems. To maintain a focus on efficiency that is transparent to industry, there would be benefit in APRA including in its consultation papers and its forthcoming CRIS a statement about the nature and extent of its cost saving initiatives.⁷³

Methodology review process

2.37 The 2013 levy methodology review paper provided a clear and straightforward description of the objectives and framework of the review in an overview section, as well as in sections explaining the policy rationale for the levies, the size and structure of the financial sector, the calculation of the levies and recent developments.

2.38 The review paper was reasonably concise (running to eight pages), on the expectation that industry stakeholders had a good understanding of the issues being discussed. The paper raised a range of both general and more specific questions which indicated a preparedness to examine fundamental issues (such as whether the current levy base for each industry sector was appropriate) and consider specific feedback. The 2013 paper also cross-referenced the 2009 methodology review discussion paper.

2.39 While the 2013 paper did not provide extensive detail about APRA's budgeting and costing model, it mentioned some broad considerations.⁷⁴ In contrast, the 2009 review report contained a section on APRA's levies, costs and performance and its reserves, and a detailed discussion of 'levies imposed versus actual costs'. This sub-section provided a useful discussion about the

⁷³ By way of illustration, the United Kingdom Financial Conduct Authority regulates the UK financial services industry and provides its stakeholders with a detailed breakdown of its costs. In a consultation paper, it noted that it had reduced its floor space and premises costs by £4.0 million from £36.9 million in 2012–13 to £32.9 million in 2013–14. It also described factors involved in an overall £34.4 million increase in front line staff costs: *Consultation Paper 13/1—FCA Regulated fees and levies: Rates proposals 2013–14*, available from <<http://www.fca.org.uk/news/consultation-papers/cp13-01-fca-regulated-fees-and-levies-rates-proposals-2013-14>> [accessed 12 August 2013].

⁷⁴ The considerations included that the total amount of APRA funding is Budget determined and that one mechanism to promote value for money for the APRA-regulated sector is the efficiency dividend, which benefits the industry because it flows through to the levies, making them lower than they would otherwise have been.

factors that might lead to APRA collecting more or less revenue in a given year and how the assumptions underlying the levy model bear on this outcome.

2.40 While the publicly available submissions to the 2013 review did not raise concerns about the methodology review processes (for example, in terms of timeliness and accessibility), seven of the nine stakeholders consulted by the ANAO considered that there was not sufficiently detailed information about APRA's activities and expenditure and one stakeholder expressed concern that it was not informed of, or invited to participate in, the 2009 process. On the other hand, two stakeholders advised the ANAO that, taking into account information from other sources, they had sufficient information about APRA's cost base. While noting industry's preference for greater transparency about the levy methodology and APRA's costs, a balance needs to be struck about the amount of information to be provided, and the resourcing implications for the Treasury and APRA in providing it.

Evaluation and review

2.41 As noted previously, the Treasury has conducted methodology reviews in 2002–03, 2008–09 and 2012–13, as well as annual consultations, and these have led to changes in the structure of the levies. However, the annual consultation paper and associated processes have remained relatively unchanged for some time. There have been some improvements to the annual consultation process over time (such as the issuing of a final paper in 2012), while other changes have had a less positive impact on transparency, such as the removal of a table which set out APRA's main cost components (employee costs, administrative costs, depreciation and headcount). Reviews of these processes have generally been restricted to including information in the paper on current developments (such as SuperStream) rather than conducting an evaluation of the process.

2.42 The Treasury could take the opportunity afforded by the levy methodology review to consider the effectiveness of the consultation processes and potential improvements—in particular, allowing more time for stakeholder bodies to consider the annual paper, seek their members' input and provide considered responses. There is also scope for the Treasury, with the support of APRA, to more broadly consider updating the annual consultation process to provide an opportunity for stakeholders to be advised of, and comment on, the cost recovery activities of all agencies included in the financial industry levies.

Preparing Cost Recovery Impact Statements

2.43 As discussed earlier, a CRIS documents compliance with the cost recovery process.⁷⁵ The Guidelines require that agencies determine what mechanisms, including consultation, should be used for the ongoing monitoring of the efficiency and effectiveness of cost recovery arrangements.⁷⁶ Preparation of a CRIS is therefore an important process for enabling appropriate consultation arrangements with industries and entities that pay levies about the impact of the regulation. Since 1 July 2008, there has been a requirement for any CRIS to be published on the agency's website.⁷⁷

2.44 For many years APRA has:

- been subject to the Guidelines⁷⁸;
- undertaken actions that require it to apply the Guidelines⁷⁹;
- had 'significant cost recovery arrangements' according to Principle 9 of the Guidelines that may require the preparation of a CRIS under Principle 11 of the Guidelines; and
- experienced at least one of the triggers for preparing a CRIS outlined in the Guidelines, including making material amendments to existing arrangements⁸⁰, and the periodic methodology review of cost recovery arrangements.

75 Although there is no formal requirement to do so, Finance has advised that most agencies initially prepare a draft CRIS, which they subsequently finalise having received and considered consultation feedback.

76 Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, p. 37.

77 Department of Finance and Deregulation, Finance Circular No. 2008/08, *Changes to Cost Recovery Arrangements*, p. 3, available from <<http://www.finance.gov.au/publications/finance-circulars/2008/docs/FC-2008-08.pdf>> [accessed 15 July 2013].

78 The Cost Recovery Guidelines were first issued in December 2002. In July 2003, the then Treasurer notified APRA (which was then a CAC Act agency) that it was subject to the Guidelines. The current Guidelines were issued in July 2005. An updated edition is expected to be issued in July 2014.

79 Agencies should use the Guidelines when proposing new cost recovery arrangements, making material amendments to existing arrangements or periodically reviewing arrangements (Australian Government Cost Recovery Guidelines, p. 10). APRA has undertaken all of these actions, including amending cost recovery arrangements each year since at least 2003–04.

80 These amendments include levy increases greater than the Australian All-Groups Consumer Price Index, which occurred with respect to APRA levies in 2007–08, 2009–10 and 2011–12.

2.45 APRA has not prepared a CRIS in relation to its industry levies since 2006–07.⁸¹ Instead, it has consulted on its levies arrangements via a consultation paper (for the annual reviews) and a discussion paper (for its periodic methodology reviews). These papers, however, do not represent a CRIS because they do not document compliance with the cost recovery process. They also do not provide detailed information on APRA’s activities and costs to demonstrate that levies reflect the costs of providing the prudential regulation.⁸²

2.46 In recent years, there has been correspondence between APRA, Finance and the Treasury regarding the need for APRA to prepare a CRIS, with APRA focussing on how the annual consultation papers can be prepared to satisfy the requirements of a CRIS. In this regard, Finance provided suggestions regarding the content of the 2011–12 and 2013–14 annual consultation papers, and considered the 2012–13 consultation paper to be a transitional or interim CRIS.

2.47 APRA intended to have a CRIS in place for the levies determinations for the 2013–14 financial year. It did not meet this timetable, however, as the CRIS was to be developed following the completion of the 2013 levy methodology review, which was still in progress as at October 2013. APRA has now undertaken to prepare a draft CRIS by the end of 2013. While noting APRA’s efforts to adapt the annual consultation papers in response to Finance’s suggestions, a formal CRIS will enable the industries and entities that pay APRA’s financial levies to better understand the impact of those levies.

Conclusion

2.48 The annual and periodic reviews are complementary processes that facilitate stakeholder consultation regarding the levy methodology and its application. Both of these processes have adhered to most elements of good

81 The ANAO has been provided with a draft 2006–07 APRA CRIS. While a summary of APRA’s cost recovery activities was included in the Department of the Treasury *Portfolio Budget Statements 2006–07*, the industry levies were not covered: Department of the Treasury, *Portfolio Budget Statements 2006–07*, available from <<http://www.budget.gov.au/2006-07/pbs/html/apra-04.htm>> [accessed 19 August 2013].

82 In contrast to levies, APRA regularly produces a CRIS in respect of its other cost recovery activities. For example, it has prepared CRISs relating to the regulatory costs of the Basel capital framework and of assessing the applications of entities to be authorised or registered as non-operating holding companies.

practice consultation, as outlined by the Australian Government Consultation Principles. In particular, the annual process has been continuous and consistent, and appropriately targeted towards stakeholders affected by the proposed changes to levy parameters. The periodic reviews have also been conducted on a regular basis, addressing relevant issues and, except for 2009, allowing input from a broad spectrum of financial industry stakeholders.

2.49 Nevertheless, stakeholders have raised concerns about the consultation processes, most notably insufficient time (on average 10 working days) to provide considered responses to the annual process. Options that the Treasury and APRA could consider to better inform discussions on proposed industry levies, and which would not require legislative change, include: releasing the consultation paper closer to the date of the Budget wherever possible; and developing a mechanism to enable APRA and relevant stakeholders to discuss issues relating to the levies processes earlier in the financial year.⁸³

2.50 The other main concern raised by stakeholders (seven of the nine consulted by the ANAO) was a lack of sufficiently detailed information about APRA's activities and expenditure to inform discussions on proposed industry levies.⁸⁴ An examination of recent annual consultation papers found that the discussion of APRA's costs and activities was at a fairly high level. While there is always a balance to be struck about the extent of information to be provided, there is scope for greater explanation of APRA's activities and their costs. Such information could be provided through a CRIS, which APRA has undertaken to complete following the conclusion of the current levies methodology review, and also in the annual consultation papers as a means of explaining significant year-to-year changes.

83 One option which would require legislative change would be to move the setting of levies to another time of year to enable a longer consultation period.

84 Other issues either raised by stakeholders or identified by the ANAO included the Treasury more consistently: publishing non-confidential submissions to the Treasury website; including a summary of stakeholder comments and how they have been addressed; and acknowledging consultation responses in writing and providing timely feedback.

Recommendation No.1

2.51 To improve the effectiveness of consultation with stakeholders about proposed levy parameters and the financial industry levy methodology encompassing APRA's costs, the ANAO recommends that the Treasury, supported by APRA:

- (a) provide additional time and opportunities for stakeholders to participate in the annual levies consultation process; and
- (b) increase the extent of public information available about the levy methodology, and how APRA's prudential regulation activities are linked to its costs.

Treasury response: *Agreed.* The Treasury recognises that the current process for stakeholder engagement allows relatively little time for stakeholders to provide feedback. This reflects the short time between when the Budget is released in May and the end of the financial year deadline for making the annual levy determinations. As part of its *2013 Financial Industry Supervisory Levies Methodology Review*, the Treasury is considering how it might strengthen consultation processes and improve access to information about the levy methodology.

APRA response: *Agreed.* APRA will explore, in conjunction with the Treasury, whether there is scope to extend the consultation period and to provide further opportunities for stakeholder engagement on the levies. In addition, APRA will publish a revised CRIS by June 2014 to update the public information currently available on APRA's activities and costs.

3. APRA's Levy Methodology

This chapter examines the levy methodology used to recover APRA's costs, and whether it complies with the cost recovery requirements specified in the Cost Recovery Guidelines.

Introduction

3.1 In December 2002, the Government adopted formal Cost Recovery Guidelines (the Guidelines) to improve the consistency, transparency and accountability of cost recovery arrangements and to promote the efficient allocation of resources. The underlying principle of the Guidelines is that agencies set charges to recover all the costs of a product or service where it is efficient and effective to do so, where the beneficiaries are a narrow and identifiable group and where charging is consistent with government policy objectives. The Guidelines are administered by Finance and apply to both fee for service arrangements and levy collection arrangements which, in APRA's case, are based on the principle of full cost recovery.⁸⁵

3.2 The Guidelines apply to all *Financial Management and Accountability Act* 1997 (FMA Act) agencies and to relevant *Commonwealth Authorities and Companies Act* 1997 (CAC Act) bodies. From 1 July 1998 until 30 June 2007, APRA was a CAC Act agency. In July 2003, the Treasury advised APRA that it would be subject to the cost recovery policy. APRA became an FMA Act agency in July 2007 and continues to apply the Guidelines.

3.3 The Guidelines are largely principles-based rather than prescriptive guidance to agencies on how to implement cost recovery arrangements. This allows agencies flexibility to tailor cost recovery approaches to the industry sectors regulated. The Guidelines contain 14 key principles, covering issues that include the legal authority for recovering costs, and only recovering costs that are efficient and directly related to the services provided.⁸⁶ The Guidelines also indicate that a highly differentiated approach is often required for

85 As discussed in paragraph 1.11, APRA recovered around 90 per cent of its budgeted costs through the financial levy in 2011–12.

86 Finance is currently conducting a whole-of-government review of the Guidelines to clarify policy, streamline processes and increase transparency in relation to Australian Government cost-recovered activities.

charging entities for regulatory services, with different fees (or levies) charged for different products or industries.⁸⁷

3.4 Against this background, the ANAO examined:

- whether the administration of the levy framework has accorded with the policy intent and ensured legal authority for collecting the levies;
- APRA's cost recovery and levy setting methodology; and
- whether the levy methodology meets the requirements of the Guidelines.

Policy intent and legal authority

Policy intent

3.5 As APRA is operationally independent, it is important that it is, and is seen to be, exercising independent judgment about the application of the prudential regulatory framework to individual circumstances.⁸⁸ In creating the new prudential regulator, the Government decided that APRA, and the cost of additional consumer protection functions in the financial system, would be funded through levies on those industries that would be regulated. Essentially, the levies were imposed to ensure that the full cost of regulation is recovered from those that benefit from it. As the Government stated when introducing the Financial Levies Bills in 1998:

The aim is to establish an administratively simple and uniform funding scheme based on the principle of full cost recovery.⁸⁹

3.6 Other elements of the Government's policy were that APRA would not over-charge for its services, and that it would adhere to the principles of equity, efficiency and competitive neutrality; that is, the levies scheme would not create a relative cost disadvantage to any one industry sector.⁹⁰ As will be discussed throughout the chapter, APRA and the Treasury have developed a

87 Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, 2005, p. 41.

88 Department of the Treasury, *Government's Statement of Expectations*, available from <<http://www.apra.gov.au/AboutAPRA/Documents/Statement-of-Expectations-from-Treasurer-20-Feb-07.pdf>> [accessed 21 February 2013].

89 Explanatory Memorandum to the Financial Sector Levies Bills, paragraph 1.5.

90 *ibid.*, paragraphs 3.4 and 3.5.

methodology consistent with this policy intent, albeit with some scope for refinement.

Legal authority

3.7 The legal authority for APRA to raise levies annually from the financial sector is established by the *Financial Institutions Supervisory Levies Collection Act 1998*.⁹¹ Under this overarching Act, seven separate imposition Acts address the industry sectors or types of entities that may be levied under the Act (as outlined in paragraph 1.14 of Chapter 1).

3.8 The Treasury prepares determinations under each of the seven imposition Acts for the relevant Minister to sign before the end of June, giving APRA the authority to levy financial entities for the coming financial year.⁹² The ANAO examined whether the Treasury had supported the Minister in ensuring the relevant determinations were in place so they could take effect from the beginning of each financial year. This analysis found that in 2011 and 2012 the determinations were registered on the Federal Register of Legislative Instruments before 30 June, whereas in 2008, 2009, 2010 and 2013, the determinations were registered in early July. This raised an issue as to whether the determinations were purporting to operate retrospectively. In this regard, the Treasury has received legal advice to the effect that commencement of the determination prior to registration did not invalidate the determination.⁹³

APRA's cost recovery and levy setting methodology

3.9 The revenue generated from charges for goods or services which are cost recovered must be commensurate with the effort or costs incurred in delivering the good or service. This places an obligation on cost recovery agencies to demonstrate that they are charging the right amount for their services, and no more.

91 Principle 4 of the Guidelines states that 'all cost recovery arrangements should have clear legal authority for the imposition of charges': Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, 2005, p. 2.

92 The Minister makes determinations as to certain matters such as the levy percentages for the 'restricted' and 'unrestricted' levy component (see paragraph 3.15), the maximum and minimum levy amounts applicable to the restricted levy component, and the date at which the regulated institutions' levy base is to be calculated. The Minister also makes a determination to recover levy revenue allocated under each of the various levy imposition Acts to ASIC, the ATO, DHS and for the implementation of the SuperStream measures.

93 The legal advice was that the determination was not inconsistent with subsection 12(2) of the *Legislative Instruments Act 2003*.

3.10 The Guidelines state that for regulatory products or services, cost recovery charges should ideally reflect the costs of undertaking individual activities. As far as possible, the agency should identify costs against particular activities to minimise the need to distribute costs arbitrarily among activities. The Guidelines also state that 'a very precise approach to charging can be costly. In nearly all cases, an agency will need a system to split overhead costs among the activities being charged'.⁹⁴

APRA's existing levy methodology

3.11 The ANAO analysed APRA's levy methodology and found that it is a 'fully distributed' costing model based on two elements:

- frontline staff costs are apportioned to the four industry sectors based on the number of hours worked by those staff and recorded in APRA's time management system; and
- the majority of APRA's remaining costs are allocated pro-rata to the four industry sectors, using the proportion of frontline staff costs as a proxy.

3.12 In accordance with APRA's organisational structures, direct (proactive and reactive) supervision of regulated financial entities is mostly undertaken by APRA's Diversified Institutions Division and Specialised Institutions Division. Staff in these divisions are supported by staff in the Supervisory Support Division and Policy, Statistics and International Division. The hours worked by staff are recorded in APRA's time management system, and hours relating to these four divisions are allocated across the four industry sectors.⁹⁵

3.13 Activities undertaken by staff from the Corporate Services Division are generally not directly allocated to industry segments and are not included as inputs to the model. All non-labour costs, such as information technology, rental of facilities and depreciation, are also not included as inputs to the model. However, the vast majority of Corporate Services Division costs and non-labour costs are recovered through the model, as they are indirectly apportioned to industry sectors according to a pro rata allocation of staff

94 Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, 2005, p. 43.

95 The four industry sectors consolidate the classifications covered by the seven imposition Acts and cover: approved deposit-taking institutions, superannuation entities, general insurers, and life insurers and friendly societies.

activities from the four 'frontline' divisions. The underlying assumption here is that these other costs are being incurred across the industry sectors in the same proportion as the hours spent by the staff in the frontline divisions.

3.14 APRA's internal modelling showed that frontline staff costs were \$65.3 million in 2011–12, which was around 56 per cent of total attributable costs of \$116 million.⁹⁶ The ANAO considers this indicates that around 56 per cent of APRA's costs were used as direct inputs into the levy methodology, for the purpose of allocating across industry sectors all of APRA's costs to be recovered through the financial industry levy. APRA's alternative interpretation is that the methodology recovered 88 per cent of attributable costs in 2011–12. This figure was achieved by applying the share of frontline staff costs (73 per cent of total staff costs) to the cost categories other than staffing.⁹⁷ However, this approach assumes that this proportion of the other cost categories is being incurred across the industry sectors in exactly the same proportion as the hours spent by the staff in the frontline divisions. While this may be the case, it has not been established.

3.15 In allocating staff hours to industry sectors, the levy methodology also has two components, which are further discussed at paragraphs 3.19 to 3.25:

- the restricted levy component, which is based on a 'cost of supervision' rationale, includes activities associated with APRA's onsite and offsite supervision of individual institutions and its legal and enforcement activities. It is structured as a percentage rate on entities' assets subject to minimum and maximum amounts; and
- the unrestricted levy component, which is based on a 'system impact' and 'vertical equity' rationale⁹⁸, includes activities associated with the development of APRA's prudential framework for the industries it supervises, as well as its statistical data collection and publications. It is structured as a low percentage rate on assets with no minimum or maximum amounts.

96 For the purpose of this exercise, APRA estimated attributable costs to be \$116 million, obtained by subtracting depreciation and amortisation costs of \$5.2 million from total costs of \$121.2 million.

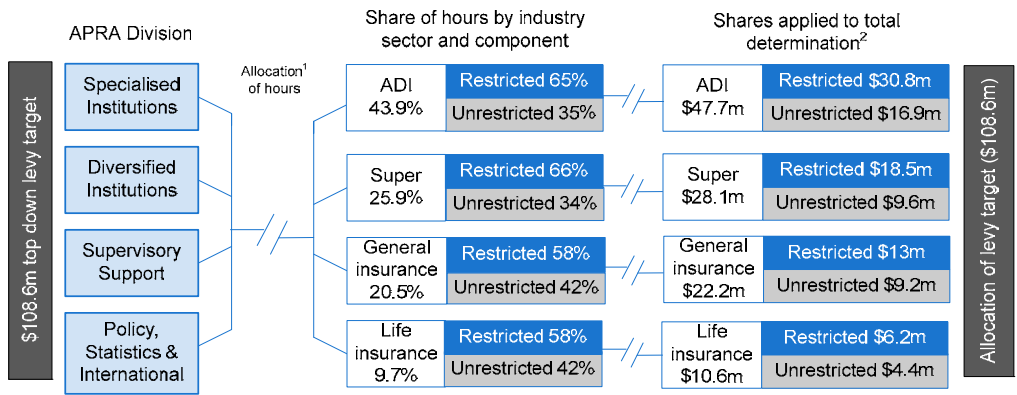
97 On this basis, for example, APRA considers that 73 per cent (or \$6.3 million) of the \$8.7 million in property costs can be treated as an input to the model.

98 System impact is discussed in paragraph 3.19. Vertical equity refers to the notion that small, medium and large entities should each pay their fair share of levies: Department of the Treasury and APRA, *Review of Financial Sector Levies Issues and Discussion Paper*, April 2003, available from <<http://archive.treasury.gov.au/documents/587/PDF/FSL.pdf>> [accessed 14 May 2013].

3.16 The rationale for the minimum and maximum levy amounts in the restricted component is that prudential supervision of even the smallest (and usually least complex) financial sector entity costs a certain minimum amount, and that this cost then increases with the complexity of an institution up to (but not beyond) a certain point.

3.17 Figure 3.1 outlines the levy setting methodology for 2012–13. It shows a ‘top down levy target’ of \$108.6 million for APRA financial levies⁹⁹, and allocated across the four industry sectors, subject to the restricted and unrestricted classifications. The authorised deposit-taking institutions and superannuation industry sectors were allocated the largest amounts of APRA’s costs to be recovered through levies (\$47.7 million and \$28.1 million respectively). Most costs were allocated to the restricted component (67 per cent), with the unrestricted component representing 33 per cent of APRA’s overall effort.

Figure 3.1 APRA’s levy methodology for 2012–13



Source: ANAO analysis of APRA’s levy methodology.

Note 1: Data is compiled on the total number of hours worked by staff in the four frontline divisions, and allocated according to industry sector and component (that is supervision or system impact, which is also referred to as restricted and unrestricted). The number of hours allocated to each sector and component by each APRA division is not shown, as there are too many separate allocations to represent.

Note 2 The share of an industry sector’s allocation of hours is not exactly reflected in its share of total costs because the data produced by the levy model is subject to industry specific and other adjustments—such as for over-under collections (all industries) and Stronger Super (super industry only).

⁹⁹ This levy target was calculated by subtracting from the budgeted total costs of \$125.2 million, \$9.2 million in net costs offsets and \$7.5 million in other adjustments, particularly for Stronger Super (which is subsequently added into the model).

3.18 As discussed previously, the levy methodology is also used to collect costs incurred by other agencies in providing services related to consumer protection and other functions undertaken in respect of prudentially regulated institutions by the ATO, ASIC and DHS.¹⁰⁰ In 2012–13 this was \$153.5 million (including \$121.5 million for SuperStream).

Restricted and unrestricted components

3.19 As previously noted, APRA's activities are divided into two components: one based on the 'cost of supervision' (the restricted component) and the other on 'system impact' (the unrestricted component). System impact (or system risk) means that, the more complex a financial institution (other things being equal), the greater the likely impact on the financial system in the event of it failing or facing financial difficulties. These concepts were explained in the final report of the 2003 levy methodology review. There, it was argued that:

- system risk and vertical equity considerations are consistent with a component of the total levy (the unrestricted component) being determined as a single levy rate on assets held by an institution, unconstrained by minimum or maximum amounts; and
- a cap should be retained for the separate, cost-based component of the levy (the restricted component) as it is clear that the cost of regulation does not increase continually and at a constant rate as the value of assets held increases.¹⁰¹

3.20 The introduction of the unrestricted levy component in 2005–06 addressed issues regarding system impact and vertical equity. With no cap on the unrestricted levy component, larger institutions are subject to a higher levy amount.¹⁰² The 2005 discussion paper explained that the funding required to be raised by the unrestricted component had been calculated based on APRA's activities being industry-wide rather than specific to an institution. This was intended to reflect more closely the two primary cost drivers within APRA (specific supervision by entity and the whole of industry work carried out by

100 Costs to be recovered are included in the determined levy rates by industry sector and the estimated asset value is used as the basis for the calculation of the quantum of the levy component.

101 Department of the Treasury and APRA, *Report of the Review of Financial Sector Levies*, 2003, <http://archive.treasury.gov.au/documents/1708/RTF/Review_of_Financial_Sector_Levies.rtf> [accessed 23 July 2013].

102 The concepts of the restricted and unrestricted components are not defined in the legislation.

risk specialists and support staff) and achieve greater vertical equity within industry sectors by reducing the burden on middle-sized entities.¹⁰³

3.21 In the modelling process, the restricted component includes entity specific supervisory activities that are both proactive and reactive in nature, and supervision support areas such as enforcement and legal services. The unrestricted component covers activities less directly related to entity specific supervisory activities, including policy development, applied research and international relations. Most activities allocated to the restricted component are undertaken in APRA's Specialised Institutions Division and Diversified Institutions Division while most activities allocated to the unrestricted component are undertaken in the Supervisory Support Division, and the Policy, Statistics and International Division.¹⁰⁴

3.22 On this basis, the 'system impact' concept (such as the impact on the financial system of the failure of large institutions) is reflected in the levy methodology through the allocation of activities less directly related to entity specific supervision (the unrestricted component). While some of these activities are related to APRA functions addressing system impact and vertical equity (such as elements of applied research and policy development), others are not (such as the administration of the Supervisory Support Division and the Policy, Statistics and International Division).¹⁰⁵ Overall, there is not always a close relationship between the description of the unrestricted component and the activities allocated to that component.

3.23 Accordingly, there would be merit in the Treasury and APRA reviewing those activities allocated to the unrestricted component, as part of the 2013 methodology review that was ongoing at the time of preparing the audit report. The review could also consider the impact of the maximum caps across the two components, as the model currently attempts to address vertical equity through both the restricted and unrestricted components. The restricted

103 Department of the Treasury, *Discussion Paper on Possible Impacts of Amended Levy Determination Framework on Levies from 2005-06*, pp. 6-7, available from <http://archive.treasury.gov.au/contentitem.asp?ContentID=966> [accessed 15 August 2013].

104 APRA's levy methodology for 2013–14 includes activities from 24 of 34 potentially relevant cost centres, and allocates activities to industry sectors and entities. It then assesses whether cost centres should be classified as supervisory, systemic or are split between the two.

105 The unrestricted component was also explained as being based on indirect costs associated with analysis of risk by industry rather than by institution: Department of the Treasury and APRA, Financial Sector Levies Review, *Discussion Paper on Possible Impacts of Amended Levy Determination Framework on Levies from 2005–06*, pp. 4 and 6.

component sets maximums, by sector, to reflect the fact that the cost of regulation does not increase continually, while the unrestricted component is unconstrained to further allow for vertical equity. The model could be simpler and more transparent if vertical equity concerns were dealt with solely through the restricted component.

Role and application of the caps within the restricted component

3.24 The 2013 review is examining the role and application of the caps within the restricted component. It states that ‘a question may still remain as to whether the minimum and maximum caps are broadly equitable to entities within each industry sector’.¹⁰⁶ The caps for 2013–14 are set out in Table 3.1.

Table 3.1 Minimum and maximum levy caps by industry, 2013–14

Industry	2013–14	
	Minimum \$	Maximum \$
Authorised deposit-taking institutions—locally incorporated	490	2 341 000
Authorised deposit-taking institutions—foreign branches	490	1 170 500
Life insurers/Friendly societies	490	1 320 000
General insurers	4900	1 064 000
Superannuation funds	590	1 786 000

Source: The Treasury, *Financial Sector Levies for 2013–14*, pp. 15–16.

3.25 In discussions with the ANAO, industry stakeholders noted the extent of vertical equity as a concern, with a third of stakeholders stating that the levies favoured larger entities at the expense of medium and small entities, with one stakeholder attributing this to the maximum cap. Another stakeholder also questioned the apportionment of non-supervisory costs into the restricted component. While three of the stakeholder groups which raised these concerns represented small to medium size entities, and might therefore be expected to be sensitive to equity concerns, two of the stakeholder groups represented the whole range of entity sizes, which suggests that the

¹⁰⁶ The paper added that ‘ideally, the band width between the minimum and maximum should be such that few institutions pay the minimum and few pay the maximum. In this manner, increases in funding requirements fall evenly across those paying the marginal levy rate. The minimum levy typically applies to either a new entrant or a comparatively dormant institution. The maximum levy typically applies to the largest institutions’: Department of the Treasury, *Financial Industry Supervisory Methodology*, Discussion Paper, April 2013, p. 6.

relationship between the maximum cap and vertical equity merits further analysis and public justification.

3.26 The Treasury has considered vertical equity in past methodology reviews. Aspects of the issue were considered in 2003, 2005 and 2009, and in the 2013 periodic review currently underway. While the 2005 review was the most recent review to consider whether the profile of levies imposition associated with the caps bears a clear relationship to the cost of regulation¹⁰⁷, the Treasury also considered arguments regarding the effect of the caps on vertical equity in the 2009 review.

3.27 Since that time, the significant increase in levies funding for one of the agencies dealing with financial institutions (the ATO through SuperStream) has broken the nexus between the application of the maximum caps and the cost of prudential regulation. To facilitate recovering the costs of SuperStream in 2012–13, the maximum levy for the superannuation sector was required to increase from around \$1 million to \$2 million. While noting that the Treasury took into account equity considerations, this change affected the APRA levies paid by superannuation funds (as a similar methodology is used for all levies), and whether the levies were commensurate with APRA's costs of providing regulation was not the prime consideration. This issue also highlighted the increasing importance of APRA's collection of other levies (representing 58 per cent of all levies collected in 2012–13), and accordingly whether it was always reasonable to formulate these other levies in relation to APRA's prudential regulation activities (including as reflected in the restricted and unrestricted components).

3.28 In any event, the limited time available for implementing the levies funding arrangements for the SuperStream initiative¹⁰⁸ did not allow for a full consideration of vertical equity issues. The Treasury has advised that it is subsequently examining vertical equity from the perspective of the levy impost per fund member, according to the size of funds.¹⁰⁹

107 Department of the Treasury and APRA, *Report of the Review of Financial Sector Levies*, October 2003, pp. 6–9.

108 While the Government announced the levy in the May 2012 Budget, there were delays in finalising the funding arrangements due in part to consideration of the SuperStream legislation by the Parliamentary Joint Committee on Corporations and Financial Services in June 2012.

109 Preliminary analysis, based on the total levy paid (including SuperStream), has indicated major differences in the cost of the levy per member on superannuation funds of varying asset size. For example, smaller superannuation funds paid around \$30 to \$40 per member in total levy (including Superstream) in 2012–13, while larger funds paid around \$1.90 per member.

3.29 While the minimum and maximum caps are legislated, the manner in which they apply does not demonstrate an evident link with the costs of prudential regulation activities. Accordingly, there would be merit in APRA and the Treasury undertaking a review of the modelling assumptions regarding the specification of the restricted and unrestricted components and the basis for the minimum and maximum caps; and to publicly disclose their modelling parameters.

Compliance with the Cost Recovery Guidelines

3.30 The Guidelines outline approaches to recovering the costs of regulation, indicating that for each regulatory service 'the charge should incorporate the cost of regulation, subject to the caveats of efficiency, cost effectiveness and consistency with policy objectives.'¹¹⁰ This approach was considered likely to improve economic efficiency by ensuring that regulatory agencies and their stakeholders recognise the administrative costs associated with regulation.

3.31 Where levies are imposed to cover a significant portion of an agency's activity, as is the case for APRA, the levies should include both the direct costs of activities as well as the capital¹¹¹ and indirect costs.¹¹² The Guidelines also emphasise that the type of costs to be included in regulatory levies should be limited to functions that are integral to the activity and conducted efficiently.¹¹³ APRA's cost recovery and associated levy determination methodologies should therefore satisfy these principles.

Allocating capital and indirect costs

3.32 The Guidelines require agencies to have a method of allocating all of its costs, including its capital and indirect (or overhead) costs, where full cost recovery is required:

110 Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, 2005, p. 40.

111 According to the Guidelines, capital costs comprise the user cost of capital and depreciation. The user cost of capital represents the opportunity cost of funds tied up in the capital used to deliver products. It is the rate of return that must be earned to justify retaining the assets in the medium to long term. Depreciation reflects the portions of assets consumed each period in the production of output.

112 Indirect costs are not directly attributable to a product and are often referred to as overheads. They can include corporate services costs, such as financial services, human resources, records management and information technology.

113 Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, 2005, p. 42.

All products to be cost recovered should recoup at least their direct costs. Allocating direct costs to products is relatively straightforward. Allocation becomes more difficult where indirect and capital costs ... are involved. ...

Indirect and capital costs can be distributed in a number of ways. For example, under Fully Distributed Costing, costs are allocated on a pro rata basis, for example according to the number of staff involved in the activity or on the basis of the shares of direct costs devoted to the activity. The appropriate approach to distributing capital and overhead costs can vary depending on the characteristics of the agency. The agency should balance accuracy and precision against the costs of particular methods, and justify the method chosen.¹¹⁴

3.33 APRA has adopted a fully distributed levy model, as outlined in the previous section, with its indirect and capital costs apportioned according to the number of hours worked principally by APRA staff in four of its five divisions. Also, as previously discussed, the cost of activities undertaken mainly by staff in the four APRA divisions covered in the levy methodology represented around 56 per cent of recoverable costs in 2011–12. This approach, therefore, involves a single, volume-based cost driver, and does not attempt to directly apportion indirect and capital costs according to how they are consumed by the various industry sectors.

3.34 These features of the levy setting methodology are similar to those noted by the ANAO in its 2001 audit report.¹¹⁵ At that time, APRA and the Treasury stated that APRA's approach 'is considered to be relatively simple and low-cost; provides stability in levy parameters; is supported by industry; and is consistent with government policy that there be no cross-subsidisation.' The levy methodology has remained administratively simple and low-cost, also satisfying the Government's initial requirement that it is a uniform funding scheme based on the principle of full cost recovery.

3.35 While the methodology has served its purpose of allocating APRA's costs to regulated entities, there is some risk of misallocation of costs and consequent cross-subsidisation between industry sectors, as around 44 per cent of costs are allocated pro rata and not directly, and APRA's staff input hours are not salary weighted for levying purposes.¹¹⁶ APRA has

114 *ibid.*, p. 49.

115 ANAO Audit Report No.42 2000–2001, *Bank Prudential Supervision*, p. 40.

116 The use of hours worked as a cost allocation base does not take into account the actual costs of employing, for example, senior staff as compared to junior staff.

expressed the view that, in many cases, its pro rata cost allocation achieves a similar outcome to a more sophisticated cost allocation approach because such costs would be consumed equally. Nonetheless, if the indirect and capital costs that are excluded from the model are being incurred in relation to regulated industry sectors in a different profile from the staff hours, then there would be cross-subsidisation of the industry sectors more heavily incurring these costs.

3.36 As the levy methodology has been in place for around 15 years it would be timely for APRA to analyse the impact on sectoral equity of this pro rata approach. One approach could be to begin with an examination of the major indirect costs currently excluded from the levy methodology, to determine whether any industry sector is incurring a disproportionate share of these costs. The results of such an exercise could then be analysed to determine the need for alternative cost allocation approaches.¹¹⁷

3.37 Depending on the results of such analysis it may be worthwhile for APRA to apply a cost recovery methodology that more fully incorporates indirect costs. One such methodology outlined in the Guidelines is Activity Based Costing, which has the advantage of being 'more accurate in how it allocates indirect costs'.¹¹⁸

Activity Based Costing

3.38 Under Activity Based Costing:

The organisation is broken down into activities with each activity representing one way in which outputs and programs are delivered. Direct costs are allocated directly to outputs and programs ('cost objects'). The majority of indirect costs are assigned to activities, which are in turn allocated to cost objects. A key advantage of ABC is that it converts indirect costs into direct costs which are directly assigned, rather than allocated, to outputs and programs.¹¹⁹

3.39 While APRA is currently applying a form of Activity Based Costing, it could assess the benefits and costs of applying a more detailed model. It could also examine cost allocation methods being adopted by other cost recovery

117 It would aid transparency if the results of such an exercise were shared with the Treasury and industry stakeholders.

118 Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, p. 49.

119 ANAO Better Practice Guide, *Developing and Managing Internal Budgets*, p. 15.

agencies. For example, as outlined in recent CRISs, the Insolvency and Trustee Service Australia has:

- explicitly analysed its direct, indirect and capital costs;
- divided its indirect costs into various cost pools and attributed them using cost drivers determined with reference to the functions of the cost pools and estimates of resources consumed in the activities undertaken;
- allocated most of its corporate costs on a full time equivalent (FTE) staffing basis, with some costs, such as finance and information technology, allocated using a combination of FTE and volumes;
- identified that capital costs are a small portion of the overall total costs of operations; and
- provided a detailed breakdown of costs by activity.¹²⁰

Including only integral costs

3.40 As noted in paragraph 1.4, APRA has a single outcome, relating to the prudential regulation of financial institutions.¹²¹ Consistent with the principle of full cost recovery for prudential regulation activities, the existing levy model has supported APRA to recover almost all of its costs in recent years. As indicated in Tables 1.3 and 1.4 in Chapter 1, of a budgeted total cost of \$125.2 million in 2012–13, \$112.9 million (90 per cent) was to be met through APRA financial industry levies.¹²²

3.41 The Guidelines state that an agency's cost recovery charges should not include the cost of any activity or service that is not integral, or directly related, to the provision of regulatory services. Examples of non-integral costs include provision of advice to the Government or Parliament, financial reporting and complying with international treaties.¹²³ APRA advised the ANAO that it does

120 Insolvency and Trustee Service Australia, *Cost Recovery Impact Statement 2013–14 and 2014–15*, available from <<https://www.itsa.gov.au/about-itsa/corporate-information/corporate-documents/cost-recovery-impact-statement>> [accessed 25 July 2013].

121 The outcome is 'enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality'.

122 Those costs not recovered by levies, are recovered by direct user charges or fee for service arrangements. APRA's 2012–13 budget included \$9.2 million in such net costs offsets. Those offsets included the provision of statistical reports to various government agencies that are recovered through a fee for service arrangement. APRA, *Proposed Financial Industry Levies for 2013–14*, p. 4.

123 Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, p. 44.

not recover any non-integral costs through the levies, and that all activities it undertakes are aligned to its prudential regulation outcome.

3.42 The ANAO notes, however, that APRA incurs costs in collecting levies on behalf of other agencies, including ASIC, the ATO and DHS. These activities are not integral to APRA's provision of supervisory activities in relation to prudentially regulated financial institutions. While APRA has advised that the administration costs are negligible, the agency could consider quantifying and explicitly excluding them from the cost base of its financial levies if this assessment changes. In any event, there would be benefit in APRA explaining its perspective on integral costs when developing its forthcoming CRIS.

Efficient costs

3.43 Cost recovery involves the Australian Government charging the public or entities for some or all of the efficient costs of a specific government activity, including regulation. This supports the proper use of Commonwealth resources¹²⁴ by requiring levies to only reflect the efficient costs of undertaking the cost recovered activity.

3.44 The Guidelines state that, while cost recovery can promote efficiency by instilling cost consciousness in the agency and its customers, poorly designed arrangements can create incentives for 'cost padding' and inefficiency. Therefore, APRA's cost recovery arrangements need to ensure that its levies are based on the minimum cost necessary to deliver the service and maintain quality over time. The Guidelines acknowledge that it is not a simple matter to establish efficient costs, but that in some cases, it is possible to benchmark the agency, both domestically and overseas, and that market testing or contracting out some aspects of the agency's activities are also good ways of gauging efficiency.¹²⁵

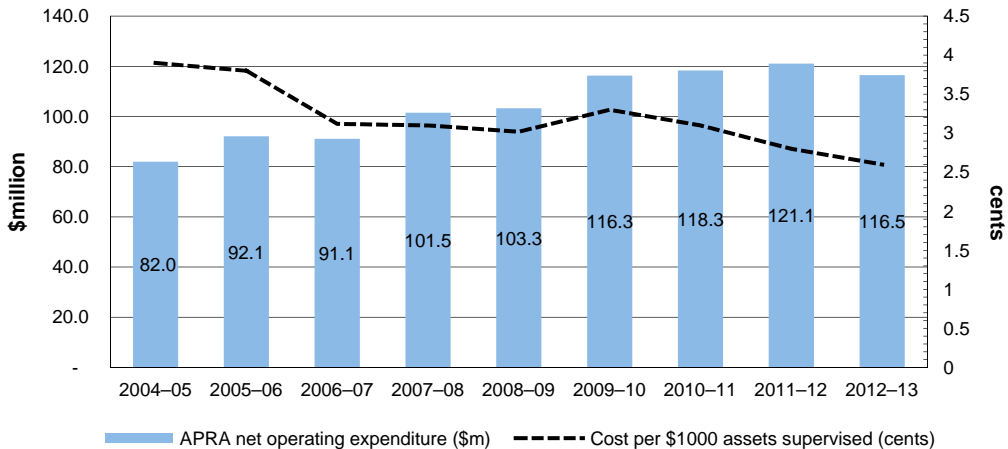
3.45 APRA's costs for the financial years 2004–05 to 2012–13 are set out in Figure 3.2, which illustrates an increase of around 4.5 percent per year. However, the value of assets under supervision increased more quickly, and APRA has had a downward trend in cost per \$1000 of assets supervised. The

124 'Proper use' is defined by section 44 of the *Financial Management and Accountability Act 1997* as 'efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth'.

125 Department of Finance and Deregulation, *Australian Government Cost Recovery Guidelines*, p. 47.

cost has reduced from around 4 cents per \$1000 in assets in 2004–05 to 2.6 cents in 2012–13 (representing an average annual decrease of around 5.2 per cent over the period).

Figure 3.2 APRA's costs 2004–05 to 2012–13



Source: APRA Annual Reports, 2005 to 2012 and information provided by APRA.

3.46 APRA is subject to the general Commonwealth efficiency dividend and may also be subject to special efficiency dividends from time to time. As APRA is primarily funded by industry levies, and to this extent is not a net cost to the Commonwealth, the actual impact of any efficiency dividend is a benefit to industry through a reduction to the amount levied on entities.¹²⁶

3.47 In addition to emphasising the strong reduction in the cost per \$1000 of assets supervised, APRA has provided the following examples of its cost-effectiveness:

- the increased efficiency dividend that was applied in the 2011–12 Mid-Year Economic and Fiscal Outlook, resulted in APRA's funding being reduced by \$2.64 million in 2012–13, \$2.63 million in 2013–14 and \$2.63 million in 2014–15; and
- APRA has participated in the annual government information and communication technologies (ICT) benchmarking survey, conducted by Finance, since its inception in 2010. The latest survey results, published

¹²⁶ Department of the Treasury, *Financial Industry Supervisory Levy methodology*, discussion paper, April 2013, p. 5, available from <<http://www.treasury.gov.au/ConsultationsandReviews/Submissions/2013/Financial-Industry-Supervisory-Levy-Methodology>> [accessed 2 July 2013].

in March 2012, placed APRA at the midpoint of the surveyed population (approximately 30 agencies/departments with ICT expenditure of between \$2 million and \$20 million annually) on most key efficiency and effectiveness measures.

3.48 APRA also advised that it has generally met its budget obligations as set by government, inclusive of efficiency dividends and other funding reductions. Achieving its budgeted outcomes necessitates an efficiency focus by management. The financial position of APRA is considered at least monthly at the Executive Group in which the performance against budget is reviewed as well as strategies to ensure the overall budget outcome is achieved. APRA is also subject to whole of government initiatives, such as for travel, accommodation, internet gateway and the purchase of major office machines.¹²⁷

3.49 APRA is participating in ICT benchmarking and has been part of previous benchmarking exercises.¹²⁸ However, it could also consider conducting further benchmarking exercises to help determine efficient costs. One option is to benchmark the costs of some of its other internal functions (such as the collection of statistics) against that of similar regulators in the United Kingdom, New Zealand or Canada. Further, APRA could undertake benchmarking with other Australian or overseas regulators (including non-financial regulators), for example in relation to corporate services.¹²⁹ This would help assure stakeholders that APRA is spending appropriate amounts on supervisory versus non-supervisory activities.

3.50 More broadly, there would be benefit in APRA demonstrating cost consciousness by informing industry of the steps it has taken to achieve efficiencies, such as in its forthcoming CRIS and in the annual levies consultation paper.

127 APRA has also contracted out some activities (such as the provision of many legal professional services), although there has been no mention of these activities with respect to efficiency or cost-benefit in APRA's industry consultation papers since 2005.

128 For example, in 2003 the Boston Consulting Group undertook an independent resource review which undertook international benchmarking of APRA's allocation of resources to supervision.

129 Productivity Commission, *Cost Recovery by Government Agencies*, Vol. 1, 2002, p. 197, available from <http://www.pc.gov.au/data/assets/pdf_file/0004/36877/costrecovery1.pdf> [accessed 5 June 2013].

Conclusion

3.51 The levy methodology used to recover APRA's costs has met the Government's intent, as it has recovered the full costs of APRA's administration, been administratively simple and uniform, and incorporated the principles of equity and competitive neutrality when imposing levies on financial entities. While acknowledging the difficulty of setting levies to reflect the cost of regulation and equity considerations, three aspects of the levy methodology would benefit from further analysis as part of the levy methodology review underway.

3.52 First, the model excludes many indirect costs as inputs, and there is consequently a risk of cross-subsidisation as these indirect costs may not be incurred across industry sectors in the same proportion as the hours spent by the staff in the frontline divisions. An examination of the allocation to industry sectors of the major indirect costs categories would help to establish the need for alternative approaches to allocating APRA's indirect costs.

3.53 Further, the separation of the 'restricted' and 'unrestricted' components was intended to better separate activities associated with APRA's supervision from those relating to 'system impact and vertical equity'. However, some of the activities allocated in the model to the unrestricted component (such as branch administration) do not bear a close relationship with functions addressing system impact and vertical equity. In addition, addressing vertical equity in both components, through either the application or absence of a maximum cap, provides a level of complexity that reduces the transparency of the model.

3.54 Finally, the significant increase in levies funding for other Australian Government agencies dealing with financial institutions in recent years has in one instance introduced additional complexities in setting the APRA levies according to the cost of its prudential regulation. It has also brought into question whether this continues to be an appropriate approach for calculating levies on behalf of these other agencies.

3.55 The Guidelines envisage that the costs of activities that are not integral to an agency's functions should not be cost recovered, and that cost recovery arrangements should reflect only efficient costs. As these matters have not previously been addressed in methodology reviews or recent annual consultation papers, there would be merit in APRA explaining to stakeholders how it is meeting these two requirements of the Guidelines.

Recommendation No.2

3.56 To help ensure that the levies imposed on financial entities reflect the costs of efficient prudential regulation, the ANAO recommends that the Department of the Treasury and APRA review the financial industry levy methodology and consider the:

- (a) impact on levy distribution between industry sectors of more fully allocating APRA's indirect costs;
- (b) application of the restricted and unrestricted components, including with reference to the activities being allocated to them and the minimum and maximum caps; and
- (c) appropriateness of applying the APRA financial levy methodology to calculate the levies collected by APRA on behalf of other Australian Government agencies.

Treasury response: *Agreed.* The Treasury would support efforts by APRA to more fully allocate indirect costs to industry sectors. The two remaining issues are being considered by the Treasury and APRA as part of the *2013 Financial Industry Supervisory Levies Methodology Review*. The Treasury is considering whether there is scope to improve application of the restricted and unrestricted components of the levy, as well as the way these components are currently used to collect funding on behalf of other Government agencies.

APRA response: *Agreed.* However, APRA considers that its current costing methodology remains effective, particularly from a cost and efficiency perspective and fully allocates APRA's indirect costs. Nonetheless, APRA will review its costing methodology in coming years. It has already commenced a review of the allocation of its indirect activities to the restricted component as part of the 2013 Levies Methodology Review. APRA will also support the Treasury in investigating separate models for non-APRA-related collections, subject to time and resourcing constraints.

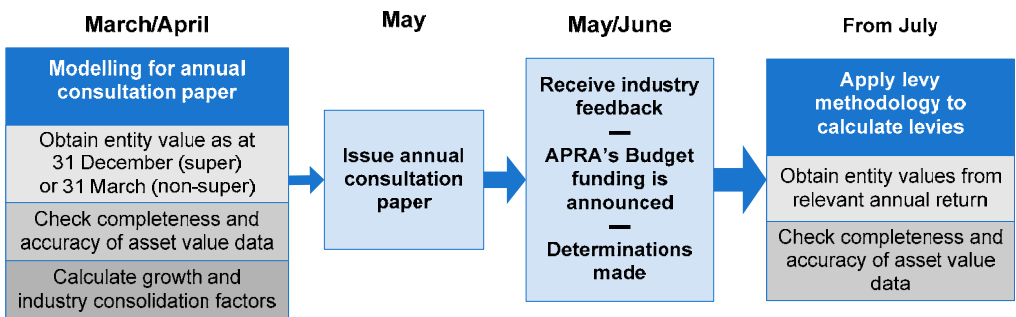
4. Calculating and Collecting Levies

This chapter examines APRA’s processes for applying the levy methodology, billing entities and collecting levy payments. APRA’s financial controls and management of levy risks are also discussed.

Introduction

4.1 As a cost recovery agency, APRA must have financial management processes and practices to: accurately model and calculate entities’ levy liabilities; issue correct invoices; collect the correct amounts owing; and deal appropriately with debts. APRA has processes in place to enable levies to be calculated and charged to financial industry entities for the forthcoming financial year, as required by legislation and illustrated in Figure 4.1.

Figure 4.1: Key processes and timeline for calculating levy payments



Source: ANAO analysis of APRA information.

4.2 Modelling for the annual consultation paper is undertaken by APRA’s Finance team in March and April each year. This modelling uses the existing levy methodology and the most recently available asset values, derived from financial returns lodged by regulated entities and extracted from APRA’s statistical database.¹³⁰ For modelling purposes, in the case of non-superannuation entities, APRA uses actual data derived from the current year 31 March returns, while for superannuation entities it uses the latest available; generally the prior year 31 December return data. APRA conducts checks on the accuracy of this data and, in order to minimise the under or over

¹³⁰ This data is merged with prior year data which the Finance team maintains. In all, the process requires four years’ worth of data (that is, the current year and the three previous years), as APRA applies a four-year moving average to asset values, and other parameters, in order to reduce the fluctuation in levy amounts over time.

collection of levies, the Finance team calculates factors to adjust for possible industry consolidation, and growth in asset values (primarily in the superannuation industry).

4.3 Once the relevant determinations have been registered on the Federal Register of Legislative Instruments and the entities have submitted their relevant financial returns, APRA bills the entities, collects levy payments and deals with any outstanding amounts.¹³¹

4.4 Against this background, the ANAO examined the:

- modelling conducted for the annual consultation paper;
- billing of entities once final annual asset value data is received; and
- collection of levy payments, including APRA's policies for addressing debts.

Modelling for the annual consultation paper

4.5 APRA uses the financial institutions' asset values to calculate the key levy parameters, including the maximum and minimum caps, and the calculation of the entity rates for the restricted and unrestricted components.¹³² In order to conduct its modelling effectively, APRA must:

- collect and confirm entities' asset values from all leviable entities; and
- as necessary, adjust the asset value data using factors that take into account likely asset growth and, in the case of superannuation, industry consolidation between the modelling date (that is, the last day of December or March) and the end of the financial year.

Collect and confirm asset values

4.6 To ensure that all financial sector entities contribute to recovering the cost of prudential regulation, it is important that APRA has effective processes to identify all leviable entities, including new entrants and those who may not be submitting returns, and exclude those that have ceased to exist. It must also ensure that the asset value data provided is accurate.

¹³¹ For billing purposes, non-superannuation entities are normally billed on the basis of their 31 March return, while superannuation funds are billed based on their 30 June return.

¹³² The other modelling inputs are: time management system data; APRA's annual portfolio budget statement levies allocation; cost offsets and other adjustments; and under or over collections from the previous year.

4.7 APRA maintains entity registers, organised by industry sector or sub-sector, which list all APRA-regulated entities. Each month, APRA Statistics produces an entity activity report which records all newly authorised entities, revoked entities and entities that have changed their name. There is a low likelihood that the entity registers would omit any leviable entities. As the financial industry is highly regulated, any such entity would be improperly representing itself to be a legitimate APRA-regulated entity and would be subject to investigation and enforcement action.

4.8 The ANAO undertook testing of APRA data regarding the asset value of all entities that triggered a levy in the period 1 July 2012 to 31 October 2012,¹³³ covering 3885 entities that were included on an asset list provided by APRA. This testing is described further in paragraphs 4.29 to 4.34. Of the 3538 entities that were ongoing at the end of the period, five general insurance entities had not submitted 31 March 2012 returns. Of these, four entities were not required to submit returns, and one entity had failed to submit for reasons known to APRA. Accordingly, the ANAO's testing revealed that APRA's systems are able to detect instances where an entity on the asset list does not lodge a return.

Accuracy of asset value data

4.9 Under the *Financial Sector (Collection of Data) Act 2001*, all APRA-regulated entities are obliged to report their asset data in accordance with APRA's reporting standards. Further, APRA is empowered to take actions (such as requesting information or requiring a variation) if it considers a reporting document is inadequate.¹³⁴ The Act imposes penalties for failure to comply with reporting obligations, and non-compliance can be followed up by APRA's enforcement area.

4.10 APRA Statistics maintains data quality procedures to help ensure that data provided by financial entities is accurate. In particular, extensive rules are incorporated in the electronic return forms which entities lodge with APRA. For example, as at June 2013 there were 3870 rules applying to approved

133 July to October 2012 was the timeframe during which APRA issued more than 90 per cent of its invoices for the 2012–13 levies.

134 *Financial Sector (Collection of Data) Act 2001*, Part 3. For example, APRA may consider that: the document is incorrect, incomplete or misleading; or does not comply with a reporting standard that applies to it; or does not contain information, or adequate information, about a matter. The Act includes an infringement notice scheme which APRA may use when information is not provided in a timely and complete way.

deposit-taking institutions.¹³⁵ These electronic rules (or conditions) create warning messages when information being entered by the entities falls outside pre-determined ranges, which are based on variances from previous returns provided by the entity or industry norms. These rules require the data to be amended or a detailed explanation to be provided of the reasons for the reported item.

4.11 Once the entity has lodged the form, APRA Statistics will review the explanations provided and seek further explanation if required. By way of illustration, the ANAO examined a return lodged by a major bank, whose responses had prompted 12 automated queries, and where the institution had responded by providing sufficiently detailed and meaningful explanations for each of the potential anomalies.

4.12 In circumstances where material errors are brought to attention, entities must correct their data and resubmit. The ANAO viewed an extract from an APRA worksheet that showed a number of return revisions made by entities. Many of these revisions were minor and indicated an effort by the financial entities to provide accurate information.¹³⁶ The revisions are taken into account in the modelling process.

4.13 APRA Statistics maintains a number of key performance indicators for data quality, one of which relates to the completeness and timeliness of asset data submitted by regulated entities. The target for one of these indicators is that 95 per cent of reporting entities have to provide sufficiently accurate and complete data by the due date (for example monthly for large banks and quarterly for credit unions). The ANAO examined the extent to which data submitted by regulated entities met this key performance indicator for the June and September 2012 and March 2013 reporting periods. Table 4.1 shows that this indicator was met for most industry sectors and components over the periods.

135 APRA, *ADI - D2A Validation Rules*, 17 June 2013, available from <<http://www.apra.gov.au/adi/reportingframework/Pages/ADI-Reporting.aspx>> [accessed 22 August 2013].

136 In one example, a bank made two revisions to its asset value which amounted to around \$100 000 in a total asset amount of \$3.8 billion.

Table 4.1: Achievement of key performance indicator for complete and timely submission, June and September 2012 and March 2013

Industry	Component	Reference Period	Target	Due Date	Actual
Superannuation	Annual (non small) ⁽¹⁾	30-Jun-12	95%	31-Oct-12	95%
	Annual (small APRA funds) ⁽²⁾	30-Jun-12	95%	31-Oct-12	98%
	Quarterly ⁽³⁾	30-Sep-12	95%	5-Nov-12	96%
Authorised deposit-taking institutions	Banks (Quarterly)	31-Mar-13	95%	19-May-13	98%
	Credit unions & building societies (Quarterly)	31-Mar-13	95%	5-May-13	93%
General insurance	Quarterly	31-Mar-13	95%	5-May-13	84% ⁽⁴⁾
Life insurance & friendly societies	Life (Quarterly)	31-Mar-13	95%	5-May-13	98%
	Friendly (Quarterly)	31-Mar-13	95%	5-May-13	93%

Source: APRA.

Note 1: Any super fund that is not a small APRA fund, a self managed superannuation fund or a single member approved deposit fund at the end of the reporting period.

Note 2: A small APRA fund or a single member approved deposit fund.

Note 3: Any super fund with more than \$50 million in assets.

Note 4: This variation was due to technical problems in submitting forms. The proportion of forms submitted within one week of the due date for this category was 95 per cent.

Confirmation of asset values

4.14 The APRA Finance team conducts quality checks in addition to those undertaken by APRA Statistics, including for completeness and reasonableness. Completeness is checked by comparing current year data with previous years' data. The ANAO examined APRA's audit file and noted that asset data for 16 entities (selected from all sub-sectors) had been validated by comparing their return forms for June and December 2012 with APRA's statistical database.

4.15 APRA advised that the reasonableness of the data is tested by calculating the percentage growth of asset value from year to year for each institution and for the industry sector as a whole. If the percentage growth for an institution appears abnormally high or low compared to the percentage growth for the industry, or the growth for that entity in previous years, more research is undertaken to determine the causes of the apparent discrepancy.

Adjustments to anticipate asset growth and industry consolidation

4.16 To maintain the integrity of the levies funding mechanism, APRA seeks to minimise the extent to which it either under or over collects levies.¹³⁷ Under or over collection mainly occurs due to a difference in the actual asset values of institutions or from a change in the population of regulated institutions to that estimated at the time of calculating the levy rates.

4.17 To minimise variances, APRA calculates a:

- growth factor (which may be monthly, quarterly or yearly), to project from the historical asset data used in modelling the actual asset values used in determinations as at 1 July in the following year (this mainly relates to superannuation); and
- consolidation factor, which is a provision to allow for any unexpected industry consolidation at year end and to help ensure that APRA will not significantly under-collect its funding for the following year.¹³⁸

4.18 The growth rate is calculated from the actual average quarterly growth rates in asset values of industry sub-sectors over the previous two years. The Finance team then sets out its proposed view on the expected growth rate for the forthcoming quarter, derived from the actual data. The industry consolidation factor takes into account the prospects of mergers, wind-ups and other industry consolidations, especially in relation to large entities, and involves an assessment of the asset value of the largest leviable entities. The proposed growth rate and consolidation factors are provided to APRA's Management Group for approval (or amendment as required) by the end of April. Assumptions based on data from APRA's time management system are also provided.

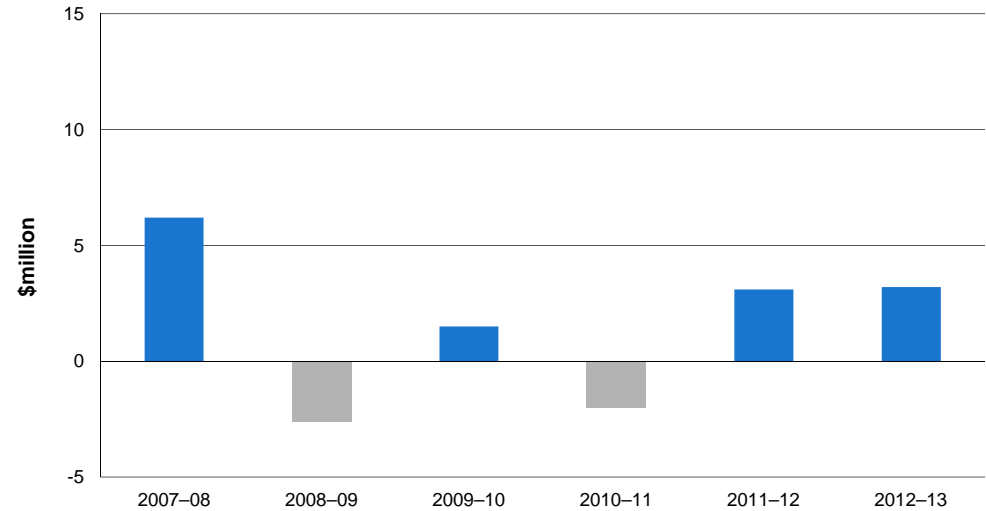
4.19 Figure 4.2 shows that the level of under or over collection in the six financial years since 2006–07 has ranged between \$2.6 million under-collected and \$8.5 million over-collected.¹³⁹

137 Adjusting for under and over collection is intended to ensure that the industry does not pay any less or more than the actual cost of APRA's regulation.

138 The percentage is calculated taking into account past trends in terms of asset growth, the variance between the modelled levy and actual collection, and factoring in any one-off impacts that have been brought to APRA's attention.

139 The final 2013–14 paper notes that based on 2012–13 expected collections, there will be an over-collection in APRA levies of \$3.2 million that will be refunded through the 2013–14 levies.

Figure 4.2 Under and over collection of APRA levies, 2007–08 to 2012–13



Source: ANAO analysis of APRA data.

Note: In 2006–07, levies were over-collected by \$6.2 million, primarily due to asset growth across all industry sectors that was higher than assumed.

4.20 There has generally been a relatively low level of under or over collection of APRA levies in recent years (representing around two per cent of APRA levies imposed). These levels of under or over collection indicate that APRA’s approach to adjusting for asset growth and industry consolidation, particularly in the past five years, has been effective.

Applying the modelling parameters

4.21 APRA’s levy modelling tool is a hybrid system which consists of two elements: a number of inter-related spreadsheets; and a module in the management accounting system. The ANAO was advised that APRA had largely moved its model to the management accounting system, and that spreadsheets were used to upload data into the system and as a check on the results obtained by the system. For modelling purposes the key data inputs are the expected APRA levy allocation (as confirmed in the Budget) for the forthcoming year, consolidated asset values, Time Management System data (which defines the splits between industries and between the supervisory and systemic categories) and the funding requirements for other agencies.

4.22 Key steps in this process are:

- for the restricted component—entering the minimum and maximum caps for each industry¹⁴⁰, and using a spreadsheet function to work backwards from the caps and the asset data to calculate the percentage rate that exactly recovers the total levy from each industry sector¹⁴¹; and
- for the unrestricted component—dividing the total levy required by the estimated total asset values of each industry to determine the single industry sector rate.

4.23 Once the process has been completed, APRA conducts a final overall check of the model for accuracy and completeness. While the modelling tool is unable to generate an automated audit trail, APRA maintains a hard copy audit file that the ANAO examined. The ANAO also conducted testing of APRA's use of its levy model to determine the 2012–13 levies. This analysis found there were no errors in the calculation of the applicable levy rates.

4.24 The ANAO's testing of the levy model, which was conducted using the spreadsheet version of the model, found that the modelling process was accurate. While the testing identified a number of common spreadsheet errors, these mostly related to checking fields, and would not affect the model's accuracy.

Use of spreadsheets and APRA's management accounting system

4.25 In January 2012, APRA promulgated an internal policy governing its use of spreadsheets, databases and other end user developed applications. It states that a business critical spreadsheet 'must be moved to an IT-managed system over the life of the spreadsheet—where possible'. The levy modelling spreadsheets are business critical, as their failure would have a 'moderate or higher consequence to APRA'.

4.26 Moving to a fully integrated database application would not only comply with APRA's spreadsheet policy, but also reduce the risk of human error and/or manipulation, and enable the creation of an automated audit trail. APRA has largely replicated its levy model in its management accounting

140 If there is a change in the parameters, APRA may need to run the model a number of times to assess the impact of adjusting the rates.

141 The function is referred to as 'goal seek'. In computing, goal seeking is the ability to calculate backward to obtain an input that would result in a given output. This can also be called what-if analysis or back-solving.

system and uses the spreadsheet version of the model as a check (and to input data into the management accounting system).

4.27 In relation to data input, the ANAO noted that the spreadsheets are used to upload into the management accounting system the asset data obtained from the statistics database, the agreed growth rates, the levy targets for each industry and the maximum and minimum caps. In relation to the model itself, the only element not replicated in the management accounting system was the rates calculation spreadsheet. APRA explained that its management accounting system does not perform a ‘goal seek’ function similar to that available as a spreadsheet function. APRA advised that because ‘goal seek’ was readily available in its spreadsheets application, it was not built into the management accounting database.

4.28 In accordance with its internal spreadsheets policy, and to provide greater assurance of calculation accuracy, there would be benefit in APRA considering the benefits and costs of fully automating its levy modelling process.

Billing levies

4.29 APRA bills virtually all levies (approximately 99.5 per cent) using an automated system. This process is applied to entities that were regulated in the previous financial year and subsequently submitted an annual return. A manual calculation process is applied to those entities that APRA first regulates after the commencement of the levying period. For 2012–13, the ANAO tested a total of 3552 automatically and manually generated invoices, of which 3538 were automatically generated. The automated calculation and billing process (outlined in Figure 4.3) involves:

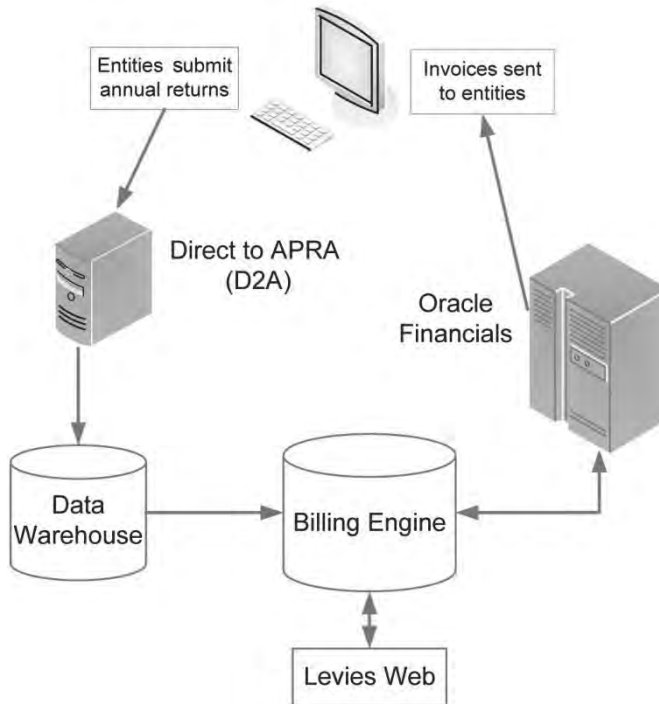
- entities submitting annual returns¹⁴²—which are lodged in APRA’s electronic data submission system, known as Direct to APRA (D2A), and then transmitted to APRA’s billing engine.¹⁴³ Automated system validations of the returns are carried out at this stage;

142 The levy to be paid by an entity is based on the annual return lodged by each supervised institution, called the Statement of Financial Position.

143 APRA, D2A, <<http://www.apra.gov.au/crossindustry/pages/d2a.aspx>> [accessed 26 February 2012].

- returns data being transferred from @APRA to APRA's data warehouse—the key control over this process is a manual review of returns data by APRA's Statistics team; and
- returns data being transferred from the data warehouse to the billing engine—twice daily, the system automatically extracts new returns data from the data warehouse into APRA's levies billing database.

Figure 4.3 Automated calculation and billing process for APRA levies



Source: APRA Technical Architecture Overview – Levies Billing Engine Project.

4.30 The billing engine calculates the levies using the rates prescribed in the levy determinations. The system performs a validation check on the net asset value in the entity's current return compared to its last return. If there is a variation of plus or minus 50 per cent, then this is automatically flagged to users of the billing engine. APRA has advised that, in its view, the current tolerance level is appropriate, given the other controls that asset data is subject to. At the current tolerance level, APRA states its past experience has indicated no instances where asset values were incorrectly provided.

4.31 APRA also undertakes testing prior to each annual levy rate change.¹⁴⁴ In 2012–13, this testing included submitting 10 randomly selected returns from the 2011–12 and 2012–13 years through the APRA system and a test version of the financial system, and using these to test the new rates entered into the system. A sample of the minimum, midpoint and maximum rates was used and every industry sector was covered. Other testing was conducted for:

- the national claims and policies database levy (to check that the levies web system was producing the correct billing results when the data was loaded into the financial system); and
- non-operating holding companies (to ensure that the individual company entries were using the correct information).

The results of the tests validated APRA’s processes. Once an entity submits a valid form, the automated levy invoicing process occurs.

Testing of automated calculation processes

4.32 The ANAO conducted testing to determine whether both the automated and the manual calculation processes were being performed correctly. This testing covered the entire population of entities providing relevant data to APRA in the period 1 July 2012 to 31 October 2012, with the main data source being an asset list provided by APRA of entities that triggered a levy in the testing period (3885 entities as shown in Table 4.2).

Table 4.2: Levy entities tested, having provided relevant data to APRA in the period 1 July 2012 to 31 October 2012

Description	Tested
Full year levies calculations	3538
Wound up entities (no levy charged)	342
Entities listed with zero net asset balance (no levy charged)	5
Asset List Total	3885

Source: ANAO analysis of APRA data.

4.33 The testing replicated the levies calculation by including the key parameters of: the restricted levy rate and value; the minimum and maximum

144 The APRA Finance team is required to sign off on the completion of testing before APRA IT implements the new levy rates into the production environment.

caps for the restricted component; unrestricted levy rate and value; and any special component¹⁴⁵, as outlined in Appendix 2.

4.34 For each of the 3885 entities tested, the ANAO's calculation was identical to APRA's automated process, which was also reflected in the invoice register. The testing identified no discrepancies in the accuracy of APRA's levies calculation or billing systems and confirmed that they are operating effectively.

Manual calculation process

4.35 All entities that APRA regulates following commencement of the levying period must be invoiced pro-rata for the period that they are regulated. For this purpose, first-year pro-rated levies for newly-regulated entities are calculated manually—that is, APRA staff input the data and formulas used in the calculations.

4.36 This process requires the APRA Registrar to provide a list of entities that were regulated by APRA during the last quarter. This data is then translated onto two data spreadsheets (containing either superannuation or non-superannuation data). The previous year's pro-rata levies summary and the annual levy determination are also reviewed, to check that the entity has not been billed pro-rata previously and that the levy percentages used are appropriate for the year that the pro-rata levy applies to. The levy is then calculated in accordance with the formula prescribed in the relevant determinations.

4.37 The ANAO tested the 14 manual levy calculations over the same period (1 July 2012 to 31 October 2012), covering those records not included on the asset list. This testing also revealed no discrepancies in the accuracy of APRA's manual levy calculation and billing practices and confirmed that they were operating effectively.

145 The National Claims and Policies Database collects policy and claims information relating to public/product liability, and professional indemnity insurance from institutions within the general insurance industry. The National Claims and Policies Database levy, unlike the supervisory levy that is based on asset values of individual institutions, is based on gross earned public/product liability and professional indemnity premium. Department of the Treasury and APRA, *Financial Levies for 2013–14*.

Collecting levies

4.38 Arrangements for the timing of payments and collection of levies are prescribed in the *Financial Institutions Supervisory Levies Collection Act 1998*, which establishes the legislative framework for levies.¹⁴⁶ These arrangements also include provision of a late payment penalty at the rate of 20 per cent per year. On submission of a valid return and after ministerial determination of the applicable rates, APRA provides an invoice to regulated entities, allowing either 28 days (for non-superannuation entities) or 42 days (for superannuation entities) before the payment is due and payable.¹⁴⁷ APRA has a delegation to waive a debt on request from an entity.¹⁴⁸

4.39 APRA has experienced minimal problems with respect to unpaid debt, as demonstrated by Table 4.3. Stakeholders, in discussions with the ANAO, indicated that their members had not raised any concerns about the invoicing and payment processes.

Table 4.3 APRA's unpaid levies debt, June 2011 to June 2013

	June 2011 \$'000	June 2012 \$'000	June 2013 \$'000
Levies receivables (30 June)	29	9	267
Number of entities in arrears	5	33	293
Receivables ageing:			
Overdue by:			
0 to 30 days	8	-	-
31 to 60 days	1	-	-
more than 90 days	4	-	-

Source: ANAO analysis of APRA Annual Report 2011 and 2012, and information provided by APRA.

Managing levies risks

4.40 The effective management of risk requires a robust, agency-wide risk management framework where decisions are based on an accurate,

¹⁴⁶ Levy payments are collected by means of cheques, Australia Post and electronic funds transfer to the APRA Official Administered Receipts Levy Account.

¹⁴⁷ Debts outstanding for over 30 days are followed up with the debtor.

¹⁴⁸ Section 47 of the *Financial Management and Accountability Act 1997* requires APRA to actively and appropriately manage debt cases. This includes the use of its legislative discretion to decide when and in what circumstances it is not economical to pursue a debt. The decision that a debt is uneconomical to pursue is termed a 'write-off'.

well-informed evaluation of associated risks. APRA's Enterprise Risk Management Framework was implemented in 2009–10 for the identification, monitoring and management of risks to APRA's mandate and objectives. Potential risks are regularly assessed, with consolidated risk reports submitted on a quarterly basis.

4.41 The ANAO examined the Enterprise Risk Management Framework as at 14 September 2012 to determine whether APRA had accurately and transparently identified levies risks. Specifically, there was one risk scenario relating to the levies process: 'APRA levies modelling (is) inaccurate or untimely'. The controls and supervisory measures to mitigate this risk are 'sample checks, review of assumptions (and) change control processes'.

4.42 The Framework has not specified any risk scenarios relating to levies generation and billing. The Framework, however, has identified a number of controls and supervisory measures relating to these matters, including levy billing reconciliations, commercial debt management, Financial Management Information System controls, and accounts receivable management controls, including daily, weekly and monthly reconciliations. Separately, APRA has specified a number of monitoring activities, including identifying any data quality issues and levy quality sample checks in relation to billing and calculation. Accordingly, APRA could include separate risk scenarios for levies generation and collection.

4.43 The ANAO also examined APRA's Fraud Control Plan, which was revised in 2013. This plan addresses: risks that revenue income (including levies income) is redirected and misappropriated; risks involving the lack of proper authorisation for waivers and write-offs; and also a series of risks relating to the 'inaccurate calculation of levies'.¹⁴⁹ Accordingly, the fraud risks relating to levies income have been extensively covered in APRA's Fraud Control Plan.

Internal audit coverage of levies calculation and billing

4.44 APRA's Risk Management and Internal Audit section (Internal Audit) conducts reviews of the modelling, generation and accounts receivable

149 Given that this last series of risks relates to the fraudulent miscalculation of levies, APRA may wish to rename this risk category.

elements of the levies. In recent years, Internal Audit has endeavoured to conduct one of these reviews each year.

4.45 The ANAO examined final reports produced by Internal Audit in December 2010, September 2012 and May 2013. The audits rated the adequacy and effectiveness of controls as either 'Satisfactory' or (in the case of levies generation) 'Sound'. The September 2012 report on levy modelling noted that a previous medium risk issue, involving independent validation of the levy model, remained to be resolved. The Finance team undertook a review in April 2013 and found that the model reflected the legislation and was producing the correct rates.

Conclusion

4.46 APRA has sound processes for modelling and calculating the financial industry levies. Its controls provide a high level of assurance that all leviable entities are subject to the levies, and that those entities are correctly reporting their asset data. The ANAO's testing found that APRA's model was accurately calculating levies. Nonetheless, while APRA's modelling tool is largely replicated in its management accounting system, spreadsheets are still used for entering data and calculating the applicable rates. To further minimise the possibility of inaccuracies, there would be merit in APRA considering the benefits and costs of moving to a single, fully automated levy modelling system.

4.47 APRA's billing and collection processes are operating effectively. APRA has extensive controls to help ensure that financial entities report the correct asset values, and it undertakes thorough testing prior to each annual levy rate change to provide confidence that its processes are robust. The ANAO tested both the automatic and manual calculation processes and identified no discrepancies. APRA has minimal problems with respect to debt, and has an effective framework for levies risk management and fraud control.



Ian McPhee
Auditor-General

Canberra ACT
7 November 2013

Appendices

Appendix 1: Agency responses

APRA provided the following detailed response to the recommendations:

Recommendation No.1

To improve the effectiveness of consultation with stakeholders about proposed levies parameters and the financial industry levy methodology encompassing APRA's costs, the ANAO recommends that the Treasury, supported by APRA:

- (a) provide additional time and opportunities for stakeholders to participate in the annual levies consultation process; and
- (b) increase the extent of public information available about the levy methodology, and how APRA's prudential regulation activities are linked to its costs.

APRA response: *Agreed.*

Recommendation No. 1 (a)

APRA acknowledges that stakeholders have, in recent years, been given shorter timeframes in which to participate in the annual levies consultation process. However, given that the maximum consultation period is bounded by the Budget release in early May and the need to have levies determined by the Minister by 30 June, there is only limited scope to expand the consultation period. Nonetheless APRA will explore, in conjunction with the Treasury, whether there is scope to extend the consultation period. In addition, APRA notes the Treasury's intention to re-emphasise the opportunity for stakeholder engagement on levies as part of the existing pre-budget submission process.

Recommendation No. 1 (b)

APRA acknowledges that transparency on APRA's costs and their linkage to the provision of prudential supervision is best supported by the maintenance of Cost Recovery Impact Statements (CRIS). As such, APRA has actively engaged with the Department of Finance and Deregulation (as it then was) over recent years to ensure the annual levies consultation paper encompasses the core elements of a CRIS. Separately, and in line

with the 2013 introduction of the revised Cost Recovery Guidelines, APRA has committed to completing a new and comprehensive CRIS by June 2014.

Recommendation No.2

To help ensure that the levies imposed on financial entities reflect the costs of efficient prudential regulation, the ANAO recommends that the Department of the Treasury and APRA review the financial industry levy methodology and consider the:

- (a) impact on levies distribution between industry sectors of more fully allocating APRA's indirect costs;
- (b) application of the restricted and unrestricted components, including with reference to the activities being allocated to them and the minimum and maximum caps; and
- (c) appropriateness of applying the APRA financial levy methodology to calculate the levies collected by APRA on behalf of other Australian Government agencies.

APRA response: *Agreed.*

Recommendation No. 2 (a)

The ANAO notes the potential for levy subsidisation across industry groups as a result of APRA continuing to use a simple pro rata method (based on staff metrics) to allocate indirect costs. The ANAO has advocated a review of APRA's current costing methodology to improve indirect cost allocation.

APRA considers that the ANAO did not give sufficient consideration to assessing the merits of APRA's current costing methodology, particularly from a cost and efficiency perspective.

Nonetheless and as part of its continuous improvement program, APRA will review its levies costing methodology in coming years and in the light of conclusions drawn from the current strategic review of its financial management systems.

Recommendation No. 2 (b)

The ANAO noted the potential for cross-subsidisation within an industry group, thereby undermining the vertical equity principle inherent to the methodology, due to the allocation of certain APRA activities into the restricted rather than the unrestricted component. In addition, the ANAO noted that the use of caps in the restricted component had recently diverged from their original intent.

APRA had commenced a review of the allocation of its indirect activities to the restricted component as part of the 2013 Levies Methodology Review, which predated the ANAO performance audit, and this work is continuing.

Similarly, and based upon stakeholder feedback, a review of the restricted component caps will also be undertaken as part of the 2013 Levies Methodology Review.

Recommendation No. 2 (c)

The ANAO's observation confirms APRA's view that the 'shoehorning' of non-APRA-related levy collections (for example, the Superstream levy) into the existing levies methodology may generate suboptimal (in terms of equity) levy imposts upon individual or groups of institutions.

Reliance on the current APRA levies methodology for the collection of other proposed non-APRA-related levies may compound any distortion in individual levy outcomes.

As such, APRA will support the Treasury in investigating the development of separate models for non-APRA-related collections, subject to time and resourcing constraints.

Treasury provided the following response to the audit:

The Treasury welcomes the ANAO's findings that the methodology has been applied in a manner consistent with the Government's intent of recovering the full costs of APRA's administration; and that the levy methodology is administratively simple and uniform. The Treasury also welcomes the finding that imposition of the levies has been consistent with the principles of equity and competitive neutrality.

The issues identified by the ANAO in its audit report have also been raised by stakeholders in the context of the *2013 Financial Industry Supervisory Levies Methodology Review*. Treasury recognises there is currently only a relatively short window for consultation between the budget and the deadline for finalisation of the levy determinations at the end of each financial year. It is also recognised that the levy methodology is relatively complex and it can be difficult for stakeholders to understand the rationale for particular outcomes.

The Treasury is currently working with APRA on how we can respond to the desire of stakeholders for improved transparency and better consultation.

The main purpose of the current annual consultation process is to seek feedback on the allocation of the levies between industry sectors. This is because the total levy has already been decided through the budget process. We are considering how stakeholder views could be sought earlier on the aggregate amount proposed to be collected from the financial industry to better inform Government decision-making in the budget process.

On the issue of transparency, we acknowledge there would be benefit in setting out more clearly the rationale for how costs are allocated across different components of the levy as well as across industry sectors. This would assist stakeholders in framing their input to Government.

Appendix 2: Financial industry and financial assistance levies, 2012–13

Levy	Description
Authorised deposit-taking institutions (ADI) supervisory levy	This levy was imposed by the <i>Authorised Deposit-Taking Institutions Supervisory Levy Imposition Act 1998</i> on ADIs. For 2012–13 the unrestricted and the restricted levy percentages were the same for foreign ADIs, specialist credit card institutions and providers of purchased payment facilities. The restricted levy percentage was higher for ADIs which were outside the above categories.
Life insurance supervisory levy	This levy was imposed by the <i>Life Insurance Supervisory Levy Imposition Act 1998</i> on life insurance entities. For 2012–13 the restricted component of the levy was calculated at 0.00689 per cent of assets held by the entity; subject to a minimum of \$490 and a maximum of \$1 103 000 and the unrestricted component was calculated at 0.001856 per cent of assets.
General insurance supervisory levy	This levy was imposed by the <i>General Insurance Supervisory Levy Imposition Act 1998</i> on companies registered under the <i>Insurance Act 1973</i> . For 2012–13, the general component funded APRA operations and some ASIC and ATO activities. The restricted component was calculated at 0.01316 per cent of assets with a minimum of \$4900 and a maximum of \$887 000. The unrestricted component was calculated at 0.007195 per cent of assets.
Superannuation supervisory levy	This levy was imposed by the <i>Superannuation Supervisory Levy Imposition Act 1998</i> . Each year a Superannuation Supervisory Levy Imposition Determination states the maximum and minimum levy amounts and the restricted and unrestricted levy percentages. The levy includes an amount to cover APRA, ASIC and ATO costs. For 2012–13, the maximum restricted levy was \$2 000 000 and the minimum was \$590, with a restricted levy percentage of 0.02434 and an unrestricted levy percentage of 0.006535. The flat rate levy amount for Small APRA Funds was increased for 2012–13 from \$500 to \$590 per fund.
Financial assistance levy no.4	This levy was imposed under the <i>Superannuation (Financial Assistance Funding) Levy Act 1993</i> . In 2010–11, the Assistant Treasurer made one determination to grant financial assistance of \$54 994 079 under Part 23 of the <i>Superannuation Industry (Supervision) Act 1993</i> to affected superannuation fund members with investments with Trio Capital Limited.

Source: ANAO analysis of the determinations made under the relevant Acts.

Appendix 3: Sample of ANAO testing of APRA levies calculations for individual entities, 1 July 2012 to 31 October 2012

		ANAO Calculation						APRA Invoice Amount
ID	Fund Value (\$000)	Restricted rate (%)	Restricted value	Unrestricted rate (%)	Unrestricted value	Sum of restricted and unrestricted	Final Levy Amount	
A	760	0.0000	590	0.00000	0	590	590	590
B	7 235	0.00689	498	0.001856	134	633	633	633
C	12 182	0.0000	590	0.00000	0	590	590	590
D	51 252	0.01316	6 745	0.007195	3 688	10 432	12 932 ⁽¹⁾	12 932
E	161 884	0.02434	39 773	0.006535	10 679	50 452	50 452	50 452
F	296 824	0.00207	10 300	0.000566	1 680	11 980	11 980	11 980
G	423 496	0.01316	55 732	0.007195	30 471	86 203	96 203 ⁽²⁾	96 203
H	1 571 600	0.00414	65 064	0.000566	8 895	73 960	73 960	73 960
I	36 055 699	0.02434	2 000 000 ⁽³⁾	0.006535	2 356 240	4 356 240	4 356 240	4 356 240
J	48 103 958	0.00414	1 991 504	0.000566	272 268	2 263 772	2 263 772	2 263 772

Note 1: Includes National Claims and Policies Database levy Special Component of \$2500.

Note 2: Includes NCPD Special Component of \$10 000.

Note 3: Maximum payment for Superannuation funds was \$2 million.

Source: ANAO analysis of APRA levy calculations.

Index

A

Activity Based Costing, 71
Annual consultation paper, 19, 41, 45, 49, 56
Audit objective, 16
Australian Government Cost Recovery Guidelines, 16, 20, 31, 38, 42
Australian Securities and Investments Commission (ASIC), 14, 33, 39, 65, 73
Australian Taxation Office (ATO), 14, 33, 39, 65, 73
Authorised Deposit-taking Institutions Supervisory Levy Imposition Act 1999, 34
Authorised Non-operating Holding Companies Supervisory Levy Imposition Act 1998, 34

B

Benchmarking, 21, 73, 74, 75
Billing levies, 86

C

Cost Recovery Impact Statement, 20, 21, 51, 55, 56, 72, 75, 95

D

Department of Finance and Deregulation, 31, 39, 42, 56, 59, 78, 79, 95
Department of Human Services (DHS), 14, 33, 39, 65, 73
Direct costs, 69, 70

E

Explanatory Memorandum, 35

F

First Home Saver Account Providers Supervisory Levy Imposition Act 2008, 35
Fully distributed costing, 62, 70

G

General Insurance Supervisory Levy Imposition Act 1998, 34

I

Indirect costs, 17, 20, 24, 69
Industry consultation, 18, 41

L

Levy collection, 17, 59, 97
Levy methodology, 14, 18, 20, 24, 36, 48, 59
Levy methodology review, 17, 37, 42, 48, 52, 65, 66, 76, 97
Life Insurance Supervisory Levy Imposition Act 1998, 34

R

Retirement Savings Account Providers Supervisory Levy Imposition Act 1998, 35
Risk Management Framework, 90

S

Superannuation Supervisory Levy Imposition Act 1998, 35
System impact, 15, 17, 20, 36, 63, 65, 66, 76

V

Vertical equity, 15, 17, 20, 36, 63, 65, 76, 97

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