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By email: fsleviesreview@treasury.gov.au

Dear Mr Douglas

Review of the financial industry supervisory levy methodology

Abacus welcomes the opportunity to make a submission in response to Treasury's discussion paper on the methodology behind the calculation of APRA levies.

Abacus is the industry association for Australia's mutual banking institutions, representing 86 credit unions, seven mutual building societies and eight mutual banks. Our members are Authorised Deposit-taking Institutions (ADIs) regulated by APRA under the Banking Act 1959. Abacus members provide the full range of retail banking services and products to more than 4.5 million customers.

Abacus broadly supports the concept of cost recovery being used to recover at least a proportion of the costs incurred by APRA in regulating industry. We recognise that, consistent with the Government's Cost Recovery Guidelines, cost recovery can help to improve equity by "ensuring that those ... who create the need for regulation bear the costs."[1]

However, we do have a number of concerns about the way the current process operates. Specifically, we question whether:

- full cost recovery is appropriate, and whether a partial government contribution would lead to improved outcomes;
- the current approach is effective in ensuring that APRA's costs remain efficient;
- the levy distribution methodology results in an equitable apportionment of APRA's costs;
- there is sufficient openness and transparency around the process for industry to provide informed feedback on individual levy decisions and the distribution process more broadly; and
- the general approach to consultation provides sufficient time for stakeholders to properly consider the issues.

Our comments below set out our thoughts on each of these issues in greater detail.

[1] Dept. of Finance and Administration, *Australian Government Cost Recovery Guidelines,* July 2005, p. 11.

Appropriateness of full cost recovery

The current methodology assumes that full recovery of APRA's costs from industry is appropriate. This is consistent with the recommendation of the 1997 Wallis inquiry, which found that, "as a general principle the costs of financial regulation should be borne by those who benefit from it."[2]

However, we believe that a broad review of APRA's current cost recovery arrangements should include consideration of whether an explicit move to partial cost recovery is appropriate. While the Wallis inquiry recommended that APRA's costs be recovered through a levy on regulated industry sectors, it is arguable that these industries are not the only beneficiaries of the prudential framework.

The Discussion Paper notes that "prudential regulation is seen as having public good characteristics,"[3] and acknowledges that "…a stable, well-regulated financial sector confers benefits on the entire community, not just the regulated parties."[4] These two points appear to provide strong support to the idea of the Government partially funding the activities of the prudential regulator. Such a suggestion is far from revolutionary – with the Discussion Paper noting that "most countries fund their prudential regulators through a mixture of government and industry funding."[5]

While the Discussion Paper goes on to present several justifications for full industry cost recovery, Abacus does not see any of these arguments as compelling.

- The Discussion Paper notes that under a fully government funded model, competing priorities for government funding could result in inadequate funding for the regulator, and a regulatory budget driven by overall budget balance targets rather than the actual needs of the prudential regulator. Abacus would argue that these concerns are significantly diminished if partial cost recovery is adopted.
- The Discussion Paper also notes that full industry cost recovery is consistent with the IMF's Financial Sector Assessment Program 'Core Principles,' which require that "each agency is financed in a manner that does not undermine its autonomy or independence and permits it to conduct effective supervision and oversight." While we agree that full government funding would not be consistent with this requirement, patrial government funding combined with a significant industry levy would not undermine independence.

The idea of partial government funding is not new. The Financial Sector Advisory Council (FSAC) has previously recommended that, "the Government ... reconsider its position on co-funding the financial system regulators given the significant public good

2 Wallis, *Financial System Inquiry Final Report*, March 1997, p. 532.
3 Treasury, *Financial industry supervisory levy methodology – Discussion Paper,* April 2013, p. 2.
4 ibid.
5 ibid., p. 1.

aspects of well-functioning markets (in addition to the benefits to firms in the regulated markets)."[6]

The Government has also effectively trialled partial cost recovery in recent years, with the 2008-09 Mid-Year Economic and Fiscal Outlook (MYEFO) including a government funded increase to APRA's funding of $45.5 million over four years. We note that the introduction of partial cost recovery over this period did not appear to have any detrimental impact on APRA's ability to operate with autonomy and independence, and APRA's overall funding level was not compromised by the introduction of government funding.

Unfortunately, this approach has now been reversed. While the Government announced further funding for APRA in the 2012-13 Budget, this time the costs are to be fully recovered through increases in APRA's levies.

Obviously the introduction of partial cost recovery would reduce the levies paid by industry, but we would argue that the main reason to move to such a model would be for the broader efficiency improvements such a funding model provides.

- Partial cost recovery is an effective way of recognising the public good elements of prudential regulation. It is more efficient to finance public goods through consolidated revenue than industry levies.
- Partial cost recovery gives the government an incentive to ensure that the costs of prudential regulation are efficient and that over-regulation does not occur. Under the current arrangements, the government is responsible for agreeing on APRA's level of funding but has no incentive to control APRA's costs as they have no impact of the government's budget.

In addition, some of the potentially detrimental consequences of partial government funding could be avoiding through careful design of the cost recovery approach. For example, if the cost recovery framework required the government to pay a fixed percentage of the prudential regulator's costs, this would remove their incentive to cut funding excessively, while still providing the government with a financial incentive to ensure that over-regulation did not occur.

The efficiency of APRA's costs

While previous reviews of APRA levies have looked at the way the levy is distributed between stakeholders, questions about the total magnitude of the levy are generally not considered.

For example, while the Issues Paper supporting the 2003 Levies Review acknowledged that "issues relating to how much money the levies should raise and provide for prudential supervision and regulation are important to the institutions being levied..." it also noted that "it is not the purpose of the Review to consider what resources should be provided to APRA..."[7]

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[6] FSAC, *Review of the Outcomes of the Financial System Inquiry 1997,* August 2003, p. 12.
[7] Treasury & APRA, *Review of Financial Sector Levies – Issues Paper,* April 2003, p. 2.

Abacus believes that getting the total "size of the pie" right is just as important as ensuring that the costs of that pie are distributed appropriately among regulated businesses. Regulated businesses should be confident that the levies being collected are necessary to provide an appropriate level of regulation, and that "over-regulation" is not occurring.

The original explanatory memorandum to the levies Bills from 1998[8] notes that one of the advantages of imposing levies is that: "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." However, it is difficult for industry stakeholders to question APRA's overall costs when the funding decision is not open to consultation, and where there is not enough information published about APRA's costs to make an informed comment on their appropriateness.

At the same time as industry is unable to question APRA's costs, the Government has no incentive to do so either. Under the current arrangements, the Government makes the decision on how much funding APRA should receive, but then collects all of the revenue through levies. Therefore, the Government is unable to capture the benefits of any reductions in APRA's costs, as these flow through to industry via lower levies. This mismatch is particularly relevant in the current environment, with the Government working hard to find savings and efficiencies in service delivery across all portfolios. The current funding arrangements for APRA mean that the Government lacks the incentive to expose APRA's requests for funding increases to similar levels of scrutiny.

The Cost Recovery Guidelines note 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."[9] The current cost recovery arrangements surrounding the APRA levy do not appear to contain any mechanisms to help avoid such an undesirable outcome.

We understand that APRA's Budget is considered by government along with a range of other expenditures as part of the Budget process, and that APRA is subject to the same "efficiency dividends" as other government agencies. However, the current framework appears to have done little to control APRA's growth in practice. Over the past five years, APRA's costs have increased from $89.3 million in 2006-07[10] to $121.1 million in 2011-12,[11] an average annual increase of more than 6.2%. APRA's expenditure is forecast to increase by a further 3.4% in 2012-13 to $125.2 million,[12] and the growth in APRA's Budget would have been even more pronounced but for an existing function (with a Budget of more than $4 million per annum) being moved from APRA to the Department of Human Services.[13]

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8 Explanatory Memorandum, *Financial Sector Levy Bills 1998*

9 Dept. of Finance and Administration, *Australian Government Cost Recovery Guidelines,* July 2005, p. 47.

10 APRA, *2007 Annual Report,* p. 50.

11 APRA, *2012 Annual Report,* p. 74.

12 Treasury & APRA, *Financial Industry Levies for 2012-13,* p. 4.

13 ibid., p. 6.

While under-regulation is in no one's interest, it is equally important that a mechanism exists which reduces the incentive for the sector to be over-regulated. As previously discussed, using partial cost recovery as a way of ensuring the Government has some "skin in the game" could be one way of achieving this.

At a minimum, given that industry is responsible for paying the levies, it should also be given an opportunity to comment on APRA's budget, and be provided with sufficient information and time to do this in an informed fashion.

More broadly, international comparisons and benchmarking, while not perfect, can also help to provide some indication of an Australian regulator's efficiency. We note that IP Australia already integrates benchmarking and international comparisons into its cost recovery development processes.[14]

The levy distribution methodology

As noted in the discussion paper, APRA levies are divided into two components, a restricted component which covers the costs of supervision, and an unrestricted component corresponding to APRA's broader activities such as policy development.[15] These components are then shared between individual businesses on the basis of their relative sizes (by assets). However, in the case of the restricted component, there are also maximum and minimum caps, which effectively lead to a fixed levy for very large and very small businesses.

According to the original levies memorandum, the existence of a maximum cap "reflects the view that ... beyond a certain size there is no extra cost in regulating an institution."[16] However, it could also be argued that it may be more appropriate to collect levies based on the proportion of the benefit received, rather than the proportion of the cost incurred. Certainly the Wallis review appears to have recognised this, noting that regulatory activities, "such as inspections, enforcement, and policy development," are undertaken "at the discretion of [APRA] and *for the benefit of customers*,"[17] (emphasis added).

Under this line of thinking, the key beneficiaries of prudential supervision are not the financial institutions but rather the consumers of their products (depositors and policyholders), and that the levies paid by each institution should be in proportion to the amount of stakeholder protection they receive from prudential regulation. Such an approach would lend support to a single uncapped levy rate based on the total assets held by each institution.

Even if you accept that ADIs (rather than consumers) are the appropriate beneficiaries, it is unclear how significant economies of scale are in practice. If economies of scale were a significant factor in the costs of APRA's ADI regulation, you would expect that consolidation in the sector over recent years would have reduced APRA's supervisory costs. However, this does not appear to have been the case in practice. In setting levies

[14] IP Australia, *Cost Recovery Impact Statement July 2012-Jun 2016,* p. 11.
[15] Treasury, *Financial industry supervisory levy methodology – Discussion Paper,* April 2013, p. 3.
[16] Explanatory Memorandum, *Financial Sector Levy Bills 1998,* p. 9.
[17] Wallis, *Financial System Inquiry Final Report*, March 1997, p. 532.

for the 2006-07 financial year, APRA noted that at the time they regulated 239 ADIs,[18] and to regulate the sector APRA set a total restricted levy of $20.6 million.[19] In contrast, for the setting of the 2012-13 levy, the number of regulated ADIs had fallen to 176,[20] but the restricted component of the ADI levy had increased to $30.3 million.[21] Despite significant consolidation occurring in this sector over the period outlined above, APRA's restricted component of ADI levies has increased significantly, and has actually increased far more quickly than APRA's overall costs.

In addition, some of APRA's work is exclusively focussed on the largest entities within each sector, with no relevance or benefit to the remaining institutions. For example, as part of the global banking reforms, APRA will be responsible for implementing the Domestic Systemically Important Banks (D-SIB) framework. The D-SIB framework will only apply to Australia's largest ADIs, in recognition of the significant impact that the stress or failure of one of these institutions would have on the Australian economy. While APRA can adopt a number of approaches to deal with D-SIBs, one of the key elements APRA has flagged publicly is an intention to undertake "more intensive supervision" of these institutions, which would presumable involve additional costs.

The Basel III liquidity reforms are another example of significant policy work in APRA directly almost solely towards larger ADIs.

In these areas, the prudential regulatory burden exhibits characteristics of diseconomies of scale, with an additional layer of policy intensity and regulatory supervision being applied to financial institutions above a certain size. Unfortunately, the current levy distribution methodology only recognises the cost savings that larger ADIs present APRA, without giving similar consideration to the additional costs that their size also imposes.

More broadly, the 2003 Levies Review Discussion Paper notes that while economies of scale may exist, "the failure of a large financial institution could be expected to have a larger systemic impact than the failure of a smaller institution," and "larger institutions might also be seen to have a greater interest in system stability as well as a greater capacity to pay."[22]

While some have argued that smaller ADIs derive a greater benefit from prudential regulation, we do not believe this is a fair statement. While small ADIs derive a benefit from being able to hold themselves out as being just as safe as the big banks, it is equally true that the largest ADIs are able to access funds at lower costs and derive significant financial benefits from the implied government guarantees which form part of the overall prudential framework.

We would also note that, leaving aside the direct cost of the prudential framework through levies, smaller ADIs already pay a much higher relative cost in complying with APRA's regulatory requirements. The costs to an ADI of meeting APRA's regulatory

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[18] APRA, *Proposed Financial Sector Levies for 2006-07,* p. 8.
[19] ibid., p. 6.
[20] Treasury & APRA, *Financial Industry Levies for 2012-13,* p. 9.
[21] ibid., p. 8.
[22] Treasury & APRA, *Review of Financial Sector Levies – Issues Paper,* April 2003, p. 21.

expectations are relatively fixed, and these costs therefore place a proportionally higher burden on smaller ADIs. The impact this has on competitive neutrality within the sector is only further compounded by a levy methodology that expects smaller ADIs to pay higher proportional costs.

We believe that the existence of the maximum cap, and the restricted levy component tied to this, is leading to highly inequitable outcomes.

The degree to which the maximum cap distorts the levy distribution depends on the level at which it is set. If very few businesses are above the threshold, and if these businesses represent a relatively small proportion of the sector's total assets, then the impact of the cap will be less significant. Unfortunately, the annual levy discussion papers provide little information on the coverage of the maximum threshold.

In 2003, a review of the maximum caps found that the proportion of entities in each sector subject to the maximum levy ranged from 2-23%, and the proportion of assets covered by the maximum levy ranged from 69-94%.[23]

The 2009 review found that the percentage of institutions subject to the maximum cap had been increasing since 2005, and that this creeping up in the coverage of the maximum cap was leading to undesirable outcomes. The review suggested increasing the maximum levy to reduce the number of institutions paying it, and noted that without such a change, "any future increase in levies resulting from an under collection in the prior year, or an increase in funding requirements for the regulators, would have a disproportional impact on small to medium sized entities."[24] While the maximum levies have since been increased, more broadly, the review noted that it would be desirable if the proportion of institutions paying the maximum levy remained relatively stable over time.

The level the maximum cap is currently set at has a significant impact on the levies of smaller financial institutions, as the following example demonstrates:

APRA will collect total levies of $50.3 million from the ADI sector in 2012-13. If there was no cap, and all ADI levies were simply a fixed percentage of assets, a levy rate of 0.00173% would be sufficient to achieve this goal, covering both restricted and unrestricted components. The table below illustrates the impact this would have on the levies paid by a range of hypothetical ADIs. While none of the hypothetical ADIs in the table are subject to the maximum cap, it is clear that the cap has a dramatic indirect impact on the levies they pay. If all ADIs were levied equally on the basis of the assets they held, the levies paid by most ADIs would immediately fall by around two thirds.

Levy amounts paid by hypothetical ADIs

Asset Base	$50m	$500m	$5b
Current levy[25]	$2,400	$23,500	$223,400
Levy with no cap	$867	$8,670	$86,700

[23] Treasury & APRA, *Review of Financial Sector Levies – Issues Paper,* April 2003, p. 22.

[24] Treasury & APRA, *Report of the Review of Financial Sector Levies,* June 2009, p. 6.

[25] Treasury & APRA, *Financial Industry Levies for 2012-13,* p. 13.

The Discussion Paper notes that Australia's four major banks together hold about 75 per cent of total ADI assets.[26] Despite representing three quarters of the sector, they pay less than 30 per cent of the restricted component of the total ADI levy. In contrast, the mutual ADI sector represents less than 3 per cent of total ADI assets, but pays more than 10 per cent of the total ADI restricted component. As a percentage of assets, mutual ADIs pay a restricted levy which is on average ten times as high as that paid by the four major banks.

While it may be possible for some argument to be made about the existence of economies of scale, this seems to represent an extreme skewing of the restricted levy component's burden towards smaller ADIs.

More broadly, we note that the maximum cap also has the undesirable side-effect of increasing the volatility in the levies paid by regulated institutions.

Previous reviews of the levy system have recognised concerns around volatility and noted the benefits of payments remaining relatively stable over time. In an effort to address payment volatility, the current methodology averages the regulatory intensity over the previous four years in calculating the proportion of the restricted and unrestricted levies applied to each sector.[27] However, evidence from previous years has shown that this approach is not an effective way to reduce volatility.

The current formula has led to dramatic volatility in the levy payments faced by some groups. For example, for a hypothetical life insurer with assets of $500 million the levy increased from $24,415 in 2007-08 to $55,115 in 2009-10, more than 125%. In contrast, the levy paid by the largest life insurers in the sector (those with assets of more than $50 billion) increased by 54% over the same period. Total APRA funding from the life insurance sector also increased by 54% over this period. On this occasion, the majority of the change in the levies paid by the small and mid-size entities in the sector was driven by the funding formula (and the maximum cap), not by APRA's funding requirements.

A similar situation occurred in relation to the proposed levies for the ADI sector in 2012-13. APRA levies for the sector increased by 12%, and the initial Government proposal would have seen the levies from most ADIs increase by 22% while the levies for a bank with assets of $500 billion would have only increased by 0.4%. The proposed levy scenario would have produced an outcome so lopsided that the size of the increase in dollar terms would have been bigger for the mid-sized banks than it was for the largest banking institutions. A hypothetical bank with assets of around $500 billion would have seen their levy increase by only $17,000, while a bank with a tenth of the assets would have seen their levy increase by $48,500 – almost three times as much. Once again, the driver of the lopsided outcome was the maximum cap.

The ideal way to resolve the problems created by the maximum cap would be to abolish it altogether, and we believe that there are compelling reasons for the Government to adopt this approach. However, failing this we believe that at a minimum, greater

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[26] Treasury, *Financial industry supervisory levy methodology – Discussion Paper,* April 2013, p. 2.
[27] See, for example, p. 7 of *Proposed Financial Industry Levies for 2012-13*.

transparency needs to be provided around the impact of the cap and the processes used to set the maximum cap each year.

For example, the annual levies review paper should include data about the proportion of institutions and assets that were above the maximum cap each year. It would also be useful if the average effective levy rate for those above the maximum cap could be published. This additional information would assist industry in assessing the magnitude of the vertical cross-subsidisation, and the appropriateness of the proposed maximum cap.

Providing this additional information would help to address one of the key concerns about the maximum cap, namely its complete subjectivity. While there is a methodology used to calculate most elements of the APRA levy and its distribution, there appears to be no standardised way of managing changes to the maximum levy over time. Instead, the discussion paper simply states the proposed maximum cap for the coming financial year, without any context, rationale or explanation.

We understand that the maximum cap is set by the responsible Minister each year after consultation with the Department, however, it is not clear what information is used to guide this decision, and what factors the Minister takes into consideration in making the determination. Given that the maximum cap is one of the key elements which drives the levies paid by all institutions in each sector, this approach is unsatisfactory.

There are a number of methodologies which could be used to create a formal process for setting the maximum cap. For example, it could be adjusted annually to ensure that:

- the proportion of total restricted levies being paid by those subject to the maximum cap remained stable over time; or
- the ratio of the effective levy paid by small institutions against that paid by those on the maximum cap remained stable over time; or
- the percentage increase in levies paid by smaller institutions is no greater than the percentage increase paid by those on the maximum cap; or
- percentage increases in levies paid by smaller institutions were no greater than the percentage increase in APRA’s overall funding requirement.

While each of these options has its own pros and cons, they do provide a formalised methodology for deriving a broad indication of the level at which the maximum levy should be set each year. Having a more predictable path for changes in the maximum levy would also be expected to assist in reducing levy volatility.

Transparency

Providing industry with greater transparency around all aspects of the levy process would provide stakeholders with greater assurance about the appropriateness of the current arrangements, and would also give stakeholders the information they need to make informed comments as part of the regular consultation process.

Under the present arrangements, the annual Levies Consultation Papers[28] contain little information explaining or justifying APRA's costs in any given year. Stakeholders cannot make any assessment of the appropriateness of APRA's expenditure (and therefore the appropriateness of the aggregate levy) in the absence of this information.

For example, this year's Paper contains a brief description of APRA's supervisory and policy activities with most elements couched in general terms. As part of this, the paper sets out APRA's "strategic objectives" for the coming financial year. Unfortunately, as broad goal-type statements, there is no direct link between APRA's organisational objectives and its budget. In fact, the strategic objectives in the 2012-13 paper are identical to those set out in 2011-12, providing no indication of what has driven the changes in agency costs.

Similarly, the Paper goes on to state that the ADI component of the levy will "support APRA's heightened supervisory intensity of the ADI industry and enhancements to the prudential framework, particularly the Basel Committee reforms on liquidity and capital." Once again, the components set out in the 2012-13 paper are the same as those outlined in 2011-12.

While these descriptions would imply no change in APRA's workload, APRA's levy on the ADI sector increased from $40.7 million to $46.9 million (by 15%), and more broadly, funding for APRA as a whole over the next four years was increased by $82.4 million. It is difficult to reconcile these increases with the description of APRA's activities provided in the Levies Consultation Paper.

In relation to transparency, the Government's Cost Recovery Guidelines state that "to meet their transparency obligations, agencies should adopt costing models sufficiently detailed to allow ... stakeholders to analyse their production costs. Agencies should develop clear costing models detailing actual costs, and how these costs relate to prices..."[29]

Part of the difficulty around understanding the composition of APRA's costs could be due to Levies Consultation Papers focussing on outcomes rather than outputs. While reporting on outcomes is generally a good thing, and demonstrates the organisation is seeking to achieve a particular goal rather than simply going through a process, it is very difficult to link costs to outcomes, particularly if no information is provided about the outputs that feed into a particular outcome.

Other Government agencies have been able to provide stakeholders with a more transparent indication of their costs. For example, IP Australia currently uses Activity Based Costing to apportion the costs of their various activities. According to IP Australia's latest CRIS, by using Activity Based Costing, "the organisation is able to divide the separate cost projections by activity group so that projected revenues by activity group can be matched with projected costs..."[30]

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[28] These papers change name each year – the latest one was titled *Proposed Financial Industry Levies for 2012-13.*

[29] Dept. of Finance and Administration, *Australian Government Cost Recovery Guidelines,* July 2005, p. 47.

[30] IP Australia, *Cost Recovery Impact Statement July 2012-Jun 2016,* p. 12.

One of the advantages of Activity Base Costing is that it allows for the more efficient allocation of overheads.[31] While APRA no longer publishes a breakdown of its costs between categories, their 2011-12 Levies Consultation Paper showed that administrative costs and depreciation collectively represented around a quarter of total costs. In addition, some employee costs would be dedicated to activities that are difficult to allocate to a particular sector, which can be considered as analogous to overheads when looking at cost recovery. For these reasons, consideration should be given to whether the introduction of Activity Based Costing would be beneficial for APRA.

Given that APRA has fully-recovered expenses of more than $100 million per year, the lack of detail around costs is a significant concern. Ideally, a comprehensive and transparent statement around APRA's budget each year would address the following questions:

- What are APRA's current key projects, and how much is it spending on each of these?
- Where is APRA focussing its expenditure? How much is it spending on policy, how much on supervision, and how much on research? Is APRA's proportion of effort in each of those areas shifting over time?
- What has driven the changes in APRA's costs since the last levies decision? In what areas has the intensity of their work increased, and where has it decreased?
- What steps is APRA taking to ensure that its cost base remains efficient? Is APRA meeting the targets set out in the Government's efficiency dividend? What savings has APRA made to meet these targets?

Table 5 of the 2012-13 Levies Consultation Paper provides a breakdown of APRA's time by industry sector. Given that APRA already tracks its costs to this level of detail, it should be possible to provide industry with a more granular understanding of the drivers behind changes in APRA's costs without increasing APRA's internal reporting obligations.

More generally, we understand that increases in APRA's funding are approved by government as part of the Budget development process each year. We would presume that as part of this process, APRA or Treasury presents sufficient information and evidence to the responsible decision makers to justify the requests for additional funding. If the same information could be publicly released as part of the annual levy review process it is likely that this would address many of the current concerns around transparency, without creating any additional work for Treasury or APRA.

Consultation

Effective consultation is an important part of the levies development process, particularly as the changes in levies can often be quite significant. The consultation process should provide stakeholders with sufficient time to provide considered feedback, and should acknowledge and address concerns raised by stakeholders in the final decision.

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[31] NSW Treasury, *Service Costing in General Government Sector Agencies,* June 2007, p. 24.

Consultation timeframes

In recent years, the period of consultation has averaged roughly two weeks, though it has been as short as seven business days. The table below sets out the consultation periods for consideration of the APRA levy over the past four financial years.

Year	Opened	Closed	Consultation Period
2009-10	10 June	19 June	7 working days
2010-11	27 May	11 June	11 working days
2011-12	18 May	1 June	10 working days
2012-13	1 June	15 June	10 working days

Seven working days is clearly inadequate time to consider changes to APRA levies, particularly where the changes to the rate being paid by individual groups can often be quite significant. For example, in 2009-10, the levy for friendly societies was increased by more than 30 per cent.

One of the "key principles" of the Government's Cost Recovery Guidelines is that "Agencies with significant cost recovery arrangements should ensure that they undertake appropriate stakeholder consultation..."[32] In addition, "timeliness" is one of the seven Consultation Principles set out in the Australian Government Consultation Requirements, where it is stated that "Throughout the consultation process stakeholders should be given sufficient time to provide considered responses."[33] While neither of these documents prescribes a minimum consultation period, we would argue that in the context of setting APRA levies, a seven day period is not "appropriate," and that it certainly does not allow "sufficient time to provide considered responses."

Abacus recognises that Budget processes are a constraint on the release of the annual consultation paper, with an announcement about APRA's funding level for the forthcoming financial year unable to made before this date. However, there is often a significant gap between the release of the Budget and the release of the levies consultation paper, and this delay compromises the integrity of the consultation process. For example, in 2009 there was a delay of more than four weeks between the Budget and the Consultation Paper's release. It is unclear why the consultation paper cannot be released in the days immediately following the release of the Budget, and by the end of Budget week at the latest. Committing to release the consultation paper at this earlier stage would ensure that industry was given sufficient time to comment.

Abacus would suggest that the appropriate consultation period for the annual APRA levies determination should be four weeks. However, where the proposed changes to the levy are only routine in nature (i.e. the proposal is for increases of no more than CPI for any group or sub-group), a shortened consultation period of two weeks could be appropriate. Setting up a two-tier consultation process along these lines could also provide Treasury and APRA with an incentive to reduce the volatility of levy increases.

Recognition of feedback

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[32] Dept. of Finance and Administration, *Australian Government Cost Recovery Guidelines,* July 2005, p. 3.

[33] see: http://www.finance.gov.au/obpr/consultation/gov-consultation.html

Under current processes, following receipt of submissions on the consultation paper, a final paper is released close to the end of each financial year.

This second "final" paper provides the Government with an opportunity to outline some of the key issues raised in submissions, and to respond to any concerns highlighted by stakeholders. Unfortunately, this opportunity has not been taken up by Government, and the 2012-13 Paper provides no information about any submissions or broader stakeholder feedback. In most regards it is simply a reprint of the previously released Consultation Paper.

Over the years, stakeholder submissions on the APRA levies have canvassed a range of issues about the appropriateness, effectiveness and efficiency of the current levy collection process and proposed levy rates for the next financial year. It would be useful if the levies papers could acknowledge the issues raised by stakeholders and provide some feedback.

APRA's own performance in this regard is generally quite good – issues raised in other policy submissions to APRA are typically specifically addressed in APRA's response. It is therefore surprising that a similar approach is not followed in relation to submissions regarding APRA levies.

Please contact me on (02) 6232 6666 or Micah Green, Senior Policy Adviser, on (02) 8035 8447 to discuss any aspect of our submission.

Yours sincerely

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