COST RECOVERY IMPLEMENTATION STATEMENT

Prudential regulation of financial institutions

30 June 2021

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1. Overview

1.1 Purpose

This Cost Recovery Implementation Statement (CRIS) covers the cost recovery model of the Australian Prudential Regulation Authority (APRA) for the supervision of financial institutions[1]. This CRIS demonstrates consistency, transparency and accountability of such cost recovered activities and promotes the efficient allocation of resources and compliance with the Australian Government Cost Recovery Guidelines (CRGs) (Resource Management Guide No. 304) July 2014 under the Australian Government Charging Framework.

This CRIS also covers APRA's current licensing and authorisation charging activities.

These charging activities were reviewed as part of a Treasury portfolio charging review in 2016-17[2] and will be reviewed again in 2021-22. No changes to the current levy methodology were made following that review.

1.2 Background

APRA is the prudential regulator of the Australian financial services industry. It oversees Australia's banks, credit unions, building societies, general insurers, life insurers, private health insurers, reinsurers, friendly societies and most of the superannuation industry. APRA is funded largely by the industries that it supervises. APRA supervises institutions holding approximately $7.7 trillion in assets for Australian depositors, policyholders and superannuation fund members.

1.2.1 Government policy objectives and outcomes for APRA

APRA's policy objectives are set out in its enabling legislation and in various industry Acts. Broadly speaking, APRA's objectives are to:

- establish and enforce prudential standards and practices;
- promote safety and soundness in the governance, behaviour and risk management of the institutions it supervises; and
- promote financial stability by, amongst other things, requiring institutions it supervises to manage risk prudently.

[1] The recovery of costs for the Australian Securities and Investments Commission (ASIC), the Australian Taxation Office (ATO), the Australian Competition and Consumer Commission (ACCC), and the governing of the Gateway Network Governance Body Ltd (GNGB) are generally not considered in this document.

[2] The CRGs indicate that "Departments of State must conduct periodic reviews of all existing and potential charging activities within their portfolios at least every five years....".

APRA's outcome statement outlines the intended results, impacts or consequences of actions for the Australian community as:

> *"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 and, in balancing these objectives, promotes financial system stability in Australia".*

1.2.2 Description of APRA's cost base

APRA's cost base comprises the following:

Table 1: APRA's cost base - $ millions

	Actual	Actual	Actual	Actual	Forecast	Budget
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Employee benefits	99.1	100.9	112.1	132.8	144.6	160.3
Supplier expenses	22.3	34.4	37.5	44.3	32.7	44.3
Depreciation and amortisation	8.3	8.7	8.5	18.0	18.1	20.5
Other costs	(0.1)	0.0	0.3	1.2	0.9	0.7
Total expenses	129.6	144.0	158.4	196.2	196.3	225.8

The increase in APRA's cost based from 2017-18 onward reflect New Policy Proposals (NPPs) approved since the 2017 federal budget. Some of the key NPPs include:

- During 2018-19 APRA's funding was increased significantly (impacting 2018-19 and future financial years) through two measures:
    - Government Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry; and
    - Australian Prudential Regulation Authority – New and expanded functions.
- During 2020-21 (also impacting 2021-22) APRA's funding was further increased to respond to the impacts of the coronavirus pandemic (COVID-19) through the measure 'Treasury Portfolio – additional funding'.

These measures increased APRA's available resources, including APRA's overall staffing level[3], and other costs.

Employee benefits are the largest proportion of APRA's cost base, ranging between 68 per cent and 76 per cent of the total cost base from 2016-17 to 2021-22. These costs comprise: staff salaries, superannuation, annual performance bonuses, leave provisions and other employee-related costs.

Supplier expenses are the second-largest area of APRA's cost base, ranging between 17 per cent and 24 per cent of the total cost base from 2016-17 to 2021-22. These costs comprise: property and office expenses, IT costs, training and conference expenditure, travel, contractor and professional services costs.

Depreciation and amortisation costs ranged between 5 per cent and 6 per cent of the total cost base from 2016-17 to 2018-19, and have increased to 9 per cent from 2019-20, primarily due to the introduction of a new Accounting Standard[4] as well as reflecting an increase in APRA's fixed and intangible assets which include: property fit-outs and IT system development expenditure.

1.2.3 Description of activities that are recovered by levies or charges

APRA's activities fall into four main categories:

- establishing prudential standards to be observed by supervised institutions *(levy recovery)*;
- assessing new licence applications *(licencing charge recovery)*;
- assessing the safety and soundness of supervised institutions *(levy recovery)*; and
- where necessary, carrying out APRA's resolution authority responsibilities or other remediation, crisis response and enforcement activities *(levy recovery)*.

In addition, APRA:

- provides statistical information to the Reserve Bank of Australia (RBA) and the Australian Bureau of Statistics (ABS) *(fee-for-service charge recovery)*;
- provides international assistance to the Department of Foreign Affairs and Trade (DFAT) *(cost recovery)*;
- accredits banks to use internal models to meet capital adequacy requirements under the Basel II framework *(fee-for-service charge recovery)*;
- accredits general insurers (GI) to use internal models to meet capital adequacy requirements *(fee-for-service charge recovery)*; and
- administers the National Claims and Policies Database (NCPD) for general insurers *(levy recovery)*.

For revenue collected on behalf of other Commonwealth entities, refer to section 1.2.6.

[3] APRA's budgeted average full-time equivalent staffing level increased from 642 in 2018-19 to 829 in 2021-22.

[4] The new Accounting Standard AASB16 – Leases was adopted in 2019-20 changing the treatment of APRA's property leases, increasing the related depreciation and amortisation expenses.

1.2.4 Institutions liable to pay levies or charges

The relevant institutions are:

- Authorised deposit-taking institutions (ADIs) comprising banks, building societies and credit unions;
- Life insurance companies (LIs), comprising life insurance companies and friendly societies;
- General insurance & reinsurance companies (GIs);
- Private health insurers (PHIs); and
- Superannuation entities, excluding self-managed superannuation funds (Super).

1.2.5 Private health insurance regulation by APRA

APRA assumed responsibility for the prudential supervision of private health insurers from 1 July 2015. There are currently 36 registered PHIs. In addition to supervisory responsibility for these insurers, APRA administers the following three PHI charges:

- Supervisory Levy – to fund APRA's day-to-day regulatory activities;
- Risk Equalisation Levy (REL) – to ensure that no PHI is unduly impacted by costly claims because of the profile of their policyholders, the *Private Health Insurance (Risk Equalisation Levy) Act 2003* provides that the cost of certain types of expensive claims should be pooled and shared amongst all health benefits funds; and
- Collapsed Insurer Levy (CIL) – following approval by the Minister for Health, a levy may be raised against PHIs to help meet a collapsed private health insurer's liabilities to those insured under its policies which the insurer is unable to meet.

This CRIS only relates to the imposition of the supervisory levy for private health insurers as the REL and CIL are not subject to the CRGs[5]. The supervisory levy formula for 2021-22 is set by the *Australian Prudential Regulation Authority Supervisory Levies Determination 2021*[6]. The PHI aggregate number of single and non-single (i.e. joint) coverage policies issued by all private health insurers on the annual census day[7] are used as the formula base.

1.2.6 Revenue collection on behalf of other government agencies

Under s50(1) of the *Australian Prudential Regulation Authority Act 1998* (APRA Act), APRA is authorised to collect revenue to offset expenses incurred by certain other Commonwealth entities, including the Australian Securities and Investments Commission (ASIC), the Australian Taxation Office (ATO), the Australian Competition and Consumer Commission (ACCC), and the Gateway Network Governance Body Ltd (GNGB). These expenses relate to:

[5] Payments where there is no relationship between the payer of the charge and recipient of the activity are not subject to CRGs, paragraph 6.

[6] Link to the Determination: https://www.legislation.gov.au/Details/F2021L00887

[7] As described in the *Australian Prudential Regulation Authority Supervisory Levies Determination 2021*.

- claims for the early release of superannuation benefits on compassionate grounds and for administering the Superannuation Lost Member Register and Unclaimed Superannuation Money frameworks (ATO);
- funding for the Superannuation Complaints Tribunal (ASIC)[8];
- undertake regular inquiries into specific financial system competition issues (ACCC); and
- governing and maintaining the superannuation transactions network (GNGB).

1.3 Charging activities not subject to the Cost Recovery Guidelines

1.3.1 Financial Claims Scheme levies

APRA has responsibility for administering the Financial Claims Scheme (FCS). The FCS is an Australian Government scheme that provides protection (subject to a limit) to deposits in banks, building societies and credit unions, and to policies with general insurers in the unlikely event that one of these financial institutions fails.[9]

Under the *Financial System Legislation Amendment (Financial Claims Scheme and other measures) Act 2008* the relevant Minister, on activation of an FCS event, makes a declaration under either the *Banking Act 1959* (Banking Act) or *Insurance Act 1973* (Insurance Act). In the event that funds recouped following the liquidation process are not sufficient to cover the depositor/policyholder claims outstanding of a failed entity, each entity within the relevant industry may be charged an FCS levy to recoup the shortfall.

An FCS levy is not subject to the CRGs. The only time the FCS has been activated to date has been for the recovery of funds relating to the failed general insurer Australian Family Assurance Limited in 2010.

[8] The SCT will be wound down and is expected to be no longer operating from 1 July 2023.

[9] The FCS does not apply to life insurance companies or to private health insurers.

2. Policy and statutory authority to cost recover

2.1 Policy authority for cost recovery

APRA commenced operations on 1 July 1998. In establishing APRA, the Government determined that APRA's operations would be fully cost recovered through levies on the institutions that it prudentially regulates. Today, this occurs under the Australian Government Charging Framework (incorporating the CRGs), which broadly states that the cost of regulation should be met by those institutions that create the need for it. While the Government also provided authority for APRA to charge for direct services (such as licences), the majority of APRA's supervision costs were to be met through annual financial institutions supervisory levies.

APRA's activities are considered appropriate for cost recovery as they meet the following criteria:

- they are of a regulatory nature;
- there is an identifiable group of institutions, which are not part of the Government sector, that directly use or are the subject of the activities;
- it is practical and efficient to undertake the activities on a cost recovery basis; and
- cost recovery is not inconsistent with the Government's policy objectives outlined above.

Annually APRA's Portfolio Budget Statement (PBS), containing details of the year's planned charges, is tabled for approval in Parliament on budget night.

2.2 Statutory authority to impose cost recovery charges

The legislative framework for levies is established by the *Financial Institutions Supervisory Levies Collection Act 1998*, which prescribes the timing of payment and the collection of levies. A suite of imposition Acts impose levies on regulated institutions. These are the:

- *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*;
- *Retirement Savings Account Providers Supervisory Levy Imposition Act 1998*;
- *Superannuation Supervisory Levy Imposition Act 1998*; and
- *Private Health Insurance Supervisory Levy Imposition Act 2015*.

These Acts impose levies on regulated institutions. In some instances, they set a statutory upper limit and provide for the Minister to make a determination as to certain matters, such as levy percentages for the restricted and unrestricted levy components, maximum and

minimum levy amounts applicable to the restricted levy component, and the date at which an entity's levy base is to be calculated[10].

Links to the current Determination:

- Authorised Deposit-taking Institutions and Authorised Non-Operating Holding Companies: https://www.apra.gov.au/adis-fees-and-levies
- General Insurers and Authorised Non-Operating Holding Companies: https://www.apra.gov.au/gi-fees-and-levies
- Life Insurers and Authorised Non-Operating Holding Companies: https://www.apra.gov.au/lifs-fees-and-levies
- Superannuation: https://www.apra.gov.au/super-fees-and-levies
- Private Health Insurance: https://www.apra.gov.au/phi-fees-and-levies
- Retirements Savings Account Providers: http://www.apra.gov.au/super-fees-and-levies

In respect of applications or requests made to APRA, paragraph 51(1)(b) of the APRA Act permits APRA, by legislative instrument, to fix such charges. Subsection 51(2) of the APRA Act provides that a charge fixed under subsection 51(1) must be reasonably related to the costs and expenses incurred or to be incurred in relation to the matters to which the charge relates, and must not be such as to amount to taxation. The Government has also provided authority to APRA to recover other specific costs incurred by certain Commonwealth agencies and departments. The Minister's determination in this regard, under the APRA Act, is to recover the costs on behalf of other government agencies as indicated in section 1.2.6.

[10] Described as the census date for the private health insurance industry.

3. Cost recovery model

3.1 Key activity components

The budgeted cost base for APRA is refined over the forward estimates to reflect relevant Government funding decisions. The forward estimates, and in particular the budget for the upcoming year, are usually finalised in May each year[11] and presented in the annual PBS.

The cost-base is supported by associated income streams, the largest element being appropriation revenue. The largest component of the appropriation revenue is the amount to be collected from the financial industry by annual levies, with other components being the separately collected NCPD levy and other smaller government appropriations.

Once the cost base is finalised, and the corresponding sources of funds identified, a forecast of any levy income over or under-collected in the current year is made. Any over-collection in a year is returned to industry in the following year, and vice-versa for under-collections.

Upon identification of the total amount to be recovered each year by industry levies, the amount is allocated to the five regulated industries for collection.

A key input in APRA's cost recovery methodology is the estimated time spent on supervising each industry. APRA's internal time management system is used as the basis for estimating this time.

The budgeted funding level included within the PBS defines the amount of financial resources that APRA has available to fund its on-going operations each year. Although under/over-collections of levies are recouped from/returned to industry each year as described above, expense underspends/overspends impact APRA's financial reserves. APRA monitors the reserve levels to ensure they remain within appropriate tolerances and undesired build-ups/reductions are avoided.

3.2 APRA's activities

APRA's prudential standards, which are legally binding, set out minimum financial, governance and risk management requirements. Prudential Practice Guides provide guidance on APRA's views on sound practice in particular areas and how supervised institutions might best meet the prudential standards.

The framework of prudential standards and prudential practice guides, address the inherent risks faced by institutions, the controls adopted to manage and mitigate those risks and, where relevant, the level of capital needed by each institution to withstand unexpected losses.

[11] In 2020, due to the coronavirus pandemic, the federal budget was moved from May to October that year.

3.2.1 Financial soundness of supervised institutions

Once licensed, an institution is subject to ongoing supervision to ensure that it is managing its risks prudently and meeting its prudential requirements. APRA follows a risk-based approach under which institutions facing greater risks receive closer supervision. This enables APRA to deploy its resources in a targeted and cost-effective manner.

APRA supervisors perform a range of supervisory activities to identify and respond to risks. Such activities are undertaken by supervisors with in-depth knowledge of institutions in a particular sector, and supported by risk/data analysis specialists.

Prudential engagements

Supervisors engage regularly with institutions to discuss and resolve issues of concern. A common activity is the 'prudential review' – where APRA supervisors visit the premises of an institution, targeting one or more risk areas to assess the effectiveness of an institution's risk management framework, including its internal governance processes at a more in-depth level. Supervisors also meet regularly with boards, senior management, risk and operational staff on specific matters and engage where necessary with key advisers, including auditors and actuaries.

Financial analysis

Financial analysis is also an important supervisory tool to assess the financial strength of an institution at an industry, peer and entity level. Such analytics are based on data and information submitted by the institutions and include stress testing, capital and scenario analysis.

Peer regulators

APRA is part of a domestic and global regulatory community and collaborates with peer regulators to share information and insights across a range of topics. APRA contributes and participates in a variety of global standard setting regulatory bodies in relation to policy and supervision.

Risk assessment and supervisory outcomes

From November 2020, APRA introduced the new Supervision Risk and Intensity (SRI) model to replace its Probability and Impact Rating systems (PAIRS) and Supervisory Oversight and Response systems (SOARS). APRA's SRI Model is designed to enable supervisors to:

- make more robust and timely risk assessments of a regulated entity; and
- better develop appropriate supervision strategies and plans to address this level of risk.

The SRI Model captures the level of prudential risk within APRA-regulated entities across a number of risk categories, and helps target APRA's resources to the entities of greater risk. Prudential risks include financial, operational and behavioural risks that could have an adverse impact on the outcomes for bank depositors, insurance policyholders and superannuation members, or the broader financial system.

The SRI Model has three core components:

- Tiering – an entity's tier reflects the potential impact that entity failure, imprudent behaviour or operational disruptions could have on financial stability, economic activity and the welfare of the Australian community. An entity's tiering is critical in determining the level of routine supervisory attention that is required to ensure adequate identification of risks and follow up of actions;

- Risk assessment – within a given tier, different entities will operate with different levels of risk. The assessment and rating of key risk categories provides a consistent approach for assessing an entity's overall risk profile. While the categories provide a level of consistency across all entities and industries, the SRI model incorporates industry nuances and provides flexibility for capturing emerging risks; and

- Staging – the outcome of the ratings in the risk assessment will be an overall supervisory stage for the entity. This staging will impact APRA's overall supervision strategies and actions and require APRA's supervisors to consider the appropriate use of APRA's powers and tools.

3.2.2 Remediation, crisis response and enforcement

APRA has substantial legal powers that enable it to intervene where there is a threat that an institution may not be able to meet its obligations to its depositors, insurance policyholders or superannuation fund members. APRA will also intervene where there is a threat to the stability of the financial system. In these contexts, APRA has the power to conduct investigations of supervised institutions and, in some cases, to give them directions of a wide-ranging nature in addition to other powers in its role as a resolution authority.

3.3 Supervisory levy and direct user charge methodology

3.3.1 Supervisory levy

Two methodologies are adopted by APRA to calculate supervisory levies. The first levy methodology is applied to the ADI, Super, GI and LI industries. It has two components:

- the restricted levy component, which has a cost-of-supervision based rationale, is structured as a percentage rate on assets subject to minimum and maximum amounts; and
- the unrestricted levy component, which has a systemic impact and vertical equity rationale, is structured as a percentage rate on assets, without a minimum or maximum amount for individual regulated institutions.

The levy allocation methodology is designed to fully recover the costs from each industry and minimise cross-subsidies between industries.

To reduce the volatility in levies charged to industry, APRA smooths the allocation of costs, through the use of a moving four-year average, when calculating the percentage of time spent split between the restricted and unrestricted levy components, before subsequent allocation to the four industries.

Once the amount to be recovered from the four industries in both the restricted and un-restricted components is known, and the population estimated, the required levy rates to recover these amounts are then calculated.

The second levy methodology used is applied to the PHI industry and is a fixed price levy. This levy adopts a cost-of-supervision based rationale and is structured as a fee per policyholder. There are no minimum or maximum amounts.

As part of the transition of the PHIs to APRA on 1 July 2015, a four-year costing was agreed with the Department of Finance. For 2019-20 APRA transitioned to a method of industry allocation consistent with the other four industries, using historical time-recording data from its staff time-capture system to identify the PHI levy total. As this mechanism indicated an increase was required in the overall PHI levy, initially a two-year transition period was adopted to reduce the impact of this increase, this transition period has been extended for one more year to include the 2021-22 levy.

Table 2: Private health insurance levy - $ millions[12]

	2017-18	2018-19	2019-20	2020-21	2021-22
Total levy recovered from PHIs	6.7	4.5	6.1	7.7	9.9

3.3.2 Supervisory costs (restricted and unrestricted)

The tables below indicate supervisory time incurred by APRA staff (actual, forecast and estimated) over a four-year period from 2018-19 to 2021-22 for the two elements of the non-PHI levy, being the supervisory (restricted) and systemic (unrestricted) elements of the levy. The time is reflected as percentages of the total time recorded.

Table 3: APRA's supervisory effort by levy component (%)

Levy component	2018-19	2019-20	2020-21	2021-22	
	Actual (%)	Actual (%)	Forecast (%)	Estimate (%)	4-yr average (%)
Supervisory (restricted)	62	66	64	64	64
Systemic (unrestricted)	38	34	36	36	36
Total	100	100	100	100	100

[12] These costs are the amounts to be collected from the PHI industry.

The two components are then split, using the time-recording data, into the different industries.

Table 4: APRA's supervisory effort by industry (%)

Restricted component - % of time

Industry sector	2018-19	2019-20	2020-21	2021-22	
	Actual (%)	Actual (%)	Forecast (%)	Estimate (%)	4-yr average (%)
Restricted component - % of time					
ADIs	42	46	45	44	44
Life insurance/Friendly societies	13	11	9	11	11
General insurance	19	16	16	17	17
Superannuation	26	28	29	28	28
Total	100	100	100	100	100
Unrestricted component – % of time					
ADIs	47	49	51	48	49
Life insurance/Friendly societies	16	10	9	12	12
General insurance	9	12	11	11	11
Superannuation	28	29	30	29	29
Total	100	100	100	100	100

3.3.3 Direct costs

APRA's costs can be split between:

- supervision-related or 'front office' costs (frontline supervisors and specialist risk teams);
- systemic (policy setting and other industry-wide costs such as enforcement and data analytics, also referred to as 'middle office' costs); and
- support functions (People & Culture, Information Technology, Finance, Property, etc. referred to as 'back office' costs).

APRA's time recording system captures time spent on each institution (and therefore industry) for front office costs. The middle office time spent on each industry is also recorded. The back office functions spend time on support and project-related activities.

The front office costs primarily relate to supervision, and therefore the amount of APRA's overall recorded time spent supervising entities is known. For the purposes of the 2021-22 levies consultation paper (and as noted in table 3), 64 per cent of all recorded time is anticipated to be spent on supervision activities. This comprises the restricted element of the levy.

The remaining 36 per cent of recorded time is anticipated to be spent on systemic and industry-wide activities. This comprises the unrestricted element of the levy. Also included in this component of the levy are the non-APRA elements (Treasury, ASIC, ATO, ACCC and GNGB). Table 5 below is taken from the annual Proposed Financial Institutions Supervisory Levies for 2021-22 paper[13].

Table 5: Total levies funding required ($m)

	2020-21	2021-22		
	Budget ($m)	Budget ($m)	Change ($m)	Change (%)
APRA	181.6	220.8	39.2	21.6
ASIC	2.1	0.1	(1.9)	(92.9)
ATO	34.6	36.8	2.2	6.4
ACCC	3.5	3.5	-	-
Gateway Network Governance Body	0.7	0.7	-	-
Prior year under-collection for agencies, other than APRA	-	0.1	0.1	-
Total	222.5	262.0	39.5	17.8

The increase is largely attributable to the 2020-21 Budget measure: 'Treasury Portfolio – additional funding' of $28.8 million, which is to be recovered from Industry in 2021-22[14]. This measure provided funding to APRA to boost its capacity to respond to new and emerging risks within the financial system.

Taking into account the non-APRA levy elements above and applying the time-driven percentage splits to the element of the APRA cost base to be recovered by industry levies, the

[13] Table 1 in the Proposed Financial Institutions Supervisory Levies for 2021-22 paper, link to paper: https://treasury.gov.au/consultation/c2021-169634

[14] The 2021-22 levy is to recover funding for 2020-21 and 2021-22. The 2020-21 funding has not yet been collected from industry.

amount to be collected from each industry in the restricted and unrestricted categories can be determined.

3.3.4 Matching costs to income at an entity level (restricted component only)

One of the challenges of adopting a cost-recovery methodology is the avoidance of cross-subsidisation within each industry. This occurs where a disproportionately large or small levy is charged to a section of the industry, when compared to the actual cost of APRA supervision. Periodically APRA analyses detailed time-recording data on the actual cost of supervision available through its internal time recording system(s). This analysis has showed broadly consistent results each year, and as a result a number of modifications to the restricted levy component were made to the Financial Institutions Supervisory Levies for 2015-16 onwards.

Restricted levy minimums

One of the modifications noted above was a steady increase in the levy minimums for each industry from an historic relatively small amount[15]. Recent APRA analysis indicates that the minimum restricted component of the levy for each sector continues to be generally too low. Gradual increases in minimums for each sector began in 2015-16 to address this issue, these increases were paused in 2019-20 and 2020-21; however, will recommence in 2021-22.

Restricted levy maximums

Consistent with the levy minimums review process the levy maximums have been considered and modified each year, reflecting the observed cost of supervision. During 2018-19 various reviews impacted APRA-regulated industries[16], as a result APRA received a significant increase to its funding. Furthermore, during 2020-21 APRA funding was further increased to respond to the impacts of the pandemic through the measure 'Treasury Portfolio – additional funding'.

These measures resulted in increased 2021-22 levies to be collected from industry. In June 2020 changes to the industry levy acts were approved by Parliament and statutory caps to the maximums were raised. In particular, this removed a restriction on the ADI levies in 2019-20 and now enables the largest institutions to bear an appropriate share of the restricted levy burden.

Initially, for the Proposed Financial Institutions Supervisory Levies for 2021-22 industry consultation paper, the levy maximums were set to recover the historically observed cost of supervision for the largest institutions. However, industry feedback during the consultation process expressed a clear preference for the largest institutions to incur a restricted levy burden increase more in alignment with that borne by the medium-large institutions. This argument was accepted and the levy maximums were increased as a result.

[15] In 2014-15 the levy minimums were; ADIs: $490, LIs: $490, GIs; $4,900, Super: $590.

[16] Notably the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry; the International Monetary Fund Financial Sector Assessment Program; and The Productivity Commission Inquiries into: 'Superannuation: Assessing Efficiency and Competitiveness' and 'Competition in the Australian Financial System'.

For 2021-22 the levy parameters are:

- the restricted levy minimum for the ADI industry is increased from $15,000 to $17,500, with the levy maximum increased from $5,025,000 to $6,400,000;
- the restricted levy minimum for the GI industry is increased from $15,000 to $17,500, with the levy maximum increased from $1,300,000 to $1,450,000;
- the restricted levy minimum for the LI industry is increased from $15,000 to $17,500, with the levy maximum increased from $900,000 to $1,150,000; and
- the restricted levy minimum for the superannuation industry is increased from $5,000[17] to $7,500, with the levy maximum increased from $600,000 to $800,000.

Other levy parameters are:

- Non-Operating Holding Companies (NOHCs) will have their flat fee levy unchanged at $45,000 per institution in 2021-22;
- the levy minimum for providers of Purchased Payment Facilities (PPFs) is increased from $15,000 to $17,500 in line with other ADIs, with the levy maximum increased from $1,005,000 to $1,280,000; and
- the levy minimum for foreign branch ADIs is increased from $15,000 to $17,500, with the levy maximum increased from $1,005,000 to $1,280,000.

Life insurance

The year on year impact of the changes noted above are reflected in Table 6 below:

Table 6: Amounts levied on Life Insurers/Friendly societies ($000s)

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$10b ($'000)	$50b ($'000)	$100b ($'000)
2020-21	17.3	105.2	1,052.3	1,363.9	3,219.4	5,538.8
2021-22	21.3	128.3	1,283.2	1,912.6	4,962.9	8,775.7
Change (%) 2021- 22 v 2020-21	23.1	21.9	21.9	40.2	54.2	58.4

The changes across the asset sizes can be demonstrated by a further breakdown into the levy components in table 7 below:

[17] The Small APRA Funds (SAFs) and Single Member Approved Deposit Funds (SMADFs) flat rate of $590 was left unchanged.

Table 7: Amounts levied on Life Insurers/Friendly societies – breakdown ($000s)

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$10b ($'000)	$50b ($'000)	$100b ($'000)
2020-21						
Restricted	15.0	82.0	820.4	900.0	900.0	900.0
Unrestricted	2.3	23.2	231.9	463.9	2,319.4	4,638.8
TOTAL	17.3	105.2	1,052.3	1,363.9	3,219.4	5,538.8
2021-22						
Restricted	17.5	90.2	901.9	1,150.0	1,150.0	1,150.0
Unrestricted	3.8	38.1	381.3	762.6	3,812.9	7,625.7
TOTAL	21.3	128.3	1,283.2	1,912.6	4,962.9	8,775.7

Table 7 shows an overall increase in the unrestricted levy component across different sized entities. In addition, the impact of the increase in the levy maximum from $0.9 million to $1.15 million has increased the restricted levy component for entities greater than $10 billion. Entities with greater than $10 billion assets contribute over 25 per cent of the industry levy of LIs.

General Insurance

Table 8: Amounts levied on General Insurers

Asset base	$15m ($'000)	$50m ($'000)	$250m ($'000)	$1b ($'000)	$5b ($'000)	$15b ($'000)
2020-21	15.7	17.4	60.4	241.6	1,208.1	2,009.0
2021-22	18.2	19.8	59.2	236.7	1,183.7	2,151.6
Change (%) 2021- 22 v 2020-21	15.9	14.3	(2.0)	(2.0)	(2.0)	7.1

The changes across the asset sizes can be demonstrated by a further breakdown into the levy components in table 9 below:

Table 9: Amounts levied on General Insurers – breakdown ($000s)

Asset base	$15m ($'000)	$50m ($'000)	$250m ($'000)	$1b ($'000)	$5b ($'000)	$15b ($'000)
2020-21						
Restricted	15.0	15.0	48.6	194.3	971.7	1,300.0
Unrestricted	0.7	2.4	11.8	47.3	236.3	709.0
TOTAL	15.7	17.4	60.4	241.6	1,208.1	2,009.0
2021-22						
Restricted	17.5	17.5	47.5	190.0	949.8	1,450.0
Unrestricted	0.7	2.3	11.7	46.8	233.9	701.6
TOTAL	18.2	19.8	59.2	236.7	1,183.7	2,151.6

The levy maximum has been increased for GIs from $1.3 million to $1.45 million and the levy minimum increased from $15,000 to $17,500. There is a slight decrease in the restricted levy component for entities with asset size between $250 million and $5 billion. Entities with greater than $5 billion assets contribute over 37 per cent of the industry levy of GIs.

Superannuation

Table 10: Amounts levied on Superannuation funds

Asset base	$5m ($'000)	$50m ($'000)	$250m ($'000)	$1b ($'000)	$20b ($'000)	$50b ($'000)	$100b ($'000)
2020-21	5.2	6.6	15.4	61.6	1,230.9	2,177.2	3,754.4
2021-22	7.6	9.0	17.1	68.2	1,364.9	2,262.7	3,725.4
Change (%) 2021- 22 v 2020-21	48.2	36.3	10.8	10.8	10.9	3.9	(0.8)

Table 11: Amounts levied on Superannuation funds – breakdown ($000s)

Asset base	$5m ($'000)	$50m ($'000)	$250m ($'000)	$1b ($'000)	$20b ($'000)	$50b ($'000)	$100b ($'000)
2020-21							
Restricted	5.0	5.0	7.5	30.0	600.0	600.0	600.0
Unrestricted	0.2	1.6	7.9	31.5	630.9	1,577.2	3,154.4
TOTAL	5.2	6.6	15.4	61.6	1,230.9	2,177.2	3,754.4
2021-22							
Restricted	7.5	7.5	9.7	39.0	779.9	800.0	800.0
Unrestricted	0.1	1.5	7.3	29.3	585.1	1,462.7	2,925.4
TOTAL	7.6	9.0	17.1	68.2	1,364.9	2,262.7	3,725.4

The levy maximum has been increased for Superannuation from $0.6 million to $0.8 million and the levy minimum increased from $5,000 to $7,500. Entities with greater than $50 billion assets contribute about 53 per cent of the industry levy of superannuation funds.

Authorised Deposit-taking Institutions

Table 12: Amounts levied on Authorised Deposit-taking Institutions

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$25b ($'000)	$100b ($'000)	$800b ($'000)
2020-21	15.3	18.2	176.3	881.4	3,525.5	10,075.4
2020-21	17.9	21.6	212.1	1,060.3	4,241.2	13,012.6
Change (%) 2021-22 v 2020-21	17.0	19.1	20.3	20.3	20.3	29.2

Table 13: Amounts levied on Authorised Deposit-taking Institutions – breakdown ($000s)

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$25b ($'000)	$100b ($'000)	$800b ($'000)
2020-21						
Restricted	15.0	15.0	144.7	723.6	2,894.2	5,025.0
Unrestricted	0.3	3.2	31.6	157.8	631.3	5,050.4
TOTAL	15.3	18.2	176.3	881.4	3,525.5	10,075.4
2021-22						
Restricted	17.5	17.5	170.7	853.7	3,414.6	6,400.0
Unrestricted	0.4	4.1	41.3	206.6	826.6	6,612.6
TOTAL	17.9	21.6	212.1	1,060.3	4,241.2	13,012.6

The levy maximum has been increased for ADIs from $5.025 million to $6.4 million and the levy minimum increased from $15,000 to $17,500. The restricted and unrestricted levy components have increased across all entity sizes. Entities with greater than $100 billion assets contribute over 62 per cent of the industry levy of ADIs.

Private health insurance supervisory levy

The PHI supervisory levy is a fixed price levy and is imposed directly upon insurers annually. It is calculated for each insurer, according to the number of single and other (e.g. joint) policyholders each insurer holds on the latest census date. The basis of the calculation is the number of single policies plus twice the number of other polices each insurer has, multiplied by the year's rate per policy for the industry. The year's rate per policy is calculated as the annual levy in cents divided by the total number of single policies plus twice the number of other policies for the industry.

$$Yearly\ rate\ = \frac{Annual\ levy\ total\ in\ cents}{aggregate\ single\ policies + (2\ \times aggregate\ other\ \ policies)}$$

Every PHI entity is required to provide APRA with the number of single and other policyholders it has on the census day. The reported data is audited annually.

No particular group or type of insurer draws regulatory focus disproportionately. All insurers are subject to the same regulatory framework. However, larger insurers tend to draw more of APRA's analytical resources due to their complexity and importance to the private health insurance industry as a whole. Accordingly, a levy based on the number of policies held (a proxy for market share and consequently risk exposure to the industry) is appropriate as there is a direct correlation between the underlying cost drivers and market share.

The *Private Health Insurance Supervisory Levy Imposition Act 2015* places an upper limit on annual levy rates of $2 per year for single person polices and $4 per year otherwise.

As noted in section 3.3.1 above the calculation of the total to be collected from the PHI industry was in transition in 2019-20 from the Machinery of Government (MoU) costing to the APRA time-recording based allocation, with the transition extended to 2021-22. From 2022-23 the PHI industry's levy will be derived in the same manner as the other industries.

Matching costs to income at an entity level (unrestricted component)

For the unrestricted levy component, matching time recording data to an institution is not possible due to the nature of the work (e.g. industry-wide prudential standard / policy setting) as this applies to all institutions that operate within the industry concerned. Therefore, once the costs associated with any specific industry are allocated, the allocation to an institution is based on the methodology of allocation at that point in time. Currently, unrestricted levy costs are allocated to the ADI, Super, GI and LI industries on an assets basis.

The tables below demonstrate the costs recovered by the different levy components (restricted, unrestricted and PHI) and relate them back to the total APRA approved budget for 2021-22.

Table 14: Cost and revenue estimates for 2021-22[18] - $ millions

	2020-21	2021-22		
	Budget ($m)	Budget ($m)	Change ($m)	Change (%)
APRA – operating expenses	196.3	225.8	29.6	15.1
APRA – contingency enforcement fund	3.0	1.0	(2.0)	(66.7)
Non-Levy income	(10.1)	(8.5)	1.6	(15.4)
Prior year under / (over) collected revenue (recouped / refunded) from industry (Table 4)	(1.1)	0.3	1.4	(130.8)
Unspent 2020-21 expenses deferred into 2021-22	7.0	(7.0)	(14.0)	0.0
2020-21 additional funding to be collected in 2021-22	(12.8)	12.8	25.6	(200.0)
Removal of impact of AASB16 - Leases	(3.8)	(3.6)	0.2	(5.2)
Deferred funding for supervision of largest & most complex institutions	3.1	0.0	(3.1)	(100.0)
Net funding met through industry levies	181.6	220.8	39.3	21.6

[18] As per the annual Proposed Financial Institutions Supervisory Levies for 2021-22 consultation paper.

Table 15: Breakdown of 'Net funding met through industry levies' - $ millions

Activity component	Direct costs	Indirect costs	Depreciation / amortisation	Sub-total costs recovered	Additional enforcement resourcing, prior year under-collection and other	Net funding met through industry levies
Restricted levy	92.4	25.9	11.8	130.2	4.5	134.7
Unrestricted levy	52.2	14.7	6.7	73.6	2.6	76.1
PHI levies	7.0	2.0	0.9	9.9	-	9.9
TOTAL	151.7	42.6	19.4	213.7	7.1	220.8

The table below summarises APRA's income budget for 2021-22 inclusive of charges for service and other income, and again relates that back to the APRA budget for 2021-22.

Table 16: Cost and revenue estimates for budget year 2021-22 - $ millions

Cost recovery charge	Charge or levy	Activity component	2021-22 costs recovered	Recoup of 2020-21 under-recovery	Additional enforce-ment resourcing	Prior year Deferred/ Additional Funding	APRA Revenue 2021-22
Non-PHI Industry levies	Levy	Restricted Levy	130.2	0.2	0.6	3.7	**134.7**
Non-PHI Industry levies	Levy	Unrestricted Levy	73.6	0.1	0.4	2.1	**76.1**
PHI Industry levies	Levy	n/a	9.9	-	-	-	**9.9**
Subtotal - Levies			213.7	0.3	1.0	5.8	**220.8**
Other levies	Levy	n/a - *	1.0	-	-	-	**1.0**
Other appropriations	Direct Appr.	n/a - **	2.7	-	-	-	**2.7**
Other charges	Charge	n/a - ***	4.8	-	-	-	**4.8**
Grand Total - Revenue			222.2	0.3	1.0	5.8	**229.3**

* Other levies are the general insurance special component, which enables APRA to recoup the cost of running the NCPD.

** Other appropriations currently contain minor appropriations including: annual appropriation for interest and wage and price movement adjustments.

*** Other charges relate to various other types of costs recovered, including: (i) ongoing costs recovered from institutions accredited to use internal models for capital adequacy purposes (BASEL II); (ii) costs recovered from the Department of Foreign Affairs and Trade (DFAT), Department of Agriculture, RBA, and ABS.

3.4 Licensing/authorisation charges

Current application charges relating to licencing of ADIs, representative offices of foreign banks in Australia (FBROs), GIs, LIs, PHIs and NOHCs were reviewed during 2016-17 and the charges updated in 2017-18.

This review entailed examining all existing resourcing and task activities to ascertain if it was still relevant to charge and whether the methodology was consistent with the CRGs.

The charges will continue to be reviewed every five years as per the CRGs and will be reviewed again in 2021-22 as part of the Treasury portfolio charging review. The legislative instruments, explanatory statements and CRISs can be found at:

- https://www.legislation.gov.au/Details/F2018L00770 - NOHC application fees
- https://www.legislation.gov.au/Details/F2018L00755 - ADI, GI and LI application fees
- https://www.legislation.gov.au/Details/F2018L00753 - FBRO application fees
- https://www.legislation.gov.au/Details/F2019L00250 - PHIs and restricted ADI application fees

The CRISs can also be located on the APRA website – see section 2.2 (via the links to the levy determinations).

The charges are provided in the schedule of charges below:

Table 17: Schedule of charges

Entity type	Type of charge	Charge
Bank	Authorisation charge	$110,000
Building Society or Credit Union	Authorisation charge	$110,000
Providers of Purchase Payment Facility	Authorisation charge	$55,000
Other ADI under Section 9 of the Banking Act not yet covered	Authorisation charge	$110,000
General Insurer	Authorisation charge	$110,000
Life Insurer including Friendly Societies	Registration charge	$110,000
Non-Operating Holding companies – ADI (incl. Building Societies and Credit Unions), GI, LI (incl. Friendly Societies)	Authorisation charge	$110,000
FBRO consent application charge	Application charge	$10,000
Annual monitoring of FBRO	Monitoring charge	$3,000
Application for authorisation as a private health insurer	Application Charge	$110,000
Application for authorisation as a Restricted ADI	Application Charge	$80,000
Application for authorisation to progress from a Restricted ADI to an ADI	Application Charge	$30,000
Application for Friendly Society rules and rule amendment	Application Charge	$3,000
Application for transfer of business - GI, LI (including Friendly Societies), ADI and PHI	Application Charge	$11,000

3.4.1 Registrable Superannuation Entity (RSE) charges

RSE charges are stipulated under Reg. 3A.06 of the *Superannuation Industry (Supervision) Regulations 1994*. Any amendment to RSE charges needs to be progressed by Regulations as per the *Superannuation Industry (Supervision) Act 1993* through a machinery of government change instead of by legislative instrument, which is the mechanism for amending other industry charges set out in this CRIS.

3.5 Annual fee-for-service charge activities: covering 2020-21

Some functions undertaken by APRA (as indicated in section 1.2.3) are not recovered through a levy but instead through direct user charges for service arrangements. Actual costed time and overheads expended on these tasks is used as the basis for the charges.

The charges are derived from the costs incurred by APRA in providing the services concerned and as such do not constitute a tax. Subsection 51(1) of the APRA Act provides that APRA may, by legislative instrument, fix charges to be paid to it by persons in respect of:

- services and facilities which APRA provides to such persons; and
- applications or requests made to APRA under any law of the Commonwealth.

Subsection 51(2) of the APRA Act provides that a charge fixed under subsection 51(1) must be reasonably related to the costs and expenses incurred or to be incurred in relation to the matters to which the charge relates and must not be such as to amount to taxation.

Fee-for-service charge activities undertaken in 2020-21 by APRA were:

- accreditation and ongoing review of internal models (Basel II compliance); and
- provision of statistical information to other government organisations.

3.5.1 Accreditation and ongoing review of internal models

Accreditation and ongoing review of internal models for ADIs and GIs with sophisticated risk management systems to adopt the 'advanced' approaches for determining capital adequacy. The charge is based on the need to recover APRA's costs of assessing applications for model approval and on-going monitoring of capital adequacy using the models-based approach. Those costs are based on the estimated APRA staff time involved. In addition, direct overhead costs are added to the salary costs as well as an element of indirect overhead.

Background to the 2020-21 fee-for-service annual charge

In June 2004, the Basel Committee on Banking Supervision (the Committee) released Basel II, reforming the 1988 Basel Capital Accord (the 1988 Accord). APRA implemented Basel II in Australia for all ADIs on 1 January 2008, through new prudential standards under section 11AF of the Banking Act. Under these standards ADIs are able to determine their capital adequacy requirements using one of two methods: a standardised (default) method or a models-based approach that more closely aligns with an ADI's individual risk profile. ADIs and GIs seeking to use the models-based approach must have APRA's approval to do so. LIs are also provided with alternative methods to determine their capital adequacy requirements. A separate CRIS covers work performed accrediting Internal Models used by GIs to determine Minimum Capital Requirements[19].

[19] The CRIS for GI's can be located at:
https://www.legislation.gov.au/Details/F2009L02488/Supporting%20Material/Text

How the charges are calculated

The ADI charge is based on the need to recover APRA's costs of carrying out the on-going monitoring of the capital adequacy of ADIs using the models-based approach and assessing applications for approval. Those costs are based on an estimation of APRA staff time involved with an addition of direct overhead costs. On this basis, APRA's total cost recovery in respect of the models-based approach for 2020-21 is $1.63 million (2019-20: $1.31 million).

The costs incurred in monitoring the capital adequacy of ADIs using the standardised method are recovered through general financial sector levies.

In 2020-21, the focus has been on the ongoing supervision of the capital adequacy of ADIs approved to use, or are seeking approval to use, the models-based approach and policy reforms and the overall policy framework for Australia and New Zealand Banking Group Limited (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank Limited (NAB), Westpac Banking Corporation (WBC), Macquarie Bank Limited (MBL), ING Bank (Australia) Limited (ING) and Bendigo and Adelaide Bank Limited (BEN).

As there is no material difference in APRA's approach to the monitoring of the models-based approach between ADIs who have received approval, each entity is charged an equal amount of the relevant costs. For Bendigo Bank a lower charge was determined for these institutions reflecting the cost recovery of APRA's associated effort.

Description of the charges

The charge imposed by the instrument is based on a two-tiered structure:

- $264,000 plus GST (totalling $290,400) for NAB, ANZ, CBA, MBL, WBC and ING; and
- $41,000 plus GST (totalling $45,100) for BEN.

The charges are set by the Instrument dated 17 June 2021[20]. APRA informed the affected ADIs of the proposed charges.

Table 18: Basel II related charges: For the period 2017-18 to 2021-22 - $ millions

	2017-18	2018-19	2019-20	2020-21
Employee Expenses	1.4	1.1	1.1	1.4
Allocated Overheads	0.3	0.3	0.2	0.2
Net Cost	1.7	1.4	1.3	1.6

[20] The Instrument can be located at: https://www.legislation.gov.au/Details/F2021L00797

3.5.2 Provision of statistical information

The provision of statistical information concerning financial sector entities to the RBA and the ABS is recovered through a charge for service arrangement.

Background for the 2020-21 annual charge

Under the *Financial Sector (Collection of Data) Act 2001* (the FSCODA), APRA collects financial and other statistical information from ADIs, GIs, LIs, PHIs and Superannuation entities.

The statistical information that financial sector entities are required to lodge with APRA is prescribed by reporting standards that are made by APRA pursuant to the FSCODA. The reporting standards detail the information required and are accompanied by forms into which the information has to be inserted.

In 2000 and 2001, APRA implemented a computer system (Direct to APRA (D2A)[21]) designed and constructed to collect, store, and report on the statistical information from financial sector entities. The D2A system enables financial sector entities to lodge statistical information with APRA electronically, and it includes software which can be used to analyse and compile reports from the statistical information collected.

Subsection 3(1) of the FSCODA provides that the purpose for which statistical information is collected under that Act is to assist APRA in the prudential regulation of financial sector entities and to assist the RBA in the formulation of monetary policy. Also, as is acknowledged by subsection 56(5A) of the APRA Act, some of the statistical information will be relevant to the ABS's function under the *Census and Statistics Act 1905* in maintaining and disseminating statistics relating to the financial industry and the wider economy.

The statistical information that APRA provided to the RBA and the ABS during the 2020-21 financial year is described in the schedules attached to the legislative instrument dated 17 June 2021 setting the annual charge[22].

The statistical information is provided to the two agencies at their request, and they have agreed to pay the charges for it that are fixed by the instrument.

How the charges are calculated

The costs of maintenance and operation of the D2A system during 2020-21 is based on the forecast costs for the year. These costs represent the costs of staff time expended in performing ongoing maintenance (including enhancement) of the system and in operating the system (which includes collecting, managing, analysing and distributing the statistical information). The proportion of the above-mentioned costs have been allocated to the RBA and the ABS, based on their usage of the D2A system during 2020-21. Such allocations are made based on full cost recovery:

[21] The D2A system is scheduled to commence being replaced in 2021-22 with a modernised statistical data collection platform called 'APRA Connect'.

[22] The Instrument can be located at: https://www.legislation.gov.au/Details/F2021L00810

- The charges relating to the RBA and ABS specific requests were estimated based on the quantum of staffing resources consumed, informed by APRA's time management system. Such resources are costed based on the average yearly staffing costs, including an appropriate management allocation.
- The cost of shared services was then determined based on the number of forms processed for each of the organisations, as a proportion of the total number of forms processed. As expected, these costs are predominantly borne by APRA due to the fact that most of the usage is dictated by APRA requirements. For 2020-21, the cost of shared services was shared by the three agencies (RBA/ABS/APRA) in the following respective proportions: 14:9:77.
- The development costs of the D2A system to be recovered for 2020-21 is based on the quantum of staffing resources consumed in delivering the Economic and Financial Statistics (EFS) collection, informed by APRA's time management system. This cost is amortised over a 5-year period based on an agreed proportion of 56 per cent and 44 per cent for the RBA and the ABS respectively. Prior to the development of the system, it was agreed that these costs would be recovered from the agencies over a 5-year period.

On the above basis, it is determined that the total cost of the services provided to the RBA amounts to $300,108. This amount consists of $265,628 operating costs and $34,480 development costs. It has been agreed between APRA and the RBA that the amount to be charged to the RBA in respect of the 2020-21 financial year is $300,108 (plus GST).

The total costs of services to the ABS have been determined to be $195,133. This amount consists of $168,042 operating costs and $27,091 development costs. It has been agreed between APRA and the ABS that the amount to be charged to the ABS in respect of the 2020-21 financial year is $195,133 (plus GST).

4. Risk Assessment

Annually APRA sets its non-PHI supervisory levy rates based on estimates of relevant assets of entities that constitute the industries, at the key levy dates. An estimate is also made of the entities that will be APRA-regulated at the levy date (30 June). From these estimates, the restricted and unrestricted levy rates are calculated (refer section 3 for more details).

Overall the setting of the annual levy rates and the subsequent cash collection is moderately complex, however the processes are not considered overly onerous by APRA. Risks arising from the rate-setting and collection processes include:

- a potential cash-flow risk if an under-collection of levies arises, to the extent that APRA does not collect sufficient levies to fund its operations. This risk is mitigated as APRA holds adequate cash reserves for its operations; and
- a reputation risk for APRA if the incorrect levy rates are set, as this will lead to over and/or under-recoveries for individual regulated industries, and for industry sectors. Over and under-recoveries can never be completely eliminated due to the need for estimates to be used in the levy setting process, however large variances are to be avoided to avoid undue volatility in levies collected.

5. Stakeholder Engagement

An annual industry levies consultation process is undertaken by Treasury with input from APRA. This involves the provision of a paper, prepared by Treasury in conjunction with APRA, titled '*Proposed Financial Institutions Supervisory Levies for 2021-22*', to enable industry to provide views on the proposed levies for the upcoming financial year.

The annual consultation paper includes details relating to:

- APRA's activities;
- a summary of APRA's supervisory levy requirements;
- a summary of total financial institutions levy funding requirements;
- a summary of sectoral levy arrangements;
- proposed levy parameters (maximums and minimums);
- a summary of the impact on individual industries; and
- supervisory levy comparisons between the current and upcoming levy year.

Industry feedback from this year's consultation paper included:

- further increase in transparency;
- support for an increase in levy maximum for the ADI industry; and
- requests to review the overall levy methodology.

Consideration of the feedback has been taken in setting the final levy rates. Treasury and APRA will consider this feedback further during 2021-22 as part of the portfolio charging review and will continue to refine the consultation paper and CRIS as necessary to further increase transparency.

6. Financial Estimates

The budget for APRA and the corresponding forward estimates are provided in the table below.

Table 20: Future financial estimates - $millions[23]

	Forecast 2020-21	Estimated Budget 2021-22	Forward Estimate 2022-23	Forward Estimate 2023-24	Forward Estimate 2024-25
Total expenses	196.3	225.8	206.0	206.7	206.9
Restricted levy	109.6	134.7	119.7	119.3	117.9
Unrestricted levy	64.4	76.1	67.3	67.1	66.3
PHI industry levy	7.7	9.9	9.9	9.9	9.9
Sub-total - levies	181.2	220.8	195.6	196.3	194.2
Other income	7.4	8.5	8.0	8.1	10.6
Total income	188.6	229.3	203.6	204.4	204.8
Surplus / (deficit)	(7.7)	3.4	(2.4)	(2.4)	(2.1)

[23] The restricted and unrestricted levy split for the forward estimate years is indicative only.

7. APRA's Performance

7.1 Financial Performance

The following tables show APRA's financial performance from 2017-18 to 2019-20:

Table 21: Expenses performance against budget for APRA [24] - $ millions

Expenses $m	2017-18	2018-19	2019-20
Budget	141.6	145.6	184.2
Actual	144.0	158.4	196.2
Variance	(2.4)	(12.9)	(12.0)

APRA has overspent its budget in each of the last three financial years:

- in 2017-18, the overspend was due to an unbudgeted Prudential Inquiry, which was fully cost recovered, partially offset by fewer staff and delays in acquiring new assets driving lower depreciation and amortisation expenses;
- In 2018-19, the overspend was due to higher supplier costs for project expenditure and additional legal and enforcement expenditure as a result of additional expenditure approved during MYEFO for which the revenue was collected in 2019-20; and
- In 2019-20, the overspend was due to higher depreciation and amortisation due to the implementation of AASB16 – 'Leases' and a provision for likely legal settlement costs.

Table 22: Revenue performance against budget for APRA; $ millions

Revenue $m	2017-18	2018-19	2019-20
Budget	143.5	148.4	192.5
Actual	147.5	148.5	192.4
Variance	4.0	0.1	-0.1

In 2017-18 revenue was higher due to an unbudgeted Prudential Inquiry offset by a small levies under-collection arising from industry consolidation and waiving of increased levies

[24] Actual results as per APRA Financial Statements. Budget as per section 6.3/6.2 of the APRA financial statements.

arising from the impact of a new accounting standard[25]. In 2018-19 a slight over-collection was driven by higher than expected June quarter assets growth in the superannuation industry. In 2019-20 a slight under-collection was due driven by lower than expected June quarter assets growth in the superannuation industry.

7.2 Non-financial performance

Over the last few years there has been a broad desire to improve accountability and transparency across the whole of the Australian Government. Enhancements have focused on non-financial performance and have resulted in a number of changes across Government agencies in general and regulators in particular.

The key changes are:

- the enhanced Commonwealth Performance Framework – enhancements made within the *Public Governance, Accountability and Performance Act 2013* (PGPA Act), associated PGPA Rule and supporting guidance;
- the development of a new Regulator Performance Guide which replaces the Government's Regulator Performance Framework issued in 2014; and
- new assessment authority for APRA and the Australian Securities and Investments Commission (ASIC)[26].

7.2.1 The PGPA Act – non-financial performance related requirements

The PGPA Act non-financial performance related requirements are intended to provide meaningful information to the Parliament and the public by seeking to have 'line of sight' from the stated objectives and key performance information provided in the PBS and Corporate Plan to the assessment of APRA's performance against these objectives and indicators in the Annual Performance Statement included in the Annual Report.

Corporate Plans

APRA's 2020-2024 Corporate Plan was published on APRA's website in August 2020[27]. An updated plan for 2021-2025 is expected to be published by August 2021. The plan outlines APRA's key priorities in pursuing its purpose over the four years of the plan and includes key performance indicators that APRA will use to monitor and assess performance against the plan.

Annual Reports with Annual Performance Statements

APRA's 2019-20 Annual Report was published in September 2020[28].

[25] AASB 1056: Superannuation Entities.

[26] Financial Regulator Assessment Authority Bill 2021

[27] The Corporate Plan can be located at: https://www.apra.gov.au/news-and-publications/apra-corporate-plan

[28] The Annual Report can be located at:
Australian Prudential Regulation Authority Annual Report 2019/20 (apra.gov.au)

The Annual Report provides an assessment at the end of the reporting period of the extent to which APRA has succeeded in achieving its purpose. The Annual Report contains an Annual Performance Statement reporting against performance measures outlined in APRA's PBS and Corporate Plan.

7.2.2 Regulator Performance Guide

Through its renewed Deregulation Agenda to support Australia's economic recovery and growth, the Australian Government has committed to:

- improve the accountability and transparency of regulator performance
- build regulator capability
- share best practice, and
- drive a culture of regulator excellence.

To help achieve this, the Australian Government is refreshing how it sets out its expectations for regulator performance and reporting. The guide will apply to Commonwealth entities that perform a regulatory function including APRA. The guide is expected to be finalised and released in June 2021. The guide will apply from 1 July 2021 and the first year will be considered a 'transitional year'. This is to allow Ministers and agencies to consider the most appropriate way to update expectations and reflect the guide in their performance and reporting.

When finalised, the Regulator Performance Guide will replace the 2014 Regulator Performance Framework.

APRA is also accountable for its activities and performance through a wide range of longstanding mechanisms, including the following:

- APRA's Annual Report is tabled in Parliament each year and includes the Annual Performance Statement;
- APRA makes regular appearances at Senate Estimates and the House of Representatives Standing Committee on Economics, as well as ad hoc appearances before other committees;
- APRA receives a Statement of Expectations from the Government which sets out the Government's policy priorities for the financial system and regulatory reform program and its expectations about the role of APRA, its relationship with regulated entities, industry stakeholders, Government, Treasury, responsible Ministers and other Government bodies and regulators and issues of transparency and accountability. APRA's Statement of Expectations was last reviewed and published (https://www.apra.gov.au/statement-expectations-2018) in September 2018;
- APRA issues a Statement of Intent in response to the Government's Statement of Expectations. APRA's Statement of Intent was last reviewed and published (https://www.apra.gov.au/statement-intent-september-2018) in September 2018;
- APRA is subject to annual financial audits by the Australian National Audit Office (ANAO), as well as occasional performance audits; and
- APRA complies with the Government's best practice regulation process administered by the Office of Best Practice Regulation, which includes cost-benefit assessments of regulatory changes and Regulation Impact Statements.

Other accountability and oversight mechanisms are outlined on APRA's website here: https://www.apra.gov.au/accountability-and-reporting

7.2.3 Capability Review

In early 2019, the Government announced an independent panel comprising Mr Graeme Samuel AC, Ms Diane Smith-Gander AO and Mr Grant Spencer would undertake a capability review of APRA. The objectives of the review were to:

- assess APRA's ability to deliver upon its statutory mandate;
- assess APRA's capability to respond to future challenges; and
- identify recommendations to enhance APRA's future capabilities.

The review concluded on 30 June 2019 and the Government published its response on 17 July 2019[29].

APRA is currently on track to close the majority of Capability Review recommendations directed to APRA by the end of 2021.

7.2.4 New Assessment Body

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established in 2017, with the final report tabled in 2019 recommended (Recommendation 6.14[30]) the establishment of a new oversight authority for APRA and ASIC, independent of Government, be established by legislation to assess the effectiveness of each regulator in discharging its functions and meeting its statutory objects.

The Financial Regulator Assessment Bill 2021[31] was introduced to establish the new assessment authority. The Financial Regulator Assessment Authority functions include the evaluation of both ASIC's and APRA's effectiveness and capability every two years, with ad hoc assessments on particular issues only to be conducted at the request of the Minister.

8. Key forward dates and events

Table 23: List of key dates and events for 2021-22:

Event	Date

[29] The Government's response to the APRA Capability review can be located here: https://joshfrydenberg.com.au/wp-content/uploads/2019/07/Treasurer-Media-Release-APRA-Review.pdf

[30] https://financialservices.royalcommission.gov.au/Pages/reports.aspx

[31] https://www.legislation.gov.au/Details/C2021B00051

Budget and Fiscal Outlook (MYEFO) for 2021-22	Summer 2021-22
Pre-budget submissions for 2022-23	Summer 2022
Treasury Portfolio Budget Statement for 2022-23	Autumn 2022
Proposed Financial Institutions Supervisory levies for 2022-23 consultation	Autumn 2022
Release of APRA's 2022-23 CRIS	Autumn/Winter 2022

9. CRIS Approval

I certify that this CRIS complies with the Cost Recovery Guidelines.

Wayne Byres
Chair
Australian Prudential Regulation Authority
Date: 30 June 2021

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