



# COST RECOVERY IMPLEMENTATION STATEMENT

Prudential regulation of financial institutions

6 July 2018

## **Disclaimer and Copyright**

While APRA endeavours to ensure the quality of this publication, it does not accept any responsibility for the accuracy, completeness or currency of the material included in this publication and will not be liable for any loss or damage arising out of any use of, or reliance on, this publication.

### **© Australian Prudential Regulation Authority (APRA)**

This work is licensed under the Creative Commons Attribution 3.0 Australia Licence (CCBY 3.0). This licence allows you to copy, distribute and adapt this work, provided you attribute the work and do not suggest that APRA endorses you or your work. To view a full copy of the terms of this licence, visit <https://creativecommons.org/licenses/by/3.0/au/>

# Contents

---

<b>1. Overview</b>	<b>4</b>
1.1 Purpose	4
1.2 Background	4
1.3 Charging activities not subject to the Cost Recovery Guidelines	8
<b>2. Policy and statutory authority to cost recover</b>	<b>9</b>
2.1 Policy authority for cost recovery	9
2.2 Statutory authority to impose cost recovery charges	9
<b>3. Cost recovery model</b>	<b>11</b>
3.1 Key activity components	11
3.2 APRA's activities	11
3.3 Supervisory levy and direct user charge methodology	13
3.4 Licensing/authorisation charges	23
3.5 Annual fee-for-service charge activities: covering 2017-18	25
<b>4. Risk Assessment</b>	<b>30</b>
<b>5. Stakeholder Engagement</b>	<b>31</b>
<b>6. Financial Estimates</b>	<b>32</b>
<b>7. APRA's Performance</b>	<b>33</b>
7.1 Financial Performance	33
7.2 Non-financial performance	34
<b>8. Key forward dates and events</b>	<b>37</b>
<b>9. CRIS Approval</b>	<b>38</b>

# 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<sup>1</sup>. 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 July 2014 (CRGs) under the Australian Government Charging Framework.

This CRIS also covers APRA's current licensing and authorisation charged activities. These charging activities were reviewed as part of a Treasury portfolio charging review in 2016-17<sup>2</sup>. No changes to the current levy methodology were made following that review.

During 2016-17 a new accounting standard came into effect for superannuation entities (AASB 1056: *Superannuation Entities*). This standard required employer-sponsor receivables to be recognised as assets in a superannuation entity's financial statements, and had the effect of substantially shifting the burden of the 2017-18 levy toward public sector superannuation funds. Following a Treasury review, which concluded that such a shift should not automatically occur without further consideration and consultation, it was proposed in the annual levies consultation paper<sup>3</sup> that employer-sponsored receivables in superannuation funds would not be included in their levy base. This proposal was adopted for the 2018-19 levies, and employer-sponsor receivables will therefore be excluded from the levy base for the calculation of an entity's levy.

## 1.2 Background

APRA is the prudential regulator of the Australian financial services industry. It oversees Australia's banks, credit unions, building societies, general, life, and 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 \$6.3 trillion in assets for Australian depositors, policyholders and superannuation fund members.

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

<sup>2</sup> The Australian Government Cost Recovery Guidelines (July 2014) indicate that "Departments of State must conduct periodic reviews of all existing and potential charging activities within their portfolios at least every five years....". A Treasury Portfolio Charging Review occurred during 2016-17.

<sup>3</sup> <https://treasury.gov.au/consultation/c2018-t288417>

## 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.

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
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Employee benefits</b>	87.8	88.2	98.2	99.1	100.4	107.2
<b>Supplier expenses</b>	22.9	21.8	30.0	22.2	33.7	30.0
<b>Depreciation and amortisation</b>	7.0	7.2	6.8	8.3	8.6	8.4
<b>Other costs</b>	0.3	0.1	0.4	0.1	-	-
<b>Total expenses</b>	118.0	117.3	135.4	129.7	142.7	145.6

The expansion of APRA's cost base in 2015-16 reflects the integration of the activities of the Private Health Insurance Administration Council (PHIAC) into APRA from 1 July 2015 plus internal restructuring costs and other one-off property impacts (refer section 7.1 for further details). The increase in 2017-18 and 2018-19 reflects New Policy Proposals (NPP's) approved in the 2015, 2016, 2017 and 2018 federal budgets.

Employee benefits are the largest element of APRA's cost base, ranging between 70 per cent and 76 per cent of the total cost base from 2013-14 to 2018-19. These are made up of: staff

salaries, superannuation, annual performance bonuses, leave provisions and other employee-related costs.

Supplier expenses are the second-largest area of cost, ranging between 17 per cent and 24 per cent of the total cost base from 2013-14 to 2018-19. These are made up of: property and office expenses, IT costs, training and conference expenditure, travel, contractor and professional services costs.

Depreciation and amortisation costs range between 5 per cent and 6 per cent of the total cost base, and reflect the utilisation of APRA's fixed and intangible assets which include: property fit-outs and IT system development expenditure.

Other costs reflect mostly losses on disposal of assets and finance costs.

### **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 our 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 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);
- assesses applications to the Reserve Bank of Australia's Committed Liquidity Facility (CLF) under the Basel III framework (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.

### **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 including 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 37 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 policy holders, 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 the PHIs to help meet a collapsed private health insurer’s liabilities to the people 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<sup>4</sup>. The supervisory levy formula for 2018-19 was set by the *Private Health Insurance Supervisory Levy Imposition Determination 2018*. The PHI aggregate number of single and non-single (i.e. joint) coverage policies issued from all private insurers on the annual census day<sup>5</sup> are used as the formula base from 1 July 2018.

### 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 Consumer and Competition Commission (ACCC) and the Gateway Network Governance Body Ltd (GNGB). These expenses relate to:

- certain market integrity and consumer protection functions undertaken by ASIC and the ATO;
- funding for the Superannuation Complaints Tribunal (ASIC)<sup>6</sup>;
- establishment of a dedicated analysis and advisory function – the Financial Services Unit (FSU) – to investigate specific competition issues in Australia’s financial system (ACCC); and
- governing and maintaining the superannuation transactions network (GNGB).

<sup>4</sup> Payments where there is no relationship between the payer of the charge and recipient of the activity are not subject to Cost Recovery Guidelines (CRG, paragraph 6).

<sup>5</sup> As described in the *Private Health Insurance Supervisory Levy Imposition Determination 2018*.

<sup>6</sup> In the 2017-18 Budget, the Government announced that the SCT will be wound down and no longer operating from 1 July 2020.

## 1.3 Charging activities not subject to the Cost Recovery Guidelines

### 1.3.1 Financial Claims Schemes levies

APRA has responsibility for administering the Financial Claims Schemes (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.<sup>7</sup>

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 recovery of funds relating to the failed general insurer Australian Family Assurance Limited in 2010.

<sup>7</sup> 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<sup>8</sup>

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 where relevant, and the date at which an entity's levy base is to be calculated<sup>9</sup>.

The links to the current applicable Determinations are:

- 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>

In respect of applications or requests made to APRA, paragraph 51(1)(b) of the *Australian Prudential Regulation Authority Act 1998* (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 1.2.6.

<sup>9</sup> 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 finalised in May each year and presented in the annual PBS.

The cost-base is supported by associated income streams, the largest element of income being appropriation revenue, with correspondingly the largest element of the appropriation revenue being the amount to be collected from the financial industry by annual levies, with other elements being the separately collected NCPD levy and separate government appropriations for interest and funding for APRA's ongoing Standard Business Reporting running costs.

Once the cost base is finalised, and the corresponding sources of funds identified, a forecast of any levy income over and/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, this 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 capital, 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.

### **3.2.1 Financial soundness of supervised institutions**

Once licenced, an institution is subject to ongoing supervision to ensure that it is managing its risks prudently and meeting its prudential requirements, and to enable APRA to identify those institutions that are unable or unwilling to do so.

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.

The two main supervisory tools APRA uses are on-site and off-site analysis. These reviews are undertaken by supervisors with in-depth knowledge of institutions in a particular sector, and supported by specialist risk/data analysis experts.

#### **Off-site analysis**

APRA's off-site analysis involves assessing and making qualitative judgments on the financial strength of an institution. APRA's off-site work is focussed on the material risks to which the institution is exposed. APRA supervisors meet regularly with each supervised institution to review the assessment of its financial condition.

#### **On-site analysis**

APRA supervisors also regularly visit the premises of supervised institutions. These reviews typically target one or more risk areas to assess the effectiveness of an institution's risk management framework, including its internal governance processes. Supervisors and APRA senior management also meet with the boards of supervised institutions on a regular basis.

#### **Risk assessment**

The cornerstone of APRA's risk assessment is its Probability and Impact Rating System (PAIRS). PAIRS provides a structured framework to assist supervisors make judgments about an institution's risk profile. The main objectives of PAIRS assessments are to determine the:

- probability that an institution may not meet its financial promises; and
- potential consequences of not meeting those promises on beneficiaries, the industry and financial system more broadly.

#### **Supervisory outcomes and action**

APRA's supervisory responses are informed by its Supervisory Oversight and Response System (SOARS). Supervisory responses can range from a normal cycle of review to a heightened supervisory stance that requires extra supervisory oversight, to mandating improvements or to restructuring a supervised institution.

### **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 its resolution authority capacity.

## 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 used to recoup APRA's costs are 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 across 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 component and the unrestricted component, before allocation to the four industries.

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

The second levy methodology used to recoup APRA's costs is applied to the PHI industry and is a fixed price levy, being the PHI supervisory levy. This levy adopts a cost-of-supervision based rationale and is structured as a fee per policy holder. 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. Until a sufficient amount of time recording historic data is established in APRA, this costing will be used to identify the amount of PHI levy to be collected each year.

Table 2: Private health insurance costs - \$ millions<sup>10</sup>

	2015-16	2016-17	2017-18	2018-19
<b>Employee costs</b>	3.7	2.9	4.8	3.1
<b>Supplier costs</b>	1.5	1.4	1.4	0.9
<b>Amortisation</b>	0.3	0.3	0.3	0.3
<b>Transition costs (including amortisation)</b>	0.2	0.2	0.2	0.2
<b>Total Operating Expenditure</b>	5.7	4.7	6.7	4.5

The expected cost of supervising the PHI industry in the next financial year is taken, and the levies to be collected set to ensure a break even result.

### 3.3.2 Supervisory costs (restricted and unrestricted)

The tables below indicate supervisory time incurred by APRA staff (actual and estimated) over a four-year period from 2015-16 to 2018-19 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	2015-16	2016-17	2017-18	2018-19	
	Actual (%)	Actual (%)	Forecast (%)	Estimate (%)	4-yr average
<b>Supervisory (restricted)</b>	63	61	59	61	61
<b>Systemic (unrestricted)</b>	37	39	41	39	39
<b>Total</b>	100	100	100	100	100

The annual levies consultation paper provides similar updated (yearly comparison) information.

<sup>10</sup> 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 (%)

Industry sector	2015-16	2016-17	2017-18	2018-19	4-yr average
	Actual (%)	Actual (%)	Forecast (%)	Estimate (%)	
<b>Restricted component - % of time</b>					
ADIs	50	48	46	46	48
Life insurance/Friendly societies	11	12	10	11	11
General insurance	16	18	17	18	17
Superannuation	23	22	27	25	24
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Unrestricted component – % of time</b>					
ADIs	53	57	62	57	57
Life insurance/Friendly societies	8	9	8	8	8
General insurance	17	13	11	14	14
Superannuation	22	21	19	21	21
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### 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, statistics, also known as 'middle office' costs) and support functions (Human Resources, 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 2018-19

levies consultation paper (and as noted in table 3) 61 per cent of all recorded time was anticipated to be spent on supervision activities. This comprises the restricted element of the levy.

The remaining 39 per cent of recorded time was anticipated to be spent on systemic and industry-wide activities. This comprises the unrestricted element of the levy.

Applying the time-driven percentage splits to the element of the APRA cost base to be recovered by industry levies, the 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. An annual analysis of data on the actual cost of supervision available through APRA's internal time recording systems has been performed since 2013-14. This analysis has showed broadly consistent results from year to 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. Following the 2017-18 analysis levy minimums were again adjusted in the Proposed Financial Institutions Supervisory Levies discussion paper for 2018-19.

For 2018-19 the levy parameters are:

- the restricted levy minimum for the ADI industry is increased to \$15,000, with the levy maximums maintained at \$3,000,000;
- the restricted levy minimum for the GI industry is increased to \$15,000, with the levy maximums decreased to \$900,000;
- the restricted levy minimum for the LI industry is increased to \$15,000, with the levy maximums decreased to \$750,000; and
- the restricted levy minimum for the superannuation industry is increased to \$5,000<sup>11</sup>, with the levy maximums increased to \$325,000.

Changes were also made to:

- the flat levy rate for Non-Operating Holding Companies (NOHC's), increasing it from \$30,000 in 2017-18 to \$45,000 in 2018-19;
- the levy minimum for providers of Purchased Payment Facilities (PPFs) has increased to \$15,000 to bring them into line with the other ADIs, in addition the levy maximum and the restricted levy rate is set to be equal to the other ADIs; and
- the maximum and restricted levy rate applied to foreign branch ADIs have been reduced from one third of that for a domestic ADI in 2017-18 to one fifth in 2018-19 to better reflect the risk profile of these institutions.

<sup>11</sup> Small APRA Funds (SAFs) and Single Member Approved Deposit Funds (SMADFs) flat rate of \$590 was left unchanged.

The results of this year’s analysis continues to suggest there remains an observed degree of intra-industry cross-subsidisation, with the larger entities continuing to cross-subsidise the smaller entities to some extent. The findings are similar between industries and follow the general trend as can be seen in the graph below.

Figure 1: All Industries levies v costs

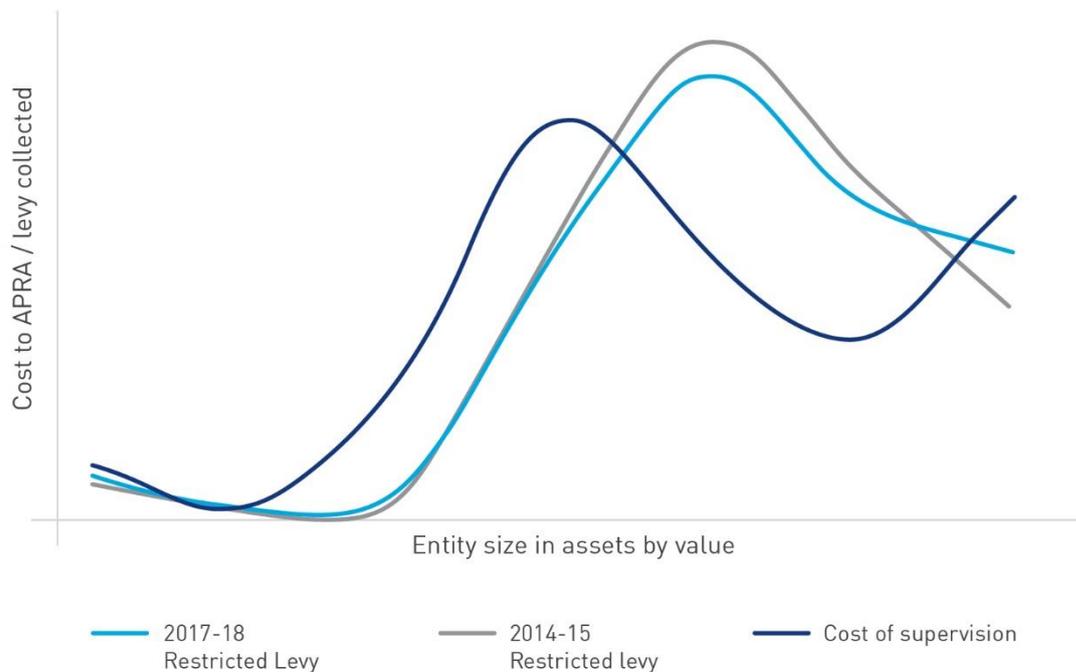
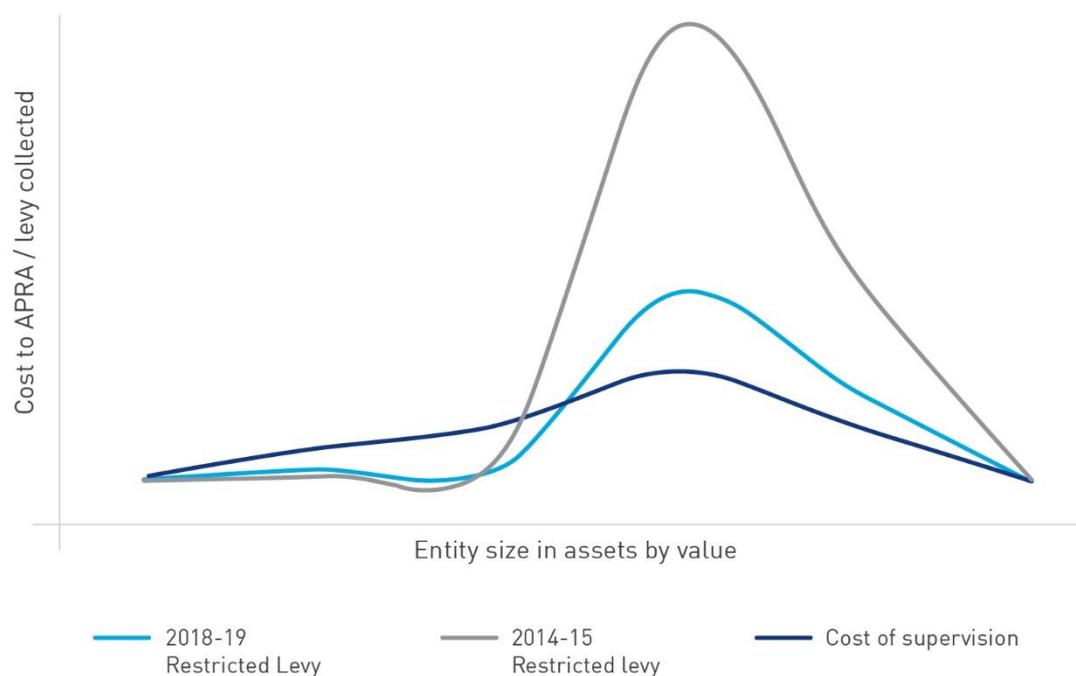


Figure 1 above compares the distribution of levies collected by entity size and compares it to the observed cost of supervision. As in previous years the analysis continues to indicate that medium-large organisations are levied more than the observed cost of supervision. Conversely, costs to supervise small-medium entities appear higher than that collected in levies. The 2018-19 adjustments to the levy parameters continues the process of bringing the costs of supervision closer to the levies collected from an entity. To demonstrate this the indicative distribution for 2018-19 is compared to that using levy parameters from 2014-15<sup>12</sup> and a shift closer to the cost of supervision is observed, however it can be seen that there is scope for further adjustment in the future.

<sup>12</sup> 2014-15 levy parameters were used as a comparison as this was the last year before the recent incremental steps to address potential cross-subsidisation commenced.

Figure 2: Foreign bank branches - levies v costs



As noted earlier, the levy maximum for foreign branch ADIs has been reduced from one third to one fifth of the locally-incorporated institution ADI maximum, and the levy rate has also been reduced from one third to one fifth of the locally-incorporated institution rate.

Figure 2 above shows the profile of the 2018-19 proposed levies collected moves considerably closer to the cost of supervision compared to 2014-15 financial year. The 2018-19 changes can be seen to significantly reduce potential cross-subsidisation with the locally incorporated institutions.

The cost to supervise NOHC's was also observed to be higher than the levies collected, so the flat levy rate for NOHC's has been increased from \$30,000 to \$45,000.

Figure 3: NOHC levies collected v costs

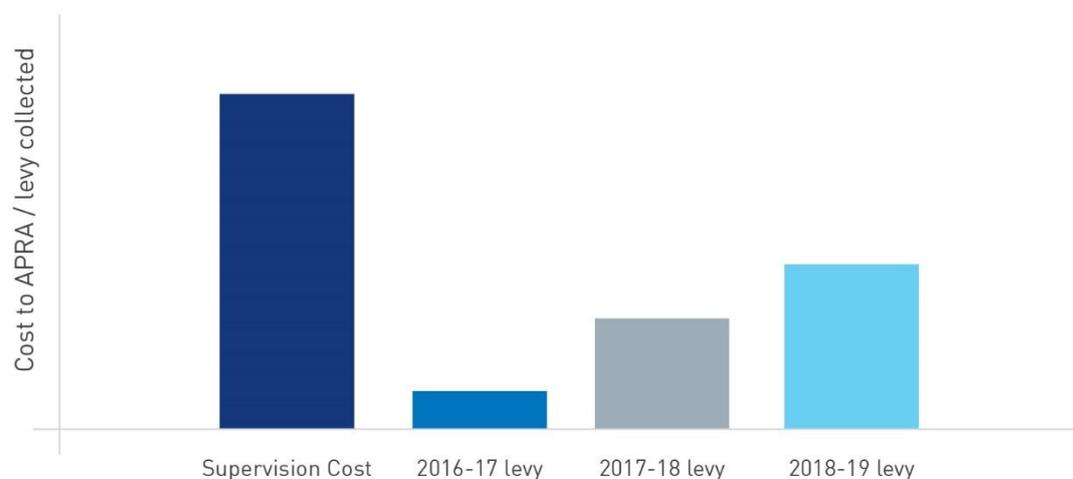


Figure 3 above shows the increase in the NOHC levy as compared to the supervision cost over the previous years since the levy was updated. Supervision cost will continue to be monitored to inform the levy level in future years.

As indicated in APRA’s previous CRISs, APRA will continue to analyse the time and cost data and, where warranted, continue to pursue closer alignment of the cost of supervision with the actual cost incurred. Further increases to levy minimums are therefore possible in future years. APRA will also continue to assess the apportionment of work it performs across and within each industry, and will make resource allocation changes as appropriate to adjust the areas of supervisory intensity as required.

This analysis will continue to be developed in 2018-19 and updates, if applicable, will be reflected in APRA’s 2019-20 CRIS.

### 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) policy holders 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 policies each insurer has, multiplied by the year’s rate for a policy for the industry. The year’s rate for a 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.

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

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 policies and \$4 per year otherwise.

### 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 (industry-wide standard 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 then 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 2018-19.

Table 5: Cost and revenue estimates for 2018-19<sup>13</sup> - \$ millions

	2017-18		2018-19	
	Budget (\$m)	Budget (\$m)	Change (\$m)	Change (%)
<b>APRA – operating expenses</b>	141.6	145.6	4.0	2.8
<b>APRA – additional enforcement resourcing</b>	1.0	1.0	-	-
<b>Non-Levy income</b>	(7.4)	(6.7)	0.7	(9.5)
<b>Prior year under / (over) collected revenue (recouped) / returned</b>	0.9	1.8	1.0	110.7
<b>Net funding met through industry levies</b>	136.1	141.6	5.6	4.1

<sup>13</sup> As per the annual Proposed Financial Institutions Supervisory Levies for 2018-19 consultation paper.

Table 6: 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	Net funding met through industry levies
Restricted levy	60.4	17.2	4.4	81.9	1.7	83.6
Unrestricted levy	38.6	11.0	2.8	52.4	1.1	53.5
PHI levies	3.3	1.0	0.2	4.5	-	4.5
<b>TOTAL</b>	102.3	29.1	7.4	138.8	2.8	141.6

The table below summarises APRA's income budget for 2018-19 inclusive of charges for service and other income, and again relates that back to the APRA budget for 2018-19.

Table 7: Cost and revenue estimates for budget year 2018-19 - \$ millions

Cost recovery charge	Charge or levy	Activity component	2018-19 costs recovered	Recoup of 2017-18 under-recovery	Additional enforcement resourcing	APRA Revenue 2018/19
Non-PHI Industry levies	Levy	Restricted Levy	81.9	1.1	0.6	83.6
Non-PHI Industry levies	Levy	Unrestricted Levy	52.4	0.7	0.4	53.5
PHI Industry levies	Levy	n/a	4.5	-	-	4.5
Sub-Total - Levies			138.8	1.8	1.0	141.6
Other levies	Levy	n/a - *	0.9	-	-	0.9
Other appropriations	Direct Appropriation	n/a - **	0.1	-	-	0.1
Other charges	Charge	n/a - ***	5.7	-	-	5.7
Grand Total - Revenue			145.6	1.8	1.0	148.4

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

\*\* Other appropriations currently contain separate appropriations for: (i) annual running costs for the Standard Business Reporting (SBR) database; (ii) annual appropriation for interest; and (iii) 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, ABS and the ATO; (iii) costs recovered for assessment of applications to the RBA's CLF (BASEL III) and (iv) licence fee charges.

### 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. In addition, the annual monitoring charges of FBROs were reviewed and the application of licence charges for restricted ADIs were determined.

Arising from this review were new charges for the application:

- for authorisation as a PHI;
- for authorisation as a Restricted ADI;
- for authorisation to progress from a Restricted ADI to an ADI;
- for Friendly Society rules and rule amendment;
- to hold stakes in a financial sector (FSSA) company - ADI, GI, LI; and
- for transfer of business - GI, LI (including Friendly Societies), ADI and PHI.

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

The charges will continue to be reviewed every five years as per the CRGs. The application of the amended and new charges has commenced during 2017-18. The updated and new legislative instruments, explanatory statements and CRISs can be found:

- <https://www.legislation.gov.au/Details/F2018L00770>
- <https://www.legislation.gov.au/Details/F2018L00755>
- <https://www.legislation.gov.au/Details/F2018L00753>
- <https://www.legislation.gov.au/Details/F2018L00769>

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

The outcome of the review, and the updated charges are provided in the schedule of charges below:

Table 8: Schedule of charges

Entity type	Type of charge	Existing charge	Revised charge
<b>Authorised Deposit-taking Institution</b>			
<b>Bank</b>	Authorisation charge	\$80,000	\$110,000
<b>Building society or credit union</b>	Authorisation charge	\$80,000	\$110,000
<b>Providers of Purchase Payment Facility</b>	Authorisation charge	\$40,000	\$55,000

Entity type	Type of charge	Existing charge	Revised charge
Other ADI under Section 9 of the Banking Act not yet covered	Authorisation charge	\$80,000	\$110,000
General Insurer	Authorisation charge	\$80,000	\$110,000
Life Insurer including Friendly Societies	Registration charge	\$80,000	\$110,000
Non-Operating Holding companies – ADI (inc. building society and credit unions), GI, LI (inc. Friendly Societies)	Authorisation charge	\$80,000	\$110,000
FBRO consent application charge	Application charge	\$8,500	\$10,000
Annual monitoring of FBRO	Monitoring charge	\$14,000	\$3,000

Table 9: Schedule of new charges

Type of charge	Charge
Application for authorisation as a Private Health Insurer	\$110,000
Application for authorisation as a Restricted ADI	\$80,000
Application for authorisation to progress from a Restricted ADI to an ADI	\$30,000
Application for Friendly Society rules and rule amendment	\$3,000
Application to hold stakes in a FSSA company - ADI, GI, LI	\$2,500
Application for transfer of business - GI, LI (including Friendly Societies), ADI and PHI	\$11,000

### 3.4.1 Registrable Superannuation Entity (RSE) charges

RSE charges were reviewed in 2010-11 and included in the recent cost recovery charges review. These charges are stipulated under Reg. 3A.06 of the Superannuation Industry (Supervision) Regulations 1994. Any amendment to RSE charges have to be progressed by Regulations as per the Superannuation Industry Supervision (SIS) Act 1993 through the machinery of government 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 2017-18

Some functions undertaken by APRA (as indicated in section 1.2) are not recovered through a levy but instead through direct user charges for service arrangements. Actual time (person and system) expended on these tasks is used as the basis for the charge.

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 2017-18 by APRA were:

- accreditation and ongoing review of internal models (Basel II compliance);
- provision of statistical information; and
- assessment of CLF applications (Basel III).

### 3.5.1 Accreditation and ongoing review of internal models

Accreditation and ongoing review of internal models for ADI's, GI's and LI's with sophisticated risk management systems to adopt the 'advanced' approaches for determining capital adequacy permitted under the Basel II Framework. 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 2017-18 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 (the standardised method) or a models based approach that more closely aligns with an ADI's

individual risk profile (the models-based approach). ADIs seeking to use the models-based approach must have APRA's approval to do so. GI's and LI's 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.<sup>14</sup>

### **How the charges are calculated**

The 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 2017-18 is \$1.73 million (2016-17: \$1.76 million).

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

In 2017-18, the focus was on the on-going supervision of the capital adequacy of ADIs approved to use the models-based approach namely, Australia and New Zealand Banking Group Limited (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank limited (NAB), Westpac Banking Corporation (WBC) and Macquarie Bank Limited (MBL). ING Bank (Australia) Limited (ING) continued their accreditation application and achieved accreditation during the year. Bendigo and Adelaide Bank Limited (BEN) and Suncorp Metway Limited (SUN) continued an application for accreditation.

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 ING, Bendigo and Adelaide Bank and Suncorp Metway a lower charge was determined for these institutions reflecting the cost recovery of APRA's associated effort. In 2018-19 ING will be charged the full amount for accreditation in-line with the other fully accredited ADIs.

### **Description of the charges**

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

- \$278,000 plus GST (totalling \$305,800) for ANZ, CBA, MBL, NAB and WBC; and
- \$112,000 plus GST (totalling \$123,200) for ING, BEN and SUN.

The charges are set by the Instrument dated 20 June 2018<sup>15</sup>. APRA has informed the affected ADIs of the proposed charges.

<sup>14</sup> The CRIS for GI's can be located at: <https://www.legislation.gov.au/Details/F2009L02488/Supporting%20Material/Text>

<sup>15</sup> The Instrument can be located at: <https://www.legislation.gov.au/Details/F2018L00859>

Table 10: Basel II related charges: For the period 2015-16 to 2019-20 - \$ millions

	2015-16	2016-17	2017-18 (Estimated)	2018-19 (Forecast)	2019-20 (Forecast)
<b>Employee Expenses</b>	1.9	1.5	1.4	1.5	1.5
<b>Allocated Overheads</b>	0.3	0.3	0.3	0.3	0.3
<b>Net Cost</b>	2.2	1.8	1.7	1.8	1.8

### 3.5.2 Provision of statistical information

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

#### Background for the 2017-18 annual charge

Under the *Financial Sector (Collection of Data) Act 2001* (the FSCODA), APRA collects financial and other statistical information (statistical information) from ADIs, GIs, LIs, PHIs and superannuation entities (collectively financial sector 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 designed and constructed to collect, store, and report on the statistical information from financial sector entities. It is called @APRA. The @APRA 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.

Thus, as envisaged by the legislation, APRA shares the statistical information it collects with both the RBA and the ABS.

The statistical information that APRA provided to the RBA and the ABS during the 2017-18 financial year is described in the schedules attached to the legislative instrument dated 16 May 2018 setting the annual charge<sup>16</sup>.

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 @APRA system during 2017-18 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 collected by the system). During the 2017-18 financial year, the @APRA system provided three agencies with statistical information: APRA, the RBA and the ABS. The proportion of the above-mentioned costs have been allocated to the RBA and the ABS, based on their usage of the @APRA system during 2017-18. Such allocations are made in two components and are based on full cost recovery:

- The charges relating to the RBA and ABS specific requests were estimated based on the quantum of staffing resources consumed. This was based on output from APRA's time management system during the period 1 July 2017 to 30 November 2017. 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 2017-18, the cost of shared services was shared by the three agencies (RBA/ABS/APRA) in the following respective proportions: 4:22:74.

On the above basis, it was determined that the total cost of the services provided to the RBA amounts to \$68,144 (plus GST). The total cost of services to the ABS was determined to be \$290,863 (plus GST). This was agreed with both agencies.

### **3.5.3 Committed liquidity facility approval by APRA**

Since 1 January 2015, the RBA provides a CLF as part of Australia's implementation of the Basel III liquidity standards. Consistent with the liquidity standards, certain ADIs are required by APRA to maintain a Liquidity Coverage Ratio (LCR) of at least 100 per cent. These ADIs may seek annual approval from APRA to meet part of their Australian dollar LCR requirement through the RBA's CLF.

<sup>16</sup> The Instrument can be located at: <https://www.legislation.gov.au/Details/F2018L00654>

## Background to the 2017-18 fee-for-service annual charge

APRA has limited resources to apply to elective services. Based on previous calculations, the administration costs for the CLF are non-linear, but increasing with CLF application size. Consequently, to reflect the cost recovery of APRA's associated effort, the charge ranges from \$10,000 (plus GST), to \$80,000 (plus GST) per applicant, which are minor in the context of an aggregate size of the CLF (circa \$250 billion).

## How the charges are calculated

The total recoverable costs for undertaking the CLF approval activities work are estimated to be \$590,000 for the calendar year 2017. The corresponding amount recovered from each ADI in 2017-18 will be from one of four tiers: \$10,000, \$15,000, \$30,000 and \$80,000 (all amounts exclusive of GST).

The derivation of the estimated costs of this service has been modelled by APRA's liquidity risk team and finance group based upon the estimated total time incurred by APRA in making their assessment.

These costs do not include the costs of supervising ADIs which do not need access to a CLF, as these costs are recovered through financial sector levies. APRA committed the equivalent of 3 staff to CLF approval activities-related work during 2017. It reflects a mix of skills applied to these activities undertaken in the period.

## Description of the charges

The recipients of this charge are the ADIs which have sought to access a CLF as part of their LCR in 2017. The charge imposed by the instrument is based on APRA time to make the assessments and have formed a four-tiered structure:

- \$10,000 plus GST (totalling \$11,000) for tier one institutions;
- \$15,000 plus GST (totalling \$16,500) for tier two institutions;
- \$30,000 plus GST (totalling \$33,000) for tier three institutions; and
- \$80,000 plus GST (totalling \$88,000) for tier four institutions.

The charges are set by the Instrument dated 20 June 2018<sup>17</sup>. APRA has informed the affected ADI's of the proposed charges.

Table 11: Basel III related charges: For the calendar years 2016 to 2019; \$ millions

	2016	2017	2018 (Forecast)	2019 (Forecast)
Revenue	0.6	0.6	0.6	0.6
Expenses	0.6	0.6	0.6	0.6
Net operating result	-	-	-	-

<sup>17</sup> The Instrument can be located at: <https://www.legislation.gov.au/Details/F2018L00860>

## 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 above 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 2018-19', to enable industry to provide views on the proposed levies for the upcoming financial year.<sup>18</sup>

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;
- 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 *Proposed Financial Institutions Supervisory Levies for 2018-19* consultation paper included:

- ongoing concern over raising minimum levies and requests for information as to likely future levy minimums;
- when setting levies, the overall burden of regulatory costs should be considered;
- a lack of transparency over the calculation of costs to be recovered under APRA's levies; and
- requests to release the CRIS prior to, or in conjunction with the consultation paper.

This feedback is consistent with previous years. Treasury and APRA will consider this feedback further during 2018-19 and continue to refine the consultation paper and CRIS as required to further increase transparency and improve the timing of the CRIS release.

<sup>18</sup> A link to the 2018-19 consultation paper can be located at:  
<https://static.treasury.gov.au/uploads/sites/1/2018/05/2018-19-Financial-Institutions-Supervisory-Levies-Discussion-Paper.pdf>

## 6. Financial Estimates

The budget for APRA, as per the 2018-19 Portfolio Budget Statement, and the corresponding forward estimates are provided in the table below.

Table 12: Future financial estimates - \$millions<sup>19</sup>

	Estimated Actual 2017-18	Budget Estimate 2018-19	Forward Estimate 2019-20	Forward Estimate 2020-21	Forward Estimate 2021-22
<b>Total expenses</b>	142.7	145.6	144.0	142.0	142.6
<b>Restricted levy</b>	77.8	87.7	84.1	81.9	82.4
<b>Unrestricted levy</b>	49.7	49.4	47.3	46.1	46.3
<b>PHI industry levy</b>	6.7	4.5	4.5	4.5	4.5
<b>Sub-total - levies</b>	134.3	141.6	136.0	132.4	133.3
<b>Other levies</b>	0.9	0.9	0.9	0.9	1.0
<b>Other appropriations</b>	0.8	0.1	0.1	4.1	3.9
<b>Other charges</b>	13.5	5.7	5.5	5.5	5.5
<b>Total income</b>	149.4	148.4	142.5	143.0	143.6
<b>Surplus / (deficit)</b>	6.7	2.8	(1.5)	1.0	1.0

<sup>19</sup> 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 2014-15 to 2016-17:

Table 13: Expenses performance against budget for APRA<sup>20</sup> - \$ millions

Expenses \$m	2014-15	2015-16	2016-17
Budget	122.4	125.1	131.3
Actual	117.3	135.4	129.7
Variance	5.1	(10.3)	1.6

In two of the previous three financial years, APRA underspent its expenditure budget, with an overspend in 2015-16. The key reasons are outlined below:

- in 2014-15, the underspend was due to lower staff numbers, no staff pay increases, and some delays to major projects;
- in 2015-16, the overspend was driven by the transition to APRA of responsibility for the prudential supervision of PHIs, internal restructuring costs, bond rate movement accounting impacts and one-off charges for the Sydney office relocation. These one-off costs were partially offset by operational underspends; and
- in 2016-17, the underspend was due to non-people related expenditure categories as internal restructuring activities impacted training, travel and other discretionary activities.

Table 14: Revenue performance against budget for APRA; \$ millions

Revenue \$m	2014-15	2015-16	2016-17
Budget	122.4	125.1	129.7
Actual	125.4	131.2	128.5
Variance	3.0	6.1	(1.2)

<sup>20</sup> Actual results as per APRA Financial Statements. Budget for 2014-15 and 2015-16 as per note 27/28 of the APRA financial statements. Budget for 2016-17 as per section 6.3 of the APRA financial statements.

APRA slightly over-recovered revenue in 2014-15 driven by an underestimation of the size of the superannuation industry at the levy date, plus an over-collection of fees and charges. For 2015-16 the over-collection was driven by the transition to APRA of responsibility for the prudential supervision of PHIs including a minor levies over-collection. In 2016-17 a slight under-collection was driven by a lower than assumed June 2016 quarter growth in the superannuation industry assets combined with less fees charged to the larger banks for accreditation of their Internal Capital Models.

## 7.2 Non-financial performance

Over the last few years there has been a broad desire to improve accountability across the whole of the Australian Government. Enhancements have focused on non-financial performance and have resulted in a number of changes to the accountability of 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); and
- the development of a Regulator Performance Framework.

### 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 2017-2021 Corporate Plan was published on APRA’s website in August 2017<sup>21</sup>. It outlines APRA’s key priorities in pursuing its mission 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 2016-17 Annual Report was published in August 2017<sup>22</sup>.

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

<sup>21</sup> The Corporate Plan can be located at:  
<https://www.apra.gov.au/corporate-plan>

<sup>22</sup> The Annual Report can be located at:  
<https://www.apra.gov.au/annual-reports>

Performance Statement to report performance against performance measures outlined in APRA's PBS and Corporate Plan.

## 7.2.2 Regulator Performance Framework

The Regulator Performance Framework (the Framework) was introduced by the Government as part of its commitment to reducing the cost of unnecessary or inefficient regulation imposed on business, the community and individuals.

The Framework came into effect on 1 July 2015. It focuses on the regulatory burden created in the way regulators administer regulation, rather than the process for, and outcomes of, regulatory policy making. Six Key Performance Indicators (KPIs) apply to all regulators:

1. Regulators do not unnecessarily impede the efficient operation of regulated entities;
2. Communication with regulated entities is clear, targeted and effective;
3. Actions undertaken by regulators are proportionate to the regulatory risk being managed;
4. Compliance and monitoring approaches are streamlined and coordinated;
5. Regulators are open and transparent in their dealings with regulated entities; and
6. Regulators actively contribute to the continuous improvement of regulatory frameworks.

Regulators are required to formulate their own performance metrics to support an assessment against these six KPIs. APRA's metrics, available on its website, were developed in consultation with APRA's key industry associations and approved by the Assistant Treasurer.

At the end of each financial year, APRA is required to undertake a self-assessment against the six KPIs and have this externally validated by the industry associations. The external validation process provides an avenue for industry to provide feedback on whether APRA's self-assessment accords with their views of APRA's performance against the KPIs over the period. APRA must publish the externally validated self-assessment by the end of December each year.

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

- 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 expectations about the role and responsibilities of APRA, its relationship with the Government, issues of transparency and accountability, and operational matters to guide its activities. In response, APRA issues a Statement of Intent to indicate how it will meet the Government's expectations;
- APRA's Statement of Intent provides details of its commitment to effective and efficient delivery of its activities and to ensuring that it operates in accordance with relevant legislation and Government requirements;
- 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 analysis and extensive consultation on policy proposals.

## 8. Key forward dates and events

---

Table 15: List of key dates and events for 2018-19:

Event	Date
Mid-Year Economic and Fiscal Outlook (MYEFO)	Spring 2018
Pre-budget submissions	Summer 2018-19
Treasury Portfolio Budget Statement	Autumn 2019
Proposed Financial Institutions Supervisory levies for 2019-20 consultation	Autumn 2019
Release of APRA's 2019-20 CRIS	Autumn/Winter 2019

## 9. CRIS Approval

---

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

A handwritten signature in black ink, appearing to read 'Byres.', is centered on a light blue rectangular background.

Wayne Byres  
Chairman  
Australian Prudential Regulation Authority  
Date: 6 July 2018



 **APRA**