



AUSTRAC Cost Recovery Comparative Research Paper

This document sets out preliminary analysis of the requirements of the AUSTRAC Cost Recovery Delivery Framework and identifies a number of potential solution options. The document further examines these potential delivery options and is intended to assist AUSTRAC in its selection of the most appropriate solution.

VERSION 1.0

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Disclaimer

This report has been prepared after consultation with staff, representatives and/or advisors of AUSTRAC and data, information and documents provided by them. Our findings, assumptions and conclusions are in large derived from these information sources. We are not warranting that the information provided to us is accurate or correct.

1 INTRODUCTION

1.1 *Background and Context*

As part of the 2010 Budget, the Australian Government announced an initiative to recover the cost of the regulatory activities of the Australian Transaction Reports and Analysis Centre (AUSTRAC) from the reporting entities, including banks, other financial institutions, gambling service providers and money service businesses (including remitters). The announcement is in accordance with the Government's cost recovery guidelines (introduced in 2002 and revised in 2005 and 2008), which state that costs for products or services should be recovered from regulated entities where it is efficient to do so.

It is intended that enabling legislation be passed and that AUSTRAC commence cost recovery for its regulatory activities from 1st July 2011.

Accordingly, AUSTRAC has commenced scoping the Cost Recovery requirements and planning for its successful implementation.

1.2 *Purpose*

The purpose of this document is to:

1. Provide an overview of the research undertaken into the different models for cost recovery;
2. Identify solutions that are available or in use;
3. Recommend options that would best suit AUSTRAC's requirements

1.3 *Approach*

The approach has entailed reviewing a range of documentation to ensure an understanding of the objectives and intent of the cost recovery initiative. This documentation has included:

- Government publications and statements;
- AUSTRAC published documents and statements; and
- Internal planning materials.

The key document clarifying the Government's intent is the Australian Government's Cost Recovery Guidelines and this has been heavily utilised throughout the process. In order to further define the requirements a generic cost recovery operating model has been designed along with a generic high level business process. This has enabled the identification of the key activities that need to be undertaken and provided insight into the capabilities that the solution must provide.

These insights have then been supplemented through analysis of the calculation model and its implications for the delivery solution.

A range of generic solutions have been identified as potential options. The cost recovery business process for each of these generic solutions has been mapped. This has enabled the options to be analysed in terms of required systems, process and resource. In turn that enables each of the options to be evaluated and a basis for the selection of the best fitting solution determined.

The process has also included desk top research along with discussions with other agencies already operating within a cost recovery environment and who have a matured cost recovery capability.

The approach has been collaborative and consultative and has entailed working closely with AUSTRAC representatives, notably the Cost Recovery Business Project Manager and Business Sponsors. Other internal stakeholders have also been engaged.

2 AUSTRAC COST RECOVERY DELIVERY FRAMEWORK REQUIREMENTS

2.1 Cost Recovery Objectives

The objectives of the AUSTRAC Cost Recovery Project are to:

- Align AUSTRAC’s supervision funding in line with the Government’s cost recovery guidelines;
- Enable the recovery of costs from Reporting Entities to fund AUSTRAC’s supervision program from 2011-12 onwards;
- Provide a sustainable funding base for AUSTRAC’s supervisory activities, consistent with other regulators; and
- Provide streamlined administration for AUSTRAC and for Reporting Entities.

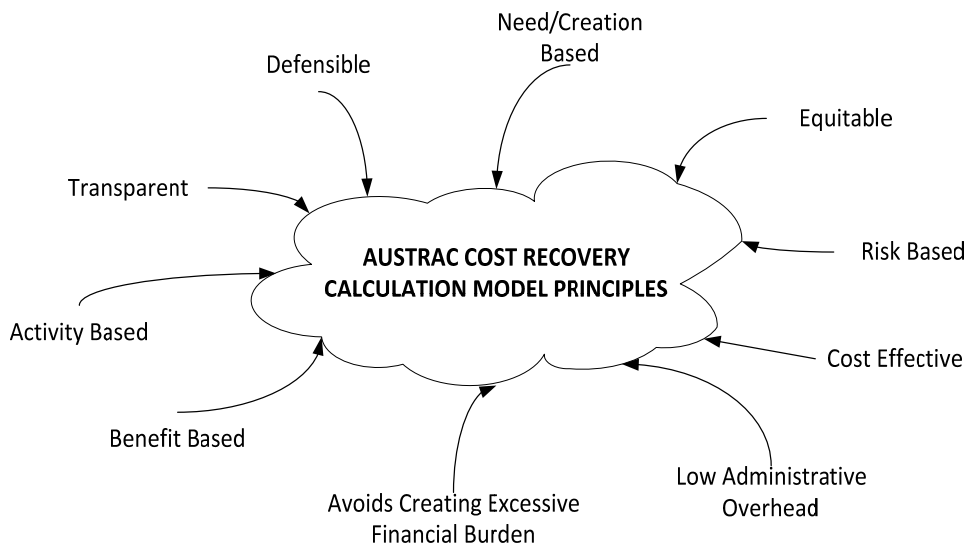
2.2 Principles Underpinning the Approach

The Australian Government Cost Recovery Guidelines set out best practice in cost recovery for Australian Government Agencies. The basic principles are that where it is cost effective to do so, regulatory costs should be recovered from those entities that drive the need for regulation and/or benefit directly from those regulatory activities.

The approach should be efficient, in terms of the administration costs associated with undertaking cost recovery and in terms of the administrative burden it generates.

A summary of the principles that the AUSTRAC Cost Recovery Calculation Model should take into consideration are captured in the diagram below.

Figure 2.1 AUSTRAC Cost Recovery Principles



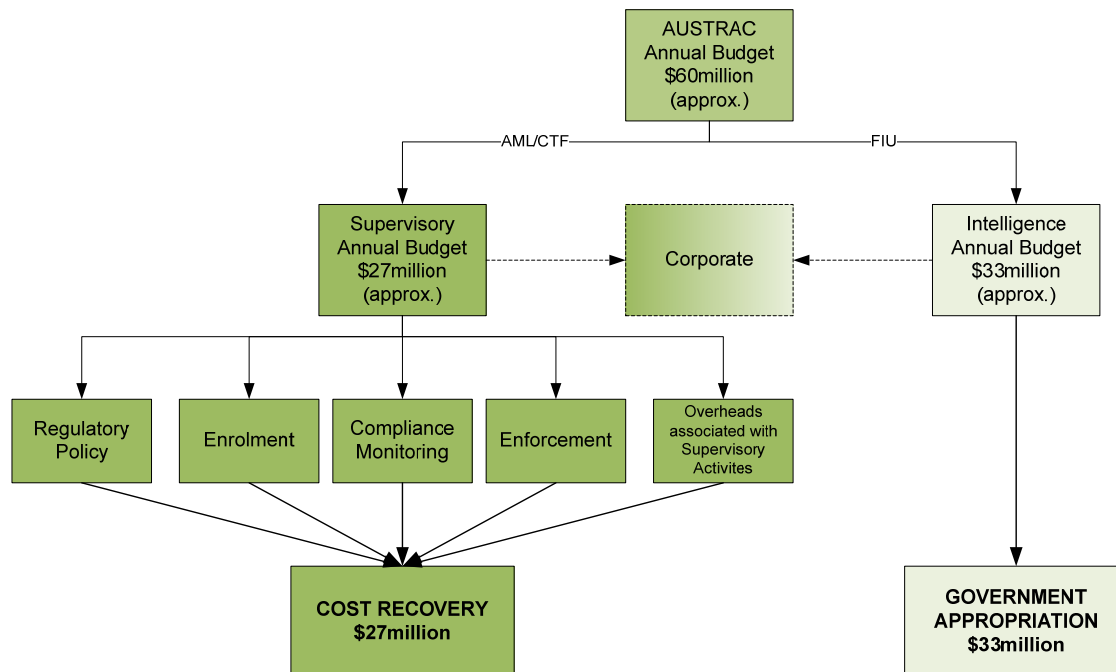
In accordance with the Guidelines, AUSTRAC will seek to recover the costs associated with conducting regulatory supervision from those entities that create the need for the regulation and benefit directly from that regulation.

AUSTRAC is a regulator of Anti-Money Laundering and Counter Terrorism Financing legislation as well as the Australian Government’s Financial Intelligence Unit. However, the cost recovery initiative will only apply to AUSTRAC’s supervisory activities. Accordingly, it follows that AUSTRAC must identify what aspects of its operating costs pertain to supervisory activities. These activities will include Regulatory Policy, Enrolment, Compliance Monitoring, Enforcement and overheads associated with these activities. Engagement and education of the regulated community is also incorporated into these activities.

It is estimated that AUSTRAC’s annual budget requirements will be approximately \$60million. Of this amount \$33million pertains to Financial Intelligence activities and is not subject to cost recovery. The Supervisory Budget is estimated to be \$27million and this amount will need to be recovered from reporting entities.

AUSTRAC will continue to be Government (Budget) funded for the \$27million, so the recovered costs will be directed into consolidated revenue.

Figure 2.2 AUSTRAC Recoverable Supervisory Budget



2.3 A Generic Operating Model

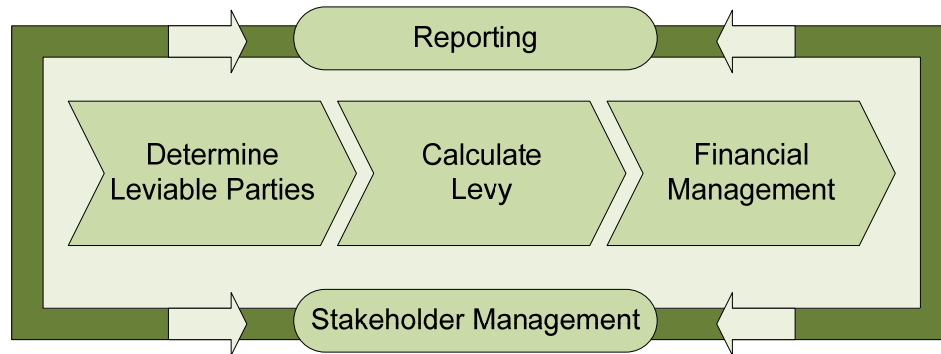
Cost Recovery is a relatively simple exercise which involves the identification of the parties from whom costs will be recovered. These parties are known as “leviable entities.” For AUSTRAC these parties are reporting entities, or those entities that have an obligation to comply with the legislation because they conduct a “service” as defined by the legislation. The criteria used to determine whether a reporting entity is a leviable entity will be defined in the enabling cost recovery legislation.

Once the leviable entities are defined, the amount that each entity will be charged will be calculated. Elements of the calculation model will also be prescribed in the enabling legislation.

Once the levy amounts are calculated there are also a broad range of activities that need to be conducted that fall under the banner of financial management. For instance, when the levies have

been calculated, invoices for the amounts need to be raised and forwarded to each respective entity. Monies then need to be collected, revenue, debts and debtors managed, accounts managed and reconciled, decisions made in respect of recovery action, late payment penalties, interest charges and write-off.

Figure 2.3 Generic Cost Recovery Operating Model



Throughout each of these areas of activity there is a continuum of stakeholder engagement occurring. This incorporates the stakeholder engagement that might be required each time the levy process is conducted and might for instance include the publication of a levy discussion paper in advance of the final calculation and determination. Continued stakeholder support will be required such as answering queries from leviable entities.

In addition reporting will also occur throughout the levy process. There will be a variety of reporting requirements to satisfy internal and external stakeholder requirements. Moreover, if the solution contains outsourced elements there will also be 3rd party reporting required.

2.4 Overarching Cost Recovery Business Process

The Operating Model has been further distilled into a high level business process. The process is depicted in the diagram below. Detailed descriptions and decomposition of each activity area into more granular procedural steps has also been undertaken.

Figure 2.4 Generic High Level Cost Recovery Business Process



While not a linear process as shown (some elements are undertaken concurrent with others, while stakeholder management and reporting occur on a continuum) it does highlight that there are distinctive activity areas. Moreover further analysis indicates that a number of the different activity areas could be outsourced or alternatively performed in-house. In fact, there are a range of permutations that the solution could take.

2.5 Generic Cost Recovery Activities

The generic high level cost recovery business process essentially sets out the key activity areas and highlights the steps and tasks that need to be undertaken. The key activities are:

Data Management: In order to be efficient the cost recovery process will be highly automated and dependent on data. Data management includes accessing, utilising and integrating data.

Liability Determination:	The legislation will define “leviable entities. AUSTRAC will be required to apply that definition to identify leviable entities in order for a levy to be raised.
Budgeting:	AUSTRAC must determine and be able to support its budgetary requirements and in particular the amounts which will be subject to cost recovery.
Apportioning:	The calculation of the levy will require the total recoverable budget to be apportioned across the AUSTRAC RE categories (Industry and Industry Sector).
Calculate Levies:	Levies must be calculated for each individual leviable entity.
Levy Determination:	In order to impose a levy on entities AUSTRAC will first need to have the proposed levy calculation approved by the AUSTRAC CEO and the Minister.
Invoicing:	Invoices must be generated and forwarded to leviable entities.
Collect Monies:	Payments must be collected.
Financial Management:	A range of activities associated with revenue management must be undertaken, including banking, debt management, debt recovery etc.
Stakeholder Management:	Throughout the process various stakeholders must be engaged and supported.
Reports:	Reporting will occur on a continuum throughout the cost recovery process.

2.6 **Required Capability Components**

In order to perform the activities highlighted above AUSTRAC will need access to the enabling capability which includes:

1. **Technology Components**

An effective and efficient cost recovery solution will be highly automated. The technology components of cost recovery include:

- A calculation model to determine what each entity should be levied;
- A billing system through which levies for each leviable entity would be raised;
- Financial management capabilities within the Financial Management Information System (FMIS) to enable the collection of monies and the management of revenue and debtors etc;
- An ability to integrate data between internal systems such as the billing system and the FMIS and perhaps the CRM, as well as the ability to potentially transfer data internally and/or to external parties; and
- The ability to monitor and report on all aspects of the cost recovery process.

2. **Information Components**

The cost recovery solution will require data management capabilities which will include access to information and the ability to analyse, update and disseminate information. It will incorporate privacy and security aspects as well.

3. Process Components

The cost recovery solution will also require significant human involvement in various activities including administration and decision making. This along with AUSTRAC's quality assurance standards and risk appetite mean that significant procedural design will be required.

4. Organisation and People Components

Any solution will require resources across the cost recovery activity areas, notably from Finance and Information Technology functions. AUSTRAC will need to ensure that it has adequate capacity and capability at its disposal to perform the required activities such as the financial management requirements and supporting any technology solutions. For instance, roles will need to be defined, decision making points identified and delegations clearly understood.

3 COST RECOVERY OPTIONS

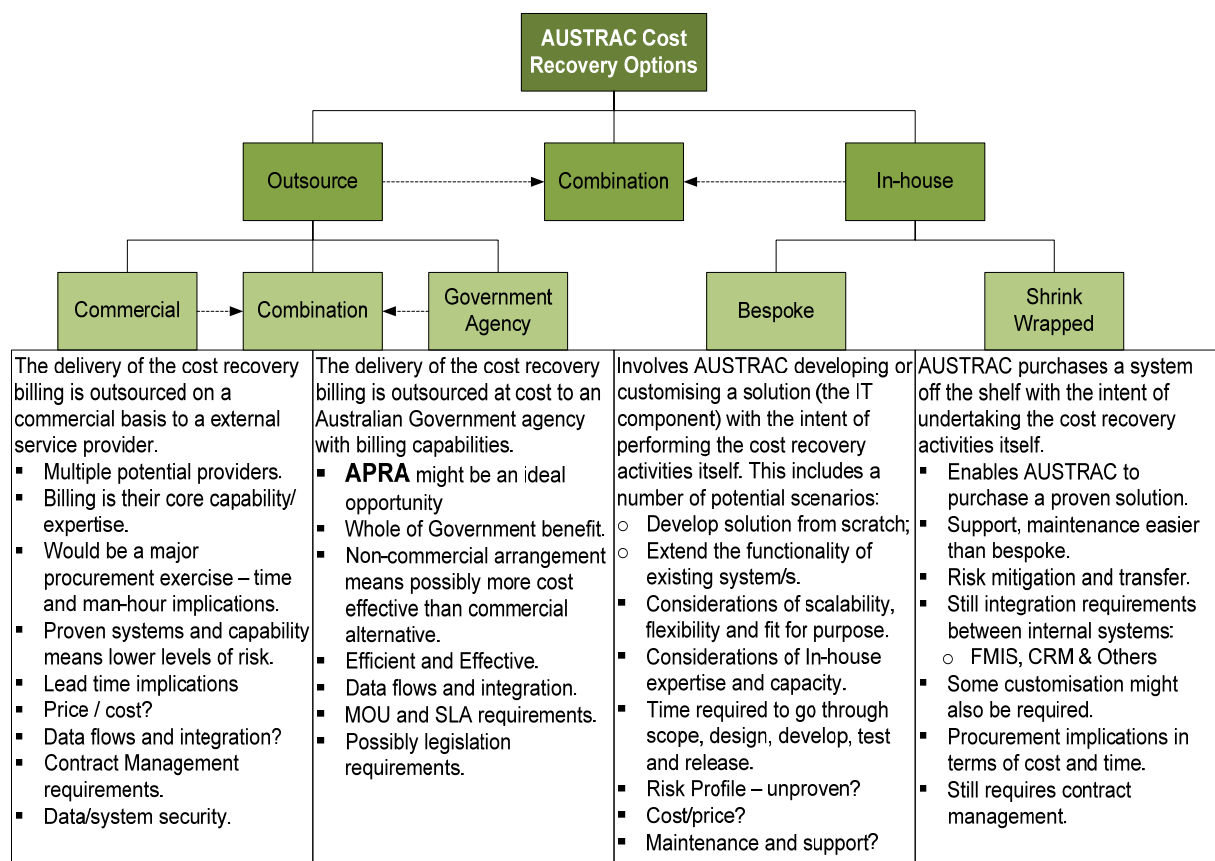
3.1 Acquiring Cost Recovery Capability

As indicated cost recovery requires AUSTRAC to have certain capabilities to enable it to perform the requisite activities and generate the required outcomes. That is, AUSTRAC will be required to develop/acquire and integrate technology, procedures, information and people in order to be able to satisfy its cost recovery objectives. The avenues through which this capability might be accessed by AUSTRAC are by:

1. Developing the capability in-house so that AUSTRAC is able to conduct its own cost recovery activities without significant reliance on other parties.
2. The alternative approach is to outsource the activity. That is, leverage the cost recovery capabilities of another organisation to recover costs from the reporting entities.

There are a number of outsourcing options that might conceivably be available for AUSTRAC to leverage.

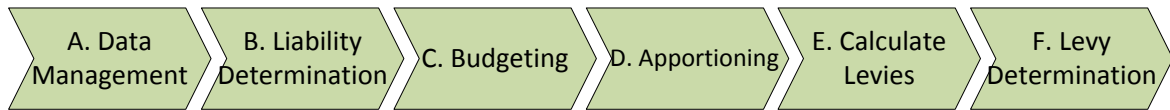
Figure 3.1 AUSTRAC Cost Recovery Options (Generic)



3.2 Solution Aspects that must be performed In-house

While many aspects of the cost recovery process can potentially be outsourced, there are in fact a number of aspects that will always need to be undertaken in-house. It is not practical or feasible to outsource these components. Figure 3.2 below indicates the activities that must be administered by AUSTRAC internally.

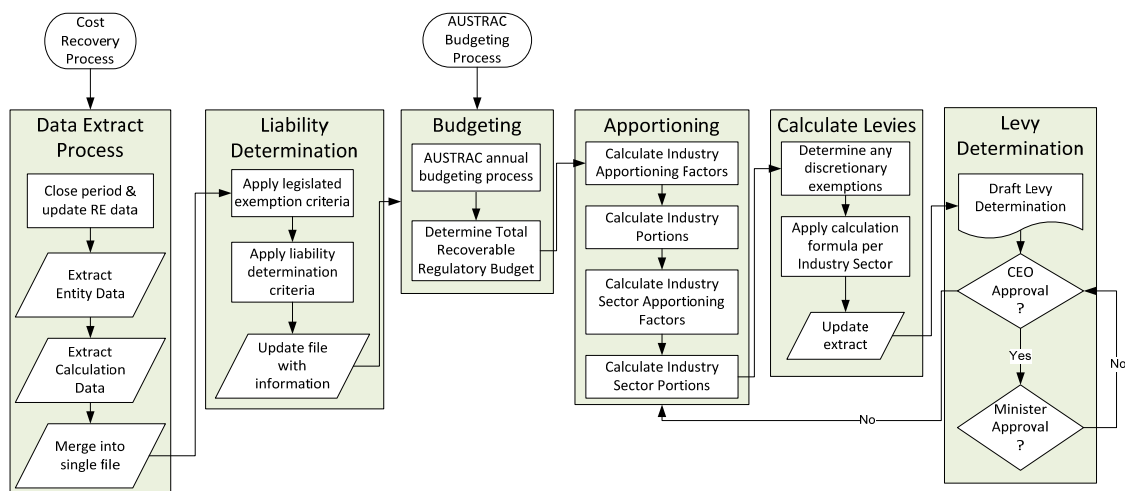
Figure 3.2 In-house Process Steps



Irrespective of the solution selected, AUSTRAC will always be required to perform these activities itself. Essentially these activities enable the leviable parties to be identified and the individual levies to be calculated. These ‘mandatory’ in-house aspects of the cost recovery process include all steps commencing with initiation of the cost recovery process through to obtaining the Minister’s approval of the proposed calculation. The process flows for each of these activity areas is stepped out in Figure 2.6 below.

It is worth noting that the key project dependency that needs to be developed and implemented in respect of these steps pertains to the drafting and passing of the enabling legislation.

Figure 3.3 In-house Cost Recovery Business Processes



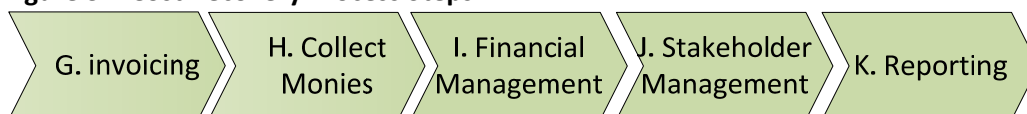
The ongoing administration of these steps is not overly burdensome once the capability is established. The question that remains is what solution/s will be appropriate for the remaining aspects of the process?

3.3 Solution Aspects that can be administered internally or externally

There are a number of steps in the high level generic business process which do not have to be administered internally. The nature of the activity conducted in each of the generic process steps can be analysed to indicate the most appropriate administration solution for that process step or activity.

Figure 3.4 below indicates the activity areas that could be administered internally or externally. The volume of work associated with administering these steps is significant. The project implementation around these steps is also significant, as is the capital investment that might be required.

Figure 3.4 Cost Recovery Process Steps



4 COST RECOVERY OPTION ANALYSIS

4.1 *Bespoke In-house Solution*

Should AUSTRAC decide to perform cost recovery activities itself (in-house) then it will also need the technology components to enable this. A bespoke solution entails AUSTRAC developing the technical components of the solution itself. This might entail developing a solution from scratch or alternatively customising existing systems to also incorporate the cost recovery functionality.

The development of a bespoke in-house solution potentially offers some significant advantage in that the approach is able to be highly customised and could meet many of AUSTRAC's specific and even unique requirements. However, discussions with internal stakeholders revealed that the AUSTRAC technology strategy indicates a preference for buying off the shelf products rather than internal development. This is consistent with the broader Government ICT strategy and is sound in that:

- AUSTRAC does not have the resources available to develop the requirements in-house (that is AUSTRAC is a regulator not a software development house);
- A bespoke solution carries risk in that it is unproven. This compares with products purchased off the shelf where the product is demonstrably proven. Moreover a bespoke solution does not offer the warranty and maintenance/support advantages that come with an off-the-shelf product.
- A bespoke solution carries risk in that even if AUSTRAC had the requisite resources required to undertake the development, there would be considerable time pressures to have the systems fully tested, fit for purpose and released into a production environment within the current timeframes; and
- The cost-benefit equation of undertaking the development in-house would also need to consider that technical components such as a billing system are commoditised products in a competitive market place, meaning that from a cost effective perspective it is unlikely a bespoke solution would be cost competitive.

4.2 *Shrink Wrapped In-house Solution*

The alternative in-house option entails purchasing the technical components that AUSTRAC does not already have. A number of the technology components required are relatively common and readily available as "off-the-shelf" products. Once purchased the products need to be integrated to the organisation's environment.

If AUSTRAC were to undertake the cost recovery process itself then in this scenario it would need to procure the technical components and perform the administrative tasks itself. The advantages of adopting this approach are that it leverages technical products already developed and in use which represent lower levels of risk. Moreover once integrated, ownership of the technical components of the solution enables AUSTRAC to perform most tasks itself at cost, and avoids paying commercial margins on activities that might otherwise be outsourced.

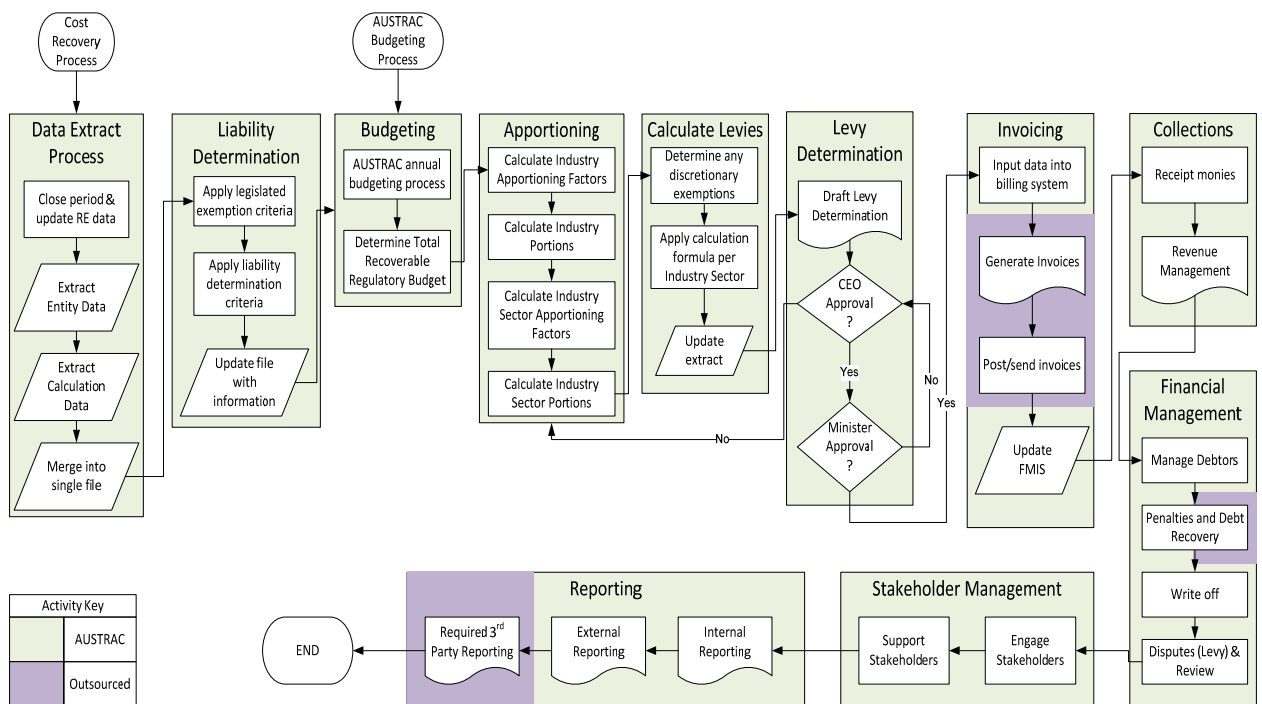
However, there are some elements of the process that it does not make sense for AUSTRAC to undertake and these should always be outsourced. For instance, it would not make sense for AUSTRAC to develop the capability to print or mail out the levy invoices itself. It would be far more cost effective to outsource these requirements to a printing house with a mailing capability. Likewise, an in-house solution should seek to use the services of a professional debt recovery agent or an organisation with this capability already established. This is a specialist activity where AUSTRAC will not have the volume of work to warrant investing in the development of the capability in-house.

So, even if it seeks to manage cost recovery in-house there will likely always be a small number of elements which will need to be outsourced. Figure 4.1 depicts the business process if an in-house solution is selected. It highlights the activities that AUSTRAC is responsible for (shaded in green) and those that would need to be outsourced under this scenario (shaded in purple).

There are a number of factors that become apparent when analysing the in-house option including:

- While a shrink wrapped in-house solution involves a relatively low level of involvement of external providers, there will still be an element of 3rd party reporting required. That is, AUSTRAC will require these service providers to provide information and reports from time to time. There will also be an element of contract management required.
- Building the required capability internally to deliver the cost recovery beyond the levy calculation (in-house) is a significant undertaking, particularly if there are timeline constraints as there appear to be.
- The back office administration of the cost recovery process represents a high administrative overhead in terms of collections, debt management and general financial management.

Figure 4.1 AUSTRAC In-house Cost Recovery Solution



4.3 Commercially Outsourced Solution

A number of the activities that need to be undertaken as part of the cost recovery process are offered as services by various service providers. These organisations have specialist expertise which can be procured through tender and the service managed via contract. The contract would be for a defined period of time and subject to periodic review.

Generally speaking the advantages of outsourcing are considerable. Outsourcing the delivery saves on administrative overhead and allows organisations with existing capability and capacity to deliver the services. The service provider's core area of expertise incorporates the services outsourced.

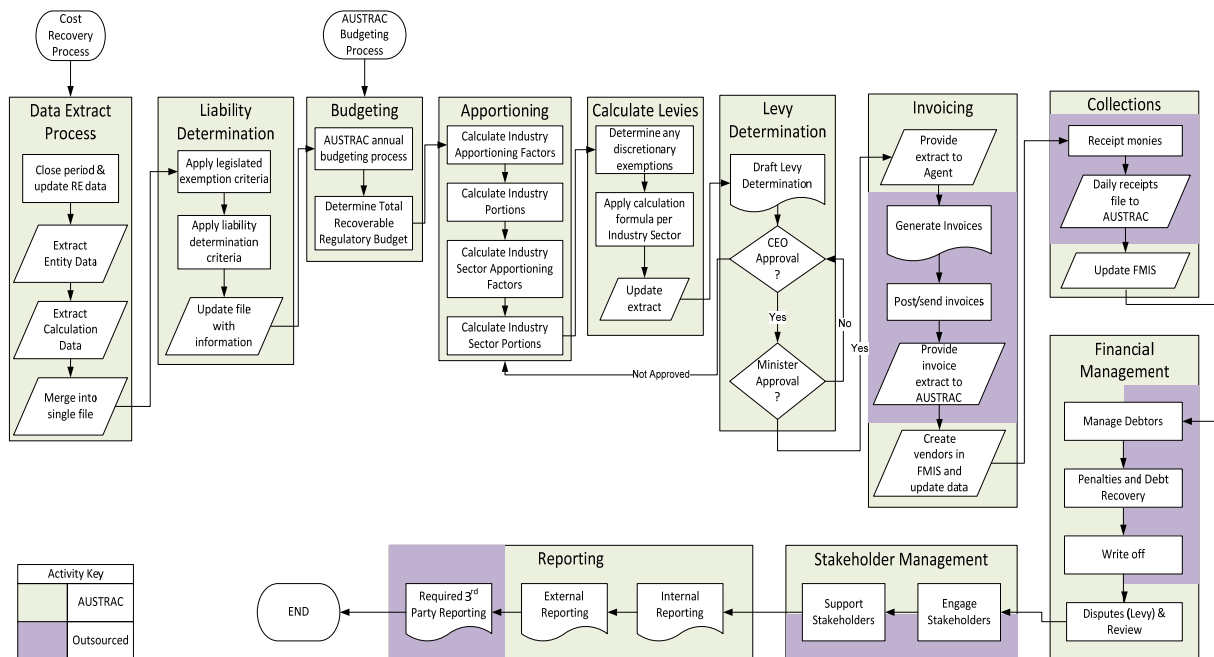
That is, they are not a regulator trying to undertake debt recovery but rather they are debt recovery specialists providing a debt recovery service to a variety of clients.

The counter to this is that in paying a commercial provider AUSTRAC would also be required to pay commercial rates which might involve higher operating costs than those that incurred if it were performing the activities itself. However, many of the services are heavily commoditised and pricing is competitive and attractive as a result. More importantly, the capital investment costs associated with developing the capability to be able to undertake the service represents a significant potential saving when the process is outsourced.

Figure 4.2 depicts the business process if a commercially outsourced solution is selected. It highlights the activities that AUSTRAC is responsible for (shaded in green) and those that would be outsourced under this scenario (shaded in purple).

- The diagram indicates that outsourcing results in the transfer of a considerable amount of the process activities to a service provider. Conceptually this will enable AUSTRAC to maintain a lighter resourcing structure.

Figure 4.2 AUSTRAC Commercially Outsourced Cost Recovery Solution



- However, not all aspects of the process can be outsourced. Many of the activity areas will require AUSTRAC to maintain its involvement as the decision making authority at key points in the processes. The interface between the provider and AUSTRAC would need to be developed. AUSTRAC will need to customise the procedures to reflect these decision points.
- It is unlikely key elements involving decision making can be readily outsourced. As a result AUSTRAC will be required to undertake contract management and process oversight. In respect of an activity area such as debt management, AUSTRAC will be required to manage the overarching financial aspects requiring it to maintain a debtor’s list which in essence will effectively require access to a billing system.
- Therefore this option still requires AUSTRAC to invest in the development of capabilities.

- While it is conceivable that a commercial provider could be sourced and contracted on a basis in which they provide greater elements of the decision making as well, this will likely require some delegation of authority, likely under the FMA Act. This option will be less attractive because FMA Act delegations to non-Government agencies will add some complexity to the engagement and possibly extend the procurement timeframe.

The significance of these points is that from an ongoing process administration perspective, AUSTRAC will continue to play a role and this will require resourcing and incur administrative overhead.

The key aspect of the project implementation is that even though much of the activity is outsourced, a capital investment in a billing system would still be required. This is a significant outlay. In addition, the lead time to procure a system and successfully integrate it into the AUSTRAC environment would likely involve some time, complexity and effort.

4.4 Outsourced to Government Agent

The alternative outsourcing arrangement entails engaging an Australian Government Agency to undertake the cost recovery activities on AUSTRAC's behalf. This might entail reaching an agreement with such an organisation that is already conducting cost recovery and has the requisite capabilities. The agreement might be a MOU and an SLA type of scenario under which AUSTRAC appoints the organisation as a service provider. Alternatively, AUSTRAC might formally delegate elements of its imposition and collection responsibilities to the organisation. The other alternative is that responsibility for elements of imposition and/or collection of the levies is delegated to the organisation by legislation.

Compared with a commercial service provider there might conceivably be improved cost effectiveness opportunities given that a Government Agency would be charging AUSTRAC at cost (that is without any commercial margins built in).

However, some of the short-comings of a commercially outsourced solution would still apply to a Government Agency solution. That is, unless a significant portion of the activities and decision making components are outsourced to the Government Agency, the value of the option appears significantly diminished because there is still a residual workload for AUSTRAC and because of the investment required by AUSTRAC to deliver this solution.

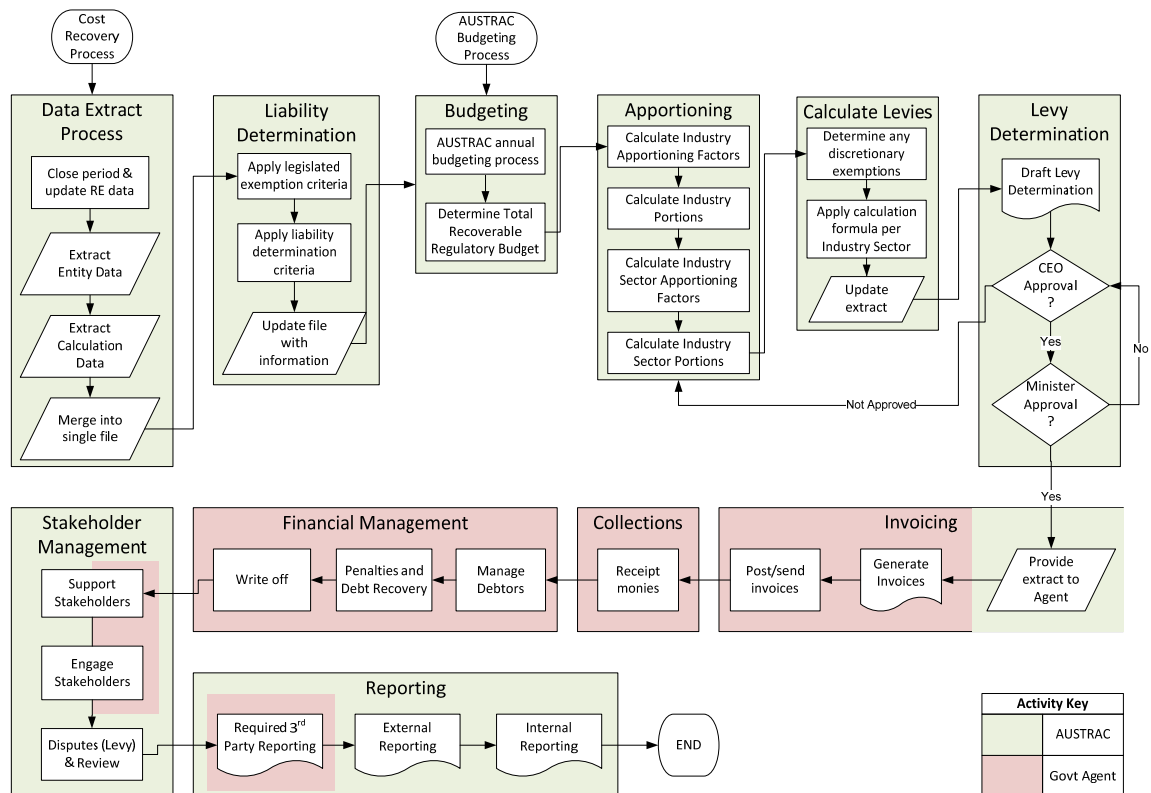
It follows that if it is to gain the maximum benefit available from outsourcing to a Government Agency, AUSTRAC should seek to outsource as much of the cost recovery activity as it possibly can. Ideally this would extend to decision making and reporting to Government.

Most of the ongoing activity is linked to invoicing, collection and financial management activities. Undertaking or even managing this component requires considerable resourcing and investment. The ideal scenario has these elements outsourced as highlighted in the diagram below (Figure 4.4). The key aspects of this solution are:

- This option represents the lowest level of capital investment required of AUSTRAC.
- The option represents the lowest level of ongoing administrative overhead for AUSTRAC.
- A government agent (service provider) can potentially be empowered to undertake all invoicing, collections and financial management, including administration and decision making components.
- It is dependent on finding a government agent that has the appetite to take on the cost recovery for AUSTRAC. There are two ways in which this solution might be achieved:

1. Government organisations already undertaking cost recovery are possible candidates.
2. Alternatively, a specialist/centralised provider across government might be warranted.

Figure 4.3 AUSTRAC Outsourced to Government Agency Cost Recovery Solution



Outsourcing to a Government Agency already undertaking its own cost recovery activities

The challenge of implementing this solution entails finding a Government Agency with the appetite to take on the task of providing the services to AUSTRAC. There are a number of organisations already undertaking cost recovery activities. Some of them also undertake these activities on behalf of others.

There might be challenges for AUSTRAC in finding a suitable Government Agency provider as its leviable entity population appears to have some uniqueness and it may not be appropriate simply to use the Government Agencies existing cost recovery methodology. That is, the Government Agency might be required to customise its approach to fit the AUSTRAC requirements.

For instance, preliminary discussions have been held with APRA to gauge their interest in providing the services to AUSTRAC. APRA confirmed that it would be open to providing cost recovery services to AUSTRAC where there would be no incremental workload increase for APRA. In other words, APRA would provide the service if its existing cost recovery methodology would satisfy AUSTRAC’s requirements. Unfortunately, APRA’s existing approach does not provide a complete fit with AUSTRAC’s requirements and alternative arrangements would also be required.

While they did not categorically rule out providing a complete service to AUSTRAC, APRA’s clear messaging indicated they did not currently have an appetite to take on the role of “billing service provider” for other Government Agencies.

There are however numerous other Agencies that should also be consulted. The whole of Government benefit and the improvement in cost effectiveness and efficiency should provide sufficient incentive to enable these challenges to be overcome.

A centralised cost recovery service for multiple Government Agencies

Given the capital costs of establishing a cost recovery capability, as well as the ongoing operating costs, the benefit of outsourcing to a centralised Government provider are considerable. The synergy benefits that could be mined increase with each Government Agency utilising the provider's services.

There are currently dozens of Australian Government regulators. Some already cost recover, others do not, yet. It is reasonable to assume that the trend established since 2002, of more regulators recovering their supervisory costs will continue. Moreover, as new legislation is introduced, new regulators will continue to be created who will presumably also follow the cost recovery path. These trends will simply increase the potential benefit to Government of a centralised service.

However, such a solution requires various elements of the Government to have an appetite for the approach. The process of gauging and even soliciting support for this approach and then enabling and implementing it is potentially considerable in terms of timeframes.

4.5 Combinations

It is conceivable that the AUSTRAC solution might entail a combination of in-house and outsourced elements. Moreover it is also possible that some elements might be outsourced to a Government Agency while others are outsourced to a commercial provider.

In the example analysed elements of the cost recovery process were outsourced to APRA while others were outsourced to a commercial provider. This process is depicted in Figure 4.4 and the steps explained as follows:

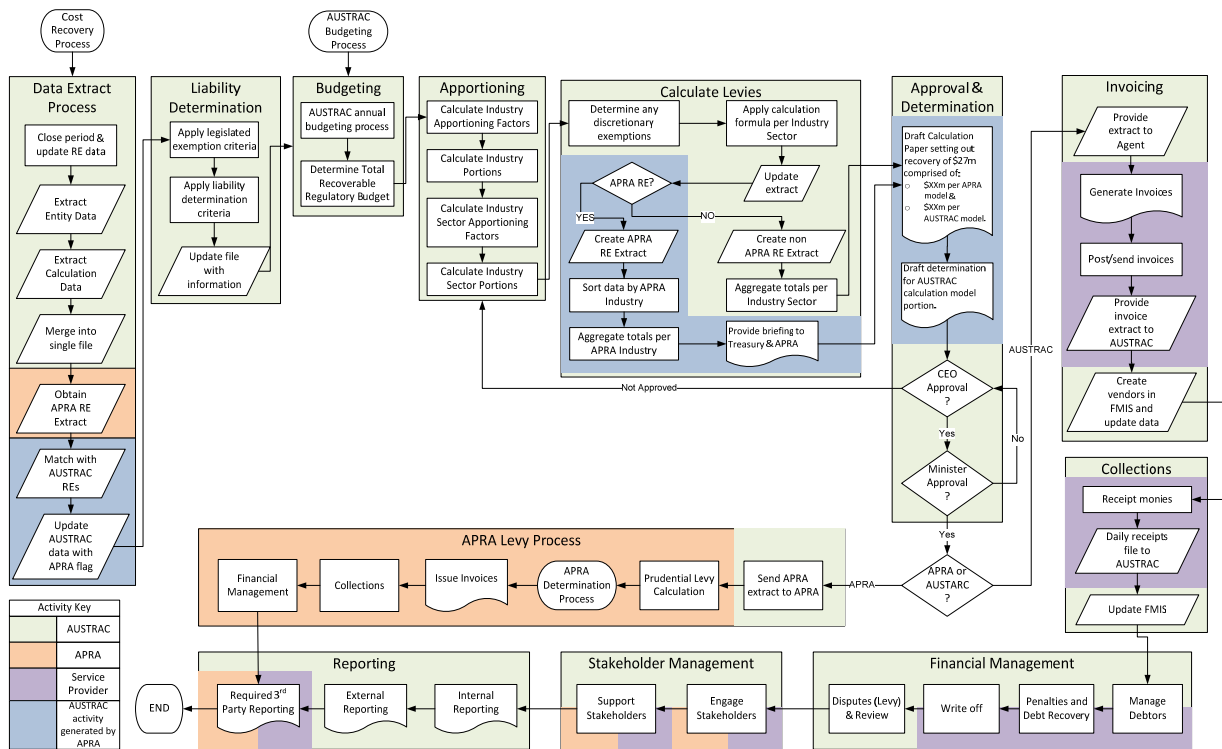
- Using the APRA model means that they can only conduct cost recovery activities in respect of reporting entities who are also APRA prudentially regulated entities.
- To do this requires AUSTRAC to provide a data extract containing the amount AUSTRAC wishes to recover from the prudentially regulated.
- This data extract must be sorted by APRA Industry Sector. To do this the AUSTRAC data must be updated so that prudentially regulated entities are flagged.
- This requires APRA to first provide AUSTRAC with a list of its entities at the commencement of the levy calculation process. The data must be matched with AUSTRAC's and uploaded into the AUSTRAC levy data extract. The AUSTRAC calculation needs to determine how much will be recovered via the APRA model.
- AUSTRAC must calculate all RE levies per the AUSTRAC model. Then it must identify all APRA REs and input them into a separate APRA levy file. Then the APRA REs must be sorted into APRA sectors and the amounts aggregated.
- It follows that the APRA RE data must also be removed from the AUSTRAC (residual) levy file. The file can then be forwarded to APRA.

This approach would offer some advantage in that the prudentially regulated entities would receive only one invoice in respect of cost recovery. Moreover, it would entail using a methodology with which they are familiar and comfortable and which would enable collection of a substantial apportion of the total costs using a proven method and system. There might however be questions as to the appropriateness of utilising that calculation model to calculate their AML/CTF related cost recovery component.

AUSTRAC would still need to organise cost recovery from the remaining REs. The workload associated with undertaking this is not significantly reduced by the outsourcing to APRA of cost recovery for the prudentially regulated.

In fact all the issues associated with outsourcing to an external provider would still exist. That is, AUSTRAC would still need to undertake the contract management, decision making and administrative tasks associated with the commercially outsourced option, including the capability investment (such as acquiring a billing system). When this is consider along with the additional steps required in the process to enable the APRA approach, the combination option is less efficient and cost effective than other options.

Figure 4.4 AUSTRAC Combined Outsourcer Cost Recovery Solution



5 OPTION EVALUATION

5.1 *Evaluation of the Options*

The options have been evaluated against the following criteria:

1. Fit for purpose – does the approach readily achieve the cost recovery objectives?
2. Cost Effective – does the approach entail a minimal financial burden for REs? Does it satisfy FMA requirements? What are the implications for operating costs and capital expenditure?
3. Efficient – does it involve minimal diversion of AUSTRAC resources?
4. Risk – what are the implications for operating risk and implementation risk?

The key aspects of the evaluation are summarised below and are depicted in Figure 5.1.

- An In-house Bespoke Solution is not a viable option. It is not compatible with the current AUSTRAC IT strategy and the cost and delivery requirements are prohibitive.
- An in-house shrink-wrapped solution is not the ideal solution for AUSTRAC as it involves greater establishment cost and ongoing administrative effort.
- A combined outsource solution is not viable because of the lack of cost effectiveness and the lack of efficiency.
- A commercial outsourced solution is viable but still involves considerable investment and effort on the part of AUSTRAC both in terms of the ongoing administration level and in terms of the implementation.
- An outsourced solution via a Government Agency represents the most cost effective and efficient solution.

5.2 *Recommended Solution*

It is recommended that:

1. AUSTRAC engage a Government Agency to undertake cost recovery activities on its behalf.
2. That AUSTRAC look to outsource as much of the process as possible to said Government Agency and in particular that as far as practical the engagement cover the delegation to the Government Agency of AUSTRAC's collection responsibilities;
3. That AUSTRAC commence discussions with the requisite Government representatives to determine the appetite for establishing a centralised cost recovery service to realise whole of Government benefits that are available;
4. That as a fall back position AUSTRAC identify Government Agencies already conducting cost recovery activities and investigate their appetite for providing that service to AUSTRAC; and
5. That AUSTRAC identify contingency plans, should the previous recommendations (above) fail to be viable within the currently required timeframes.

Figure 5.1 Option Evaluation Matrix

Solution Option	Fit for Purpose	Cost Effective	Efficient	Risk
Option 1 In-house Bespoke Solution	<ul style="list-style-type: none"> Potentially. If well delivered there is an opportunity for the solution to be highly customised and it could be an ideal fit. Unproven but if delivered to plan, then should be highly satisfactory. Meeting the project timeline would present as a challenge. 	<ul style="list-style-type: none"> Would be potentially expensive and the costs would in theory be passed onto REs. A poorer choice compared with other options. Requires maintenance and support costs per system and also includes people. Resources are required to administer cost recovery activities. A bespoke development entails considerable outlay throughout the design and development stages. 	Solution requires additional resourcing to conduct processes as well as staff (estimated at 2) to support the bespoke systems.	<ul style="list-style-type: none"> Bespoke means no warranty and AUSTRAC must support and maintain any technology components themselves. The system would be unproven and represents high risk. Bespoke build represents a major undertaking which presents delivery risks (time & budget).
Option 2 In-house Shrink Wrapped Solution	<ul style="list-style-type: none"> Utilises products already tested and proven so presents an increased likelihood of being fit for purpose. Other requirements significant so will require planning and delivery expertise. 	<ul style="list-style-type: none"> Likely to represent better value for money than a bespoke development. Requires capital expenditure. Will require ongoing support and maintenance costs. Resources are required to administer cost recovery activities. 	Solution requires additional resourcing to conduct processes as well as staff (estimated at 2) to support the bespoke systems.	<ul style="list-style-type: none"> Less performance risk than a bespoke solution. Delivery risk if timeframes for a Government procurement process followed by integration activities.
Option 3 – Commercially Outsourced Solution	<ul style="list-style-type: none"> Leverages organisations where services are their core area of expertise. Should be a good fit. 	<ul style="list-style-type: none"> Competitive market should mean that services reasonably priced. Delivery costs will contain a commercial margin. Reduced level of CapEx. Still residual investment required. Represents opportunities for better levels of cost effectiveness over options 1 & 2. 	Still requires AUSTRAC staff to administer and oversee cost recover activities.	<ul style="list-style-type: none"> Ongoing performance risk can be managed via contract and contract management. Delivery timeframes at risk due to technology component procurement and procurement of the outsourcer.

Solution Option	Fit for Purpose	Cost Effective	Efficient	Risk
Option 4 – Government Agency Outsourced Solution	<ul style="list-style-type: none"> Where the Government Agency already is performing cost recovery there is an increased likelihood of the approach being fit for purpose. 	<ul style="list-style-type: none"> If structured correctly there would be a minimal capability development required meaning minimal capital outlay. Also represents minimal ongoing administrative cost. No commercial margins and at cost. 	<ul style="list-style-type: none"> If structured correctly would require minimal AUSTRAC involvement in the financial management activities. Of all the options, this involves the least consumption/diversion of AUSTRAC resources. 	<ul style="list-style-type: none"> Low levels of performance risk. Delivery risks arise from identifying and negotiating with a candidate. Agreement from multiple Ministers might be required. If engagement requires the enabling legislation then there is added complexity and added (timing) risks.
Option 5 – Combined commercial outsourcer and Government Agency outsourcer	<ul style="list-style-type: none"> Option should enable fit for purpose solution however duplicated process and effort. 	<ul style="list-style-type: none"> Government agency component is cost effective. Outsourcing component is less so as it entails commercial rates. Still requires initial capital outlay. 	<ul style="list-style-type: none"> Involves some duplication of effort. Still requires diversion of AUSTRAC resource to cost recovery administration. 	<ul style="list-style-type: none"> PR risk due to duplication of effort. Delivery risk due to numbers of stakeholders, procurement and solution implementation within timeframes.

End.

APPENDICE

AUSTRAC Cost Recovery Project

Generic Delivery Framework Overview

24th August 2010

VERSION 1.0

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Commercial in Confidence

Introduction & Purpose

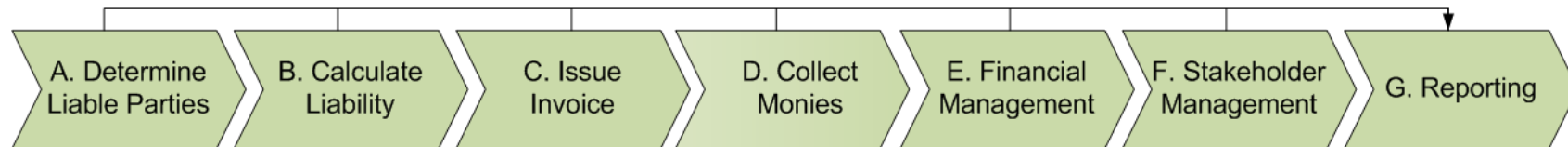


- The purpose of this document is to provide an overview of a generic cost recovery delivery framework including:
 - A generic operating model; and
 - High level business process.
- Earlier drafts have been used to engage with internal stakeholders.
- It has been updated with feedback from internal stakeholder consultations held from 13th to 20th August 2010.
- This is descriptive (indicative) only not prescriptive.
- The aim is to flesh out issues to enable identification and evaluation of solution options and further improve AUSTRAC's understanding of the issues.

Delivery Model

- The generic aspects of the cost recovery operating model have been distilled into the diagram below.

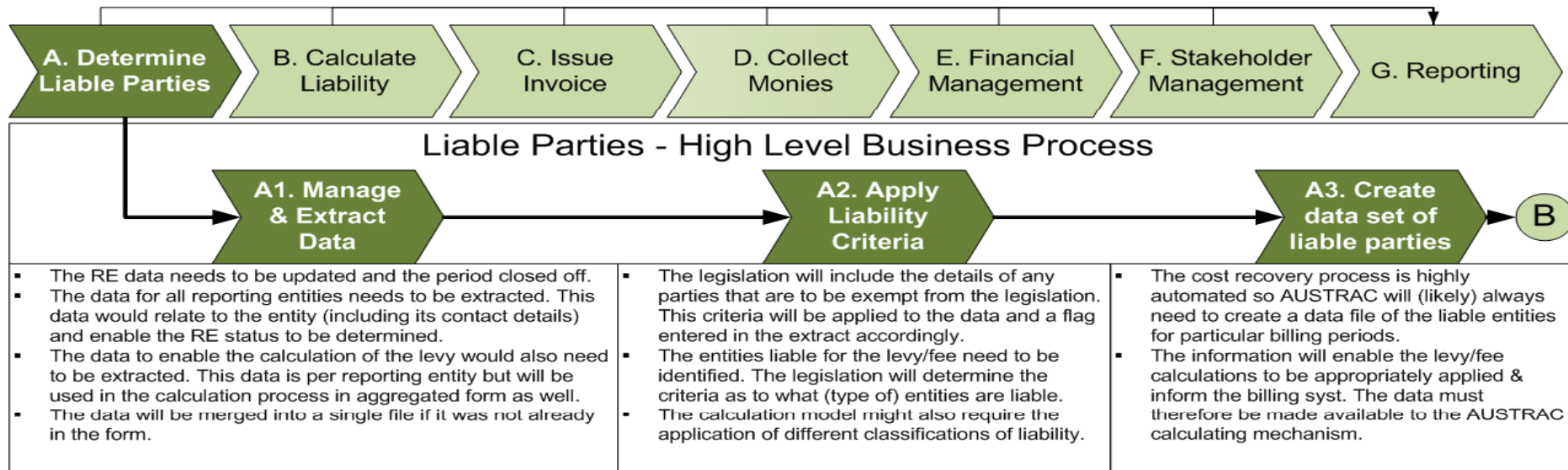
Generic Cost Recovery Operating Model



Determining Liable Parties



Generic Cost Recovery Operating Model

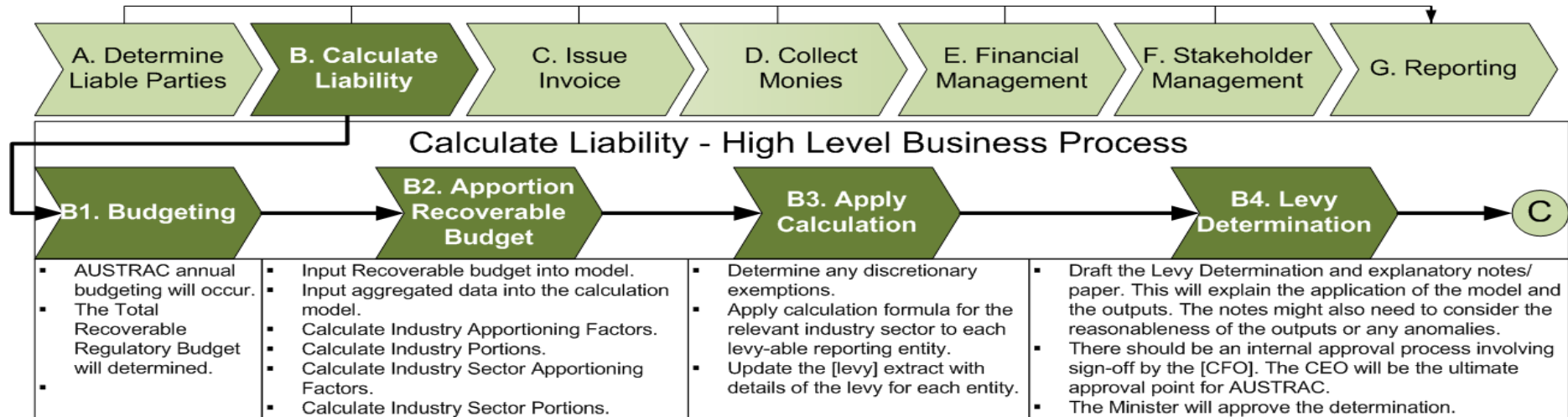


Determination of Liable Parties - Project Activities

Liability Data Requirements	Define Liability	Data Management
<ul style="list-style-type: none"> Define the data required to: <ul style="list-style-type: none"> Identify all reporting entities, determine their liability status, enable the calculation and enable the billing process. Requirements will vary depending on the solution selected. Identify that the data is available and in which repositories it is held. Requires defined data fields, format, period and extract logic. Where data is sourced from multiple repositories it will need to be merged into a single extract. Where transaction data is used, the relevant period needs to be defined. 	<ul style="list-style-type: none"> The Cost Recovery Model (calculation) will define what/who the liable parties are. Liability might be homogenous or based on tiers/categories. The liability definitions will be contained in any governing legislation (arising). For example, they could be date driven or date range driven. Those definitions need to be translated into technical definitions due to the automated nature of the process. The data will need to support a determination of a reporting entities liability classification and be able to incorporate that status as an identifier. 	<ul style="list-style-type: none"> The levy calculation data might be entered into the model by extract upload or interface. Any data extract will require a QA. (Consider header and totals data etc). Any extract process will need to withstand scrutiny and be transparent and traceable. The model will possibly use a combination of aggregated and entity specific data. Data Integrity – this data will be used to create a legal liability and a financial obligation, which carry legal and reputational risks. Validation of RE figures required. May need to consider ability to close a period and ensure data controls are in place.

Calculating Liability

Generic Cost Recovery Operating Model

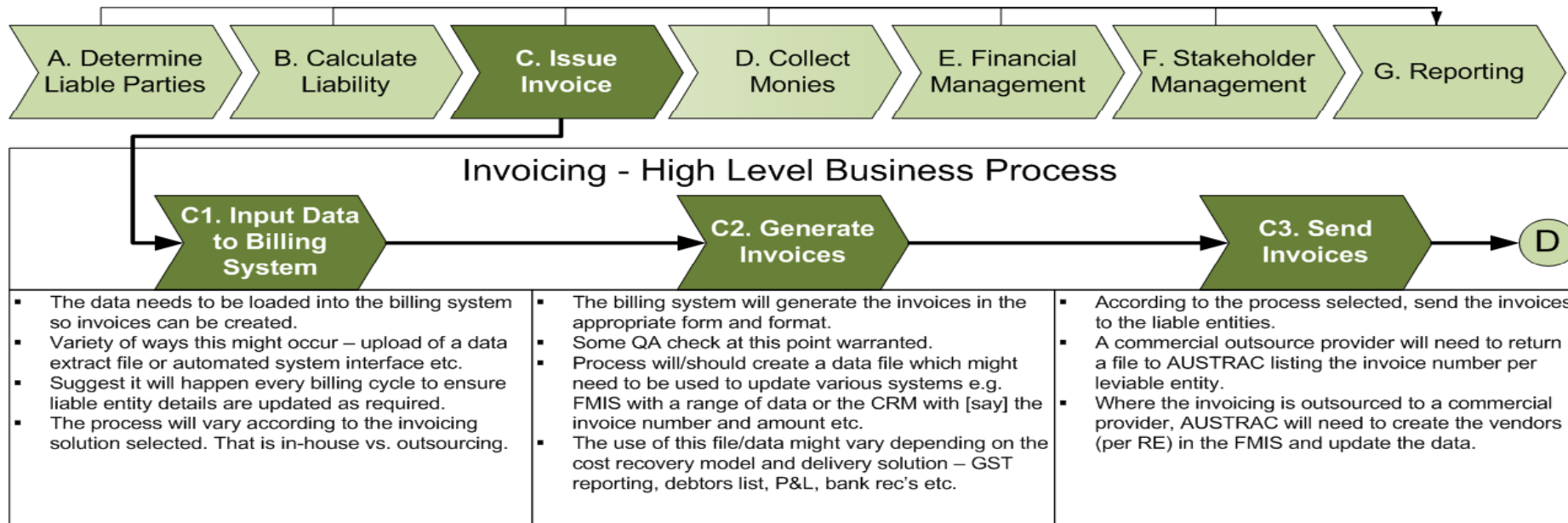


Project Activities – Calculation

Budget Issues	Apportioning Issues	Calculation Model	Determination	Outputs
<ul style="list-style-type: none"> The Total Recoverable Budget will need to align with to the PBS The recoverable budget should be transparent and defensible. Only costs associated with regulatory activities should be included. Expect this requirement to be subject to scrutiny including ANAO audit. Use Aust Govt Guide to Cost Recovery (2005) as basis. 	<ul style="list-style-type: none"> Models to be set out in discussion paper. Stakeholder consultation required before model finalised. Apportioning requirements set out in issues paper. The calculation model might be spreadsheet (XL) based or a BI tool. Current proposed model is simple. Some aggregated data must be input but most fields locked and calculation occurs automatically. 	<ul style="list-style-type: none"> Nature of the cost recovery calculation model has a significant impact on the design of other aspects of the solution, including systems, data and processes. Is possible to do dummy runs and scenarios to test that the required totals are achieved (e.g. \$27m). Could coincide this with the forward estimates process. Use a data management tool to apply individual levy calculations. Enable traceability, must be auditable while minimising risk. Ideally, subjective components are minimised. Configuring of the calculation model must result in total collections that accord exactly with the required supervisory budget contained in the PBS. 	<ul style="list-style-type: none"> The determination process or levy approval process will be defined by the legislation. Any levy will likely require Ministerial approval of some form. Any levy approval process will require an overview of the calculation and the outputs. An explanatory paper and briefing will also likely be required. 	<ul style="list-style-type: none"> If there is a data flow between the calculation mechanism and the billing system, the required data and format need to be defined. Alternatively this might be an integration point. Need to identify all points that might require the calculation output data, including billing system, FMIS etc. Levies will also need to be shown per Industry and Industry Sector depending on the Determination requirements (defined in the legislation).

Invoicing

Generic Cost Recovery Operating Model

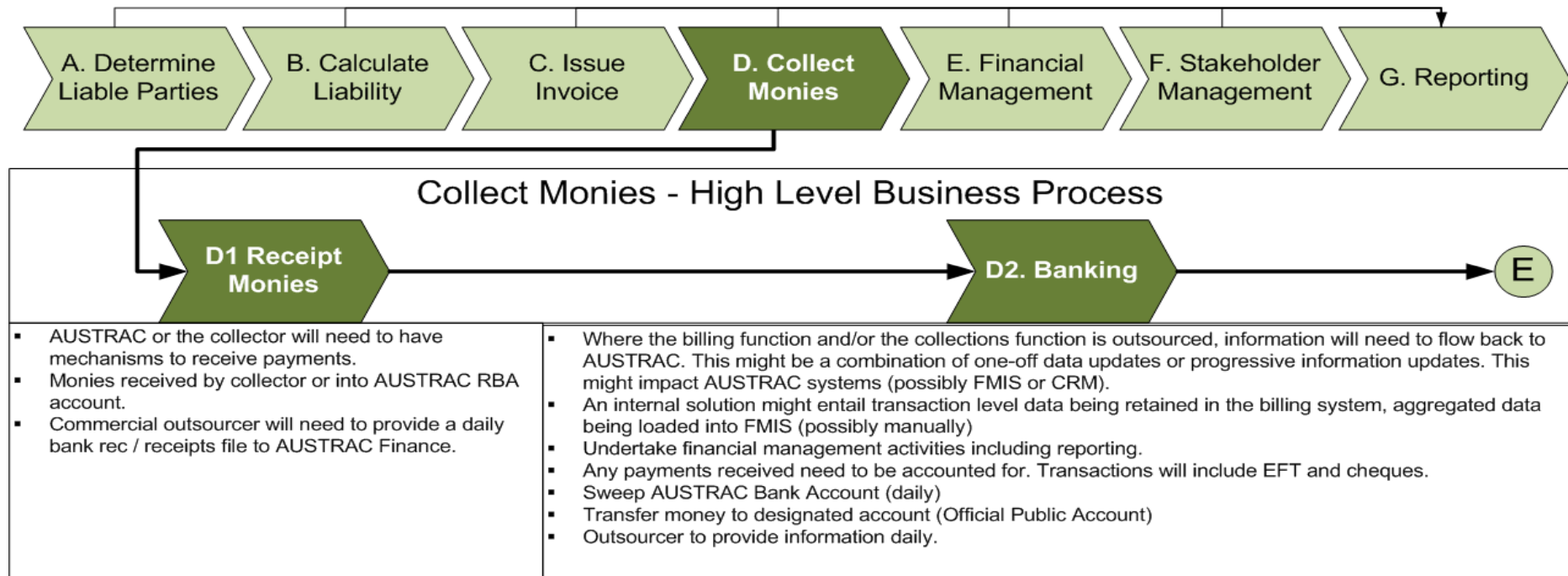


Invoicing Project Activities

Input Considerations	Invoices	Invoices and Financial Data
<ul style="list-style-type: none"> Need to confirm data required to be captured, maintained and provided. Need to confirm if the characterisation of the levy/fee. Is a levy a tax? Can a tax be considered a debt for the purposes of write-off? Is a levy/fee subject to the GST? Is a fee subject to GST. If the invoicing is outsourced, need to clarify data privacy issues and data security issues. If outsourcing, need to clarify any secrecy issues. 	<ul style="list-style-type: none"> Determine if invoices will be hardcopy, electronic or both (liable entity has choice). Need the invoice template developed – cover questions of entity details (postal), branding, levy/fee description as well as statutory requirements. Data flows arising from the process to be defined. Printing capability required. 	<ul style="list-style-type: none"> Electronic invoices require capture in AUSTRAC data repository (say CRM) of email address and contact point. A mailing capability will be required. If AUSTRAC manages solution in-house, suggest this component will be outsourced? Need to prep support function for calls/queries. Need mechanisms for returns.

Collections

Generic Cost Recovery Operating Model

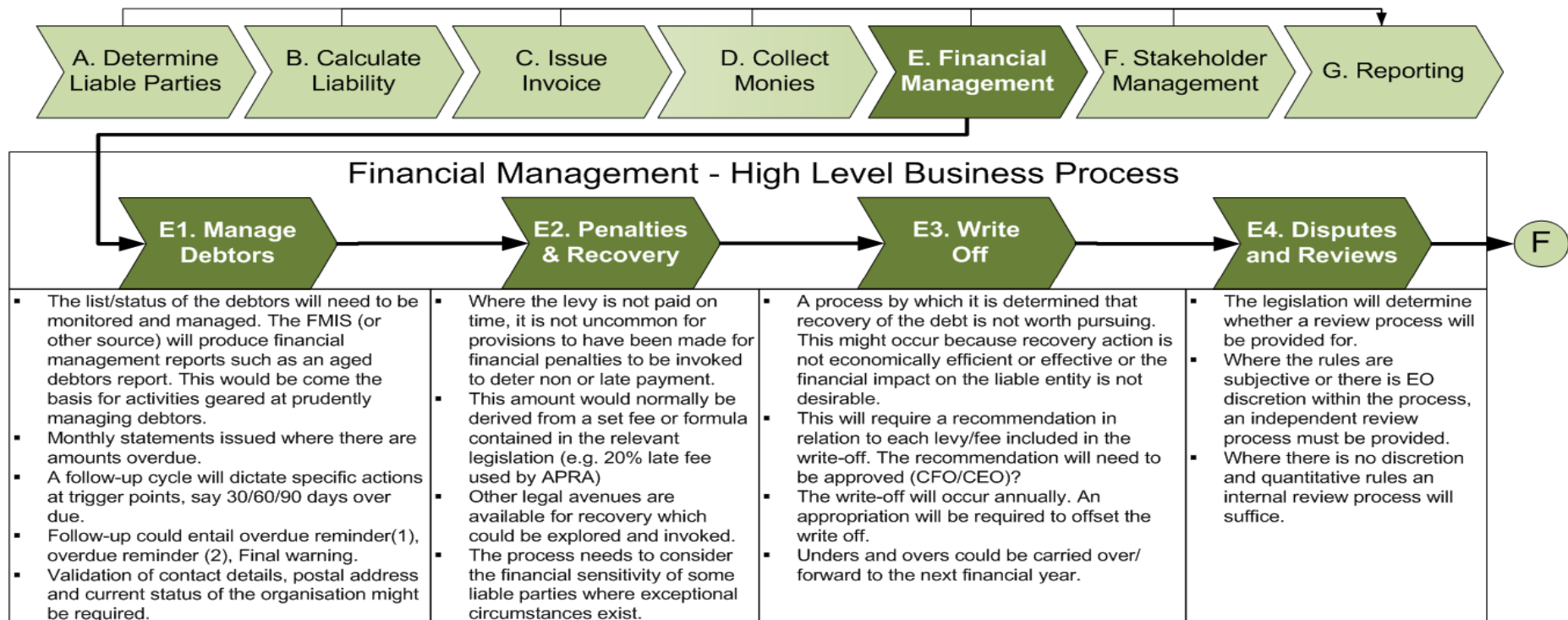


Collect Monies Project Activities

Receipting	Banking	Financial Management
<ul style="list-style-type: none"> ▪ Establish dedicated account? ▪ Need to confirm acceptable payment methods – cheque, EFT, cash etc. Options/Details need to be noted on invoice. ▪ Need to determine/ensure that the levy/fee meets the legal definitions of an (enforceable) debt. 	<ul style="list-style-type: none"> ▪ Standard requirements will need to be satisfied as well as FMA requirements (if any). ▪ Any commercial service provider will need to have the appropriate delegations (FMA Act). 	<ul style="list-style-type: none"> ▪ FMIS – monies collected versus total supervisory budget (revenue) target. ▪ Debt management, account management all linked to this process. ▪ Need to understand financial processes, FMIS implications (if any) etc. ▪ Significant reporting (scoping) exercise required?

Financial Management

Generic Cost Recovery Operating Model



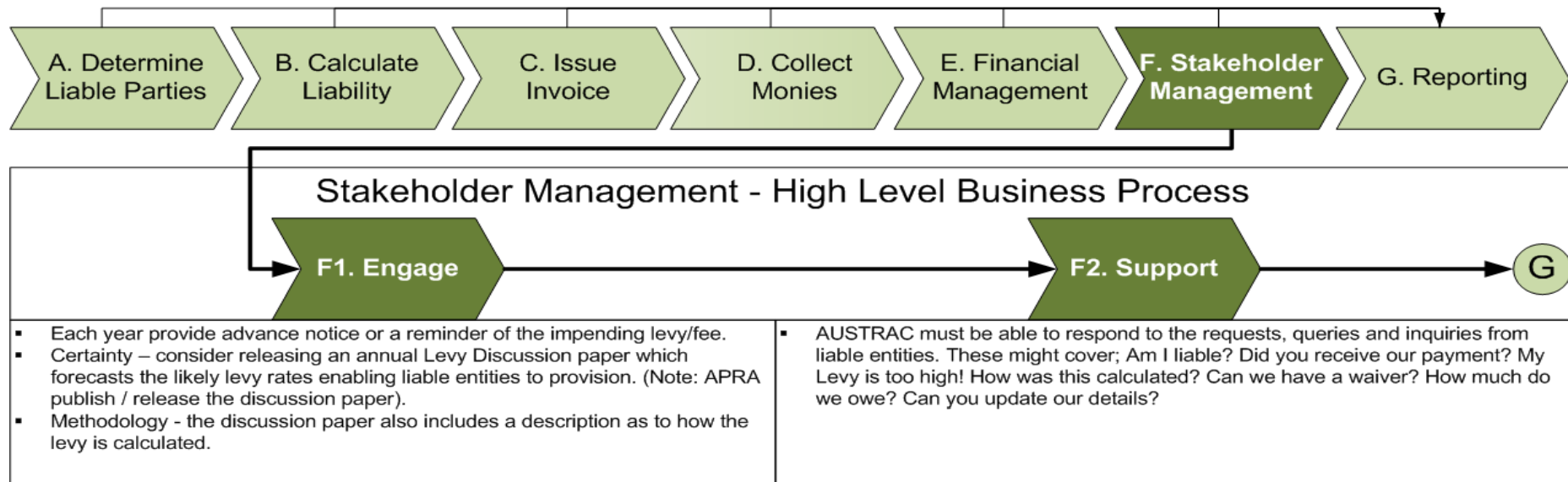
Financial Management Project Activities

Manage Debtors	Penalties & Recovery	Write Off	Disputes & Reviews
<ul style="list-style-type: none"> Data maintenance and quality is a key issue, need to make sure that correspondence/ invoice is getting to the liable party. 	<ul style="list-style-type: none"> Manage in-house or utilise debt recovery agency? How many warnings first? If legal avenue – do statutory issues apply? FMA Act requirements? Discretion to waive (financial circumstances)? 	<ul style="list-style-type: none"> Write-offs may need to be approved by the Minister or other officials. Need to understand notification and approval points. Write-off processes need to be compliant with the FMA Act (need to understand requirements). 	<ul style="list-style-type: none"> The process will be influenced by the levy calculation model and solution. The project plans should identify scenarios and examples.

Stakeholder Engagement



Generic Cost Recovery Operating Model

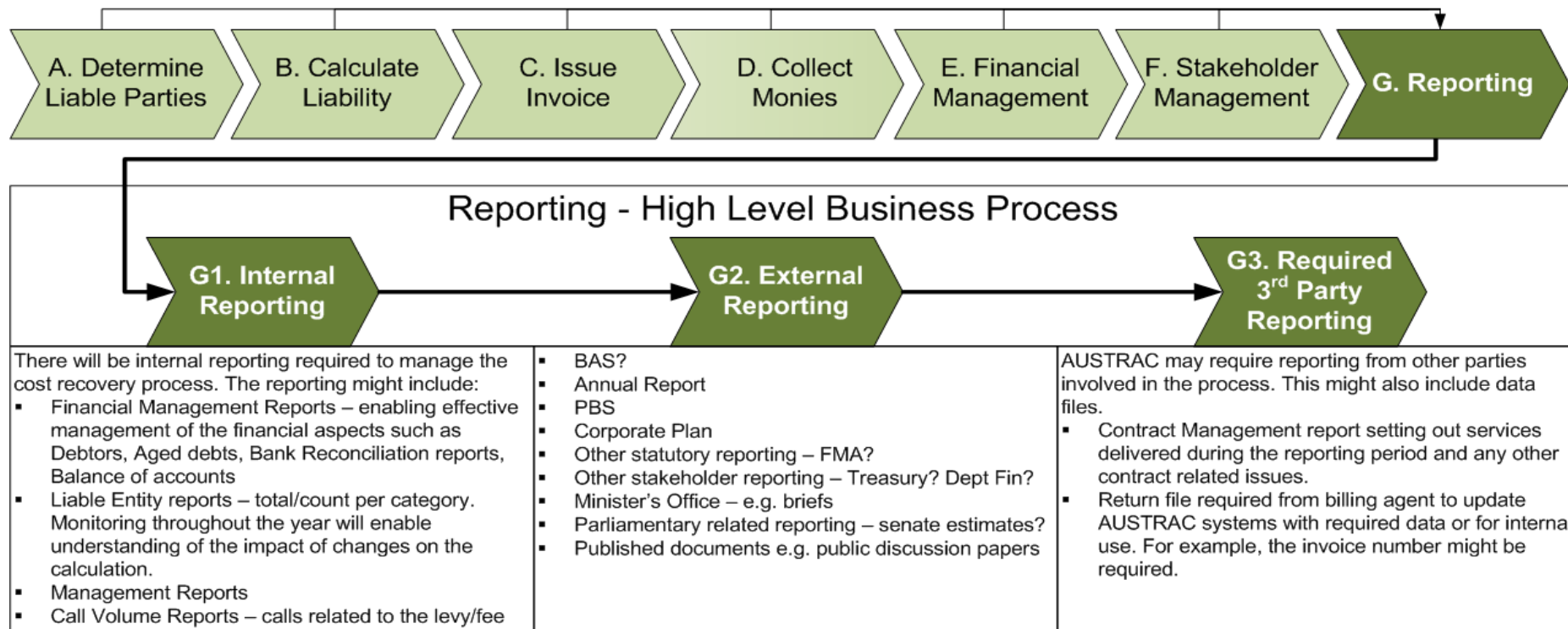


Stakeholder Management Project Activities

Stakeholder Engagement	Stakeholder Support
<ul style="list-style-type: none"> Advance notice of the change to the cost recovery model and the proposed approach. Periodic updates and communications. The project will need to incorporate a Communications Plan. The Communications Plan will need to cover the public consultation process that will take place. Engage one-on-one with major entities, and industry associations and bodies as well as other larger forums. Consider longer term issues about how it fits into the AUSTRAC communication and engagement strategy. Undertake stakeholder analysis (internal and external). Ensure regular / timely communications to relevant internal stakeholders/staff. 	<ul style="list-style-type: none"> Need to make available various materials and tools including via the website. Develop Q&A. Publish discussion papers. Provide links to legislation. Ensure mechanisms to in place to maintain data. Confirm future data requirements and how these might be obtained. Consider escalation and notification criteria. Build capacity to accommodate cyclical spike in helpline call volume. Process for refunds on over payments or duplicate payments (in error). Protocols for decision reviews and waiver requests.

Reporting

Generic Cost Recovery Operating Model



Reporting Project Activities

- The reporting element happens as a continuum and particular elements of reporting need to occur at specific points in the cost recovery process as opposed to the end of the process as depicted in the flow above.
- Underpinning data – needs to be identified. Does it exist? If yes where, if not do systems need to be modified and the data captured? Is the data reliable and valid?
- Consider a report register covering Strategic, Operational, Performance and Exceptions. Need to scope purpose, requirements, functionality, distribution, frequency etc.
- Should anticipate future likely requirements.

AUSTRAC Cost Recovery Project

Indicative Project Timeline

2nd September 2010

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Introduction

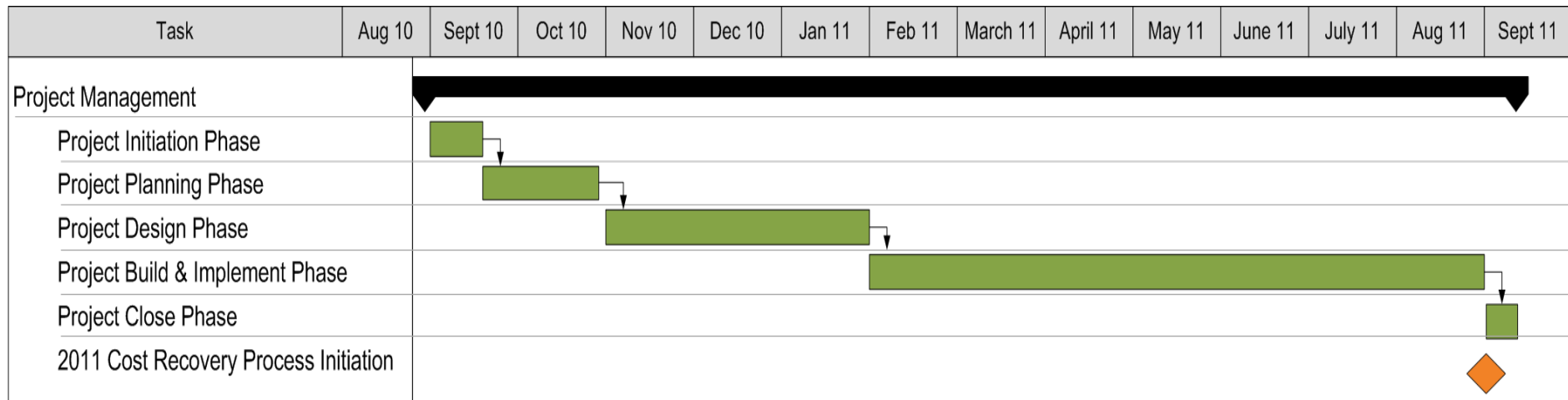


- The purpose of this document is to provide a high level indication as to the AUSTRAC Cost Recovery project timeline with the particular intent of identifying timing issues and critical dependencies.
- The timeline has been developed following the information collated in the Calculation Model Issues Paper and the information collated as a part of the process of developing the Comparative Research Paper.
- Given the project is only in the initiation phase and that there are a large number of unknowns it is intended to be indicative only and supplement the information contained in the PDR (provisional schedule).
- A more definitive timeline will be developed in accordance with the AUSTRAC project methodology and incorporated into the PMP.
- Consultation with internal stakeholders to further flesh out the timing issues and increase the level of granularity content within it is required.

AUSTRAC Cost Recovery Project Management Timeline Overview



- The timeline has been developed on the assumption that the delivery framework selected by AUSTRAC will involve outsourcing considerable elements of the cost recovery requirements to a Government Agency.



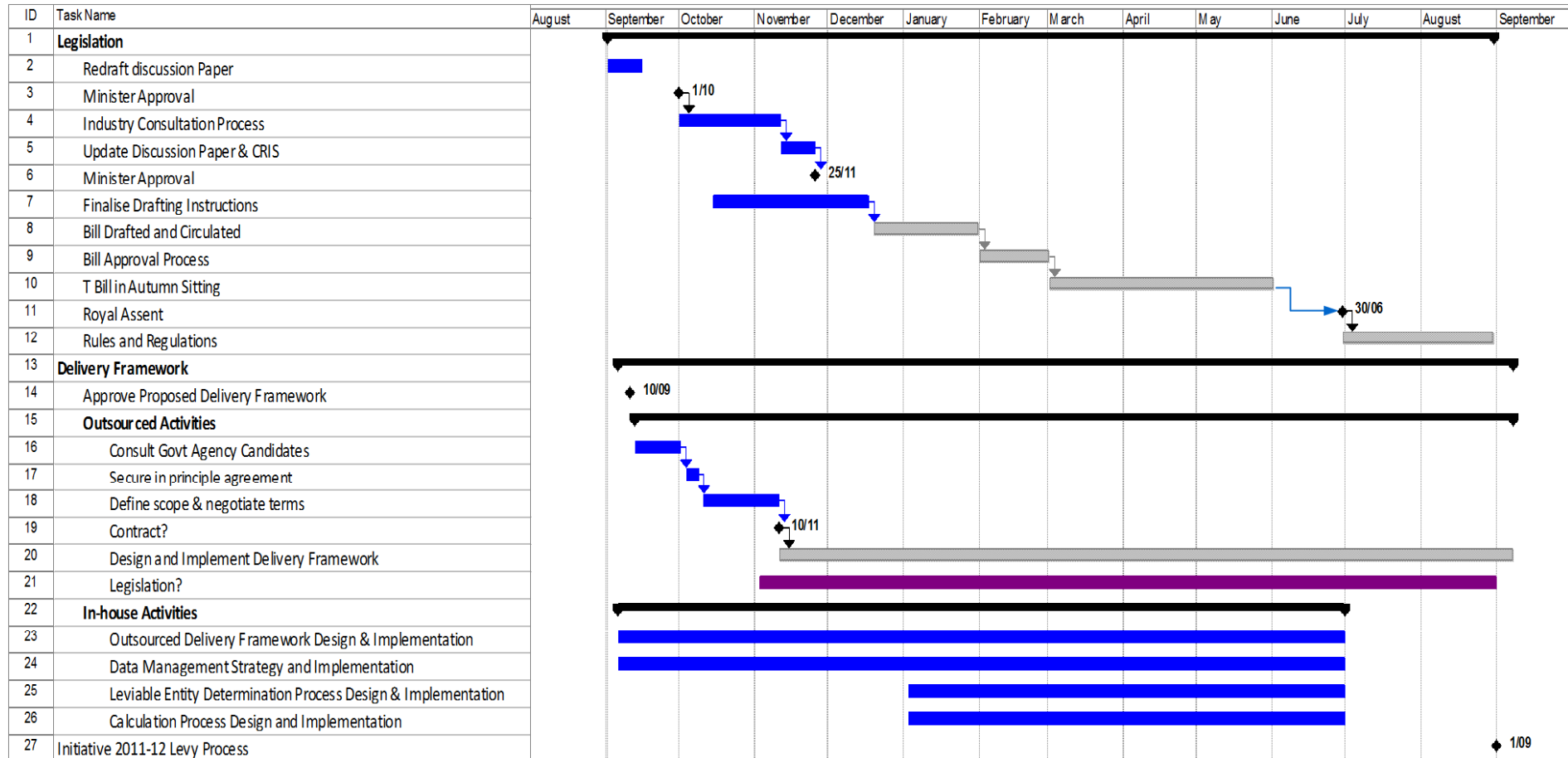
- The project is currently in the initiation phase. The timeline assumes a linear sequencing of each phase however there is likely to be iterative aspects and overlap between the phases.
- The key factor impacting the timeline is the passage of the legislation.

Legislation Issues

- Having the enabling legislation in place by 1 July 2011 presents as the most significant challenge of the AUSTRAC cost recovery project. It is the most significant critical dependency.
- There are numerous risks that potentially jeopardise the timeframe:
 - ❖ The hung parliament scenario;
 - ❖ The potential for a new Government and a different approach;
 - ❖ The incoming Government briefing process takes time;
 - ❖ The potential for a new Minister with other priorities;
 - ❖ The Minister rejects the proposed approach or requires changes;
 - ❖ The consultation process raises considerable issues that are time intensive to consider;
 - ❖ There are multiple steps and a short timeframe however AUSTRAC still needs to be able to provide quality drafting instructions;
 - ❖ Christmas break raises questions about availability of AUSTRAC staff as well as those from other Government Agencies involved in the process (such as OPC).
 - ❖ Timeframe reduces opportunity for multiple iterations. Need to get it right first time. Need to capability to do this.

The legislation is critical because it is the enabling element but also because it contains prescriptive elements as to how aspects of cost recovery must be undertaken.

AUSTRAC Cost Recovery Project Timeline



- Activities in blue are those undertaken by AUSTRAC.
- Activities in grey are undertaken by external parties.
- Connecting arrows indicate dependencies.
- The legislative task in purple is only a possibility.
- Diamonds are major milestones.
- Black bars are summary lines.

Delivery Framework



- The Cost Recovery Delivery Framework is essentially comprised of two activity streams, the outsourced activities and those conducted in-house.
- The current proposed approach is to outsource as much of the process as possible to a Government Agency. Approval of this recommendation would first be required.
- The initial focus thereafter is on identification of possible candidates and progressing to the selection and agreement with the provider.
- The means by which the provider is appointed could vary. A legislative enabled appointment is potentially more complex and would have issues for the timeline. It would be a significant challenge to identify a candidate and implement their enabling legislation within the 1 July 2011 timeframe.
- This delivery option is significant because it offers the lowest level of required procurement which also would have timeline implications.
- The outsourced activities design and implementation will require input and involvement from AUSTRAC.
- Of the in-house activities, data management looms as another critical dependency. This initiative is likely to be time involved and will require commencement in the near term.