

Chapter 12

COST EFFECTIVENESS

Essence

12.1 The Committee found a number of components to the assessment of cost effectiveness of the legislation. They included:

- the agency (AUSTRAC) costs
- tax and other revenues
- costs of compliance
- improved practices
- costs to user agencies
- operational benefits
- privacy aspects
- community benefits
- reimbursement of cash dealers
- cost recovery

Costs of AUSTRAC

12.2 Total expenditure for the period 1989 to 1992/93 for the cash/suspect reporting program was \$22.5 million. The international funds transfer program has so far cost \$12.7 million, representing initial investment with the program now coming into operation. In providing these details AUSTRAC informed the Committee that it had remained within budget allocations agreed by the government for its programs.¹

12.3 The total costs of AUSTRAC so far are \$35.123 million. Of that figure some \$12.7 million relates to the international funds transfer program. Therefore the cost of cash and suspect transaction reporting was the net amount of \$22.4 million.

12.4 The main cost factor for AUSTRAC is computing. The breakdown between cash/suspect reporting costs and international funds transfer costs (ITT) over the period 1988/89 to 1992/93 is described in Table 12.1 below,

¹ Submission No. 61, (Supplementary AUSTRAC Submission)

while Table 12.2 provides the breakdown by expenditure category over the same period.

Table 12.1 - Total Yearly Costs (\$ Million)

	CASH/SUSP	ITT	TOTAL
1988/89	0.790		0.790
1989/90	4.315		4.315
1990/91	5.103		5.103
1991/92	5.603	3.925	9.528
1992/93	6.627	8.760	15.387
TOTAL	22.438	12.685	35.123

Table 12.2 - Expenditure Breakdown 1988/89 to 1992/93 (\$'000)

	1988/89	1989/90	1990/91	1991/92	1992/93
Salaries	153	713	1,069	1,430	1,687
General Administration	300	742	791	1,170	1,300
Computing Costs					
Hardware Purchase				1,895	5,416
Lease		380	1,667	1,684	2,255
On-going staff (on contract)		254	1,214	1,137	1,124
Development IT (on contract)		1,125		289	2,013

Property Operating					
Rent	337	311	362	590	1,580
Fitout		790		1,333	12
TOTAL	790	4,315	5,103	9,528	15,387

Cash Dealers - Costs of Compliance

12.5 The following is evidence provided about costs in this area from some of the cash dealers and their representative bodies.

Banks

12.6 The ABA provided information on two surveys it had conducted on the costs of compliance with the FTR Act. In 1992 it found annual operating costs in this area were \$18.9 million and establishment costs amounted to \$6.4 million. All of its 29 banks were approached and 18 responded to the ABA's survey. These 18 represented 91 per cent of the industry's assets. Table 8.3 provides details of establishment and on-going costs incurred by these member banks during the period 1 March 1987 to 31 December 1991.

Table 12.3 - Costs of Compliance 1 March 87 to 31 December 91

Establishment	\$ m	On-going	\$ m
Systems Development	1.9	Staff	18.0
Legal	0.5	Other Branch	0.5
Staff Expenses	3.4	Costs	0.4
Capital Costs	0.1	Other	
Other	0.5	Administrative	
TOTAL	6.1		18.9

12.7 Another survey was conducted in January 1993 covering 18 of ABA's member banks, or 88 per cent of the industry's assets. The results showed establishment costs associated with the International Funds transfer instructions of \$0.8m and estimated 1993 annual operating costs as follows:²

	\$ m
Account Opening	21.7
Significant Cash	2.5
Suspect Transactions	0.7
IFTI's	<u>0.4</u>
Total	<u>25.3</u>

These costs are broken down by component in the following Table.

² Submission No. 26, (ABA) pp. 13-15.

Table 12.4 - Estimated 1993 Operating Costs by Component (\$'000)

	Account Opening	Significant	Suspect	IFTI	Total
Staff Costs	20,644	2,108	495	197	23,444
Other Branch	221	117	8	20	366
Other Admin.	841	229	179	194	1,443
TOTAL	21,679*	2,454	682	411	25,253

*Additions according to the Submission

12.8 In a separate submission the Metway Bank found a per item cost of \$3.53 as it:

calculated its 1992 maintenance costs (staff, reporting, training, system time etc), plus a projected factor of reporting international transactions, at \$344,136 or \$3.53 per item reported. This factor disregards all initial design and implementation expenses.³

Other Cash Dealers

12.9 CUSCAL conducted a survey of credit unions' annual costs of compliance and provided the following figures.

	\$ m
• account opening	10
• significant cash transactions	1
• suspect transactions	0.44

³ Submission No. 10, (Metway Bank) p. 2.

The total on-going recurrent annual cost is \$11.44 million.⁴ Credit unions have also incurred software development costs of about \$583 000 to meet FTR requirements, including the costs of installing the software in 234 credit union sites.

12.10 The AFC has 34 member finance companies, each of which is a cash dealer.

From a survey conducted on 10 AFC member companies it is clear that the costs of compliance with the FTRA can vary considerably according to -

- the size of the company;
- its distribution and marketing structure;
- the nature and structure of the products offered; and
- the characteristics of the customers.⁵

12.11 The AAPBS, representing some thirty individual building societies operating in Australia, estimated \$4.5 million per annum as the on going costs to societies in meeting FTR requirements.⁶

In its submission the AFC goes on to provide the results of the survey which are summarised in the following table.

⁴ Submission No. 34, (CUSCAL) p. 3.

⁵ Submission No. 38, (AFC) p. 4.

⁶ Submission No. 40, (AAPBS) p. 2.

Table 12.5 - Compliance Costs by Legislative Requirement

	Suspect Transaction Reporting \$	Acc. Opening Identific ⁿ Requirements \$	Significant Cash Transac ⁿ Reporting \$
Staff Costs	55,660	445,184	7,070
Other Branch Costs	5,765	20,617	2,115
Other Admin On-going Costs	30,210	1,088,070	8,645
Estimated Cost per Transaction Report	\$36 to \$175	\$8 to \$200	\$9 to \$50

Account Opening

12.12 The proportion of total costs associated with account opening requirements was in excess of 85 per cent for the three groups of cash dealers which provided that degree of breakdown.

12.13 The Committee found the evidence from the gambling industry (bookmakers, TABs and casinos) related not so much to direct problems of costs, but to ancillary problems such as reduction in turnover associated with compliance. Particularly with the commencement of the new account opening procedures, the TABs specifically mentioned reductions in numbers of new accounts as a result of the legislation, but said those numbers had now recovered.⁷

12.14 The following Table summarises details of on-going costs as provided by ABA, AAPBS, AFC and CUSCAL.

⁷ Submission No. 11, (TAB Old) p. 2.

Table 12.6 - On-going Compliance Costs (\$ million)

Cash Dealer	Costs Per Annum
ABA	25.3
AAPBS	4.5
AFC	1.66
CUSCAL	11.44
TOTAL	42.9

Generally on Compliance Costs

12.15 The Committee found the most serious complaints from cash dealers related to the account opening procedures. Costs of reporting significant transactions and IFTIs are low once systems have been established, having been minimised by the development of electronic reporting. Only a small percentage of suspect transactions is considered as suspect, so total costs here are also low. However, there is significant staff time involved in opening or varying accounts.

Costs to User Agencies

12.16 The Committee noted this factor, to recognise there are costs associated with the use of AUSTRAC data. However, no attempt has been made to quantify them and, in the absence of any cost recovery regime, no evidence was received which suggested costs in this area were a negative consideration in the use of AUSTRAC.

Revenue

12.17 Generally, it is additional taxation receipts which provide most of the revenue accruing from application of the FTR legislation.

Taxation Receipts

12.18 The Australian Taxation Office provided details of additional tax and penalties amounting to over \$30 million raised as a direct result of AUSTRAC data being used by ATO auditors.⁸ They are summarised in the table below.

Table 12.7 - Additional Tax & Penalties 1990/91 to 31 March 93 (\$)

1990/91	1991/92	1992/93	Total 1/7/90 to 31/3/93
3,525,669	13,238,526	13,446,713	30,210,908

12.19 The Committee found these results disappointing, but did note the following comments by the ATO on page 1 of its submission.

While these results are encouraging, the ATO will shortly implement plans for even more systematic and extensive use of AUSTRAC data to detect non-lodgers, quantify understatements of income and assist in the recovery of tax and child support payments from people evading their obligations. As our knowledge and ability to action AUSTRAC information evolves we are further developing better ways to concentrate on areas of high risk. Nationally consistent procedures, high-level liaison with AUSTRAC and improved communication and training are supporting this process.

Other Revenue

12.20 The other revenue benefits of the FTR Act are increased confiscation of the proceeds of crime and the less quantifiable benefit of financial intelligence for law enforcement investigations. There is also revenue from fines collected from prosecution under the FTR Act itself.

⁸ Submission No. 43, (ATO) Attachment A

12.21 A significant example of revenue recovery was from the operation of the joint Commonwealth and State Taskforce (Operation Quit), coordinated by the National Crime Authority, which in January 1991 commenced investigations of widespread evasion of tobacco licence fees levied by States and Territories. As a result of that work in excess of \$33 million of evaded licence fees has been assessed and recovery instituted.

Expenditure and Revenue Summary

12.22 Overall, the total costs so far in setting up and operating AUSTRAC of \$22.4 million (or \$35.1 million if the fledgling ITT system is included) have been more than recovered by two factors alone:

- \$30.2 million in additional tax revenue, and
- \$33+ million from 'Operation Quit'.

The total revenue returns would of course be greater, and can reasonably be expected to increase substantially in future years.

12.23 The Committee therefore found at least a prima facie cost effectiveness in the operation of the FTR Act. However, other factors were also considered.

'The Intangibles'

12.24 The Committee considers there are costs to the community associated with the loss of some personal privacy in the operation of the FTR Act. Of course there are also benefits to that same community from the control of tax evasion, money laundering and related evil which the FTR Act targets. Where the balance is between these costs and benefits, or where it should be, is to some extent a value or moral judgment. The Committee considered the balance is positive in favour of the legislation.

For the Cash Dealers

12.25 Compliance costs have been discussed in some detail earlier in this chapter. The Committee found there were benefits to cash dealers associated with compliance, and to the industries in which they operate.

More integrity in the opening and operation of individual accounts, together with the monitoring of out-of-the-ordinary transactions, must lead to a greater private and public confidence in respect of the cash dealer organisations.

12.26 Regarding the most costly aspect of compliance - the account opening procedures - Mr Larkey, Executive Director of the Australian Association of Permanent Building Societies said:

On the standards, I think we do agree with Mr Coad that a common standard has been reached in the financial industry - and that is not a bad thing. I am not saying the system we have reached is probably the best way to get there. But all institutions now adhere to these account opening standards. That is a position which institutions I represent would not want to undermine.⁹

Cost Recovery

12.27 In Term of Reference (e) the Committee was required to inquire and report on the cost-effectiveness of the Act, *including the possibility or desirability of cost recovery*.

12.28 AUSTRAC is clearly opposed to a user-pays regime.

AUSTRAC is decidedly opposed to its clients having to pay a money cost for AUSTRAC services. That is because the FTR Act is part of a program being promoted by the Government and the Parliament to better focus law enforcement and revenue administrators on issues concerning financial misbehaviour and certain types of tax evasion.¹⁰

12.29 The Attorney-General's Department supported this view, noting the efficiency of AUSTRAC not being in doubt and there being no need to discipline its expenditure. It also said:

⁹ Evidence (Mr Larkey) p. 49.

¹⁰ Submission No. 13, (AUSTRAC) p. 207.

An underlying point of the Act is to make available to law enforcement agencies, and encourage them to adopt, new, more sophisticated investigative techniques. At present AUSTRAC is still seeking to educate users in the use of the services it can offer. While the uses show considerable enthusiasm for this free service, they might well have second thoughts about a service for which they were required to pay, no matter how useful.¹¹

Another View

12.30 A major client of AUSTRAC is the Australian Taxation Office. At the Committee hearing on 10 June 1993 the following interchange took place between Mr Cullen, Executive Director of the Australian Bankers Association and Mr Mitchell, First Assistant Commissioner, Audit, Australian Taxation Office.

Mr Cullen - Yes. I would regard the Tax Office as being a sophisticated user, in the sense of being accustomed to the analysis of financial data and so on. I would really like Mr Mitchell to tell the committee whether he would use the information on a full cost absorbed basis.

Mr Mitchell - User pays is a very popular concept these days. We are subject to that in a variety of different places. I guess we would be prepared to make some contribution to the total costs but, before we did that, we would want to analyse the stated costs by other parties to make sure they would stand up to scrutiny.¹²

Reimbursement of Cash Dealers

12.31 Aside from the administrative complexities, the Committee considered as a matter of principle, there was no merit in the proposal to reimburse cash dealers for their costs of compliance.

¹¹ Submission No. 35, (A-G's Department) pp. 34-35.

¹² Evidence p. 238.

12.32 The Committee's recommendations elsewhere in this report, particularly in relation to account opening, will, if implemented, relieve cash dealers of a major part of the present cost of compliance.

User Pays

12.33 The view of AUSTRAC on a possible user pays system is noted at paragraph 12.28. The Attorney-General's Department supports that view to the extent of not considering it desirable, at present, to charge users of FTR data.¹³ The Committee accepts there is evidence of a need for changes in the culture of law enforcement as the emphasis moves more toward the detection and prevention of financial crime.

12.34 Mr Cullen of the ABA pointed to the need for a rigorous view to be taken of the value of the FTR regime. An alternative to the present arrangement would be to fully cost the system and reports to be provided to agencies 'on a user-pays basis so the agencies can decide whether they really have value'.¹⁴ In response to this, Mr Coad of AUSTRAC spoke of the growing cooperation between law enforcement agencies and repeated the need for such changes in culture in law enforcement. 'If you make it user-pays right now, you will pull the plug on it..'.¹⁵

12.35 From the user agency perspective, the view of the ATO was outlined in paragraph 12.30. A less equivocal view was expressed by the Australian Customs Service.

There may be a variety of ways to recover costs but Customs is of the opinion that any introduction of charges for access to information would have a negative impact on the future effectiveness of the Act. The about-to-be acquired ability to obtain information about international telegraphic funds transfers is expected to be of considerable benefit to the ASC revenue collection role. That benefit should not be compromised by the imposition of charges that may have a limiting effect on the use of the information.

¹³ Submission No. 35, (A-G's) p. 34.

¹⁴ Evidence (Mr Cullen) p. 227.

¹⁵ Evidence (Mr Coad) p. 230.

If a cost recovery regime were to be introduced then the ACS would have to consider its role in collecting reports required under the Act, and, whether it would have to take up the issue of cost recovery with AUSTRAC for the performance of this function on its behalf.¹⁶

12.36 The Committee notes the Budget decision to impose a charging regime on AUSTRAC. In the light of that decision the Committee considers it unnecessary to make a recommendation on imposing charges. However, on the basis of the evidence before it, the Committee is not persuaded that a cost recovery regime for AUSTRAC is justified. Given the relative infancy of this whole system of financial reporting, and the encouragement needed for user agencies to explore and improve their use of the system, the imposition of charging for that use would, at best, create some additional costs and complications for both AUSTRAC and its clients. At worst it could damage the aims and intentions of the FTR legislation for no benefit.

Wrong Concepts

12.37 The dominant difficulty the Committee has with the proposition that law enforcement agencies should be made to pay for the use of those mechanisms which they need to properly carry out their duties is the concept of government upon which it is based.

12.38 The idea that fundamental obligations of government can be more or less met, or not met at all, depending upon the ability or willingness of its instruments to pay for information that will or may help them carry out their functions is ill-founded.

12.39 Government must discharge those functions which are basic to its purpose. Seeing that justice is done is one of these. To allow the meeting of that purpose to be determined by market forces would be amazing.

Conclusion

12.40 The Committee found the operation of the FTR Act to be cost effective.

¹⁶ Submission No.15 (ASC) p. 4.