MARINE TRANSPORT ASSOCIATION

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29th October 2012

Funding Review Consultation
Maritime New Zealand
PO Box 27006
Wellington

Dear Consultation Coordinator,

**SUBMISSION: Maritime New Zealand Funding Review**

Thank you for the opportunity to respond to a Maritime New Zealand (MNZ) proposal to change the way it recovers costs from stakeholders. Whilst we respect the need for Maritime NZ to recover costs, the Marine Transport Association (MTA) has serious concerns about MNZ's proposed fees and levy framework for the following reasons:

1. The impact assessment and company examples of the impact of the new fees and charges are of no use as they apply to current vessel, operator and seafarer licensing frameworks which will be replaced by the new MOSS and QOLs frameworks within the next 12 months
2. The funding review focuses too much on extracting revenue from the maritime industry and not enough on providing consistently acceptable levels of service.
3. The new hourly charge-out rate appears to have no basis in financial reality and appears to be grossly inflated
4. The full costs of regulating recreational boaties appear to be unduly small, and need further investigation and more explanation

**About the Marine Transport Association**

The Marine Transport Association (MTA) was formed in 1970 to represent the owners of restricted limits shipping. As an Incorporated Society, the MTA represents many fleet operators throughout the country along with owners of charter, ferry, rescue, aquaculture and work boats.

The NZ Marine Transport Association is an authoritative voice within the marine transport industry. It believes that providing all customers with safe, pleasant journeys to industry approved standards is good business.

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***Goals of the Association***

- To promote and advance the interests and welfare of all members
- To provide input and affect the direction of central and local government policy and actions in accordance with the wishes of Members and the vision of the Association
- To represent the interests of Members at all public forums and in public issues as they arise
- To provide the information, services and products which will assist Members to meet their business goals
- To maintain regular and close contact and communication with Members to listen to and understand their views and aspirations
- To improve the public's understanding of the importance of the marine transportation industry to the nation and promote the professionalism, hospitality and efficiency of Members in the eyes of the wider community.

The organisation is made up of 180 members who represent the majority of fleet operators throughout the country and range from Work boats, Ferries both passenger and vehicular, Charter Boats, Bare boat Charters, Tug and Barge operators, Fishing boats and Aquaculture vessels.

## 1. MOSS and QOLs services not used to model funding review impacts

All of the cost modeling provided by the funding review team has been premised on the current regulatory framework. This approach is highly irregular to say the least, because the main components of this framework will be replaced by MOSS and QOLs within the next 12 months, assuming MNZ are able to work to their current stated deadlines. In fact, the phase-in period for the new fees and charges clearly suggests that the full impact of the changes will only be experienced under the new MOSS and QOLs frameworks.

Consequentially, the comparisons and impact assessment provided by the funding review team provide very little, if any assistance, in understanding the real impact of the changes, although one can guess at these given that the new (inflated) hourly base rates will undoubtedly be applied to new audit functions assumed by MNZ and to the calculations of fixed rates for processing MTOCs.

Given that the introduction of these new frameworks are imminent, it is quite likely that these costs will be known and can be used in the regulatory impact assessment and the "Example company Information" consultation document to allow the maritime industry to provide properly informed feedback on the funding review proposal.

For over two years, industry has raised questions surrounding costs for MOSS and QOLs. MNZ continue to send mixed messages and during the lengthy consultation process, this diversion had lead industry to believe that the Funding Review would reveal all; unfortunately it fails to do so.

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It is unacceptable that multi million dollar commercial fishing and passenger tourism companies, along with individual owner operators are still unable to forecast the compliance costs associated with these rules, when implementation is due in 7 months time.

This embarrassing and continued non-disclosure is not acceptable.

***Recommendation:***

1. That the funding review team reissue the regulatory impact statement and the company information consultation document to apply the new charging regime to MOSS and QOLs so that the maritime industry can provide properly informed feedback on funding review proposals.
2. That MOSS and QOL framework implementation dates be revisited to ensure the appropriate infrastructure within MNZ is established, and to ensure industry are better informed and subsequently prepared.

## 2. Insufficient focus on improved service delivery

The funding review was an outcome of the value for money review released in December 2010. Since this time, further work has proceeded on the money part of the equation, rather than a more balanced approach which should have included improved levels of service.

While the value for money review observed that "generally", MNZ was achieving value for money, it outlined a number of areas for improvement. These included the development of more sustainable funding arrangements (resulting in the funding review) and improving the maritime rules framework. MNZ are clearly making a determined effort on improved cost recovery, and it is disappointing to see that they are not pursuing improved service delivery with the same degree of enthusiasm.

For example, both MOSS and QOLs have failed to meet targeted deadlines on multiple occasions. Surprisingly, given the imminent implementation of these new frameworks, much of the operational detail and analysis of costing impact on the maritime industry remains missing, at least from public scrutiny.

Further, the maritime industry is paying the price of a set of maritime rules which in many instances are out of date. For example, current life raft servicing rules require such appliances to be serviced annually, when the IMO has accepted life rafts with extended services intervals for many years now.

MNZ's apparent lack of commitment to service quality was one of three "general themes" [1]characterising submissions during the first round of feedback on the MOSS proposal. The others

1 *http://www.maritimenz.govt.nz/Commercial/Safety-management-systems/MOSS-consultation/MOSS-resources/MOSS-*

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were survey quality and the costs of implementing MOSS. None of these issues appear to have been addressed, despite the fact that more than two years has passed.

In short, it is difficult to escape the conclusion that the funding review will result in domestic operators paying more for services that, in many instances, will continue to be substandard.

***Recommendation:***

1. That the review team re-scopes the project to include clear pathways towards improved service delivery.

## 3. Hourly rate charge not transparent and appears to be grossly inflated

While the review's definition of equity leaves a lot to be desired, other principles referred to in the funding review Consultation paper appear to be sound. Accountability (defined as transparency in the Consultation paper) is, for example, a well-accepted principle applied in matters of public administration. Questions, however, can be raised as the extent to which this has been applied by the review team.

For example, the base hourly rate of $205 (Exc GST) has been referred to throughout the funding review documentation, and is used as the basis for all fixed charges, yet the method by which it has been derived is entirely absent. The rate also seems extremely high, given that vessel, operator and seafarer licensing mostly involves collation, document handling and checking for completeness rather than matters of professional judgment. For clerical work, at least, a figure of this magnitude seems entirely unjustifiable.

The calculation of charge-out rates is fortunately a conceptually simple process[2], and to check the veracity of the MNZ rate, we have calculated a charge-out based on MNZ's audited accounts from its most recently available Annual Report (2011).

Table 1 below shows the average hourly charge-out rate (G) needed to fully recover all of MNZ's expenditure for 2011.

*Summary-of-submissions.pdf*

**2** *See for example, http://www.nationalbank.co.nz/business/banking/information/guides/SG074Calculatingachargeoutrate.pdf*

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| Table 1: Charge-out rate for MNZ staff based on 2011 audited accounts | | |
|---|---|---|
| Total MNZ expenditure | A | $32,928,000.00 |
| MNZ FTE Staff | B | 149.6 |
| Av. cost per FTE | C = A/B | $220,107 |
| Working days per year | D | 229 |
| Working hours per year | E = D x 7.5hrs | 1717.5 |
| Percentage chargeable time | F | 75% |
| Actual chargeable hours | E x F | 1288.13 |
| **Hourly charge-out rate** | G = C/E | **$171** |
| Efficiency multiplier | 15% | $145 |

By using a generally accepted accounting method, the table suggests that MNZ's charge-out rate should be closer to $171 per hour, or $145 per hour if MNZ's efficiency multiplier is applied to the base rate (i.e. the 15% efficiency gain by which the funding review team expects to reduce their base rate from $235 to $205).

Our calculations suggest that the funding review team have inflated MNZ's hourly charge-out rate by at least a factor of 40%. We say 'at least' because our calculated charge-out of $145 *actually includes travel and transport costs, while MNZ's charge-out rate of $205 does not*.

In conclusion, MNZ's base hourly charge out-rate does not appear to be calculated on a transparent basis. Further, the actual charge-out rate calculated from MNZ's audited accounts suggests that the figure used by MNZ is inflated by a very substantial margin.

Questions can also be raised about the phased approach to introducing the increased fees in terms of operators "adjusting" to them over time. It seems clear that if the new fees are unaffordable at time A, they will be just as unaffordable at time B.

***Recommendations:***

1. That the funding review team show the method and calculations used to derive their hourly base rate
2. That MNZ provide two hourly rates to reflect the differences between clerical (document handling) and professional tasks (e.g. analysis required for dumping permits)
3. That the funding review team clarify exactly what counts as 'on site' charging. For example, is it just actual time spent on site, is travel time in addition to this at the on site or office rate, and does the on site rate continue to apply in the office to complete work that commenced on site?
4. That the funding review team explain what it means by operators "adjusting" to the new fees and charges.

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**4. Cost of regulating/educating recreational boaties remains an issue**

The funding review team has estimated the costs of MNZ services to recreational boaties at $4 million dollars per annum, with the single largest funding contribution ($1.8 million) coming from the Marine Safety Charge levied on commercial operators.

This figure constitutes about 12% of MNZ's 2011 expenditure, or $8 per annum expenditure for each recreational vessel. This appears to be an extraordinarily low figure considering that recreational vessels make-up more than 99% of all domestic vessels. Even accounting for differences in operating hours, the figure appears extremely low and especially so, given that recreational vessels had about the same number of fatalities as domestic commercial vessels in 2011.

The funding review team is rightly looking for alternative funding sources for recreational vessel regulation that will remove cross-subsidisation from the commercial sector. However, this is reliant on the Government agreeing to transfer additional funding to MNZ from the fuel excise levy. This may or may not happen and this raises the question as to which category of commercial vessel will cross-subsidise recreational vessels. This raises the possibility that domestic commercial vessels will be faced with large price increases in fees and charges, plus the unacceptable burden of cross-subsidising recreational vessels.

***Recommendations*:**

1. That the funding review team clearly explain (showing assumptions and calculations) the basis on which the costs of recreational boating costs were derived
2. That MNZ agrees that international vessels share the burden of any continuing cross subsidisation based on the principle of vertical equity (ability to pay).

In summary, we considered that the funding review was about reducing the MSC by $5m and increasing fees by $3m over six years. The reality is of course, that in 6 years time, the funding mix will look nothing like this with the introduction of MOSS and QOLs. The fact that MOSS and QOLs have been left out of the reckoning makes no sense at all, as this will generate large revenue that has not been factored by this review at all.

Thanks once again for the opportunity to present our submission and we would welcome the opportunity to discuss further.

Yours sincerely

Margaret Wind
Executive Officer
NZ Marine Transport Association