CONSULTATION DOCUMENT
REVIEW OF MARITIME NZ FUNDING
FOR 2019/20 – 2024/25
NOVEMBER 2018

Message from the Funding Review team: We have made an error on pages 29 and 30 of the Consultation Document, which has been corrected as follows:

- On page 29 it says “AMSA’s current funding is 5% fees, 20% levies and 56% government funding”. It should say “AMSA’s current funding is 8% fees, 58% levies, 32% Government and 2% other”
- On page 30 a revised table has been included to reflect AMSA’s funding split as above.
Foreword from the Authority Acting Chair

This document contains proposals relating to the funding that will provide for Maritime NZ to deliver the maritime regulatory, compliance and response functions it is tasked with from 2019 to 2025.

In preparing the proposals, over the past several months, we have been engaging with industry representatives as part of a ‘pre-consultation’ process to ensure that the proposals reflect industry feedback and address key matters of interest and, as far as possible, there is a common understanding of the context and issues that drive the funding options.

We are interested in your feedback on the proposals put forward to inform decisions on the best approach for the next six years.

There are some key themes that will shape Maritime NZ’s work over the next six years that are prominent in the proposals.

Regulatory and other change will continue to occur due to international law and environment changes and due to changes in Government priorities over time.

We have identified four ‘strategic pivots’ to shape how we do our work, including responding to ongoing change. We are intent on:

- increasing New Zealand’s influence in the international maritime environment, which drives some regulatory and compliance activity and costs
- enhancing our facilitation and leadership role within the maritime regulatory system
- minimising the regulatory and compliance burden, by ensuring our capability, capacity, systems and processes are flexible and responsive
- making it easy for regulated parties to do the right thing, including by having a strong focus on reducing the number of highly manual processes through better use of technology.

We are continuing to shift:

...from operating as a traditional maritime regulatory, compliance and response agency focused on output activities such as certification, recognitions, exemptions, audits, inspections, investigations and prosecutions and seeing our response function through the specific focus of our oil spill and rescue coordination activities

...to operating as a modern outcomes-focused maritime regulatory, compliance and response agency that focuses on systemic risk activities, which relate to identifying and treating trends in risk, targeting resources to best effect using interventions that industry participants are receptive to and that are most likely to influence changes in behaviour.

To support a successful maritime industry, while at the same time improving New Zealand’s safety, security and marine environment protection performance, we are committed to being fiscally responsible, continuously looking for efficiencies and removing complexity from what we do and how industry experience dealing with us. We welcome your feedback on our proposals to achieve this.

Belinda Vernon
Acting Chair, Maritime New Zealand
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<td><strong>AtoN</strong></td>
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<td><strong>BWM Convention</strong></td>
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<td><strong>CAA</strong></td>
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<td><strong>club good</strong></td>
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<tr>
<td><strong>Crown funding (funding from all of us)</strong></td>
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<td><strong>fees (funding from an individual or organisation)</strong></td>
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<td><strong>Follow-up visit (for an audit or inspection)</strong></td>
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<td><strong>FED</strong></td>
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<td><strong>first visit (for an audit or inspection)</strong></td>
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<td><strong>HSWA</strong></td>
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<td><strong>HSWA Levy</strong></td>
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<td><strong>initial audit or inspection</strong></td>
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<td><strong>IMO</strong></td>
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<td><strong>levy (funding from some of us)</strong></td>
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<td><strong>Maritime Levy</strong></td>
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<td><strong>MBIE</strong></td>
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<td><strong>MFAT</strong></td>
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<td><strong>OPL</strong></td>
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<td><strong>periodic audit or inspection</strong></td>
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<td><strong>PCBU</strong></td>
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<td><strong>private good</strong></td>
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<td><strong>public good</strong></td>
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<td><strong>RCCNZ</strong></td>
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<td><strong>SeaCert</strong></td>
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<td><strong>SOLAS</strong></td>
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**Process for consultation and making submission**
How to make a submission

You can give us feedback on the proposals and questions in this document by:

- e-mail to fundingreview@maritimenz.govt.nz
- ordinary post to, Funding Review, Maritime NZ PO Box 25620, Wellington 6146
- fax to (04) 494 8901
- delivery to, Funding Review, Maritime New Zealand, level 11, 1 Grey Street, Wellington
- filling the online form at www.maritimenz.govt.nz/funding

The deadline for making a submission is 5.00pm Friday 18 January 2019.

How this document is structured

We recognise that those who read this document will have a range of preferences in terms of the level of information and detail provided, the extent to which the proposals are contextualised, and the degree to which underlying or overarching funding or economic theories or principles are described.

Some readers will want to focus only on the specific proposals, while others will want to read them in their wider context. To accommodate that variation, without compromising on transparency and rationale, we have developed a summary consultation document (LINK) and have split this full consultation document into three parts.

Part 1 sets out the context and objectives of the proposals including:

- The process for developing the proposals and associated cost estimates
- Summary of the proposals
- Broad implications of the proposals
- Funding implications of the proposals

Part 2 outlines details of the proposals for Maritime Levy and fees funding and questions for readers.

Note that the proposals relating to other funding sources are dealt with as follows:

- Oil Pollution Levy mid-point funding review - a separate but concurrent public consultation process is being undertaken (some details are included in this document to assist payers of both levies to see the full effect of both review proposals)
- HSWA Levy funding review - by MBIE planned for 2020 - this document reflects current HSWA funding levels and a separate public consultation process will occur when that levy is reviewed in 2020
- Crown funding – new bids for Crown funding will be made in accordance with the Government Budget 2019 bid process
- FED funding – bids for funding from this source will be made as part of the FED funding review planned for 2019/20

Note that the proposals for each funding source are noted in the summary of proposals in Part 1 of this document.

Part 3 describes our changing compliance operating environment, the work undertaken to inform the proposals, funding policy and framework and our current funding sources.

For information about us, the maritime industry, our strategic direction and context, and the wider Government transport sector priorities see:


Summary of the 2018/19 funding review

About the 2018/19 funding review

- Maritime NZ’s revenue comes from a variety of levies, fees and Crown funding
- As part of good regulatory practice and to ensure appropriate ongoing funding for Transport sector agencies, the agencies do a full review of fees, levies and Crown funding every six years, with mid-point reviews every three years
- The Minister of Transport is responsible for recommendations to the Governor General on regulations for the rates at which fees and levies are set
- Any changes following consultation on this 2018/19 full review would be made to fees and levies regulations with effect from 1 July 2019
- Bids for Crown funding will be made in accordance with the Government Budget 2019 bid process
- FED funding will be sought under a separate funding review undertaken by the Ministry of Transport planned for 2019/20, which applies to other government and non-government agencies that receive FED funding

Maritime NZ current funding

Budgeted 2018-19 operating funding is **$58.4 million** made up of:

- 73% Levies (includes Maritime Levy, HSWA Levy, FED funding and OPL)
- 4% Fees
- 11% Crown funding
- 5% Crown funding for search and rescue (sea, air and land)
- 7% Other

This is **$43.8 million for regulatory and compliance activities** (which excludes funding from the OPL (~$7.7M) and RCCNZ funding (~$6.3M), which covers search and rescue coordination activities)

In scope for the 2018/19 funding review

- Fees for direct activities
- Maritime Levy funding to support the regulatory, compliance and response system
- FED funding (paid by recreational boaties and allocated under the Land Transport Management Act 2003)
- Crown funding for:
  - maritime incident response (non-oil)
  - maritime security
  - contribution to policy and international engagement
  - contribution to search and rescue
  - classic (historic) lighthouses maintenance

Out of scope is the MFAT aid funding for the Pacific Maritime Safety Programme and HSWA Levy funding (administered by MBIE). These have separate funding reviews as the funding source is administered by other government agencies. FED funding will be sought under a separate funding review undertaken by the Ministry of Transport planned for 2019/20, which applies to other government and non-government agencies that receive FED funding

Maritime NZ is undertaking a separate but concurrent review of the OPL.
Activities undertaken by Maritime NZ and current funding sources

(Maritime NZ Statement of Performance Expectations 2018/19 budget)

<table>
<thead>
<tr>
<th>Output class 1: Influencing the policy environment for the maritime sector</th>
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<tbody>
<tr>
<td>1.1 Development and provision of technical maritime advice</td>
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<td>1.2 Reviews of the Maritime system</td>
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<td>1.3 Maritime security and intelligence advice</td>
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<td>1.4 Ministerial servicing</td>
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<th>Output class 2: Maritime safety and marine protection services</th>
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<td>2.1 Information and education</td>
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<td>2.2 Entry controls</td>
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<td>2.3 Monitoring and investigation of compliance</td>
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<td>2.4 Enforcement of compliance</td>
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<td>2.5 Distress and safety communications services</td>
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<td>2.6 Aids to navigation</td>
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<th>Output class 3: Marine Pollution Response Service</th>
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<td>3.1 Marine pollution response capability</td>
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<th>Output class 4: Search and rescue coordination services</th>
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<td>Coordination of search and rescue operations</td>
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<td>Management of NZ’s emergency distress beacon system</td>
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<th>Output class 5: Maritime incident response capability</th>
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<tr>
<td>Maritime incident response (non-oli) capability</td>
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Total $8.915m
Crown $3.349m
Funding from Crown agencies $3.31m
Maritime Levy $2.047m
Third party revenue $0.209m

Total $34.495m
Crown $2.078m
FED $2.560m
HSWA Levy $6.191m
Maritime Levy $20.338m
Fees $2.33m
Third party revenue $0.998m

Total $7.835m
Oil Pollution Levy $7.69m
Third party revenue $0.145m

Total $6.460m
Crown $3.231m
FED $3.064m
HSWA Levy $6.191m
Fees $2.33m
Third party revenue $0.165m

Total $0.764m
Crown $0.764m
PART 1
Context and objectives of the proposals

Maritime system objectives

This consultation document invites feedback on proposals for the way Maritime NZ is funded over the next six years from 1 July 2019 to continue to:

- deliver maritime safety, security and marine environment protection activities that meet users’ needs
- evolve into a modern regulator and manage risk systemically
- meet Government, public and industry expectations.

Additionally, it has been recognised that there is a need for Maritime NZ to:

- increasingly improve our capacity and capability to engage internationally and increase our influence in the international regulatory environment
- annually undertake necessary regulatory reform activities at the legislative and operational levels, which includes, adoption and implementation of international maritime obligations
- undertake targeted activities and use resources to be effective in making it easier for regulated parties to do the right thing
- increasingly improve how we deliver services, particularly through better use of technology, to reduce the regulatory and compliance burden.

Throughout, Maritime NZ will need to continually:

- ensure there is sustainable funding to allow us to ensure our capability, capacity, systems and processes are flexible and responsive to change
- deliver on our regulatory, compliance and response roles and responsibilities.

The proposals in this document do not reflect a radical shift in the way Maritime NZ carries out its functions. Analysis shows that since 2012 the organisation has been required to increase its activity as a consequence of (among other things):

- industry growth, such as the 17% increase in Cruise Port visits in 2017/18
- new international convention obligations, to which New Zealand has become signatory, taking effect – such as the Maritime Labour Convention
- the introduction of MOSS and SeaCert
- the introduction of new government policy or legislation like the introduction of the Health and Safety at Work legislation
- maritime incident response (non-oil) leadership
- a refresh of the Port and Harbour Marine Safety Code (and the partnership model with Regional Councils and Port Companies that it is predicated on)
- a leadership role in the Pacific Maritime Safety Programme.

The increased activity has largely been driven by necessity, demand and good regulatory practice rather than any deliberate growth strategy. Figure 1 below reflects the growth and the key drivers of it.

This activity growth and demand reflects a consistent pattern that will continue to occur and that prudent management requires Maritime NZ to forecast and plan accordingly. The proposals in part reflect the need to maintain or establish a funding base for these activities (for example Ballast Water Management and Maritime Incident Response (non-oil) Capability).

The proposals in this document also reflect:

- Government expectations for good regulatory stewardship (the regulatory reform funding proposal)
- promoting wellbeing through maritime safety, security and marine environment protection by:
  - applying Maritime NZ’s strategic approach to reducing the regulatory and compliance burden and making it easier to comply with regulations (the international engagement proposal, regulatory reform funding proposal, proposals relating to moving specific fee-able activities to the Maritime Levy and proposals relating to systemic risk activities)
  - adopting a regulatory and compliance approach of a modern evidence-based, risk-focused and intelligence-led regulator (the proposals relating to systemic risk activity)
- re-evaluating activities against the Treasury and Office of the Auditor General (OAG) guidelines for the setting of fees and charges in the public sector ¹ (the various proposals relating to the re-classification of fee-able activities).

Figure 1: Growth and key drivers for Maritime NZ costs since 2011
Wider transport system objectives

The proposals were developed to align with the Ministry of Transport outcomes framework called “Framework for shaping our transport system: Transport outcomes and mode neutrality”. This framework describes the core outcomes that Government is seeking to achieve through a more integrated transport system. These outcomes are set out below.

Proposals alignment with transport sector outcomes

The proposals in this document are relevant to placing maritime transport on the same playing field as land and aviation transport. Primarily, the following aspects of the framework are relevant to this:

- **Healthy and safe people** – by promoting a modern intelligence-led, evidence-based, risk focused regulatory, compliance and response approach for NZ’s wider maritime sector
- **Economic prosperity** – by facilitating trade through shipping, and supporting the backbone for tourism, with international visitors arriving by sea and ensuring international connections through our engagement at international fora like the IMO
- **Resilience and security** – by maintaining existing funding to implement maritime security objectives, seeking continued funding to have capability to prepare for and respond to non-oil related major maritime incidents, and ensuring Maritime NZ can remain resilient, responsive and withstand future disruptive events
- **Environmental sustainability** – by protecting our oceans and waterways through our regulatory effort, including ensuring that the costs associated with marine incident preparedness and response (whether oil or non-oil) are fully funded, and New Zealand can effectively engage in international initiatives to reduce/offset international maritime emissions.

Specific benefits of each proposal

The specific benefits of each proposal are set out in the proposal section in Part 2 of this document. The process for developing the proposals, and indicative costs to deliver on the objectives and framework, are set out in Appendix 1.
Summary of all funding proposals

**Addressing Regulations Review Committee recommendations**
These proposals are largely in response to the recommendations made by the Regulations Review Committee that we:
- Ensure decisions relating to fees and levies are fully documented so they are transparent, including to the industry
- Address industry concerns about cross-subsidisation and the base hourly rate that applies to fee-able activities
- Address the Committee’s recommendations in 2009 to review the Maritime Levy allocation methodology and review the levy every three years

**Proposals**
- Revise the Maritime Levy allocation methodology and generate Levy funding for implementation of the change
- Adopt a transparent approach to allocating costs according to public, club and private goods
- Reset the hourly rate for fee-able activities

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**Changes to how some activities are funded**
These proposals largely come out of a review of the categorisation of several fee-able activities as ‘private goods’ and the case made that they have the economic characteristics of ‘club goods’. Changing the categorisation means changing the funding source, but no increase in funding outside business-as-usual cost pressures

The proposal relating to initial and periodic audit and inspection fees for commercial maritime operators and NZ SOLAS vessels is intended to align the funding source with that applying to audits and inspections for foreign vessels and operators

The proposal relating to seafarer certificates and endorsements is a direct response to industry proposals made at the pre-consultation engagement to assist in reducing the cost to seafarers entering and remaining in the sector

**Proposals**
Moving the following fees to the Maritime Levy (with no increase in funding) for:
- The initial and periodic audits and inspections for domestic operators (non-SOLAS and SOLAS vessels)
- Some of the cost of processing seafarer certificates and endorsements with the balance being met from a fixed application fee for each certificate and endorsement
- Other issues for fees, including moving travel time and costs for off-site visits to the Maritime Levy, removing the seafarer certification pre-assessment service and exploring developing a sea time calculator for our website

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**Forecast changed or increased operational activities**
These proposals relate to changed or increased activities resulting from likely forecast demand over the six years from 1 July 2019

**Proposals**
Additional funding for:
- International engagement (Maritime Levy)
- Responding to and implementing regulatory reform (Maritime Levy)
- Undertaking systemic risk activities as a modern regulator
  - General systemic risk activities (Maritime Levy)
  - Specific systemic risk activities including:
    - Port and Harbour Marine Safety Code (Maritime Levy)
    - Surveyor standards of performance (Maritime Levy)
    - ICT systems integration, data, analytics and mobility (Maritime Levy)
    - Recreational boating safety (FED)
    - Maritime incident response (non-oil) capability (Crown funded)

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**Addressing cost pressures**
These proposals relate to cost pressures in running the business (that are additional to those covered under the proposals above) estimated for the next six years from 1 July 2019 due to:
- Changes in activity and volumes to deal with increased industry activity and regulatory obligations
- Review of external supplier contracts
- Inflationary pressure cost increases

**Proposals**
Additional funding for:
- Ballast water management activities (Maritime Levy)
- Aids to navigation (Maritime Levy)
- Maritime distress and safety communications (Maritime Levy)
- Classic (historic) lighthouses (Crown)
- Rescue Coordination Centre New Zealand (Crown and FED)
- General business cost pressures (Maritime Levy)
### Implications of proposals (see proposals in Part 2)

<table>
<thead>
<tr>
<th>Broad implications and benefits of the proposals</th>
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<tbody>
<tr>
<td><strong>Implications of proposals (see proposals in Part 2)</strong></td>
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<tr>
<td>Reduced fee revenue due to, and offset by, increasing the Maritime Levy revenue to recover the cost of some currently fee-able activities</td>
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<td>Increased funding from 2019/20 as a result of changing operational activities</td>
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<td>Changes to the Shipping (Charges) Regulations such as:</td>
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<td>- a single hourly rate for all fee-able activities (excluding the fixed fee for seafarer certificate and enforcement applications) rather than the six rates in the current regulations</td>
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<td>- a revised base hourly rate applied to fee-able activities</td>
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<td>- a significant reduction in the number of fees or line items listed in the Shipping (Charges) Regulations (potentially more than 100 of the currently listed fees being removed or ‘collapsed’ into fees that reflect ‘grouped’ activity)</td>
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<td>Revised Maritime Levy allocation methodology that is transparent and consistent and allocates Levy based on three criteria that are applied to all vessels on the basis of the value of what is placed at risk in the maritime system (people, freight, ships)</td>
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2 The Shipping (Charges) Regulations are the most significant of the three sets of fee regulations administered by Maritime NZ in terms of the number of fees and the activity relating to those fees. If adopted, changes to these regulations (specifically the base hourly rate) will also be reflected in the Ship Registration (Fees) Regulations and the Maritime Security (Charges) Regulations.
### Summary of Maritime Levy and fees proposals for feedback

<table>
<thead>
<tr>
<th>Addressing the Regulations Review Committee recommendations</th>
<th>Change to how some activities are funded</th>
<th>Increased operational activities</th>
<th>Cost pressures</th>
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<tr>
<td><strong>New Maritime Levy allocation methodology</strong> (costs of new methodology of $0.442 million are Maritime Levy funded)</td>
<td><strong>The initial and periodic audits and inspections for all domestic operators (but not follow-up visits)</strong> is Maritime Levy funded rather than fee-able</td>
<td><strong>International engagement</strong> activities are increased with the cost Maritime Levy funded</td>
<td><strong>Ballast water management</strong> activities under the Convention are Maritime Levy funded</td>
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<td><strong>One single hourly rate for fee-able activities of $245 (GST inclusive) per hour</strong></td>
<td><strong>Seafarer certificates and endorsements</strong> have a fixed fee of $368 (GST inclusive) with the balance Maritime Levy funded</td>
<td><strong>Regulatory reform</strong> costs (averaged over six years) of expected policy development and implementing the regular flow of regulatory change in advance is Maritime Levy funded, rather than having to make regular, individual bids for additional funding when each regulatory change occurs</td>
<td><strong>Aids to navigation</strong> inflationary pressures, external contract increases and asset maintenance cost increases are part Maritime Levy funded</td>
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<td><strong>Travel time and costs</strong> are Maritime Levy funded, except for offshore installations, and audits and inspections and any other fee-able activities requiring international travel</td>
<td><strong>Systemic risk activities</strong> currently undertaken and increasing under the modern regulator approach are Maritime Levy funded (includes Port and Harbour Marine Safety Code and Surveyor standards of performance, and general systemic risk activities)</td>
<td><strong>Maritime distress and safety communications</strong> inflationary pressures, external contract increases and asset maintenance cost increases are part Maritime Levy funded</td>
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<td></td>
<td><em>‘Pre-assessment’</em> is no longer offered as a fee-able service and we explore developing a sea time calculator for our website</td>
<td><strong>ICT systems integration, data, analytics and mobility</strong> improvement costs are Maritime Levy funded</td>
<td><strong>General business cost pressures attributable to the Maritime Levy</strong> (excluding those above) which are inflationary pressures, external contract and asset maintenance cost increases (excluding those above) that are attributable to activities currently funded from the Maritime Levy</td>
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Maritime Levy and fees – proposal funding implications

Proposals for Maritime Levy and fees funding

The tables below show the indicative cost increases and changes to the Maritime Levy and fees that would result from the proposals, if adopted, which relate to those funding sources. Any funding increase and funding source is subject to feedback from this consultation. Also, any change in funding and funding source is subject to Ministerial approval before changes can proceed. Note that the proposals relating to the Maritime Levy and fees funding are set out in detail in Part 2.

To cover the planned activity over the next six years, and to replace some fee revenue with levy revenue (see below), we have forecast that our total revenue from the Maritime Levy must increase by $10 million a year for 2019/20 to 2021/22 and a further $3 million from 2022/23 and outyears. The reduction in fees revenue from 2018/19 would be $0.99 million in 2019/20 and would average around $1 million per year over the following five years.

Revenue to compensate for the reduction in fees is included in the increases in Maritime Levy revenue. This means that the indicative net increase in funding through the Maritime Levy is $9.01 million in 2019/20 (this is the difference between the current $22.4 million and the averaged $32.4 million, less $0.99 million reduction in fees revenue). In 2020/21 the net increase would be $9.07 million and in 2021/22 $8.95 million. From 2022/23 this calculation will change as the average Maritime Levy is $35.4 million for the next three years.

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<td>(The revenue modelling generates an expected total average of Maritime Levy revenue of $32.4 million per year for the first three years and $35.4 million per year following)</td>
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<td>Funding source</td>
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<tr>
<td>Total Maritime Levy forecast indicative revenue increase from 2018/19 revenue (accumulated figure in brackets)</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>3</td>
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</tr>
</thead>
<tbody>
<tr>
<td>Funding source</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in fees revenue from 2018/19 revenue</td>
<td>0.99</td>
<td>0.93</td>
<td>1.05</td>
<td>1.03</td>
<td>1.09</td>
<td>1.09</td>
</tr>
<tr>
<td>Operator type</td>
<td>Current Fees (GST exclusive)</td>
<td>Proposed Fees (GST exclusive)</td>
<td>Current Maritime Levy (GST exclusive)</td>
<td>Proposed Maritime Levy (GST exclusive)</td>
<td>Total difference</td>
<td></td>
</tr>
<tr>
<td>---------------</td>
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<td>----------------------------------------</td>
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<td></td>
</tr>
<tr>
<td><strong>Operator 1</strong></td>
<td>$769 for one Seafarer Certificate $1,537 for audit fees</td>
<td>$320 for Seafarer Certificate ($1,986 decrease in fees)</td>
<td>$2,174</td>
<td>$3,978</td>
<td>$182 (decrease)</td>
<td></td>
</tr>
<tr>
<td><strong>Operator 2</strong></td>
<td>$19,743 for 32 Seafarer Certificates $5,217 for audits</td>
<td>$10,240 for 32 Seafarer Certificates No fees for audit first visit ($14,720 decrease in fees)</td>
<td>$19,163</td>
<td>$112,694</td>
<td>$78,811 (increase)</td>
<td></td>
</tr>
<tr>
<td><strong>Operator 3</strong></td>
<td>$23,509 for 43 Seafarer Certificates $6,957 for audits</td>
<td>$13,760 for 43 Seafarer Certificates No fees for audit first visit ($16,706 decrease in fees)</td>
<td>$64,286.00</td>
<td>$109,175</td>
<td>$28,183 (increase)</td>
<td></td>
</tr>
<tr>
<td><strong>Operator 4</strong></td>
<td>$17,977 for 25 Seafarer Certificates $19,000 for three ISM audits</td>
<td>$8,000 for 25 Seafarer Certificates No fees for audit first visit ($28,977 decrease in fees)</td>
<td>$595,350</td>
<td>$557,750</td>
<td>$66,577 (decrease)</td>
<td></td>
</tr>
<tr>
<td><strong>Operator 5</strong></td>
<td>$6,000 for audits (data on Seafarer Certification unavailable)</td>
<td>No fees for audit first visit ($6,000 decrease in fees)</td>
<td>$34,570</td>
<td>$76,610</td>
<td>$36,040 (increase)</td>
<td></td>
</tr>
</tbody>
</table>

- The table is intended to illustrate costs in any year and assumes the audit costs will be incurred in the year being illustrated.
- Audit costs are estimated where no data on actuals exist.
- The number of seafarer certificates an operator may pay for is estimated, as this is dependent on whether the operator chooses to pay for their staff or not. Also, that the number and type of certificates required in any one year varies depending on the type of employees, their renewal timings, ring fencing and other variables.
- Minimum staffing requirements are not an indicator of the number of seafarers required on a vessel as there may be multiple shifts to cover and new and leaving crew requiring certification (or not).
### Scenarios* - how the proposals impact on an operator
*(note these scenarios are examples only and are not based on real operators)*

<table>
<thead>
<tr>
<th>EXAMPLE ONLY</th>
<th>Fred, Owner operator of commercial fishing trawler</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fred is the owner operator of a commercial fishing boat operating out of Nelson. His boat is 18 metres in length and carries no passengers although it requires a minimum crew of 2. He has been fishing here for 30 years and has seen the industry change and evolve.</td>
</tr>
<tr>
<td></td>
<td>Fred has 4 regular employees who have worked with him for several years and most recently has recruited his mate's son, Jason, straight from school. He'd like to have Jason join the crew and wants to help him get his seafarer certification as a fishing deckhand although this currently costs $884.</td>
</tr>
<tr>
<td></td>
<td>Fred has been keen to keep his operation safe and has welcomed the hands-on approach to assessing safety through MOSS. His attention to safety has been recognised with a low risk rating and his next periodic audit is not scheduled for another 3 years which he is budgeting at around $1,500. Currently his levy payments are $246 per annum.</td>
</tr>
<tr>
<td></td>
<td>With the proposals Maritime NZ is putting forward, Fred can see his Maritime Levy decreasing to $223. He will no longer need to budget for audit fees as these will be funded through the Maritime Levy.</td>
</tr>
<tr>
<td></td>
<td>Fred’s going to pay for Jason’s Advanced Deckhand - Fishing certificate as it is now $368 instead of $884.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXAMPLE ONLY</th>
<th>Jordan, Operations Manager for small ferry company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As the Operations Manager of a ferry company based in Wellington, Jordan is keen to keep costs managed while making sure the company keeps its reputation as a safe public passenger alternative to other options such as cars.</td>
</tr>
<tr>
<td></td>
<td>Jordan has been eager to continue the company’s support of its employees in getting seafarer certification - whether it’s New Zealand recognitions for foreign seafarers or investing in the national certificates. Overall she’s seen around 32 seafarer certificates issued and funded by the company over the last year, which has helped them attract staff in a challenging labour market. Having a standard rate for all certificates is very appealing and will reduce these costs by half from around $23,000 to $11,000.</td>
</tr>
<tr>
<td></td>
<td>The company is also looking to purchase a new vessel in the next twelve months to expand the fleet to 21. Jordan was pleased to hear that the cost of some ship registration fees may be decreasing since Maritime NZ reviewed this as part of their funding review.</td>
</tr>
<tr>
<td></td>
<td>It looks like the Maritime Levy will see an increase from the current amount of $19,163 to $112,694. Although this seems like a big jump, she realises it’s because the levy now reflects the number of passengers they carry as part of the value of what is placed at risk - human lives - where it didn’t before. This is a new variable applied to domestic passenger vessels in the Maritime Levy allocation method. Under this method Jordan’s company is treated like other passenger vessel companies.</td>
</tr>
</tbody>
</table>
Robbie acts as a shipping agent managing foreign vessels that enter New Zealand’s ports.

Robbie spends a lot of time meeting with the captain and crew of the various vessels and coordinating their requirements. A big part of her work is making sure the ships spend as short a time in port so they can continue their journey.

As a shipping agent she doesn’t need to gain any seafarer certifications.

With the proposals Maritime NZ is putting forward she’s expecting some increases to the Maritime Levy that the foreign vessels pay on port visits.

Robbie realises that the levy is ultimately paid for by and will be passed onto the shipping company. It’s not paid by the shipping agent although they collect it and pass it onto Maritime New Zealand on behalf of their clients.

Kerry is the mate of a trawler which is part of a fleet of 21 vessels operating out of Dunedin. The vessel he is on is 42.5 metres in length and carries no passengers, although it requires a minimum crew of 5.

Kerry’s keen to get his “skipper fishing vessel - limited” certificate which is currently $774. The fishing company he works for wants to hire a new deckhand and last time the company paid for his training and certification, the advanced deckhand - fishing certificate was $884.

Kerry knows the company he works for pays a Maritime Levy of $2,174 to Maritime NZ for this vessel. The last audit of the operator identified a couple of non-conformities, which were easily fixed with no follow-up required. Overall the risk profile is low and they don’t need another audit until late 2020.

With the proposals Maritime NZ is putting forward, Kerry can see the Maritime Levy cost for his employer may increase to $3,978. But now the cost of audits will be included in the Maritime Levy making it easier for the company to manage the audit costs.

All the seafarer certificates will now cost $368 each whatever the certificate type.
Indicative forecast Maritime Levy changes
Proposal changes applied by example vessel types

<table>
<thead>
<tr>
<th>Vessel type</th>
<th>2018/19 current model</th>
<th>2019/20 proposed model</th>
<th>2019/20 proposed model (indicative)</th>
<th>Total variance from 2018/19 current model at $22.4 million to proposed model at $32.4 million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Maritime Levy</td>
<td>Maritime Levy</td>
<td>Maritime Levy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>based on</td>
<td>based on</td>
<td>based on revenue – includes fee-able activities moved to Maritime Levy)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$22.4 million</td>
<td>$22.4 million</td>
<td>$32.4 million</td>
<td></td>
</tr>
<tr>
<td></td>
<td>revenue</td>
<td>revenue</td>
<td>revenue</td>
<td></td>
</tr>
<tr>
<td>International Oil Tanker (SOLAS)</td>
<td>$6,678 2 Port visit</td>
<td>$4,270 2 Port visit</td>
<td>$6,173 2 Port visit</td>
<td>$505 (decrease)</td>
</tr>
<tr>
<td>GT 25,000 PAX 0 DWT 45,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Container Ship (SOLAS)</td>
<td>$7,717 2 Port visit</td>
<td>$6,588 2 Port visit</td>
<td>$9,529 2 Port visit</td>
<td>$1,812 (increase)</td>
</tr>
<tr>
<td>GT 40,000 PAX 0 DWT 52,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Cruise Vessel (SOLAS)</td>
<td>$15,457 2 Port visit</td>
<td>$20,533 2 Port visit</td>
<td>$27,041 2 Port visit</td>
<td>$11,585 (increase)</td>
</tr>
<tr>
<td>GT 110,000 PAX 2500 DWT 15000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Container Ship (SOLAS)</td>
<td>$24,600 annually</td>
<td>$32,502 annually</td>
<td>$47,012 annually</td>
<td>$22,412 (increase)</td>
</tr>
<tr>
<td>GT 6000 PAX 0 DWT 10,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Oil Tanker (SOLAS)</td>
<td>$123,000 annually</td>
<td>$162,512 annually</td>
<td>$235,062 annually</td>
<td>$112,062 (increase)</td>
</tr>
<tr>
<td>GT 30,000 PAX 0 DWT 50,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vessel type</td>
<td>2018/19 current model Maritime Levy based on $22.4 million revenue</td>
<td>2019/20 proposed model Maritime Levy based on $22.4 million revenue</td>
<td>2019/20 proposed model (indicative) Maritime Levy based on $32.4 million revenue – includes fee-able activities moved to Maritime Levy</td>
<td>Total variance from 2018/19 current model at $22.4 million to proposed model at $32.4 million</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0</td>
<td>$2,174 annually</td>
<td>$2,751 annually</td>
<td>3,979 annually</td>
<td>$1,805 (increase)</td>
</tr>
<tr>
<td>Domestic non-passenger Length 8 metre workboat</td>
<td>$137 annually</td>
<td>$77 annually</td>
<td>$111 annually</td>
<td>$26 (decrease)</td>
</tr>
<tr>
<td>Domestic fishing Length 5.9 metres</td>
<td>$81 annually</td>
<td>$57 annually</td>
<td>$82 annually</td>
<td>$1 (increase)</td>
</tr>
<tr>
<td>Domestic non-passenger Length 23.9 metres (including tugs)</td>
<td>$409 annually</td>
<td>$229 annually</td>
<td>$332 annually</td>
<td>$77 (decrease)</td>
</tr>
<tr>
<td>Domestic non-passenger aquaculture vessel (mussel barge) GT 104</td>
<td>$535 annually</td>
<td>$692 annually</td>
<td>$782 annually</td>
<td>$248 (increase)</td>
</tr>
<tr>
<td>Domestic non-passenger barge GT 150</td>
<td>$771 annually</td>
<td>$780 annually</td>
<td>$1,128 annually</td>
<td>$357 (increase)</td>
</tr>
<tr>
<td>Vessel type</td>
<td>2018/19 current model Maritime Levy based on $22.4 million revenue</td>
<td>2019/20 proposed model Maritime Levy based on $22.4 million revenue</td>
<td>2019/20 proposed model (indicative) Maritime Levy based on $32.4 million revenue – includes fee-able activities moved to Maritime Levy</td>
<td>Total variance from 2018/19 current model at $22.4 million to proposed model at $32.4 million</td>
</tr>
<tr>
<td>------------------------------------------------</td>
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<td>-------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Domestic Passenger Ferry (SOLAS)</td>
<td>$321,489 annually</td>
<td>$151,877 annually</td>
<td>$219,680 annually</td>
<td>$101,809 (decrease)</td>
</tr>
<tr>
<td>GT 22,365 PAX 1,350 DWT 5,794</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Charter Passenger Boat (Non SOLAS)</td>
<td>$308 annually</td>
<td>$1,727 annually</td>
<td>$2,497 annually</td>
<td>$2,189 (increase)</td>
</tr>
<tr>
<td>Length 18 metres PAX 140 DWT 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Charter Passenger Boat (Non SOLAS)</td>
<td>$137 annually</td>
<td>$232 annually</td>
<td>$336 annually</td>
<td>$199 (increase)</td>
</tr>
<tr>
<td>Length 8 metres PAX 14 DWT 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Passenger Ferry (Non SOLAS)</td>
<td>$1,439 annually</td>
<td>$4,786 annually</td>
<td>$6,922 annually</td>
<td>$5,483 (increase)</td>
</tr>
<tr>
<td>GT 280 PAX 300 DWT 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Commercial Jet Boat</td>
<td>$140 annually</td>
<td>$168 annually</td>
<td>$242 annually</td>
<td>$102 (increase)</td>
</tr>
<tr>
<td>Length 8.2 metres PAX 8 DWT 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1</td>
<td>$63 annually</td>
<td>$47 annually</td>
<td>$67 annually</td>
<td>$4 (increase)</td>
</tr>
</tbody>
</table>

- Green decrease
- Red increase
<table>
<thead>
<tr>
<th>Vessel type</th>
<th>2018/19 current model Maritime Levy based on $22.4 million revenue</th>
<th>2019/20 proposed model Maritime Levy based on $22.4 million revenue</th>
<th>2019/20 proposed model (indicative) Maritime Levy based on $32.4 million revenue – includes fee-able activities moved to Maritime Levy</th>
<th>Total variance from 2018/19 current model at $22.4 million to proposed model at $32.4 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic passenger - commercial dive boat Length 4.5 metres PAX 4</td>
<td>$77 annually</td>
<td>$88 annually</td>
<td>$127 annually</td>
<td>$50 (increase)</td>
</tr>
</tbody>
</table>

**Other funding source proposals**

**Proposals for Crown and FED funding – which are not part of this public consultation**

The proposals for Crown and Fuel Excise Duty (FED) funding are being dealt with separately. Crown funding is sought through a Budget Bid under Vote: Transport.

FED funding is reviewed on a different 3-year funding review cycle to the Maritime Levy and fees. That funding review is undertaken by the Ministry of Transport and is planned for 2019/20.

The FED funding review relates to the recreational boating and search and rescue activities done by Maritime NZ and to the search and rescue (SAR) activities undertaken by six other organisations (Coastguard NZ, LandSAR, Surf Life Saving New Zealand, Amateur Radio Emergency Communications (AREC), Mountain Safety Council and the New Zealand SAR Council).

The proposals for Crown and FED funding relate to:

- recreational boating (FED)
- search and rescue coordination (FED and Crown)
- maritime incident response (non-oil) capability (Crown)
- classic (historic) lighthouses (Crown).

A summary of each of these proposals is included in Appendix 2.

**Health and Safety funding a separate process**

A separate review of the HSWA Levy funding is planned for 2020 as part of the MBIE funding review cycle for the HSWA Levy. The current revenue from this source is included in the consultation document to show how it relates to the overall envelope of funding needed by Maritime NZ.

**OPL mid-point funding review separate but parallel**

Proposals for changes to the OPL are being consulted on by Maritime NZ separately but concurrently with this public consultation. [www.maritimenz.govt.nz/public/consultation/opl](http://www.maritimenz.govt.nz/public/consultation/opl)
PART 2
Addressing Regulations Review Committee Recommendations
Proposal 1: Maritime Levy Allocation Methodology

The methodology used for calculating the Maritime Levy, has been the subject of several complaints to the Regulations Review Committee. The Committee recommended in 2009 that the methodology be reviewed (with input from industry).

Maritime NZ engaged Castalia, who are independent economic advisors, to come up with a Levy methodology that is:

- Fair, robust and transparent
- Simple and low cost to administer
- Capable of raising the funds required to cover the activities funded by the Maritime Levy

We asked Castalia to present a suggested methodology at the two day pre-consultation session with industry held in June 2018 and received feedback that in principle the approach was supported, but industry wished to understand the full implications of the methodology before confirming its views on the methodology. On that basis, a proposed methodology (with some minor adjustments to what was initially presented to industry) is now being formally consulted on.

For detail on the current Maritime Levy allocation methodology see Appendix 3.

The new proposal for allocating the Maritime Levy

Castalia has recommended that the principle for determining how much of the Levy each vessel should be liable for is based on three criteria (people, freight and ships) to determine the "value of what is placed at risk in the maritime system". In its truncated form, the principle is the ‘risk value’. This is very different to an assessment of actual ‘risk’ itself, which is generally understood as a combination of likelihood and consequence of harm.

The ‘risk value’ also does not account for the various ways that actual risk is mitigated by regulation and by vessel owners and operators meeting their compliance obligations and taking other actions to protect what their activities put at risk. That protection or ‘mitigated risk’ takes the form of strong safety systems, good operating practices, well designed and maintained vessels, capable crew, and compliance with regulations.

‘Mitigated risk’ no doubt reduces the likelihood of accidents (which can result in loss of life, freight or ships), and it is recognised that some operators have very effective risk mitigation practices.

Many of these mitigations are as a result of regulatory requirements or interventions. However, the purpose of the Maritime Levy is to collect funds to pay for the existence of the regulator. Therefore, the proposed methodology recommends that unmitigated risk is the basis for determining the allocation of the levy.

‘Risk value’ (which again, takes no account of risk mitigation) enables an entirely objective assessment of the monetary value of the following:

- the shipping fleet itself
- life and injury
- freight

This principle is preferred because it can provide a consistent and measurable approach to all the activities that are undertaken by commercial ships operating in New Zealand waters. It therefore provides a common and equitable basis for the setting of Levy rates and determining liability for each vessel operator to meet the overall levy pool required to fund the regulator.

The new method uses three measures

In order for this principle to be implemented in an efficient way (that is, at least effort and cost to Maritime NZ and Levy payers), Castalia has recommended that the measures of gross tonnage, passenger capacity and deadweight tonnage are calibrated to reflect the monetary value of what is placed at risk in the maritime system.

It is possible to create new measures that measure the monetary value of what is placed at risk more directly, but these were judged to increase cost in an unsustainable manner and were not found to sufficiently increase the accuracy of the allocation methodology. The proposed method therefore bases the Levy on the following vessel elements:

- Gross Tonnage (GT), (allocated on a length (per metre) for vessels under 24 metres for which a recording of GT is not available for the majority of these vessels, and accounting for typical minimum crew requirements)
- Passenger Capacity (PAX), (based on maximum passenger capacity (for those vessels that carry
passengers). Note that PAX is being used as the variable to quantify people on board. Crew are accounted for in the GT (or length) variable
- Dead Weight Tonnage (DWT)

Every vessel is liable for every element and each vessel is levied (through the invoicing process) on the basis of the total determined by each of the three measures, its GT, its PAX and its DWT (as applicable).

The ‘value of what is put at risk’ includes some weightings and assumptions

As domestic and foreign vessels have different operating parameters, the value measures have been calibrated to reflect the differences between various shipping operations as follows.
- Account is taken of the distance travelled and the length of stay in New Zealand waters for foreign vessels relative to the annual operation of domestic vessels
- Domestic vessels are assumed to effectively operate for 50% of the year and carry 50% passenger loadings on average and in total
- Foreign passenger vessels (e.g. Cruise) have a passenger loading of 80%, to reflect that they do not operate at full capacity all year round.

The proposed method has only four leviable sector categories

Under the current Levy allocation methodology there are a number of different categories and sectors are differently levied according to different factors. For instance, there are river rafts, New Zealand fishing ships, New Zealand commercial ships, foreign passenger ships, foreign non-passerger with a load line and foreign passenger without a load line. The fewer the number of categories the simpler the operation of the Levy model. The smallest number of categories that Castalia recommended were needed is four. However, discussions with industry have suggested that a fifth category is needed to take account of smaller domestic non-SOLAS vessels. These smaller vessels are differentiated from larger domestic non-SOLAS vessels in terms of the value of what is placed at risk in the maritime system. The four categories also enable the weightings for domestic versus foreign and SOLAS versus non-SOLAS to take account of the operating parameters.

The four categories are:
- Domestic non-SOLAS < 24 metres and domestic non-SOLAS > 24 metres
- Foreign Passenger
- Foreign Non-Passenger
- Domestic SOLAS

The relative risk value and how it equates to Maritime Levy rates

Using statistical information about shipping activity, vessel information, and other data, Castalia calculated the total value of what is placed at risk (risk value). That total value equates to 100% and this has been allocated across the three different measures (GT (or length), DWT, and PAX) and across the four different categories (noting one has been split) according to the total monetary value of each category and driver. The result of the calculation is set out in the tables below.

Table 1. Proposed methodology - Percentage of the risk pool payable per category

<table>
<thead>
<tr>
<th>Vessel category</th>
<th>GT¹</th>
<th>Metre²</th>
<th>Pax Cap³</th>
<th>DWT⁴</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic non-SOLAS &lt; 24 metres</td>
<td>0.00%</td>
<td>1.33%</td>
<td>1.60%</td>
<td>0.00%</td>
<td>2.92%</td>
</tr>
<tr>
<td>Domestic non-SOLAS &gt; 24 metres</td>
<td>2.72%</td>
<td>0.00%</td>
<td>0.53%</td>
<td>0.00%</td>
<td>3.25%</td>
</tr>
<tr>
<td>Domestic SOLAS</td>
<td>4.14%</td>
<td>0.00%</td>
<td>0.44%</td>
<td>0.21%</td>
<td>4.78%</td>
</tr>
<tr>
<td>Foreign Non-Passenger</td>
<td>60.68%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>6.02%</td>
<td>66.71%</td>
</tr>
<tr>
<td>Foreign Passenger</td>
<td>15.10%</td>
<td>0.00%</td>
<td>7.13%</td>
<td>0.11%</td>
<td>22.34%</td>
</tr>
<tr>
<td>Total</td>
<td>82.64%</td>
<td>0.00%</td>
<td>9.69%</td>
<td>6.34%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Notes: Where the variable shows 0.00% this means:
1. No GT is held and length is used instead
2. GT is used instead of length
3. There are no passengers. Crew is accounted for in GT or length
4. The vessels are not large enough to record DWT
Table 2. Proposed methodology – 2019/20 allocation by new category

Table 3. Current methodology – 2018/19 allocation by current category

Indicative Rates

Table 4 shows indicative rates based on a proposed budget of $32.4 million in 2019/20.

Table 4. Indicative Per Unit Maritime Levy Rates Future Budget of $32.4 million

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Category</th>
<th>GT/Length</th>
<th>Pax Cap(^3)</th>
<th>DWT(^4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual</td>
<td>Domestic non-SOLAS &lt; 24m(^1)</td>
<td>$13.8886 (Length)</td>
<td>$16.0538</td>
<td>$0.00</td>
</tr>
<tr>
<td></td>
<td>Domestic non-SOLAS &gt; 24m(^2)</td>
<td>$7.5215 (GT)</td>
<td>$16.0538</td>
<td>$0.00</td>
</tr>
<tr>
<td></td>
<td>Domestic SOLAS</td>
<td>$7.1327 (GT)</td>
<td>$42.7515</td>
<td>$0.4216</td>
</tr>
<tr>
<td>Per Port</td>
<td>Foreign Non-Passenger</td>
<td>$0.1078</td>
<td>$0.0000</td>
<td>$0.0087</td>
</tr>
<tr>
<td></td>
<td>Foreign Passenger</td>
<td>$0.0836</td>
<td>$1.6848</td>
<td>$0.0075</td>
</tr>
</tbody>
</table>

Notes: Where the variable shows $0.00 this means:
1. No GT is held and length is used instead
2. GT is used instead of length
3. There are no passengers. Crew is accounted for in GT or length
4. The vessels are not large enough to record DWT

The categories under the two methodologies are different, so the percentages in the pie charts are not directly comparable – however, the pie charts show at an indicative level that the relative shares between generic categories are relatively similar.
We have also provided examples in Part 1 of what the Maritime Levy amounts (and changes) might be for a number of types of vessels. We are keen to hear the views of industry and others on the proposed allocation methodology; which if altered as a consequence of your feedback would also affect Levy liabilities. Implementing the proposed Maritime Levy allocation methodology requires significant system and process changes for Maritime NZ. The cost of this has been estimated as $0.442 million. This would be recovered from the Maritime Levy in 2019/20 and is part of the proposed $32.4 million budget.

Proposal 2: Fee-able activities hourly rate (Fees)

In relation to the hourly rate for fee-able activities we propose as follows.

- **Revised single hourly rate for fee-able activities.** There is a single hourly rate of $245 (GST inclusive) for all fee-able activities from 2019/20 onwards. This rate would be used for activities that are charged on an actual time taken basis. It would also be used to calculate fixed fees.

Note there are proposals later in this document for:
- **Travel time and costs.** Travel time and costs would be met by the Maritime Levy for fee-able activities that require a maritime officer to travel to an applicant or operator’s place of business. The exceptions (that would be covered under the fees regulations), are for travel time (using the proposed hourly rate) and reasonable costs for:
  - offshore installation inspections
  - audits and inspections and any other fee-able activities requiring international travel.
- **Removal of the IT loading.** That there is no longer an IT loading for any activities.

Drivers of the proposal

The fee-able activities hourly rate proposal results from two main drivers:

- consistent with good regulatory stewardship expectations, the need to review the appropriateness of the hourly rates and fixed fees set out in the Shipping (Charges) Regulations
- the need to address recommendations of the Regulations Review Committee, which arose from a complaint about the basis for the hourly rate for fee-able activities. Those recommendations (and expectations) being that:
  - Maritime NZ should ensure that at the time of making decisions relating to fees (and levies) it fully documents decision-making so it is transparent
  - Maritime NZ failed, when substantively increasing its fees (at the last full funding review in 2011/12), to take into account demand for activities
  - Maritime NZ is expected to address its forecasting capability
  - Maritime NZ failed to address industry concerns about cross-subsidisation and the base hourly rate at the mid-point funding review and is expected to deal with this issue promptly.

Fees regulations

The Shipping (Charges) Regulations 2014 set out the fees for the majority of fee-able work and services conducted by Maritime NZ and those have been the focus of the assessment, analysis and forecasting. By comparison, a limited amount of work and services are charged for under fees listed in the Ship Registration (Fees) Regulations 2013 and the Maritime Security (Charges) Regulations 2016.

With the exception of ship registration, the assessment and analysis has not extended to the fees under those regulations. However, as the Shipping (Charges) Regulations inform the hourly rate in those latter regulations, the hourly rate proposal also applies to fees listed in them.

Summary of the Shipping (Charges) Regulations 2014

The Shipping (Charges) Regulations 2000 were substantively amended as a consequence of the last full term funding review in 2011/12. This included increasing a revised hourly rate over six years from 2013/14 to move to a full cost recovery model. That gradual increase was from $144 to $235 an hour.

The amendments also introduced the concept of an office based and offsite hourly rate; the offsite rate being a 33% loading on the base (on-site) rate to cover the time and cost of travel for first visits for audit, inspection or assessment purposes.

The Shipping (Charges) Regulations 2000 were revoked in April 2014 by the Shipping (Charges) Regulations 2014, which retained all of the fees (and rates) listed in the 2000 Regulations but added MOSS and SeaCert fees. For those an IT loading was added, which was
different for MOSS than for SeaCert, reflecting the proportional IT related cost of those regimes.

As a consequence of the mid-point funding review in 2015/16, the hourly rate for SeaCert activities (which had been ‘held back’ from the gradual increase in the hourly rate for other fee-able activities) was increased and both it and the MOSS hourly rate were ‘held’ at the Year 5 hourly rate of the six year hourly rate increase ‘trajectory’ from 2016 onward (pending review at this full funding review).

The effect of these various amendments to the regulations is that there are currently three different office based hourly rates (as below) and three different offsite rates. Examples include:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Current office based hourly rate (GST inclusive)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOSS related activities</td>
<td>$231</td>
</tr>
<tr>
<td>Seafarer certificates and endorsements (used to set fixed fees)</td>
<td>$221</td>
</tr>
<tr>
<td>All other work or services</td>
<td>$235</td>
</tr>
</tbody>
</table>

There are over 180 fees listed in the Shipping (Charges) Regulations 2014. These are split across two schedules; one for fixed fees and the other for activities subject to an hourly charge.

The regulations make provision for a single activity to be charged at both a fixed and variable rate where that activity is reflected in both schedules.

The regulations also enable the full or partial waiver of fees, including fees for exemption applications where the Director considers charging would be unreasonable, and fees that the Director does not consider are justified relative to the work done or required to be done.

Setting the proposed hourly rate for fee-able activities

To set a single rate, we analysed the costs of each fee-able activity through examining timesheet data, undertaking task and effort assessments to establish the average length of time for different fee-able activities, determining volumes (retrospective and forecast), and allocating organisational overhead costs.

The most appropriate method use to meet the OAG guidelines is the Moderated Task and Effort method. This method is appropriate because:

- it involved extensive work on assessing the amount of staff effort required for each fee-able activity, so reflects a close review of what is included in delivering the activity
- the data from the task and effort assessments was moderated to take account of variances in effort and forecast volume over the next six years and other changes, across the fee-able activities
- it followed the same process as for the mid-point funding review in 2015.

The range of hourly rates (GST inclusive) for the different current fee-able activities was $146 through to $307. The higher $307 hourly rate pertains only to the audit of New Zealand operators, the majority of which would be funded through the Maritime Levy if the current proposals were accepted.

Under those proposals follow-up visits on audits would still be fee-able, but it is estimated that those would not exceed 3% of total audits activity and a single hourly rate would need to recognise this.

It should be noted that if the proposal to move cost recovery for audit of New Zealand operators to the Maritime Levy is not accepted, we will need to review the proposed hourly rate.

To ensure confidence in the hourly rate, we looked at the total cost of running the organisation (forecast over the next six years) divided by average productive staff hours (called the Total Organisation Cost method).

The Total Organisation Cost method, while a common approach to setting hourly rates in the private sector and a useful comparison often made by industry, cannot be used in setting public sector fees. This is because it includes the costs of non fee-able activities, whereas the OAG guidelines require that only the costs of fee-able activities be included when setting the hourly rate used for fees. However, it is a useful yardstick to benchmark the Moderated Task and Effort method rate against. The Total Organisation Cost method provides an hourly rate of $240 (GST inclusive).

We are of the view that setting the hourly rate at $245 (GST inclusive) addresses the range of rates, volumes of activities, and reasonably recovers the costs of the activities so as not to significantly either over or under-recover.

We also compared our proposed rate to those of other agencies. The table below shows our proposed new hourly rate, current office-based and current offsite hourly rates for MOSS and SeaCert, compared to those of other agencies.
They are not directly comparable to the hourly rates for the other agencies because, for instance because:

- they are not fully cost recovered because they may be subsidised by levies, or for local authorities, by rates
- Maritime NZ’s current offsite rate for MOSS includes a travel loading (whereas e.g. the CAA rate is only for staff time undertaking the activity, not including travel time or travel expenses, which are recovered through a levy instead and NZTA’s rate is based on very high volumes – noting that our functions are more like CAA’s than NZTA’s)
- Maritime NZ’s current MOSS and SeaCert rates include an IT loading.

### The IT component for MOSS and SeaCert

In terms of the IT component of the MOSS and SeaCert hourly rates, our assessment is that this should not continue as the IT loading as we will have recovered the MOSS and SeaCert part of the initial system costs by 2019/20.

At the time the MOSS and SeaCert fees frameworks were being developed in late 2013, we were in the process of introducing a replacement IT system for its data, processing, and information collection requirements, including for those regimes.

The IT system and anticipated changes to functionality mean that the system will increasingly not only be used for MOSS and SeaCert processes, but for a much wider range of activities and users for online applications, data, processing and information collection. It is therefore inequitable to recover costs only from MOSS operators and seafarers paying fees.

### Fee-able activities proposed to be moved to Maritime Levy funding

There are separate proposals (with reasons for them) relating to moving some existing fee-able activities to Maritime Levy funding (see later in Part 2 of this document). The proposals are that:

- first visits relating to audits and inspections (including the travel time and costs) are Maritime Levy funded
- seafarer certificates and endorsements have a standard fixed fee with the balance being Maritime Levy funded
- all travel (time and costs) relating to fee-able activities are Maritime Levy funded (refer travel time and costs proposal below).

The impact of the reduction is reflected in the calculations for the proposed new hourly rate. For the purposes of consultation the proposed new hourly rate is shown as a reflection of the proposals in effect.
Change to how some activities are funded

We have reviewed the economic characteristics of our activities currently cost recovered through fees, and have considered issues raised by industry about how those activities are funded. We have considered the fee-able activities based on the principle that the economic characteristics of the activities are club goods; as opposed to their current categorisation as private goods. Re-categorisation means that the recovery of the costs of those activities will need to be reconsidered. The consequence is that these activities would be recovered from the Maritime Levy as club goods and the revenue collected through fees would go down.

Proposals

We propose:
- recovering from the Maritime Levy the cost of the audits and inspections set out in the table below
- a fixed fee of $368 (GST inclusive) that applies to all applications for seafarer certificates and endorsements (which would recover the common activities undertaken for all applications and applying the forecast volume over the next six years)
- the balance of costs of seafarer certificates and endorsements are recovered from the Maritime Levy.

See Appendix 4 Example assessment - economic characteristics of audits and inspections.

Specific benefits of these proposals

In addition to maritime system and wider transport system objectives referred to earlier in this document, the specific benefits provided by the proposals are that they:
- align international and domestic approaches
- remove perverse incentives that impact safety outcomes
- remove confusion between Maritime Safety and Health & Safety regimes
- align maritime regulatory approaches with other regulated sectors such as aviation

The proposals also provide efficiency gains as:
- they remove a large part of the impact of revenue fluctuations caused by cost recovery through fees for the varying annual demand and would ensure certainty of compliance costs for competent and low risk operators
- they consolidate more of the cost recovery to an already identified industry group under an already established collection mechanism. This enables cost recovery to be more administratively efficient
- the number of invoices reduce by about 370 per year and the number of transactions by the Finance team and others by about 8,000. Reduced invoicing and invoicing complexity (i.e. for SeaCert fees), would reduce administration costs for industry participants.

Issues

The issues identified that have informed the proposals are as follows.
- Need to meet regulatory and compliance outcomes
- The number of industry participants impacts on the level of fees
- Fees can be a disincentive to meeting compliance requirements and innovation
- Complexity of Maritime NZ’s funding model
- Other regulators’ approach can be different
- Inequality/disincentives created by greater levels of subsidy in competing maritime jurisdictions.

Need to meet regulatory, compliance and response outcomes

Assisting industry participants to comply is an effective regulatory tool where ‘safe, secure and clean’ are the desired system outcomes.

However, fees charged for activities can limit the use of this tool. For instance, fees can discourage free and frank engagement with industry participants who act to limit the amount of fees charged for actual time taken as an hourly rate, rather than seeking compliance guidance.

Also, fees (both fixed and actual time taken) do not recover the cost of interventions such as systemic risk activities, which are club goods.

Number of industry participants impacts on the level of fees

Fees work best for activities that have high volumes and are repeatable within a narrow range of consistency. However, for our fees (averaging around $2.5 million per year) most are paid by the domestic maritime industry, which is small in terms of the number of industry participants. Also, there is a broad range of vessels and operators, which reduces the level of consistency across the maritime industry. This means the fixed costs of providing an activity are spread across a low number of payers making the
individual fee comparatively high compared to fee-able government activities in other sectors.

For instance, transaction volume for Maritime NZ fee-able activities is low, e.g. 1,325 maritime operators are subject to MOSS audits. Whereas, transaction volumes in other sectors are often high, e.g.:

- New Zealand Transport Agency - Change of Ownership – Seller. Base Volume – 0.940 million transactions
- Department of Internal Affairs - Apply, Renew or Replace a New Zealand Passport. Base Volume – 0.722 million transactions
- Inland Revenue - File Individual Tax Return. Base Volume – 1.203 million transactions

Fees can be a disincentive to innovation

An industry participant with a new way of doing things must meet the full cost of the change in approach where actual time taken, rather than a fixed fee, is charged. For instance, a non-standard approach attracts more fees because it takes longer to undertake an audit or inspection. Innovation can deliver public and industry benefits so disincentives to it should be avoided, if possible.

Complexity of Maritime NZ’s funding model

A significant administrative cost is incurred due to the wide range of funding sources and invoicing that must be managed under Maritime NZ’s current funding model. This also causes complexity, which makes explaining the funding model to industry participants and others time consuming and costly.

This has increased the perception by industry that there is a lack of transparency in Maritime NZ’s funding framework. Reducing the number of funding sources and invoicing would reduce the administrative burden for all and reduce levels of complexity, which makes the system easier to understand.

Difference in other regulators’ approach

Other regulators have moved from fees to levies or put levies in place initially, largely because of the issues above. Examples include as follows:

- The CAA moved the first visit for surveillance (similar to Maritime audits) of aviation industry participants from fees to levy funding, but left follow-up visits as fee-able
- Inspections and intervention activities by WorkSafe NZ and Maritime NZ under HSWA are all levy funded
- Intervention activities by the MPI and Customs for border biosecurity are levy funded.

There is also inconsistency in the approach to our funding sources for different types of audits and inspections. Some are recovered under fees and others under a levy. In addition, some of the levies applying are administered by us. Others are administered by other government agencies and reviewed at different times to our funding review cycle. This is confusing and administratively cumbersome for industry participants and us. For instance:

- MOSS audits are fees funded, whereas HSWA inspections that are done at the same time, are HSWA Levy funded
- Foreign SOLAS inspections are Maritime Levy funded, whereas New Zealand non-SOLAS and New Zealand SOLAS audit and inspection are fees funded
- Assisted compliance is Maritime Levy funded for industry participants subject to the MOSS and SeaCert regimes, but not for other industry participants. Presently, these activities can only be undertaken in the non-MOSS and non-SeaCert contexts by halting or delaying other activities.

In terms of similar agencies in other countries:

- we understand the Australian Maritime Safety Authority (AMSA) is moving away from fees to recover more activities from levy funding. AMSA’s current funding is 5% fees, 20% levies and 56% government funding.8% fees, 58% levies, 32% Government and 2% other. [error corrected December 2018]
- other regulators cannot be easily compared because their funding framework is significantly different to ours because, for instance:
  - jurisdiction has a higher level of domestic vessels than foreign vessels (such as the UK where the agency is 92% government funded) or largely foreign vessels only (e.g. Singapore where the agency is 96% fees funded)
  - country has decided to fund activities with government funding rather than apply a user-pays model, e.g. the Australian Government is providing $100 million government funding over 10 years for AMSA activities rather than charging fees
  - agency undertakes different activities to us, e.g. most maritime regulators do not have a search and rescue function across land, air and sea.
Currency conversions rates from www.xe.com on 30 January 2018: 1 AUD = 1.10510 NZD; 1 GBP = 1.92208

We note regarding the UK, that a review of regulator models in the UK recommends a move to fees and levies funding with industry meeting the bulk of the cost of regulators. (see UK Regulatory Futures Review, January 2017. https://www.gov.uk/government/publications/regulatory-futures-review).

If this recommendation is accepted, the amount of government funding for the UK maritime regulator may reduce with a commensurate rise in fees and levies charged to the maritime industry in the UK.

**Inequality/disincentives created by greater levels of subsidy in competing maritime jurisdictions**

Many other maritime regulatory agencies are subsidising seafarer licensing. For New Zealand seafarers, this creates a disparity and discourages the growth of the domestic seafaring sector.

It is also unfair to New Zealand seafarers who have to compete for jobs with foreigners whose certification costs are lower.

**Consideration of activities to remain as fee-able**

We propose that the following activities remain as fee-able.

<table>
<thead>
<tr>
<th>Activities proposed to remain as cost recovered from fees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entry applications and assessments</strong></td>
</tr>
<tr>
<td>Assessments for certification done at the time of entry, e.g. MOSS entry application fixed fees and assessment fees by actual time taken (including the Operator Plan desktop assessment and the site visit assessment for a Maritime Transport Operator Certificate done at entry).</td>
</tr>
<tr>
<td><strong>Follow-up visits for audits and inspections</strong></td>
</tr>
<tr>
<td>Follow-up visits for audits and inspections (except for follow-ups for HSWA inspections, which are HSWA Levy funded). Follow-up visits should remain as fee-able because the approach provides an economic signal that influences the compliance behaviour of industry participants. Industry participants at the low end of the acceptable performance range requiring a high level of scrutiny must meet the cost of that additional scrutiny. The possibility of having to pay additional fees for significantly lower performance is intended to create an incentive on industry participants to comply with regulatory requirements. The travel time and cost would be Maritime Levy funded under the travel time and cost proposal later in this document.</td>
</tr>
<tr>
<td><strong>Inspections of offshore installations</strong></td>
</tr>
<tr>
<td>Initial, periodic and follow-up inspections under the MTA of offshore installations, e.g. petroleum, gas &amp; mineral exploration /extraction /production /decommissioning, should remain fee-able (with travel time fee-able and the actual travel cost directly recovered from the operator). These industry participants do not pay the Maritime Levy because they do not fall within the levy payer group definition under section 191 MTA - they are not “ships”. These inspections are few in number (around 5 per year) and the highest cost recovery</td>
</tr>
</tbody>
</table>
inspections undertaken by Maritime Officers at an average cost of around $15,000 per year. Averaging the cost across all levy payers produces inequities within the maritime industry.

Other activities

All other activities currently categorised as fee-able including ship registration, exemptions, approvals, certification, dumping permits, vessel and port security assessments, detentions, surveyor/authorised person recognition, Part 35 approvals.

Proposal 3: Audits and inspections (Maritime Levy)

We propose:

- recovering from the Maritime Levy the cost of (including travel time and cost), the first visit for the audits and inspections listed in the table below, which are currently recovered through fees
- follow-up visits remain fee-able but with actual travel time and travel costs recovered from the Maritime Levy.

This proposal largely shifts the funding source for audits and inspections from fees to the Maritime Levy.

Note that the Shipping (Charges) Regulations 2014 already cover that:

- The first visit for an audit or inspection is charged as follows - “the charges payable for the first visit to the offsite location in relation to the work or service are the sum of the number of hours (including part-hours) spent by each employee or contractor performing the work or service at that location and carrying out any office-based work or services that directly relate to the first visit, multiplied by the hourly first off-site visit rate”
- A follow-up visit is “a subsequent visit to an off-site location to continue or complete work or service commenced on a first visit”
- Travel time is “an amount calculated at the appropriate office-based hourly rate for every hour or part-hour spent travelling between the off-site location and the facility or office from which the contractor or employee operates”
- Travel costs is “any actual and reasonable costs incurred by the employee or contractor associated with the visit, including accommodation, airfares, and meals.”

We propose that the cost of the audits and inspections below be recovered from the Maritime Levy. The proposal aligns these audits and inspections with the audits and inspections of other vessels and operators in the maritime industry (both foreign and domestic), which are levy funded.

<table>
<thead>
<tr>
<th>Name</th>
<th>Type and frequency</th>
<th>Regulatory regime</th>
<th>Industry participant</th>
<th>Vessel examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOSS audits</td>
<td>Initial audits within two years of entry</td>
<td>MOSS, MTA</td>
<td>Operators of New Zealand non-SOLAS vessels</td>
<td>Fishing vessels, charter vessels and passenger ferries</td>
</tr>
<tr>
<td></td>
<td>Periodic audits are done at least once every four years after that (based on the operators risk profile)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NZ commercial fishing audits</td>
<td>Periodic audits ( Undertaken by “authorised persons” as third party providers – invoices would be met from the Maritime Levy)</td>
<td>MTA</td>
<td>New Zealand commercial fishing vessels under Rules Part 40D under 6 metres non-MOSS operators</td>
<td>Fishing vessels</td>
</tr>
<tr>
<td>NZ other non-MOSS audits</td>
<td>Audits at least every two years</td>
<td>MTA</td>
<td>“New Zealand other” non-MOSS operators</td>
<td></td>
</tr>
<tr>
<td>NZ SOLAS inspections and audits</td>
<td>Annual flag state inspections</td>
<td>MTA</td>
<td>New Zealand SOLAS vessels</td>
<td>Oil tankers, cement carriers and some of the Cook Strait ferries</td>
</tr>
<tr>
<td></td>
<td>Audits at least every 2.5 years</td>
<td>International Safety Management (ISM) Code</td>
<td>New Zealand SOLAS vessels</td>
<td>Oil tankers, cement carriers and some of the Cook Strait ferries</td>
</tr>
<tr>
<td></td>
<td>Annual DOC (Document of compliance) audits</td>
<td>International Safety Management (ISM) Code</td>
<td>New Zealand SOLAS vessels</td>
<td>Oil tankers, cement carriers and some of the Cook Strait ferries</td>
</tr>
</tbody>
</table>

Current audits and inspections

There are currently seven types of audits and inspections undertaken by Maritime NZ (see Appendix 5 Current
audits and inspections). As stated earlier, Appendix 4 sets out an example assessment of economic characteristic - audits and inspections. This identifies the maritime industry as a group as primarily benefiting from and causing the need for audits and inspections. This categorises the activities as club goods and hence makes them levy funded.

Crown funding is not proposed because while other users of inland and coastal waters and the public receive spill-over benefits and can cause risk to the system by being on the water and coming into contact with the maritime industry, they do not receive the primary benefit from or cause the need for the activities.

**Specific benefits of the proposal**

In addition to maritime system and wider transport system objectives referred to earlier in this document, the specific benefits of cost recovering the specified audits and inspections from the Maritime Levy are as follows:

- Aligns with other Maritime NZ audits and inspections and with other domestic regulators
- Consistent with Government guidelines
- Match the funding model with the move to a modern regulator approach

**Addresses industry concerns**

Some maritime industry participants have raised the concern that fees for individual MOSS industry participants are overly burdensome causing people to exit the industry.

These industry participants have suggested that to address these issues, we should move some of the fees to the Maritime Levy and work on being more efficient in order to reduce costs.

**Improves incentives for compliance**

Removing fees can encourage free and frank engagement with industry participants who act to seek compliance guidance. This assists with our outcomes-based approach to ensuring maritime safety, security and marine environment protection.

**Alignment**

Moving the audits and inspections that are currently fee-able to Maritime Levy funding would align with the approach taken for other maritime industry participants in relation to:

- New Zealand non-SOLAS and SOLAS vessel inspections under HSWA, which are HSWA Levy funded
- recreational boat ad hoc inspections under the MTA that are FED funded, which is a levy
- assisted compliance under the MOSS and SeaCert regimes.

Audits and inspections by other New Zealand regulators are cost recovered through levies, e.g. CAA, WorkSafe NZ, MPI and Customs.

**Consistent with Government guidelines**

The above audits and inspections are proposed as Maritime Levy funded because they have a higher level of club good economic characteristics than assessed in the 2011/12 funding review.

This narrow view results in safety system audits being private goods and therefore fee-able as they are highly excludable (people can be excluded from using the good) and rivalrous (use of the activity by one person, reduces the good’s availability to others).

Where the activities are viewed against other similar activities undertaken within an industry participant group, the categorisation can shift to club goods.

This is because the similar activities are excludable and rivalrous to the industry group and undertaken only in relation to the industry group (whether or not undertaken for a specific industry participant).
Viewing audits and inspections of all industry participants, the activities are an “audit and inspection system” that is part of assurance to the Director within oversight functions for the regulatory, compliance and response system, and hence are club goods.

The diagram below shows the difference in categorisation from a transactional view of audits vs a system view of audits.

**Summary of options considered**

Three options were considered.

- **Status Quo**
  - Hourly rate fees for all audits and inspections, except for:
    - HSWA inspections (HSWA Levy)
    - Foreign SOLAS (passenger) initial audits and inspections – first visit (Maritime Levy)
    - Foreign SOLAS (freight) initial audits and inspections – first visit (Maritime Levy)

- **Mixed Model**
  - All audits and inspections are Maritime Levy funded, except:
    - HSWA inspections and follow-up visits, which are HSWA Levy funded
    - Audits of offshore installations, which remain fee-able
  - Follow-up visit fees are charged based on a single hourly rate (see proposal on Hourly rates).

- **All audits and inspections levy funded.**

**Option 1: Status Quo**

We have not recommended this option because under the modern regulator approach, audits and inspections are predominantly club goods and this option does not offer the behavioural incentives we seek.

**Option 2: Mixed Model – with Maritime levy and fees**

Not charging for the first visit for an audit or inspection (including the travel component) would remove from the industry participant’s consideration the size of the invoice they will receive for an audit or inspection. This is likely to encourage greater engagement with the auditor or inspector and extend the possibility to advance education, and learn from, the participant. Similarly, the auditor or inspector would not be constrained by their perceptions about the participant’s ability to pay. We consider this to be important even when under the risk-based model a participant has a high number of audits and inspections compared to the industry average.

Maritime Officers undertaking the audits and inspections would be able to more appropriately assure public and user safety, promote improvement in maritime safety, and influence the attitude and behaviour of persons whose actions may have adverse impacts on safety.
without worrying as to the cost on the industry participant of the audit or inspection.

In those circumstances where an industry participant is not compliant and remedial action is required following an audit or inspection, we would recover the cost of any necessary follow-up visit by charging an hourly rate for time taken and dealt with under the proposed travel cost recovery option under the fee-able activities hourly rate proposal section above. This provides behavioural incentives for industry participants to undertake compliance within the range of acceptable performance.

A potential concern about this option is that it would serve as a compliance disincentive: that is, an operator who is subject to more than the average audit frequency would not be motivated to manifestly reduce the risk of their operation because they are not paying for audits. Under the Status Quo option it is assumed that that incentive exists.

It is important to note however that the ‘cost’ of an audit does not go only to the fee payable. An operator must prepare and must be present for the duration of the audit (time); may not operate while the audit is being undertaken (potential loss of income); and for any audit there is the possibility that some type of remedial action will be required (potential cost). Therefore, even if an operator is not paying a fee for an audit or inspection, they are not motivated to behave in a way that creates the need for higher than average audit activity.

Option 3: All levy funded

If industry participants are not charged for follow-up visits there are fewer incentives for them to achieve improved compliance, with potential safety consequences. Non-compliant industry participants would not incur additional oversight fees either, placing a drain on oversight funding.

Proposal 4: Seafarer certificates and endorsements (Fees and Maritime Levy)

At the pre-consultation workshop held in June 2018, concerns were raised about the cost of seafarer certificates and endorsements and the affect this may be having on the number and retention of seafarers. There was support for a suggestion that seafarer certification has both private and club good characteristics and that this could justify the cost of certification being partially met from the Maritime Levy. The proposal below reflects further consideration of that suggestion.

Proposal

We propose recovering some of the costs of seafarer certificates and endorsements as follows.

- A fixed fee of $368 (GST inclusive) that applies to all applications for seafarer certificates and endorsements
- The balance of the cost of processing seafarer certificates and endorsement applications is Maritime Levy funded.

The proposed fixed fee for seafarer certificate and endorsement applications is based on the proposed hourly rate multiplied by the time taken to process the common transactional elements of all such applications.

The balance of the cost of processing seafarer certificate and endorsement applications would be met from the Maritime Levy.

Issues raised by industry

Fees for certificates and endorsements

The industry has raised with us that:

- seafarer certificate and endorsement fees are acting as a disincentive to seafarers entering the profession. To address this in part, larger operators are paying the fees for seafarers rather than each seafarer paying themselves. For smaller domestic operators, where they are often financially operating month-to-month, the fee is not easily absorbed into business costs or passed on to customers, so they require individual seafarer staff to meet the cost themselves
- there is frustration and confusion caused by there being around 70 certificates and endorsements, each having one of six different fixed fees. For instance:
  - the six different fixed fees are needed in order to account for the amount of time taken to process the applications (which varies by certificate and endorsement) in applying the fees cost recovery model under the Treasury and OAG guidelines.
  - Currently, for seafarer certification fixed fees the:
    - lowest is $372 (for a national certificate of competency or certificate of proficiency transition)
    - highest is $1,105 (e.g. marine engineer class 3)
most commonly applied for certificate is $995 (skipper restricted limits)

most commonly applied for endorsement is $486 (basic tanker endorsement)

- the correct certificate is difficult for applicants to identify (where the names are often based on those set under international conventions, but can be commonly called something else). This means many applicants estimate which fee applies and deposit the amount to our bank account. This often compels an administratively burdensome reconciliation process to correct any under or over payment

- foreign administrations subsidise seafarer certification which adds inequity for New Zealand seafarers who have to compete for jobs in New Zealand against foreign seafarers. For instance, the UK fees are lower than here and the fees in Canada are lower than in the UK.

The added issue is that there were around 1,252 bespoke invoices issued in 2017/18 for seafarer certificates and endorsements. This generated a minimum of 5,000 individual actions including creating and issuing the invoice, responding to enquiries from industry on invoice content, receipt and reconciliation of payments, follow-up of outstanding debts through statements or direct intervention. This is a significant level of activity for around 2% of our revenue. The seafarer certification volume (actual and forecast) is as follows.

Seafarer training courses

Industry has also raised with us that the New Zealand Qualifications Authority (NZQA) approved seafarer training courses delivered by independent training providers are acting as a disincentive to seafarers entering and remaining in the profession.

Industry has stated that in their view, the time required and cost to complete the courses is higher than is warranted for the qualification required. This is because for the courses to be approved by NZQA at a level that attracts Crown funding the course must be above a specific level of credits that is based on the time taken and range of content of the training course.

Another suggestion is that to encourage new entrants to the industry, the entry level seafarer courses be added to the National Certificate of Education Achievement (NCEA) framework administered by the Ministry of Education. This would mean that year 11, 12 and 13 school students could undertake the courses.

These issues cannot be resolved by Maritime NZ and are therefore not part of the proposals. However, Maritime NZ and the Ministry of Transport have offered to assist industry engage with NZQA, independent course providers and the Ministry of Education on options to address the issues.

Summary of options considered

Three options were considered.

- **Option 1: Status Quo** - Fixed fees for seafarer certificate and endorsement applications.
- **Option 2: Mixed Model** - For all seafarer certificate and endorsement applications:
  - A fixed fee of $368 (GST inclusive) that applies to all applications
  - The balance of the cost of processing these applications is Maritime Levy funded.
- **Option 3: All levy funded.**
We have not recommended this option because it does not address the issues raised by industry about fees acting as a disincentive to seafarers entering the profession or the frustration and confusion caused by there being around 70 certificates and endorsements, each having one of six different fixed fees.

Option 2: Mixed Model – with Maritime levy and fees

Charging a fee for some of the cost of seafarer certificates and endorsements recognises the private good characteristics of the activities. Seafarers require a certificate or endorsement to operate so receive the benefit of being able to do so. Where the certificate or endorsement has international recognition, this benefits the seafarer by enabling them to work overseas.

Moving the balance of the cost to the Maritime Levy recognises that where seafarer certificates and endorsements are viewed as part of the wider regulatory and compliance system, there are club good characteristics. Also, most Maritime Levy payers require seafarers to operate their vessels.

We have rejected the suggestion that there should be full cost recovery fees for foreigners applying. This is because foreign vessels pay the Maritime Levy so would also contribute revenue for these activities.

As noted earlier, the fixed fee only covers the common transactional aspects of undertaking all of the fee-able activities. The technical, legal and non-transactional aspects would be funded by the Maritime Levy as assisted compliance (under the general systemic risk activities proposal later in this document) in line with our modern regulator approach.

The benefit of the fixed fee is that it would significantly reduce the cost of entry, certificate renewal and endorsements for the majority of seafarers. Also, it approximates (co-incidentally) the lowest fixed fee for certificates and endorsements in the current regulations (which is $372).

The balance of the cost of processing applications has been calculated by applying the hourly rate to the total time taken for processing applications minus the amount received through the new fixed fee based on the estimated volume of seafarer certificates and endorsements each year for six years from 1 July 2019.

Option 3: All levy funded

Not charging seafarers for any part of the cost does not recognise the private good elements of the activity. Contribution to processing the application base components takes account of this.

Other proposals relating to fees

- **Travel time and costs.** For fee-able activities that require a maritime officer to travel to an applicant or operator’s place of business, travel time and travel costs would be met by the Maritime Levy. Exceptions are offshore installations inspections, and audits and inspections and any other fee-able activities requiring international travel, where the travel time (using the proposed hourly rate) and reasonable costs would be covered under the fees regulations.

- **Pre-assessment service fee for seafarer certification is removed.** We propose that the pre-assessment service fee be removed. We would also explore and look at delivering a free online ‘sea time calculator’ on our website. The wider range of assessment for all the requirements that need to be met, and uncommon situations for sea time and overseas sea time, would be dealt with by Maritime NZ staff directly and covered by the Maritime Levy as assisted compliance.

The costs of exploring and developing a sea time calculator are included in the proposal for ICT systems integration, data, analytics and mobility later in this document.

Proposal 5: Travel time and costs (Maritime Levy)

One of the outcomes of the 2011/12 funding review was the inclusion of different hourly rates for office-based and offsite activities in the Shipping (Charges) Regulations 2014.

- **‘Office based’** rates relate to activities conducted at or from our offices.
- **‘Offsite’** rates relate to those activities that take place at the location of the maritime operator (ordinarily on their ship and at their offices). The offsite rate is 33% higher than the ‘office-based’ rate. That loading covers the travel time and cost of visiting an operator’s site. The offsite rate can only be charged for the first visit required for any given inspection or audit. Any follow-up (subsequent) visit required for the same audit or inspection is charged at the ‘office-based’ rate for the time taken at the follow-up visit with the actual travel time and reasonable costs incurred by the employee or contractor associated with the visit, including accommodation, airfares, and meals added to the fee charged.

The rationale for adding a travel loading (rather than always requiring operators to pay both for time (at an
hourly rate) and travel costs) was that this equalised the compliance cost of activities that are conducted across all operators. Those who live in remote locations or at most distance from a Maritime NZ office would be paying significantly more in travel costs for routine audits and inspections than those in the central regions. This might have had the effect of dis-incentivising entry to the regulatory framework for remotely based commercial operators.

The Minister of Transport in 2012 approved the approach that we would calculate the total cost of travel for those activities and divide it across the audit and inspection effort hours. The 33% loading was the outcome of that exercise.

If the proposal to move the cost of the first visit for audits and inspections to the Maritime Levy is adopted, an offsite rate for those activities would no longer be required. The cost of those (including the travel time and costs) would be recovered from the Maritime Levy rather than from individual operators.

What the offsite rate was intended to achieve (an equalisation of costs for routine audits and inspections) would therefore be achieved under a levy cost recovery framework. Follow-up visits for all audits and inspections are currently charged at the office-based hourly rate and actual travel time and costs are recovered.

We have also considered whether we should continue:

- directly recovering the actual travel time and costs for follow-up visits, which are around 3% of audits and inspections and only 1% of those recover travel time and cost (estimated as around $10,000 to $20,000 per year)
- having an offsite hourly rate (which includes the 33% travel loading) for the few remaining fee-able activities that require offsite visits once audits and inspections are removed. The cost of this travel time and cost is difficult to estimate as the activities occur very infrequently.

Options considered

The options considered were as follows.

- **Option 1: Status quo** – actual travel time and cost for follow-up visits and a 33% travel loading on the office-based hourly rate for an offsite hourly rate for the fee-able activities that require offsite visits. This option is not proposed because collecting data and processing invoices for 1% of follow-up visits and the low volume of remaining offsite fee-able activities was considered administratively inefficient and would increase overall costs of the system. Further, if an offsite hourly rate was retained the current 33% loading on the base rate would need to be reviewed.

- **Option 2: Travel Fee** – an averaged travel fee that is charged when Maritime NZ needs to visit an operator for follow-up visits and offsite visits for fee-able activities that require an offsite visit. This is not proposed because:
  - there are inherent inequities to:
    - averaging the travel distance from the nearest Maritime Office where the travel distance may be short vs long and for the small number of visits that would have travel time and costs recovered
    - moderating the amount where Maritime NZ visits a number of operators in the same area, especially where there is other travel time and cost recovered under the Maritime Levy or HSWA Levy
  - travel time and costs are recovered through levies by other regulators (e.g. CAA) so as to not disadvantage those operators at greatest distance from their offices.

- **Option 3: Maritime Levy funded** – recovering actual travel time and cost for follow-up visits and offsite visits for fee-able activities from the Maritime Levy. This option is proposed because it addresses the inequity issues and removes the administrative inefficiencies referred to in the other options. Excluded from this option is:
  - offshore installations inspections, where the travel time (using the proposed hourly rate) and reasonable costs, would be in the fees regulations. This is because operators of offshore installations do not pay the Maritime Levy as they are not “ships” under the Maritime Levy section 191 MTA
  - audits and inspections and any other fee-able activities requiring international travel, where the travel time (using the proposed hourly rate) and reasonable costs are covered under the fees regulations. These situations are rare and usually occur at the request of an individual industry participant, e.g. for Maritime NZ to audit a vessel in Hong Kong rather than in New Zealand. This means it is equitable for the operator concerned to meet the additional costs.

If the first visit for audits and inspections (which are currently fee-able) are not moved to the Maritime Levy as proposed, then we propose that the travel time and costs for offsite visits for those activities are still moved to the Maritime Levy under option 3 above.
Proposal 6: Pre-assessment service fee (Maritime Levy)

When SeaCert was introduced in July 2014 a decision was made to provide prospective applicants with a pre-assessment service with a fee charged for the service. The service was for the purpose of providing people with an optional pre-assessment of their eligibility requirements ahead of starting a training course or making an application for a seafarer certificate.

Since that time few people have used the service (only about 12 each year) which suggests it may not be needed. Since 2016 the cost of providing ‘assisted compliance’ for seafarers has been met through the Maritime Levy. We think ‘pre-assessment’ involves assisted compliance and should be Maritime Levy funded. We plan to explore developing a sea-time calculator to reduce the demand for pre-assessment of sea time.

The costs of exploring and developing online tools, such as a sea time calculator, are included in the proposal for ICT systems integration, data, analytics and mobility later in this document. The rationale for this proposal is that:

- the pre-assessment service fee revenue per year over the last 3 years averaged $0.017 million per year, which involves a disproportionate administrative effort (and cost) relative to the actual benefit provided
- having a sea time calculator would:
  o improve our seafarer certification service for the maritime industry where industry can use the calculator for pre-assessment of sea time
- remove a potential barrier to New Zealand seafarers entering or remaining in the sector, where they can more easily assess if they have the sea time required for seafarer certificates
- the proposal aligns the approach for seafarers with how assisted compliance activities are dealt with under the MOSS regime for operators.

Impact of proposals on current fees listed in fees regulations

The proposals to have a single hourly rate (and a rate of $245); remove the pre-assessment fee; have a fixed fee for seafarer certificate and endorsement applications; not have different hourly rates for on-site and off-site activities and MOSS and SeaCert activities, all affect the fees currently listed in the fees and charges regulations that Maritime NZ administers.

Those regulations are the:

- Shipping (Charges) Regulations 2014
- Ship Registration (Fees) Regulations 2013

We have also carried out time and effort assessments of all the activities for which fixed fees are listed in the Shipping Charges and Ship Registration regulations to ensure they are an accurate reflection of cost to Maritime NZ.

Further, we have checked for redundant or duplicate fees and we have added several new activities for which fees may be charged.

To show the effect of the proposals, and the changes we propose following our time and effort assessment of fixed fees and our check of all the fees, we have prepared fees tables. These are based on the Schedules to the regulations (which is where all fees are listed) and show the current fee (where applicable), the new fee, and the change impact.

The tables can be viewed at [www.maritimenz.govt.nz/funding](http://www.maritimenz.govt.nz/funding).
Changed, on-going and increased operational activities

Based on the work we have undertaken, our industry engagement and our needs/gap analysis, the key theme identified is that Maritime NZ needs to change, maintain and improve its capability to be able to be flexible and responsive to change. This has required us to consider the way we do things, which involves looking at the following. Based on the theme of ‘improving our capability’, and recognising likely future demand on Maritime NZ through regulatory reform, the proposals identified for the funding review relate to the following main areas for change.

- **International engagement (Maritime Levy).** Improving our capacity and capability to undertake international engagement to maintain the confidence of domestic and international maritime participants to operate in New Zealand and international waters and ensure a positive impact on trade and tourism for New Zealand. This involves:
  - Proactively influencing international standards and regulations to ensure they are fit for purpose for New Zealand circumstances
  - Supporting continuing access to quality freight and passenger shipping to and from New Zealand for exports, imports and Cruise tourism
  - Ensuring the results of evaluations and audits of Maritime NZ under international maritime conventions continue to designate New Zealand as an ‘acceptable’ member country, e.g. STCW (enables the transferability of seafarers and other qualifications internationally).

- **Regulatory reform (Maritime Levy).** Being able to keep pace with the regular flow of regulatory changes needed as a consequence of international conventions, government policy and legislative initiatives, monitoring and review of current rules, and policy investigations into identified elements of regulatory design and scope. Keeping pace relates not only to having the resources to make regulatory changes, but the funding needed to prepare for and implement those changes in a timely manner. Operating this way will ensure we meet government expectations to be good regulatory stewards of the maritime and wider transport system. This benefits the maritime sector due to our focus on reducing regulatory burden and making it easier for industry to do the right thing, which ultimately contributes to transport safety outcomes.

- **Systemic risk activities (Maritime Levy and FED).** As an outcomes-focused regulator, being able to take a more proactive approach to identifying and treating trends in risk to target resources to best effect using messages industry participants are receptive to and the interventions most likely to influence a change in behaviour. This includes the increasing use of non fee-able interventions and activities by frontline, technical and research and analysis staff.

- **Maritime incident response (non-oil) capability (Crown funded).** Maintaining and improving our organisational capacity and capability to respond to maritime incidents (beyond any oil spill elements). The 2011 RENA incident exposed the importance of wider incident response (non-oil) capability (including oversight of salvage activities) and the impact a significant incident can have on organisational business-as-usual activities and the wide range of staff required to respond. Maritime NZ had to utilise all parts of the organisation, including finance, legal, administration and communications as well as front line, operational and response coordination staff. Being prepared to both respond effectively and continue to function (even where business-as-usual
activities need to operate at a lower level for a short period to deal with a major event) is important to meeting public expectations around maritime incident response (non-oil) and industry expectations of an efficient and effective regulator.

- ICT systems integration, applications development, data, analytics and mobility (Maritime Levy).
  - Timely, accurate and relevant information is the lifeblood of organisational decision-making. Information shapes how organisations function, deliver services and engage with their stakeholders
  - Current systems and ways of working are largely manual and lack integration despite many specific

Proposal 7: International engagement (Maritime Levy)

We propose that the capacity for international engagement be increased in support of our international engagement strategy 2018-23 (See https://www.maritimenz.govt.nz/about/what-we-do/international-engagement/documents/international-engagement-strategy.pdf), to enable us to:

- contribute more proactively at international meetings and fora, where we can influence international outcomes and advance New Zealand shipping interests
- base our engagement on rigorous development and supporting evidence for more efficient, effective and relevant regulation to meet New Zealand priorities and circumstances under our international engagement strategy which prioritises effort on a "lead, push or follow" method
- Improve our ability to meet international obligations through effective implementation and on-going monitoring of those obligations to ensure our ability to satisfy mandatory international audits of our compliance with those obligations.

We propose that the additional costs be Maritime Levy funded as club goods because the maritime industry as a group primarily benefits from and causes the need for the international maritime engagement activities.

Background

International engagement to influence international policy settings and ensure international regulation aligns with the maritime industry’s interests as it relates to:

- technical policy to enable the development of maritime regulatory frameworks domestically and internationally
- operational policy to develop guidance and tools to assist industry compliance
- learning and development to ensure implementation aligns with regulation
- enforcement of requirements in line with obligations under international conventions that allows for universally accepted and enforced requirements. It also advances a quality regulatory, compliance and response system to support a safe, secure and clean maritime environment
- continuing to meet international obligations and having capacity and capability to monitor compliance for audit purposes.

International engagement requires a long term investment, with results not always being able to be quantified immediately. The cost of investment therefore may appear disproportionate to the return. It is important to have a clear strategy and prioritisation methodology to ensure that the investment made does not exceed the benefits.
International engagement current resources

There are currently only two dedicated FTEs who undertake, co-ordinate and support our international engagement activities (excluding those more recently funded by MFAT under the Pacific Maritime Safety Programme).

While we have various teams that contribute to the international effort, this dispersed approach to resourcing and maintenance of knowledge is a key constraint on ensuring we have a clear strategy and prioritisation methodology.

A small team of international engagement advisors is needed to ensure a more effective and strategic approach to undertaking international engagement and service the cross organisational work required.

Issues

There are on-going and frequent:

- changes to international maritime requirements through the IMO and other international bodies, which may be more effectively influenced to ensure that New Zealand’s interests are considered if a dedicated resource is applied
- obligations in relation to international effort and compliance (including international regulatory changes that are implemented through international reforms e.g. the adoption of the Maritime Labour Convention)
- audits by international bodies in relation to New Zealand’s compliance that were not identified under the funding model applied in the 2011/12 funding review. This is specifically important for the upcoming IMO mandatory audits and the next STCW audit.

The current limited resource results in:

- ad hoc approaches to meeting existing obligations and patchy coverage in international forums to leverage and influence outcomes
- inadequate monitoring of international obligations which causes uneven implementation and patchy record keeping to demonstrate full compliance to meet audit purposes
- a reduced ability to maintain levels of knowledge of good practice for shipping, environmental protection and seafaring skills to ensure full and complete implementation of international obligations
- very limited resources to effectively prepare for and train staff to implement international changes adopted into domestic law
- duplication of effort through lower levels of shared knowledge, data and capability with Member States on matters of common interests
- delayed management and implementation of international obligations
- higher levels of regulatory burden through limited engagement on influencing international organisations to adopt modern regulatory approaches that meet New Zealand circumstances
- lower levels of influence across the world maritime and environmental regulatory area than is needed to meet New Zealand’s priorities.
- limited ability to engage and understand New Zealand maritime sector interests that may be affected by international initiatives due to resource constraints. This also limits Maritime NZ’s ability to leverage relationships across other public sector agencies involved in international engagement (MFAT/MPI) or other States who may have shared interests.

Specific benefits of the proposal

The specific benefits of the proposal are as follows.

- Supports the move to a modern regulator approach
- Supports the regulatory reform proposal through improved regulatory stewardship
- Addresses the activities not being identified in the funding model applied under the 2011/12 funding review.

Supports the move to modern regulator approach

In line with our continuing move to the modern regulator model, international engagement is an outcomes-based intervention as it maintains the confidence of domestic and international maritime firms to operate in New Zealand waters and to ensure a positive impact on trade and tourism.

A higher level of investment in international engagement enhances our ability to:

- proactively influence international standards to ensure they are fit for purpose for New Zealand circumstances
- support continuing access to quality freight and passenger shipping to and from New Zealand for exports, imports and Cruise tourism
• ensure the results of evaluations and audits of Maritime NZ under international maritime conventions continue to designate New Zealand as an ‘acceptable’ member country, e.g. STCW and III Code.

**Supports the regulatory reform proposal**

This proposal closely links to the regulatory reform proposal. The international engagement is required to deal with the volume of regulatory regime changes driven by international conventions over the next six years. The on-going monitoring and review of international regulatory frameworks is a key aspect of sound regulatory stewardship and increased resources are needed to achieve and maintain this.

**Addresses the activities not being accounted for in the current funding model**

International engagement to the level now required was not accounted for in the funding model applied under the 2011/12 funding review.

This is because since then we have seen an increase in public expectations for governments’ response to safety, security and marine environment protection concerns due to a reducing tolerance for the consequences of risk. This expectation has been largely caused by the:

- perception that governments should use all available technology, e.g. geo-fencing, satellites, communications systems, even where the costs are prohibitive
- “CSI effect” or the “solve the problem in one hour” phenomena in TV shows where high cost technology is used or technology is used that does not yet exist, to protect us from harm and solve any event that does occur quickly and easily.

**Proposal 8: Regulatory reform (Maritime Levy)**

**Reform projects policy development and implementation**

We have anticipated the regulatory reform projects policy development and associated implementation activities and costs over six years from 1 July 2019. The regulatory reform effort is driven by New Zealand’s accession to international conventions, the completion or implementation of projects already in progress, but not likely to be completed before that date, and the possible outcomes of current policy investigations.

**Proposal**

We propose that the additional cost of regulatory reform projects policy development and implementation activities be Maritime Levy funded. The regulatory reform projects policy development and implementation activities categorised as Maritime Levy funded are club goods because the maritime industry as a group primarily benefits and causes the need for the activity.

Most of the costs under this proposal relate to regulatory reform implementation of the regular flow of change, such as staff training, changes to systems and processes, and updating guidance and communications with industry. The proposal does not include an increase in funding for policy and legal staff. However, policy and legal staff levels are increased under Proposal 7: International Engagement and Proposal 10: Port and Harbour Marine Safety Code and Proposal 11: Surveyor standards of performance, which will assist by freeing up other policy and legal staff to deal with regulatory reform policy development.

**Specific benefits of the proposal**

The specific benefits of the proposal are as follows.

- Provides a systems approach to the regular flow of change

**Provides a systems approach to the regular flow of change**

The flow of regulatory reform is regular and often known well in advance. While there is some annual funding ($0.8 million) for this received via the Ministry of Transport (and which will continue), to date there has not been longer-term forecasting of policy investigation and rules development costs and no funding is provided for preparation and implementation activities.

We receive Crown funding of $3.35 million (2018/19 allocation) for the negotiation and maintenance of international agreements, technical and policy advice to
the Minister, and contributing to other agencies advice. This funding cannot be used for policy investigations, rules development or implementation activities. As part of this funding we receive $0.8 million as a contribution to Maritime NZ’s rules programme. This funding cannot be used for implementation activities. This means that resource and funding issues arise that require regular and individual funding bids or cause cost pressures that result in halting or delaying other core activities required under the legislation or delaying investment.

The lack of longer-term forecasting for regulatory reform funding is also contributing to the perception that there is ‘regulatory creep’, rather than the reality that we need to respond to a regular stream of necessary and appropriate regulatory reform demands.

To address these problems we have:

- undertaken a ‘regulatory pipeline’ forecasting assessment of the predicted regulatory reform projects and implementation activities over the next six years from 1 July 2019
- estimated the costs for the identified regulatory reform projects and implementation activities based on ones we have done over the past six years.

### Supports regulation being relevant and robust

Government expectations of good regulatory stewardship require us to ensure our regulation is:

- Relevant – meaning it is:
  - Fit for purpose, focused on the degree of potential risk
  - Current, instep with economic, social and technological developments
  - Acknowledges industry needs, is readily understood, easy to apply, supports behavioural change

- Robust – meaning it is:
  - Credible among maritime agencies and the governments of countries with common or shared maritime interests
  - Durable, but can adapt to changing needs
  - Evidence-based, developed through rigorous processes

To improve current maritime regulation we have identified increased work on regulatory reform projects and implementation activities over six years from 1 July 2019. Note that the cost of other parts of the maritime regulatory system are recovered through Crown funding and appropriated directly to other government agencies. This includes regulatory stewardship and legal and policy development and maintenance of legislation, regulation and rules undertaken by other government agencies, e.g. Ministry of Transport, Parliamentary Counsel Office, Regulations Review Committee, Parliament and Cabinet.

### Background

The Maritime Transport Act 1994, and rules and regulations made under it form the legislative base and framework for Maritime New Zealand’s regulatory\(^3\) activities\(^4\). The framework exists in the context of explicit Government expectations of good regulatory stewardship, an annual regulatory reform programme for transport sector agencies, and an international engagement programme that both informs and drives changes to domestic law.

The framework is necessarily dynamic and the cost of maintaining it, changing it, and giving full effect to alterations requires significant effort on the part of Maritime NZ. The effort equates to costs that need to be quantified and factored into the future funding requirements for Maritime NZ.

Of the regulatory change projects identified for the next six years, 80% are already in the pipeline or that have a high probability of entering it and the balance of effort will be spread across a mix of minor and significant projects. Also, while the effect of 2017 amendments to sections 36 and 388 MTA may begin to be felt within the next four years (from 2022/23) this will not result in a reduction in the need for rules related change projects until after the six year period. However, it may reduce the need for work on appropriate guidance, standards and other material, which are part of the preparatory and implementation costs.

Our assessment includes:

- the anticipated effort for regulatory changes (Act, rules and regulations) and preparation and implementation of these
- policy investigations, as they are an established element of the annual regulatory reform programme, which has a high policy justification threshold for inclusion. Policy investigations may or may not lead to regulatory change but they go to regulatory matters that are identified as requiring more detailed problem definition and options analysis.

We have not included:

- effort or activity that pre-dates the inclusion of a particular regulatory change requirement or intention in the regulatory reform programme. This ‘cut off’ is necessary in spite of recognising that matters

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\(^3\) In this context ‘regulatory’ means ‘of or relating to regulation’ and ‘regulation’ means legislative instruments.

\(^4\) We also have regulatory functions and carry out regulatory activities under HSWA but that is a different framework and outside the scope of this consideration.
identified for regulatory reform can have a long lead in time and often involve considerable input and effort (within and external to Maritime NZ) ahead of being marked for inclusion in formalised reform programmes. The difficulty in taking lead in effort into account is that there is no particular point (prior to an item being included in a regulatory reform programme) at which business-as-usual consideration of an issue becomes a matter for regulatory reform.

- organisational activity beyond that required for the initial implementation of a new or amended regulatory instrument. While recognising that review, monitoring, and evaluation of regulatory changes are part of the policy life cycle and an element of good regulatory stewardship, these activities are difficult to quantify on an issue by issue basis. However, where reviews of specific reforms (for example MOSS and SeaCert) have already been tagged for inclusion in reform programmes they are reflected in the regulatory reform effort calculations.

**Costs**

In respect to cost calculations, and for simplicity, each project has been categorised as high, medium or low cost. Those cost bands are based on the known effort and cost associated with previous projects of equivalent scope or complexity and include both the activity that the annual rules funding allocation covers as well as all foreseeable implementation costs for each project.

The further out a given regulatory reform project is predicted to enter the pipeline the less precise the costing is likely to be. This is unavoidable because we cannot know in advance the specific requirements that may be created by a new rule or rule amendments (which will impact implementation costs).

Also, we cannot foresee the extent to which Director determinations may be required to give full effect to a new rule or rule amendments (with regulatory design and implementation cost implications).

It needs to be noted that for a number of the projects there is already work being done or intended to be done in the context of the 2018/19 regulatory reform programme. For example:
- The 40 series review will be in its second year by 2019/20
- Rules Part 19 amendments for Clear Heads will be at implementation stage
- The policy investigation of Rules Part 91 will be substantively completed.

The effort for these and several other projects does not therefore reflect the total effort which for some projects will have been partially or substantively expended before 2019/20.

Note that Government has provided the Ministry of Transport with increased Crown funding of $1.5 million in 2017/18 growing to $4 million in 2019/20 and beyond for additional capacity and capability for the Ministry’s policy advice and related outputs.

**Systemic risk activities proposals**

**Proposal 9: General areas of systemic risk activity (Maritime Levy)**

We have identified that we need to take a proactive approach to the identification and treatment of systemic risks. We have identified the intervention activities undertaken by frontline and other staff that were not specifically identified under the funding model applied in the 2011/12 funding review.

**Proposal**

We propose recovering from the Maritime Levy the cost of the activities increasingly undertaken by frontline and other staff that are systemic risk activities.

The modern regulator model allows for a wider range of intervention activities than those commonly used by us at the time of the 2011/12 funding review. Maritime NZ, and other regulators, have been progressively moving to the modern regulator model since late 2012.

The 2011/12 funding review did not specifically identify these intervention activities because the review occurred prior to the Government’s development of guidance on regulation and regulatory invention that established a modern regulator model for New Zealand regulators (see Department of Internal Affairs, *Achieving Compliance – A Guide for Compliance Agencies in New Zealand*, June 2011. 3.1.B, p. 26).

We have not been structured or resourced to deliver the modern regulator model. Instead we have had to halt or delay other core activities, or delay investment to do so.

We propose that the costs of the current and increasing systemic risk activities be Maritime Levy funded. We consider that these activities are club goods because the maritime industry as a group primarily benefits from, and causes the need for, the activities.
Frontline and other staff involved in systemic risk activities

- **Risk identification** – identifying systemic risk (themes or trends in risk) based on information and knowledge gained through our engagement with industry participants and other activities and sources. These activities involve:
  - Internal and external meetings and fora to share information and observations on trends in risk, interrogating data and information
  - Research and analysis of the findings across multiple investigations, accidents, incidents, near misses, certifications, recognitions, exemptions, audits, inspections and prosecutions (New Zealand and internationally)
  - “Attitudinal identification” – working out what messages industry participants are receptive to and what interventions will influence a change in behaviour.

- **Risk treatment** – these activities involve the treatment of trends in risks by undertaking targeted responses using industry outreach activities, monitoring (e.g. geo-fencing), engagement/relationships, investigations, education, guidance and campaigns and providing focus areas for certification, audits and inspections.

### Specific benefits of the proposal

The use of systemic risk activities is a macro view of our activities as a modern regulator, rather than a micro view of transactional activities like certification, audits, inspections, investigations and prosecutions as a traditional regulator.

In operating as a modern regulator, we need to undertake compliance activities that reduce harm in the maritime system. To do this we need to ensure our compliance activities are:

- **Risk-focused** – meaning our activities are:
  - Targeted and proportionate to sector/operator risks
  - Exercising sound judgment in applying the right regulatory tools at the right time
  - Putting emphasis on prevention of harm

- **Responsive** - meaning our activities:
  - Are based on a problem-solving approach
  - Acknowledge industry business drivers, but are not dictated by them

  - Provide consistent and reliable engagement, without unnecessary transaction costs.

The problem that systemic risk activities are intended to address is that ‘transactional’ interventions like certification, audits, inspections, investigations and prosecutions can only reduce risks to a certain point, then the response to the intervention plateaus. Accidents and incidents cannot be reduced further using transactional interventions.

Systemic risk activities are what we need to do to get past the compliance plateau to improve safety, security and marine environment protection outcomes (see diagram below). Our increasing use of systemic risk activities aligns with the goal of being a risk-focused and responsive regulator. Also, the approach allows for targeted interventions that support a safe, secure and clean maritime industry.

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**Fixing the Compliance Plateau**

(Diagram developed for the 2018/19 funding review)

[Diagram showing the difference between traditional and modern regulator models, focusing on improved compliance levels through systemic risk activities.]
Specific areas of systemic risk activity for change

Proposal 10: Port and Harbour Marine Safety Code (Maritime Levy)

The 2016 review and replacement of the Port and Harbour Marine Safety Code (Code) identified the need for parties to the code to contribute resources to its effective implementation. We have identified capacity issues to relating to meeting and maintaining our contribution.

Proposal

We propose that the additional costs of resourcing technical advice and guidance required to support the Code be Maritime Levy funded.

Regional councils and port companies already contribute to the cost of the Code. We consider our technical advice and guidance activities component in operationalising and maintaining the Code is a club good. This is because the maritime industry as a group primarily benefits from the Code.

The cost of these activities has not been identified under the funding model applied in the 2011/12 funding review as the Code (in its current active form) was not established until 2016.

Background

The Port and Harbour Marine Safety Code is a voluntary compliance initiative that has direct impact on Maritime NZ's ability to meet its statutory obligations to support a safe, secure and clean maritime environment. The objective of the Code is to ensure the safe management of ships navigating in New Zealand ports and harbours, including the prevention of injury to people, loss of life and damage to the marine environment and property.

The Code was first established in 2004 but as a consequence of a substantive review a revised approach was adopted. The revised approach, effective since 2016, is based on a tri-partite memorandum of understanding with each party (Maritime NZ, regional councils, and ports) contributing $43,000 per year. This covers the cost of a secretariat and an annual forum in which knowledge gained through the peer reviews of port safety systems is shared.

The primary measurement tool under the Code is reviews of the safety management systems in ports. These are assessed against agreed standards and guides approved by the Code partners. Each assessment determines whether the safety management systems of a port are Code consistent. Each year four reviews are conducted by panels made up of a Maritime NZ, a port and a regional council member.

A different panel is convened for each review, which involves a desk-top and on-site assessment and can take up to three days in total. The cost of these is fully met by the member organisations with no fee charged to the reviewed party.

The “burden” on Maritime NZ is greater than either port operators or regional councils. Each year Maritime NZ contributes four representatives to participate on four review panels. By contrast no port company or regional council will be required to contribute four members annually for the review panels. There are 16 regional councils and 14 ports that are members of the Code. So, each year four of the 16 regional councils will be on panels and 4 of the 14 ports - that’s one review involvement every four years for a regional council and one every three years for a port, but it is four a year for us.

A review takes three days and total costs include time and travel for three people. For Maritime NZ it is that much every year, but for any of the individual port companies or regional councils it is that much three yearly or four yearly respectively. However, a port will be involved outside of the panel membership where they are being assessed within a review sitting – the same applies for the regional council for the area where that port is sited.

Maritime NZ is also more likely than the other parties to the agreement to be called upon to develop guidance on key issues relevant to support Code assessments. Resources are also needed to develop and maintain the currency of these instruments.

Specific benefits of the proposal

The additional activities we undertake to support the Code relate to Maritime NZ:

- playing a primary role in understanding and managing the risks of port and harbour navigation activities, which are a key link to supporting New Zealand trade and tourism through shipping and cruise activity
- developing and having input to guidance that supports the Code
- supporting cross agency relationships, which are important to ensuring national and local efforts are
efficiently combined to achieve the overarching regulatory and strategic objectives

- participating in four review panels per year and in the working group meetings that guide and support the work of the Code and its panels
- contributing to evaluating whether the Code is achieving the outcomes it is intended to achieve. This is done as part of the general operation of the Code. Each year, steering group members ask questions of those they represent (Maritime NZ, regional councils and ports) about how effective the Code is and whether it is meeting expectations.

The above activities involve technical support and guidance, which is required to ensure the effectiveness of the Code and to meet the risks that the Code aims to mitigate that would otherwise likely emerge through accidents and incidents in ports and harbours.

Proposal 11: Surveyor standards of performance (Maritime Levy)

We have identified issues with the consistency of ship surveys undertaken by recognised surveyors. The current approach could have the effect of undermining the effectiveness of the Maritime Operator Safety System regime, which requires for its success a consistent and high standard of ship surveys.

Supporting the requirements under Rule Part 44 (which provides that the Director can impose “requirements as to the performance of surveys”), is important to providing for a consistency of approach by surveyors. This may encourage new entrants to the surveyor community and could potentially reduce the cost of surveying. It is also important to maintaining confidence in ship surveying among maritime transport operators.

Proposal

We propose that the cost of reviewing the current standards for the performance of survey, and putting in place new standards with an associated engagement and training strategy with surveyors is funded by the Maritime Levy. The cost of this activity was not identified under the funding model applied in the 2011/12 funding review as the Maritime Operator Safety System and the associated provision for standards to be put in place for the performance of survey were not in effect until July 2014.

Background

The introduction of MOSS in 2014 saw ship surveyors becoming independent ‘recognised persons’ whose accountability is to Maritime NZ.

Under the regime that preceded MOSS, recognised surveyors were employed by Safe Ship Management (SSM) Companies and their performance was substantively managed in that employment context. Standards of survey under SSM were not consistent and played a significant part in prompting the review that led to MOSS.

The advent of MOSS saw the end of the SSM companies direct involvement with recognised surveyors and a more direct relationship between recognised surveyors and Maritime NZ. Higher expectations as to the standard to which surveys are performed were put in place in 2014.

Maritime Rules Part 44 empowers the Director to issue standards for the performance of survey. It is a requirement that recognised surveyors conduct surveys according to those standards and against the applicable ship design, construction, and equipment rules.

It has become evident that the standards for the performance of survey need to be revised and expanded. Further, while the rules requirement that the Director consult with surveyors in the preparation of draft standards was met in the development of the current standards, it is recognised that the review of those should involve a deliberate joined-up approach between Maritime NZ and the surveying community.

This is primarily because numerous existing surveyors have direct and long standing experience and knowledge of the New Zealand fleet and the performance of survey within it. Their input and guidance in the development of standards is considered necessary to ensure that the standards adopted are appropriate.

Recognising the key role that surveyors will have in this work, it is preferable that their contribution is facilitated and assured through a contract for technical advice.

Maritime operators will also need to be included in the process of developing the standards.

The existing standards were prepared as part of the development of the MOSS framework, for which specific funding had been allocated. There is no funding allocation for the development of new standards and the work on these cannot commence until funding is secured.

While revised standards will greatly assist and support ship surveyors in carrying out their survey function, maritime transport operators primarily benefit from and cause the need for the activities.

While they pay for surveys under a commercial services agreement between individual operators and surveyors, to a large extent surveys can only be as good as the performance standards.

Improved standards will increase the quality of surveys and the safety of maritime transport operations.
The maritime industry benefits from:
- safe vessels through reduced risk of vessel failure
- vessel reliability
- public confidence in the maritime transport products on offer.

Foreign vessel operators conducting activities in New Zealand waters have a material interest in safety of the domestic vessel fleet because they share an operating environment and they are members of the ‘club’ that is commercial operators.

Specific benefits of the proposal

The specific benefits of the proposal are that it would:
- improve the quality and consistency of vessel surveys
- increase maritime transport operators’ confidence in surveyors
- potentially reduce the number of accidents and incidents that are vessel related
- enable the regulator and recognised surveyors to engage in a collaborative process that ensures surveyor buy in and ‘ownership’ of their professional standards

Proposal 12: ICT systems integration, data, analytics and mobility (Maritime Levy)

We have identified that we need to improve how we do things as part of our outcomes-focused approach as a modern regulator. This involves Information Communications, and Technology (ICT) systems integration, applications development, data, analytics and mobility – improving these areas, particularly removing manual systems and processes, to provide efficiency and effectiveness.

Timely, accurate and relevant information is the lifeblood of organisational decision-making. Information shapes how organisations function, deliver services and engage with their stakeholders. Our intent is to operate as an intelligence-led, evidence-based, risk focused organisation that makes effective and efficient decisions. To be effective we need to develop, maintain and grow our ability to create, use and share high quality data and information. This ability will allow us, and those we work with, to make accurate timely decisions that improve safety, security and cleanliness of New Zealand’s maritime system. Our ongoing investment in information capability is critical to operating this way.

Proposal

We propose additional Maritime Levy funding to meet the cost of investment in our ICT systems integration, data, analytics and mobility. We consider that these activities are club goods because the maritime industry as a group primarily benefit from and cause the need for the activities.

Specific benefits of the proposal

The main problems we have in relation to our ICT systems, applications development, data, analytics and mobility is that:
- the current systems and ways of working continue to be largely manual and lack integration despite many specific systems and tie frontline staff to the office
- failure to integrate data and information across the organisation impacts on our ability to be an intelligence-led, evidence-based, risk focused regulatory, compliance and response agency.

The lack of integration and use of manual systems are barriers to improving our services and reducing the administrative burden for the maritime industry and us.

To be effective in our role, we need to manage information in ways that meet everyone’s needs. This means, as individuals and as an organisation, we must take a collective, coordinated approach to all matters relating to ‘information’. For instance, we must understand our search and rescue, marine pollution and maritime incident response (non-oil) environment.

To do this we need to understand many things, such as:
- the issues affecting the maritime sectors we regulate, the knowledge and behaviour of the people who work in these sectors and the safety of their operations and the standard of their vessels
- having an overview of New Zealand’s interests and the international agendas and trends that shape global maritime activities, including regulatory practices, which we must both shape, and adapt to
- having detailed and accurate information about our operational activities, what they cost and their impact, as this is central to our ability to make timely decisions about how to apply our limited resources to best effect.
**Systems Integration**

Integrating our key enterprise systems would connect systems together so that data can be shared seamlessly between each system. Integrated systems would provide the platform to link enterprise business applications to each other, to allow data to be available to two or more disparate systems. It would also provide the platform to collaborate with external business partners. Investment in systems integration would enable integration of our data and disseminate it to our stakeholders and the provision of useable data to external stakeholders.

**Data and Analytics**

Operating as an intelligence-led, evidence-based, risk focused organisation requires fit for purpose data and information holdings that are leveraged to inform decision making. This involves being able to draw on data from multiple datasets to support tactical through to strategic intelligence.

Efforts on the data and analytics theme would improve the quality of our data management; and allow us and our business partners and stakeholders to optimise use of their data, to provide insights and usable information.

Investment in data and analytics would enable:
- regulatory and business intelligence and other operational information data to be drawn from multiple applications to inform decision making
- access to single datasets from multiple applications across the business seamlessly
- hugely improved management of multiple information sources
- collection, management, storage and sharing of data from external sources.

**Mobility**

More and more people are accessing services online through mobile applications. A growing number of our staff do their work remotely whether that be frontline staff engaging operators and seafarers at the waterfront or working from alternative locations. We need to equip these staff with access to information and data.

Investment in mobility would:
- enable staff to access relevant information and data anytime, anywhere, from any device
- be a key enabler of productivity through information capture as close to the source as possible and the avoidance of rework or data entry
- empower staff with better information and tools to support decision making
- enable us to collect and input data at source
- allow for a wider range of engagement channels to our staff and stakeholders
- provide enhanced security through infrastructure modernisation.
Addressing cost pressures

Specific cost pressures

Proposal 13: Ballast Water Management Convention (Maritime Levy and Fees)

We have identified the implementation and ongoing costs for the new BWM Convention activities. These are required to be undertaken by Maritime NZ under the Biosecurity Law Reform Act 2012 Commencement Order 2017. The cost estimates are planned for review in the 2021/22 midpoint funding review once we have more accurate time recording data on actual BWM activities from 1 July 2020.

Proposal

We propose that the BWM activities be Maritime Levy and fees funded. The table below shows the estimated amounts over six years from 1 July 2019.

Year 1 is where the implementation costs are collected as revenue. This revenue will be applied as expenditure in Year 2 to meet the costs of implementation. In Year 2, revenue drops significantly as it only relates to expenditure for ongoing costs.

Background

New Zealand is a signatory to the BWM Convention, which came into effect under New Zealand legislation from September 2017 under the Biosecurity Law Reform Act 2012 Commencement Order 2017. The Act amended the MTA and the Biosecurity Act 1993.

Maritime NZ and MPI are the regulatory agencies responsible for the new BWM regulatory and compliance activities.

The BWM activities are expected to relate to around:

- 13 New Zealand SOLAS vessels per year as part of flag state inspections and international safety management code audits
- 9 New Zealand non-SOLAS commercial vessels per year as part of operator audits under the Maritime Operator Safety System (MOSS) and BWM plan approvals
- 3 New Zealand recreational vessels per year when they are applying for Certificates of International Voyage to sail outside of New Zealand waters.
- 275 foreign SOLAS vessel first port visits per year as part of Port State Control inspections (this number is subject to alignment with the forecasting for Port State Control inspections over the next 6 years)

Additional funding is needed to support full implementation of the Convention. ..

Categorisation of BWM activities

Under the MTA, BWM activities categorised as club goods can be recovered under either:

- a new BWM Levy (under section 197A MTA, or
- the existing Maritime Levy (section 191 MTA).

For BWM activities categorised as private goods, fees can be charged under existing fee regulations (Shipping (Charges) Regulations 2014).

In applying the Treasury and OAG guidelines for the categorisation of BWM activities, we consider the activities are either club goods or private goods as follows.
### BWM activities that are club goods

#### BWM activities - club goods (levy)

<table>
<thead>
<tr>
<th>Implementation</th>
<th>Ongoing activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>● BWM officer for implementation project management</td>
<td>● BWM activities as part of MOSS audits, Port State Control inspections, flag state inspections and international safety management code audits</td>
</tr>
<tr>
<td>● Training of Port State Control and Maritime Officers (including the training development and delivery costs)</td>
<td>● BWM officer for ongoing co-ordination of BWM activities</td>
</tr>
<tr>
<td>● Operational policy and communications work on policies, procedures, guidance, forms and education</td>
<td>● Maintenance of the BWM Convention and attendance at IMO meetings</td>
</tr>
<tr>
<td>● Assessment and purchase of testing equipment and indicative sampling kits</td>
<td>● BWM investigations and prosecutions</td>
</tr>
<tr>
<td>● Finance and other system changes</td>
<td>● Depreciation costs on testing equipment</td>
</tr>
</tbody>
</table>

#### Risk or cost exacerbators for club goods

(cause the need for the activity)

<table>
<thead>
<tr>
<th>Industry participants</th>
<th>Beneficiaries of club goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>as without commercial maritime operations having specific risks there would be no need for a bespoke regulatory, compliance and response system because general law would be sufficient to ensure safe, secure and clean inland and coastal waters</td>
<td>Those who benefit from safe, secure and clean inland and coastal waters:</td>
</tr>
<tr>
<td></td>
<td>● Industry participants in the system</td>
</tr>
<tr>
<td></td>
<td>● Other users of the system such as passengers, freight customers, fishing quota holders contracting with fishing vessel operators and other users</td>
</tr>
<tr>
<td></td>
<td>Recreational boaters using inland and coastal waters</td>
</tr>
</tbody>
</table>

#### Beneficiaries of club goods

(benefit from the activity)

<table>
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</tr>
<tr>
<td></td>
<td>Recreational boaters using inland and coastal waters</td>
</tr>
</tbody>
</table>

#### Categorisation comments

**Primary: industry participants in the system** as a group primarily benefit from and cause the need for the activities as club goods. Individuals and businesses enter the maritime industry because they see a personal or commercial benefit in participating in the system. This participation creates risks for other people (for example, maritime safety, security and environment protection risks) that are managed through regulatory requirements and interventions specific to the maritime industry.

**Secondary: Other users of the system** and **recreational boaters** are secondary beneficiaries and risk or cost exacerbators in the system of the activities as club goods. Recovering the costs from them is administratively costly because:

- they are a diverse group not directly in contact with Maritime NZ
- there is no universal mechanism across the users and recreational boaters through which to collect a user levy and there is no mandatory registration system for all recreational boats.

This is compared to:

- CAA, where a passenger levy applies because it can be collected from passengers through airline invoices when passengers pay for their flights
- NZTA, where the Motor Vehicle Register provides a mechanism to collect the Road User Charges (which is a levy).

Recreational boaters pay towards our activities, such as recreational boating education and search and rescue and audits and inspections, through the FED they pay when filling their boats with petrol.

FED funding is received by us for recreational boating activities. FED and Crown funding contributes to the land, air and sea search and rescue coordination activities.
BWM activities that are private goods

<table>
<thead>
<tr>
<th>BWM activities – private goods (fees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• BWM plan approvals for nine New Zealand non-SOLAS vessels per year</td>
</tr>
<tr>
<td>• Assessment and issuing international BWM certificates, including the BWM component in the Certificate of International Voyage for the three recreational vessels per year</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk or cost exacerbators of private goods (cause the need for the activity)</th>
<th>Beneficiaries of private goods (benefit from the activity)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual industry participants who do not comply or meet safety standards as they necessitate subsequent activity to either become “safe, secure and clean” operators or exit the maritime system</td>
<td>Individual industry participants benefit from oversight of their ongoing operations, which enables them to operate their vessels as a commercial operation (including passenger and freight transport, and other hire and reward operations)</td>
</tr>
</tbody>
</table>

Categorisation comments

Primary: The activities are for individual participants directly. Costs should be met by the recipient of the activity.

Third party supplied BWM activities that are private goods

BWM activities undertaken by third parties cost recovered directly from industry participants are:

<table>
<thead>
<tr>
<th>Third party fees charged directly to industry participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>• BWM vessel surveys</td>
</tr>
<tr>
<td>• BWM audits and inspections of SOLAS vessels that are done under international conventions by Class Societies</td>
</tr>
<tr>
<td>• Laboratory testing for failed indicative samples collected as part of BWM inspections</td>
</tr>
</tbody>
</table>

Funding source for BWM activities that are club goods

We propose that the cost of the club good BWM activities be recovered from the Maritime Levy. Our legal team has advised the Maritime Levy can be used, rather than establishing a new BWM Levy.

This means that the costs can be recovered in an administratively efficient way from an identifiable group through an established collection mechanism. This will reduce costs as a new collection mechanism will not have to be established for the BWM activities and the number of invoices will be reduced with consequential processing benefits to industry participants and us.

Most vessels subject to the BWM Convention (New Zealand and foreign) are required to pay the Maritime Levy.

It is estimated that, per year, there are 13 SOLAS vessels, nine New Zealand non-SOLAS vessels and potentially three recreational vessels, which are or will be, subject to the BWM requirements.

Over the last 5 years only 62 Certificates of International Voyage have been issued (an average of 12 a year). Assuming that reflects future numbers there will be around 12 BWM related transactions for NZ vessels each year, and potentially fewer as not all vessels requiring a
In line with current Port State Control targets, initial inspections of foreign SOLAS vessels are estimated to port State Control authorities, will capture most of those inspections conducted given that it is highly probable that the targeted approach to Port State Control, which also relies on information from overseas Port State Control authorities, will capture most of those vessels that raise concern for MPI.

As BWM compliance monitoring for foreign vessels will occur as part of Port State Control, the Port State Control targets will determine the volume of BWM inspections.

MPI, which previously regulated ballast water as a biosecurity measure (prior to the BWM Convention taking effect) has undertaken to notify us of high risk vessels. This arrangement is not expected to influence the number of inspections conducted given that it is highly probable that the targeted approach to Port State Control, which also relies on information from overseas Port State Control authorities, will capture most of those vessels that raise concern for MPI.

In line with current Port State Control targets, initial inspections of foreign SOLAS vessels are estimated to take an average of 30 minutes for approximately 275 vessels per year from Year 2.

Where initial inspections indicate non-compliance (e.g. records not in order or the absence of the required certification or documentation) the Port State Control Officer may undertake a more detailed inspection.

An assessment of Port State Control inspections shows that only 1.8% of non-compliances relate to marine environment requirements. As BWM activities relate to the inspection of marine environment protection compliance, it is likely that BWM non-compliances will settle at the same level over time.

However, as the BWM Convention is new internationally, we have estimated a higher level of non-compliances will be found during initial inspections in the first six years and this will also require a higher level of detailed inspections over that time period.

We estimate that 10% of initial inspections will lead to detailed inspections, which are estimated to take an average of 60 minutes for approximately 28 vessels per year from Year 2.

There are 10 Port State Control Officers (all of whom are also Maritime Officers) who will need to be trained in BWM inspections (including sampling and testing). Training for replacement staff where there is staff turnover and refresher training for remaining staff will occur over the following five year period.

### Testing equipment costs

The detailed inspections will include the taking and testing of an indicative ballast water sample. For that purpose, we need to have a sampling test methodology, equipment and sampling kits.

Based on our experience of other inspections, it is anticipated that 10% of the initial tests taken as part of more detailed inspections will fail and fresh samples of the same ballast water will need to be sent to a laboratory for detailed analysis.

The purpose of the laboratory testing is to provide conclusive and independent evidence of a failure to meet the required ballast water quality standard. We can use this evidence in the event of prosecutorial action. It is unlikely that a prosecution would be taken for a first confirmed breach, but the confirmatory information can be passed to other relevant flag states to inform their compliance activity.

We have estimated that there will be not more than four laboratory tests per year (based on 10% of detailed inspections and indicative samples failing). It is not considered administratively efficient to retain laboratory services.

While outsourcing would mean the test results will take longer, the collection of the estimated third party laboratory cost (around $1,500) can be made from the vessel owner / operator / agent before the vessel leaves the port.

In order to undertake indicative samples of ballast water, Maritime NZ needs both a testing methodology and equipment.

Previously, the cost of this was estimated as $367,000, which includes:

- $200,000 for the development of a testing methodology by a domestic laboratory
- $167,000 for equipment ($15,000 per testing unit and around $100 per sampling kit where Maritime NZ needs 10 units, and over 5 years from 1 July 2020, around 170 sampling kits).

Previous costings assumed that we would be unable to source a ‘commercial off the shelf’ testing methodology and equipment solution because the testing requirement is reasonably new worldwide. However, a recent development is that a company now offers testing methodology and equipment that meets the IMO requirements and is being used in other jurisdictions. A French company (called Aquatools) has provided an estimate of NZ$136,400, which covers:

- NZ$128,000 to provide 10 equipment units, 250 sampling kits designed to be applied to their testing method, web-based training on the equipment and sampling, and free technical support for one year
- NZ$8,400 for set up.
As part of the contract negotiation with any supplier, we will need to cost and confirm the accounting treatment of the equipment and sampling kit replacement based on the type and rate of use. As the funding for the testing methodology and equipment will not be in place until mid-2020, we will review suppliers and costs at that point. In the meantime, we have included the indicative amount of $136,400 in the BWM activities costs.

Proposition 14: Aids to navigation (Maritime Levy)

Under the Maritime Transport Act, one of our functions is to ensure the provision of navigational aids for shipping. Consistent with that responsibility, we manage and maintain a network of 141 aids to navigation (AtoNs). AtoNs take the form of buoys, beacons, and lighthouses and they are spread around the main New Zealand coast and adjacent islands. They are critical to the safety of shipping and the protection of the marine environment.

Proposal

We propose that part of the additional costs relating to the maintenance of the AtoNs network be Maritime Levy funded as club goods as applies to current costs. Crown funding is to be sought for the public good aspects of the additional funding.

Background

Maritime NZ’s AtoNs services provide reliable maritime navigation aids, including:

- the provision of navigational aids for shipping on New Zealand’s coast and adjacent islands
- effective oversight of navigation aids owned by ports and other organisations

The parties who might have cause to use AtoNs are the maritime industry (including the international shipping sector), and recreational maritime users (for which FED funding is provided).

There are cost increases within this area that relate to inflationary pressures and contract changes.

Specific benefits of the proposal

Currently we are doing the bare minimum within budget. The specific benefits of the proposal are Maritime NZ would be able to:

- maintain the current system by providing appropriate AtoNs that meet international requirements and Government and public expectations
- reduce the need for significant and unexpected costs via planned maintenance
- ensure that there is no increase in failure rates that would result in a decreasing trust in the services from local communities and the maritime industry.

Proposal 15: Maritime distress and safety communications (Maritime Levy)

We also have the function of ensuring the provision of appropriate distress and safety communication services. Those systems, which we have put in place, need to be relevant and effective for both domestic (commercial and recreational) and foreign vessels that operate in New Zealand waters. We have to keep them up to date with advances in technology, and have in place tracking and satellite services that meet or can respond to what is required of commercial operators under the law.

We have looked closely of what updates and changes we will need to make over the six years from 1 July 2019 and consider it reasonable for some of those upcoming costs to be met by Maritime Levy payers. Those payers (most of the commercial domestic operators and all foreign ships operating in our waters) create the need for maritime distress and safety communication services and benefit from them.

Proposal

We propose that part of the additional costs for maritime distress and safety communications activities and assets be Maritime Levy funded as club goods as currently. Crown funding is to be sought for the public good aspects of the additional funding.

The costs relate to:

- new Automatic Identification System (AIS) developments – a critical safety aid using a VHF based tracking and anti-collision system that is compulsory for commercial vessels of a certain size and passenger capacity and very common in the recreational world
- new arrangements for satellite services required by international conventions
- replacing LINZ funding for Nav Area Coordinator role
• the Replacement Maritime Distress and Safety Communications contract project.

Issues

Technology is advancing rapidly. New capabilities are required by coastal states to match the capabilities of shipping so as to enable efficient and effective communication of voice and data. International obligations continue to evolve and volumes are increasing. There are also:

• additional satellite services as required by international conventions (new provider enters the system). These enable delivery of weather, warning and distress coordination services into our internationally mandated area of responsibility.
• changes to property leasing arrangements (increasing costs driven by re-valuations)
• new AIS capabilities required to meet international developments around data transmission and reception.

• the need to replace Land Information New Zealand (LINZ) funding for Nav Area Coordinator role which only has a three year life - Nav Area role is to discharge NZ international obligations
• the Maritime Distress and Safety Communications Services contract will expire 30 June 2025. A comprehensive, international procurement project will be required to develop the requirement for replacement services (including addressing business requirements and new technology matters) to undertake a competitive process and to develop and implement resulting arrangements. This work must commence at least two years prior to the contract expiry and requires funding to ensure a robust process compliant with Government procurement guidelines.

Specific benefits of the proposal

The specific benefits provided by the proposal are that it would enable Maritime NZ to:

• improve efficiency and effectiveness and reduce operating costs given technological changes
• address increased risks to loss of life/injury due to lack of data and information available to users
• meet international obligations
• continue to provide safety related services to the maritime community
• reduce accidents and incidents through effective responses in the event of accidents and incidents.

Proposal 16: General business cost pressures
(Maritime Levy, Fees, FED, Crown, OPL, HSWA)

We have looked ahead to 2025/26 and assessed the extent to which our current costs for property and equipment leases, and our base staff costs will increase.

We anticipate that there will be some inflation that will drive up the cost of fixed leases and contracts (estimated as 1.77% each year in accordance with Treasury guidance (see https://treasury.govt.nz/information-and-services/state-sector-leadership/guidance/financial-reporting-policies-and-guidance/discount-rates/discount-rates-and-cpi-assumptions-accounting-valuation-purposes)

There will be some movement in the salaries of our staff (estimated as 3% per year over the six year period). The salary growth rate is higher than the State Services Commission current rate of 2.2% because we have independent external HR advice that six years is too far ahead to accurately forecast. The advice was that we should expect salary growth to remain in the 2.5%-3.0% range. The advice also noted that New Zealand is susceptible to changes in the global markets, so we need to be mindful of those influences.

The costs also relate to the need to invest in the maintenance or upgrade of our equipment (this excludes any equipment referred to in the other proposals). We call these increases ‘general business cost pressures’.

We need to be able to respond to these cost pressures because we simply cannot deliver our various functions without our operating infrastructure (our premises, equipment and people) being in place and secure. The Maritime Levy currently funds our operating infrastructure.

We propose that the Maritime Levy fund the increase for the components of the general business cost pressures that are attributable to Maritime Levy funded activities. This amount in each year is set out in the table below.

The general business cost pressures attributable to:

• fees funded activities is already covered in the proposed new hourly rate
• Crown, FED, OPL and HSWA funded activities are covered under funding bids for those sources.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General business cost pressures attributable to the Maritime Levy</td>
<td>0.67</td>
<td>1.29</td>
<td>1.91</td>
<td>2.54</td>
<td>3.21</td>
<td>3.87</td>
</tr>
</tbody>
</table>

## PART 3

### Purpose of this review

As a Crown entity, we are funded from a variety of revenue sources. These must be routinely reviewed to ensure that revenue continues to meet the costs of running the organisation, and fees and levies are set at the appropriate level.

The last full funding review was undertaken in 2011/12.

The 2018/19 funding review is a full six-yearly review.

The review is being undertaken for the purpose of:

- Ensuring we are resourced effectively for the shape and size, functions and tasks we are expected to deliver over the six years from 1 July 2019 and operating efficiently and effectively as a modern maritime regulatory, compliance and response agency
- Addressing the following (see [https://www.parliament.nz/en/pb/sc/scl/regulations-review/](https://www.parliament.nz/en/pb/sc/scl/regulations-review/)):
  - the 2009 Government Response to the Regulations Review Committee concerning a complaint about the Marine Safety Charges Amendment Regulations 2008
  - the 2009 Government Response to the Regulations Review Committee in December 2016 to address the following:
    - full documentation and transparency of decisions relating to fees and levies
    - industry concerns about cross-subsidisation and the basis for the hourly rate applied to fee-able activities
    - the Committee’s recommendations in 2009 regarding the Maritime Levy allocation methodology
    - the need for sufficient forecasting capability.
- Ensuring activities are funded from the appropriate source (fees, levies and Crown) thereby meeting Office of the Auditor General (OAG) and Treasury guidelines
- Ensuring alignment with the Transport Regulatory System Funding Principles that apply across transport regulatory agencies
- Seeking to reduce the administrative burden associated with the collection of revenue.

### Our changing compliance operating model

The funding model applied in the 2011/12 funding review was set up for a…

**traditional regulator model**

…which is outputs-focused with transactional intervention activities, which are largely fee or Crown funded (e.g. certification, recognitions, exemptions, audits, inspections, investigations and prosecutions)

Since 2012 we’ve moved to being an “evidence-based, intelligence-led and risk focused regulator” in line with New Zealand and international regulators’ shift to the…

**modern regulator model**

…which is outcomes-focused with system intervention activities, which are largely levy funded (e.g. monitoring, patterns and trends analysis across multiple accidents, incidents and near misses, research, engagement, relationships, assisted compliance, education, guidance, campaigns). To operate this way we have had to make hard decisions about priorities and investments.

### Modern regulator model

The benefits of operating as a modern regulator are referred to as part of the Maritime NZ Statement of Intent 2018-2022.
Operating as a modern regulator requires more effective interventions including:

- using a “…graduated, proportionate approach”
- compliance strategies that focus on “…risk, proportionality, and outcomes”.
- using an “intelligence-led, risk-based approach” enables an agency to “maximise its effectiveness, subject to the resources available to it.”
- “By using a systematic approach to risk management, a compliance agency can:
  - identify, analyse, and quantify risk
  - prioritise risk, based on an assessment of its likelihood and potential consequences
  - plan and conduct activities to eliminate or mitigate risk.”
- applying a risk-based approach that provides a “proportionate and flexible use of a range of tools for achieving compliance.” This approach means a compliance agency needs to select “appropriate measures, tailoring its compliance tools to the attitudes and capabilities of different segments of the regulated sector and the different risks that are presented.”

In line with this good practice model, Maritime NZ decisions about which compliance activities to use take into account risk, attitude and capability, plus the likely consequences of an incident or harm occurring (as illustrated in Maritime NZ’s Compliance Intervention Triangle below).

Outcomes-based intervention activities include:

- identifying systemic risk, which should be addressed through intervention activities
- providing accessible and timely information and assistance to the maritime community to manage the risks they face, supporting compliance with their legal obligations; and developing systems they can use to manage risk
- educating the maritime community
- investigating incidents to try to stop them happening again.

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Maritime NZ’s Compliance Intervention Triangle

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The modern regulator approach accords with views expressed at the recent NAV 18 event hosted by AMSA.

“A modern safety regulator can be characterised by its earned autonomy approach to regulation, consistency in decision making, being transparent, responsive and communicative, openness to co-regulation and its ability to strike a balance between goal-based and prescriptive regulation”

Outcomes of NAV 18 – Statement by Gary Prosser, Deputy Chief Executive, AMSA

Examples of Maritime NZ already taking a modern regulator approach are as follows.

<table>
<thead>
<tr>
<th>Modern Safety Regulator</th>
<th>Maritime NZ examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>earned autonomy approach to regulation</td>
<td>MOSS – operators who demonstrate good performance (i.e. low risk rating) receive less attention/compliance burden</td>
</tr>
<tr>
<td>consistency in decision making</td>
<td>Compliance Operating Model drives this in respect to operational regulatory decision making. Strong focus on being evidence based, intelligence led and risk focused supports this</td>
</tr>
<tr>
<td>being transparent, responsive and communicative</td>
<td>Extensive and open external communications, OIA approach, funding review consultation example</td>
</tr>
<tr>
<td>openness to co-regulation</td>
<td>Port and Harbour Marine Safety Code - a significant example of this</td>
</tr>
<tr>
<td>ability to strike a balance between goal-based and prescriptive regulation</td>
<td>Working with the HSWA alongside Maritime Rules demonstrates our ability to do this. Our intentions around rules development/Director’s Requirements opportunities confirms our intentions here</td>
</tr>
</tbody>
</table>

Work undertaken to inform the proposals

Assessments and reviews

Since late 2017 we have:

- Sought independent advice on the Maritime Levy allocation methodology, including the matters of equity and transparency
- Completed task and effort assessments of fee-able activities to assist in determining the hourly rate on which fees are calculated
- Redesigned our time recording processes and overhead allocation method
- Redeveloped our financial model to better forecast revenue and expenditure
- Carried out a comparative analysis of similar New Zealand agencies and organisations in other countries
- Mapped the future flow of regulatory change, both internationally and domestically.

In 2016 we assessed MOSS, SeaCert and Ship Registration application processes applying the Vanguard systems thinking continuous improvement method to operational processes. See Appendix 6 Efficiency improvement initiatives.

Industry engagement

From April to June 2018 we sought initial feedback from a wide range of maritime industry associations, organisations and individuals through direct meetings.

In June 2018, we ran a two day pre-consultation industry session and invited people from across the spectrum of the maritime sector. The session was held to exchange ideas and provide an opportunity for industry to provide input on key aspects being considered for inclusion in this consultation document.

It also allowed the industry to tell us what funding issues they would like considered through this funding review.

A summary of key themes and points of discussion from the pre-consultation are set out in Appendix 7 Feedback from industry.

We have carefully considered the initial feedback and input received in preparing these proposals.

We also sought independent advice from a well-known industry commentator and specialist, who is not personally affected by this review.
Investment Logic Mapping

To identify the areas for change for the funding review we ran an Investment Logic Mapping (ILM) exercise with a New Zealand Treasury accredited ILM facilitator. This work helped us identify the main needs/gaps, benefits from addressing them, and potential performance measures for success. We have used that assessment to inform our proposals.

The results of the ILM are in the table below.

<table>
<thead>
<tr>
<th>Need/gap identified</th>
<th>Benefits for all needs/gaps</th>
<th>Potential performance measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outdated, prescriptive and contradictory laws increase compliance and enforcement costs and decrease their intended effect 50%</td>
<td>Improved maritime safety, security and marine environmental protection</td>
<td>Reduced barriers to compliance</td>
</tr>
<tr>
<td>Timeliness and effectiveness of activities do not always optimise safety, security and marine environment protection 30%</td>
<td>Reduced compliance burden for industry</td>
<td>Improved clarity and relevance of rules and regulations</td>
</tr>
<tr>
<td>Readiness, and response capability levels do not meet public expectations for response to a major maritime incident (non-oil) 20%</td>
<td>Maintain operator confidence</td>
<td>Improved readiness assessment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Improved efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduced time and cost for industry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>International standards fit for purpose in New Zealand</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Continuing access to quality shipping</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Maintain Maritime NZ acceptability under international conventions</td>
</tr>
</tbody>
</table>

Funding policy and framework

The funding review has applied the Transport Regulatory System Funding Principles to determining the funding source for each of the activities undertaken. These have been developed in accordance with the Treasury and OAG guidelines. See https://www.transport.govt.nz/

The Treasury Guidelines for Setting Charges in the Public Sector April 2017 set out what can constitute a private good (fees funding), a club good (levy funding) and a public good (general taxation (Crown) funding). See http://www.treasury.govt.nz/publications/guidance/planning/charges

The Auditor-General (OAG) Good practice guide: Charging fees for public sector goods and services June 2008 only apply to fees not levies or general taxation (Crown) funding. See https://www.oag.govt.nz/2008/charging-fees

Maritime NZ’s current funding sources

Fees

We have 279 separate fees that accounted for around 4% of funding in 2018/19.

- Certification/entry/ recognition
- Endorsements
- Exemptions
- Some audits and inspections
- Ship Registration
- Detentions
- Surveyor and authorised person recognition
- Part 35 approvals (approval of training for the purposes of Part 32 assessments, examinations and industry specific certificates)

The current fees are calculated using two different hourly rates for the around 50 listed fee-able activities that are charged by actual time taken or used to set fixed fees under the Shipping (Charges) Regulations 2014.

Fees are also able to be charged on a similar basis under the Maritime Security (Charges) Regulations 2016.
For some activities:
- There are two hourly rates - office based and offsite visit, e.g. for MOSS audits actual time taken is charged. The off site visit rate is higher because it includes a travel loading of 33% to cover the averaged travel costs of Maritime Officers attending off site visits. This is done so as to not disadvantage industry participants located at greatest distance from Maritime NZ offices.
- The IT loading was added for MOSS and SeaCert six years from 2013/14 to recover part of the cost of IT system changes.
- Fees are fixed based on the hourly rate, e.g. for seafarer certificates the SeaCert hourly rate is applied based on the task and level of effort required to process the applications and averaged into six ‘bands’ of like certificates.

Examples of the current hourly rates are as follows:

<table>
<thead>
<tr>
<th>Hourly rate type (incl. GST)</th>
<th>2018/19 &amp; outyears</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOSS</td>
<td></td>
</tr>
<tr>
<td>Office based (incl. $12.65 for IT)</td>
<td>$231</td>
</tr>
<tr>
<td>Offsite (incl. $12.65 for IT and 33% travel loading)</td>
<td>$303</td>
</tr>
<tr>
<td>SeaCert</td>
<td></td>
</tr>
<tr>
<td>$221 (incl. $3 for IT)</td>
<td></td>
</tr>
<tr>
<td>Marine protection documents</td>
<td></td>
</tr>
<tr>
<td>Office based</td>
<td>$235</td>
</tr>
<tr>
<td>Offsite (incl. 33% travel loading)</td>
<td>$313</td>
</tr>
<tr>
<td>Other chargeable activities</td>
<td></td>
</tr>
<tr>
<td>Office based</td>
<td>$235</td>
</tr>
<tr>
<td>Offsite (incl. 33% travel loading)</td>
<td>$313</td>
</tr>
</tbody>
</table>

### Levies

We have four levy funding sources budgeted 2018/19 under levy regulations e.g. the Maritime Levies Regulations 2016, Health and Safety at Work (Rates of Funding Levy) Regulations 2016, Maritime Transport (Oil Pollution Levies) Order 2016.

- Maritime Levy – 39%
- Fuel Excise Duty (FED) – 9%
- Health and Safety at Work (HSWA) Levy – 11%
- Oil Pollution Levy – 13%*

Some of the levies are administered by Maritime NZ (e.g. Maritime Levy, OPL, and if it comes in, the BWM Levy).
Other government agencies administer and collect the FED and HSWA levies and review those at different times to Maritime NZ’s funding review cycle.

The Maritime Levy, which is the largest funding source, has seven vessel categories that apply to calculate the levy allocation per vessel. The levy rate is not a generic flat rate across the industry.

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### Crown funding under Vote Transport

We have activities partly or fully funded by Crown funding because they have public good economic characteristics, so are not fully met by levy or fee funding. Crown funding budgeted for 2018/19 is 16% funding (including 5% for search and rescue coordination).

Crown funding covers:
- Ministerial services
- Rules development programme
- Technical and policy advice to the Minister of Transport
- Contribution to international engagement (balance from the Maritime Levy)
- Contribution to the Rescue Coordination Centre NZ (RCCNZ) (balance from FED funding)
- Maritime incident response (non-oil) capability
- Maintenance of classic (historic) lighthouses for heritage preservation.

Note that the cost of other parts of the regulatory system are recovered through general taxation (Crown funding) and appropriated directly to other government agencies.

This includes regulatory stewardship and legal and policy development and maintenance of legislation, regulation and rules undertaken by other government agencies, e.g. Ministry of Transport, Parliamentary Counsel Office, Regulations Review Committee, Parliament and Cabinet.
Appendix 1: Process for developing the proposals

The proposals reflect the following inputs and assessment activities.

Maritime Levy allocation methodology including:

- commissioning of independent strategic economic advisers Castalia to provide a recommendation and justification for a revised Maritime Levy allocation methodology
- fine tuning the methodology recommended through a series of workshops, including a two day pre-consultation industry engagement where all the proposals (minus financial implications) were tested and feedback sought.

Review of the fees framework and fee-able activity including:

- scrutiny of time, task and effort data held on fee-able activities to test the accuracy of currently listed ‘fixed fees’ in the Shipping (Charges) and Ship Registration (Fees) Regulations
- reviews of the:
  - rationale for different office based and offsite rates for fee-able activity, the 33% ‘travel loading’ reflected in the offsite rate and the IT loading on the MOSS and SeaCert hourly rates
  - basis for six different hourly rates in the Shipping (Charges) Regulations
  - base hourly rate for fee-able activities which involved task, effort and timesheet analysis, and the forecasting of future volumes
  - rationale for a ‘pre-assessment service’ fee which has the effect of requiring two different fees for 41 seafarer certificates.

Review of the organisational overhead allocation methodology, which involved a revision of the approach to defining and allocating activities that are overhead activities and the development of a new model to support this.

Establishment of the general business cost pressures for the organisation over the next six years based on 2018/19 funding, and adding growth assumptions (salary growth 3% and CPI 1.77%) and known indicative organisational cost pressures.

This includes anticipated indicative increases in input costs and overheads for all of Maritime NZ’s functions. Note the general business cost pressures attributable to the OPL, HSWA Levy, Crown and FED funding are dealt with under separate processes applying to those funding sources.

Identification and scoping of organisational change initiatives to support Maritime NZ’s strategy over the six-year period including:

- specification, and costing of, anticipated regulatory reform effort required over the six years from 1 July 2019
- assessment of the nature and scale of additional operational activities required to reflect the modern regulator approach, to meet Government expectations of regulatory stewardship, to identify and address systemic risk, and to ensure effective and influential international engagement
- consequential investment in information communications technology, systems integration, data and analytics and core organisational capability to enable the strategy and change
- assessment of the preferred initiative options including scaling and phasing of initiatives to ensure sustainable investment in change.

Application of the Treasury and OAG guidelines to the consideration of which activities should be funded through fees, levies or Crown funding.
Appendix 2: Crown and FED funding proposals – descriptions

Recreational boating (FED) - Improving the safety of recreational boating

The current level of funding for the promotion of recreational boating safety has meant that Maritime NZ has not always delivered a sustained and integrated approach to education, promotion, and compliance initiatives and this has impacted the strength and endurance of their combined effect. A reduction in the number and likelihood of fatalities requires sustained and complementary interventions that enable momentum to be gained in key areas and the embedding of safer boating attitudes and behaviours.

Proposal

We propose reviewing the current FED funding for the promotion of safer recreational boating as part of the FED funding review to be undertaken by the Ministry of Transport planned for 2019/20.

Maritime Incident Response (non-oil) Capability (Crown funding)

The current Crown funding for maritime incident response (non-oil) capability of $0.764 million ends on 30 June 2019. There is a case for the capability being Maritime Levy funded as the function has high club good economic characteristics. This is because it is the maritime industry that causes the need for the capability. However, until the MTA is amended to formalise the capability as a function under legislation (to enable the Maritime Levy section 191 MTA to apply to the capability), the Crown proposes to consider meeting the costs.

Proposal

We propose that the maritime incident response (non-oil) capability be increased so that we can support the protection of New Zealand’s marine environment and coastline from damage, and the risk to life and property, caused by major maritime incidents. The current capability has received Crown funding since 2012 as a result of the RENA grounding. The need to build New Zealand’s capability for major maritime incidents came out of the recommendations from the independent review into the response to the RENA grounding (the 2012 Murdoch Review).

What is maritime incident response (non-oil) capability?

‘Maritime incident response (non-oil) capability’ relates to our preparedness to respond to a major incident involving a vessel or aircraft in New Zealand waters that places people, the environment (including wildlife) and property at risk of harm. This includes preparedness for dealing with harmful substances like chemicals, cargo and wreckage.

Our preparedness and response capability for the aspects of a major incident that relate to oil pollution are already dealt with by OPL funding.

Rationale for maritime incident response (non-oil)

Our experience of involvement in response to a major maritime incident

Maritime NZ took a lead role in coordination, oversight and support for the wider response effort for the grounding of the RENA in 2011. This was a major maritime incident and very significant oil spill event that:

- involved risk to people, the environment (including wildlife) and property. Of particular significance were:

  - the activities relating to oversight of salvage (recovery and removal of cargo and parts of the vessel from the sea and beaches)
  - required the involvement of a range of central and local organisations to manage and deal with matters peripheral to the oil spill response.

Legislative authority for involvement

The rationale for Maritime NZ undertaking maritime incident response (non-oil) capability relates to Maritime NZ’s already significant involvement in incident response activities under current legislation.
Also, there is no other civil New Zealand agency with the relevant expertise in maritime issues and it would be inefficient to distinguish oil from non-oil response in a major maritime incident involving shipping.

However, we are not aware of any:

- statutory powers or functions granted to Maritime NZ that might reasonably be interpreted as giving Maritime NZ responsibility for non-oil preparedness
- Ministerial direction under section 431(2) that might extend Maritime NZ’s functions to doing non-oil preparedness and response.

Maritime NZ is a statutory entity that can only validly perform functions given to it by law (see sections 14-19 of the Crown Entities Act).

All legislative indications would suggest that the functions of Maritime NZ and its Director in relation to maritime incident response, is limited to oil.

There is a case to formalise legislative authority within the MTA (if that is required), for the wider maritime incident response (non-oil) activities that public and Government expectations view as our responsibility based our experience during the RENA grounding.

International position

The IMO has adopted conventions/protocols that deal with preparedness and response to hazardous and noxious substances (HNS) carried by ships, which largely relate to maritime incident response (non-oil). Those conventions are virtually identical to the ones relating to oil pollution response, which are reflected in New Zealand law and form the basis for the OPL. To date New Zealand has not acceded to the international conventions relating to HNS, but if it did, the aspects relating to HNS preparedness and response would likely be dealt with in the same way as oil pollution.

Developing effective maritime incident response (non-oil) capability

An independent review of the RENA incident (the 2012 Murdoch Review) recommended that we be better prepared for any future major incidents by developing maritime incident response (non-oil) capability and associated contingency planning and preparedness for major incidents outside of what is being undertaken for oil pollution major maritime incidents.

The Cabinet Business Committee subsequently agreed to provide funding to Maritime NZ for an initial three year period for that purpose.

Between 2013/14 and 2015/16 Maritime NZ was appropriated from Vote Transport a total of $2.054 million to “develop a strategy and formal capability to respond to future maritime pollution incidents where an oil spill has not occurred or where oil is not the only pollutant” [CBC Min (13)7/7 refers].

During 2015/16 a business case was commissioned from Martin Jenkins (independent consultants) in support of continuing the maritime incident response (non-oil) capability funding stream.

This resulted in a Crown appropriation of $0.764 million per annum minimum level funding for three years, which will end on 30 June 2019.

Options considered for an enduring capability

In the first half of 2018, Maritime NZ commissioned PriceWaterhouseCoopers (PWC) to undertake an assessment of what resources would be needed for a credible maritime incident response (non-oil) capability function to ensure least disruption, least harm, and least cost to the New Zealand economy, environment and public.

The options proposed - ranging from nil investment beyond 30 June 2019 through to $2.293 million per annum (for the six years from 2019/20) - were considered against the criterion of outcomes, goals, critical success factors, risks, return on investment and cost.

The nil funding option is not proposed on the grounds that it would take New Zealand back to the pre-RENA state and would increase the extent to which New Zealand is exposed to the consequences of major maritime incidents that are non-oil (given that oil related responses are covered by the Oil Pollution Levy).

The minimum option of current state funding of $0.764 is not proposed because it is not at a level that would support the effective reduction in potential harm to people, the environment and property.

PwC has recommended a higher level of investment to meet New Zealand’s needs.

Funding source assessment

The issues considered for whether the maritime incident response (non-oil) capability should be levy or Crown funded relate to:

- whether there is legislative authority to apply the maritime levy to maritime incident response (non-oil) activities
- funding of incident response activities in other sectors
- the assessment of the economic characteristics of the activities under the Treasury guidelines and the Transport Regulatory System Funding Principles.
**Legislative authority to apply the Maritime Levy**

While we have legislative authority to promote a safe, secure and clean maritime environment, we do not have a specific legislative mandate to prepare for maritime incident response (non-oil) activities.

This means that, without a change to the MTA, it is not entirely clear that the Maritime Levy can apply to maritime incident response (non-oil) capability. This is because Section 191 provides for the making of the Maritime Levy and is limited to a class of things – most notably under section 191(2)(b)

> "any services provided or any regulatory services of activities undertaken, by the Authority, the Director, the Maritime Appeal Authority or the Crown in the performance or exercise of functions, duties or powers under this Act."

**Assessment of economic characteristics of the activities**

We consider that the maritime industry as a group primarily cause the need for the function (as risk or cost exacerbators). If they were not undertaking the activity, or major incidents did not occur, then the maritime incident response (non-oil) function would not be required.

All users of inland and coastal waters (outside of the maritime industry), and the New Zealand public, are beneficiaries. They receive reasonably significant benefits relating to the impact of an incident being reduced and, as far as possible, the pre-existing state restored in terms of community, economy and environment.

There is an argument that only large vessels cause the need for the capability because only they could create a major maritime incident. The OPL is for the purposes of preparedness and response capability for the most significant oil spills (Tier 3) and only the larger operators are required to pay it.

Noting however that only those vessels of more than 24 metres in length and the operators/owners of floating vessels used in the production, storage, and offloading of oil (FPSOs), such as oil rigs and drilling platforms for oil or gas, are required to pay the OPL.

We have considered whether the maritime incident response (non-oil) capability should be funded from the OPL. However, this would require significant and complex changes to the regulatory regime for the OPL, which has been set up in accordance with New Zealand’s accession to an international convention.

A more administratively efficient approach would be to fund the capability from the Maritime Levy. Large vessels pay around 90% of Maritime Levy (foreign freight and passenger and New Zealand SOLAS) and this remains the case under the proposed Maritime Levy allocation methodology.

However, there is an issue with the majority of Maritime Levy payers (those who operate domestic non-SOLAS vessels) who do not cause the need for the maritime incident response (non-oil) capability. There is also a case for the Crown funding to contribute to the maritime incident response (non-oil) capability based on the public benefits of protecting people, the environment and property.

**Funding of incident response activities in other sectors**

A possible issue of inequity exists across other central and local government agencies that undertake incident response activities.

In the main these are not levy funded (i.e. not treated as a ‘club good’), but are Crown or general rates funded. For instance, the Ministry of Health, Biosecurity NZ, New Zealand Defence Force, the Ministry of Civil Defence and Emergency, MPI and regional councils. One exception is the Fire and Emergency New Zealand, which is substantially levy funded.

This issue does not undermine the argument that maritime incident response (non-oil) capability is a club good in terms of risk or cost exacerbators, but it does indicate that industry levies are not currently a common way of funding similar activities in other sectors.

In dealing with this inequity across government, there is perhaps a case for some Crown funding due to the public good elements (a wide public beneficiaries base, including the Crown).

**Classic (historic) lighthouses (Crown funding)**

We have reviewed the costs, for the next six years from 1 July 2019, of our maintenance schedule for the 23 classic (historic) lighthouses owned by Maritime NZ. These are the costs that relate to the historic preservation and health and safety access aspects of the structure of these old lighthouses for tourism and public recreation, rather than their function as aids to navigation (AtoN) for the maritime sector. The cost of the AtoN aspects of these lighthouses is funded from the Maritime Levy as occurs for the other 118 AtoNs.
Proposal

We propose that the additional costs for the maintenance of classic (historic) lighthouses be Crown funded as public goods as the costs relate to retaining the heritage value of the structure of the lighthouses for New Zealanders, rather than their use as aids to navigation for the maritime industry.

The additional costs relate to:

- catching up on deferred maintenance resulting from insufficient funding
- ensuring that we meet our obligations as "a person conducting a business or undertaking" (PCBU) under HSWA to visitors/tourists and those who undertake maintenance work on the lighthouses.

Depending on their size, location, and current state, a single lighthouse can cost between $0.3 million to $0.4 million to paint, and due to inflation that cost increases year on year.

The current appropriation of $0.4 million per year cannot keep up with the cost of the rolling maintenance cycle, which requires work on multiple lighthouses year on year.

Increasing the Crown appropriation would enable Maritime NZ to catch up on deferred maintenance and also stay on track with the rolling maintenance schedule.

The bid for the additional funding is being undertaken as part of the Government Budget 2019 bid process.

Background

Maritime NZ owns, operates and maintains a network of aids to navigation (AtoN). This includes the 23 classic (historic) lighthouses.

While these classic (historic) lighthouses are AtoNs (the lights they house and the beacons and buoys that surround them are used for navigation), they are also buildings of significant cultural and heritage value.

The AtoN element is a club good, so the costs of maintaining and upgrading lights, beacons, buoys etc is funded from the Maritime Levy (see the AtoN cost pressure text above). However, the buildings themselves have clear public good characteristics because they are:

- structures recognised for their cultural and heritage status
- promoted destinations that receive thousands of visitors a year including tourists and the New Zealand public
- accessible to everyone; no-one is excluded; and anyone can derive benefit from them.

Other funding sources considered

Efforts have previously been made to partner with other government stakeholder entities (including the Department of Conservation and Culture and Heritage New Zealand) for the purposes of sharing maintenance costs, but these were not successful.

Consideration has also been given to decommissioning the historic lighthouses, replacing them with purely functional AtoNs, and embarking on the process of returning the buildings to the Crown, selling them or entrusting their upkeep to a third party.

Such an exercise would be lengthy, costly and complex, and in the foreseeable future it would not avoid the need for Maritime NZ to maintain the buildings.

Maritime NZ recognises that the maintenance of classic (historic) lighthouses (as buildings, not as AtoNs) is not within the ambit of its functions under the MTA. However, as these are both part of the AtoNs network and assets, such maintenance is necessary.

Iconic and accessible 'landmark' lighthouses such as those at Cape Reinga, Cape Palliser, Cape Egmont, and Pencarrow receive tens of thousands of visitors a year and it is necessary to ensure steps, stairs, fences, and other access barriers or enablers are fit for purpose.

This HSWA activity cannot be funded out the HSWA Levy allocation (which covers the cost of Maritime NZ HSWA regulatory activity), nor out of the Maritime Levy, because the activity is not a club good.

Specific benefits of the proposal

The additional funding will provide the following benefits:

- Ensures these culturally significant buildings do not deteriorate further while under Maritime NZ ownership
- Ensures the cultural, public and economic benefits they generate (including the merchandising of images in calendars and postcards, and their promotion as landmark destinations) are maintained in the national interest for tourism and public access
- As a PCBU, Maritime NZ would meet its obligations for the lighthouses to not pose a health and safety risk to visitors and for those who carry out maintenance work on them.
Rescue Coordination Centre New Zealand (Crown funding and FED)

The Rescue Coordination Centre New Zealand (RCCNZ) is a business group of Maritime NZ whose function is to provide search and rescue coordination services to the public for land, sea and air. RCCNZ currently receives its funding from the Crown and from FED; which is a reflection of the wide public benefit of the services they provide. We have undertaken a review of RCCNZ services and assets. We anticipate more demand for search and rescue services, an increase in the cost of external contracts, more equipment maintenance costs, salary adjustments, and a greater use of helicopters in search and rescue responses. We will therefore be seeking additional FED and Crown funding to cover those costs.

Proposal

We propose that the additional costs for RCCNZ be Crown and FED funded as the costs relate to public goods provided for all New Zealanders and club goods for recreational boaters. The additional costs relate to increases in demand, and increases in external contracts (such as property leases or equipment leases, including the increasing use of helicopters responses), equipment maintenance, salary requirements to meet the market, inflation and other cost pressures. The bid for the additional funding is being undertaken as part of the Government Budget 2019 bid process for Crown funding and the FED funding review undertaken by the Ministry of Transport planned for 2019/20.

Background

RCCNZ provides search and rescue coordination services to the public for land, air and marine incidents. In 2017/18 there were:

- Marine - 205 incidents 22.5%
- Land - 365 incidents 40.1%
- Air - 238 incidents 26.1%
- Unknown environment (an alert from a distress beacon with no associated position) - 19 2.1%
- Outside NZSRR - 84 incidents 9.2%

RCCNZ is part of the search and rescue (SAR) sector along with seven organisations that receive FED funding. These seven organisations are:

- two government organisations, the NZSAR Council, which undertakes SAR strategic leadership and coordination at a sector level and RCCNZ, which coordinates SAR incidents at a national level
- five charitable organisations, which support volunteers and provide equipment for SAR incidents - Coastguard NZ, Land Search and Rescue (LandSAR), Surf Life Saving NZ (SLSNZ), Amateur Radio Emergency Communications (AREC) and the Mountain Safety Council (MSC) Avalanche Advisory.

Note that New Zealand has the highest rate of volunteer worker involvement in the OECD. People in NZ spend an average of 13 minutes per day in volunteering activities. OECD average is 4 minutes per day. Also, 69% reported having helped a stranger in the last month. The OECD average is 49%. OECD – Better Life Index 2014. For New Zealand SAR, it is the highest with around 15,000 volunteer workers.

The outcome sought by SAR intervention is that New Zealand has effective SAR services for people in distress throughout the New Zealand Search and Rescue Region (NZSRR) in order to save lives.

The NZSRR, allocated to New Zealand under international conventions, is one of the largest in the world covering over 30 million square kilometres extending from just south of the equator to the Antarctic. The Australian SAR Region is the largest, followed by the South African SAR Region.

The NZSRR:

- is dominated by ocean expanses with small, isolated land masses and few population centres
- includes Pacific nations that have limited resources
- comprises a variety of geographies with large areas of difficult terrain and highly variable weather and sea conditions with increasing vessel traffic in the sub-Antarctic region.

New Zealand Search and Rescue Region (NZSRR)
Government has taken a stewardship role in the sector while allowing the individual organisations involved to continue meeting specific responsibilities.

This stewardship has focused on the durability of a high performing system with investment undertaken in anticipation of a future return, material or otherwise.

In particular, Government provides the stability and certainty the system participants need to invest in maintaining the infrastructure necessary to support volunteers and provide equipment.

This approach has led to an effective example of government-lead community-supported delivery of high quality and value for money services by a cohesive group of well-run organisations.

Specific benefits of the proposal

The specific benefits of the proposal are that it allows RCCNZ to deal with the:

- high and increasing public expectations for service level standards (people expect to be rescued, and promptly). According to a study in 2016 on Public Expectations and Perceptions of SAR in New Zealand, many assume a SAR response:
  - is available 24 hours a day seven days a week
  - will be undertaken by highly trained and skilled people using the latest equipment and technology
  - will be completed within two to five hours if lost or hurt in bush, twenty minutes to one and a half hours for a boating incident, and twenty to thirty minutes for a beach incident (even for non-patrolled beaches)

- new ‘business lines’ through increasing numbers of:
  - international tourists (currently 10% of SAR responses on land and marine)
  - people with dementia and Alzheimer’s due to an aging population (22% of SAR responses in 2017/18) who when lost or missing require costly searches because they are not trying to be found and do not show logical behaviour due to cognitive impairment. A SAR operation in 2015 for a person with cognitive impairment cost in the vicinity of $500,000 and the person was not found

- the increasing use of distress beacons across the NZSRR, including an increase in distress calls in the wider Pacific area. Distress beacons are used to alert ‘at risk’ and ‘distress’ situations. They include personal locator beacons (PLBs) for land, emergency locator transmitters (ELTs) for air and emergency position indicating radio beacons (EPIRBs) for marine. They are relied on because they have global coverage well beyond that of mobile phones, are designed to withstand fierce weather conditions, and have longer battery life

- registration of PLBs with RCCNZ, which is growing exponentially and changing the frequency and nature of land-based SAR incidents. With location established by the PLB activation, focus is on rescue and reduces the search. Using helicopters continues to be the preference as it is the most effective method and shortens response times

- increasing number of New Zealand recreaters. The numbers are increasing due to an increasing population and greater access to remote areas

- the higher number of people with low recreational safety skills and awareness. The population is becoming more urbanised with lower awareness of the risks associated with recreational activities as recorded in a study in 2016 on Public Expectations and Perceptions of SAR in New Zealand.

- increased intensity of community and media interest in SAR operations.

Government has two coordinating authorities to manage two categories of SAR operations:

- The NZ Police coordinate SAR operations at a local level, which are responded to by teams made up of NZ Police, Department of Conservation (DOC) and Maritime NZ staff, volunteers from the charitable organisations, and charitable and private sector helicopter providers

- RCCNZ coordinates SAR operations that relate to aircraft in distress, missing aircraft and offshore marine incidents, and the activation of distress beacons, which are responded to by the NZ Defence Force and teams made up NZ Police, DOC, volunteers from the charitable organisations, charitable and private sector helicopter providers, commercial vessel operators and international participants.
Appendix 3: Current Maritime Levy allocation methodology

How is the Maritime Levy allocated at present?

The current allocation methodology uses a different type of rate for each of the different vessel categories that are specified. Operators are liable for one charge depending on the category their vessel is in. Under the current calculation of the Levy:

- the total revenue target is a forecast average over 3 years
- the total revenue target is then allocated at different rates for each category
- levies are payable per vessel annually or by Ports visited (depending on the vessel category)

The Levy only applies to commercial vessels, so is not payable by owners of recreational vessels (vessels that are not used for hire or reward and used exclusively for the pleasure of the owner). The costs incurred by Maritime NZ relating to recreational vessels are covered by Crown or FED funding.

The current Levy (see https://maritimenz.govt.nz/fees/default.asp) separates vessels into several different categories, which have different measurement factors and rates.

<table>
<thead>
<tr>
<th>Maritime Levy category</th>
<th>Type of vessel</th>
<th>Maritime Levy rate based on</th>
<th>2018/19 number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign vessels</td>
<td>Passenger</td>
<td>Passenger Capacity (Pax Cap)</td>
<td>680 port visits</td>
</tr>
<tr>
<td>(levied per port visit)</td>
<td>Non-passerger</td>
<td>Deadweight tonnage (DWT), with one rate for the first port visit, and a lower rate for subsequent port visits</td>
<td>2,429 first port visits, 3,879 subsequent port visits</td>
</tr>
<tr>
<td>Domestic vessels</td>
<td>Fishing</td>
<td>Higher of calculated sum of per metre or per gross tonne (GT)</td>
<td>985 vessels</td>
</tr>
<tr>
<td>(levied annually)</td>
<td>Passenger (SOLAS)</td>
<td>Passenger Capacity (Pax Cap)</td>
<td>5 vessels</td>
</tr>
<tr>
<td></td>
<td>Non-passerger (SOLAS)</td>
<td>DWT</td>
<td>7 vessels</td>
</tr>
<tr>
<td></td>
<td>Passenger (non- SOLAS)</td>
<td>The higher calculated sum of per metre or per gross tonne (GT)</td>
<td>953 vessels</td>
</tr>
<tr>
<td></td>
<td>Other commercial</td>
<td>Higher of calculated sum of per metre, per GT, or per DWT</td>
<td>1,231 vessels</td>
</tr>
<tr>
<td></td>
<td>Commercial river raft</td>
<td>Higher of calculated sum of per metre or per GT</td>
<td>325 vessels</td>
</tr>
</tbody>
</table>

A range of problems were identified with the current approach

The current approach lacks consistency and transparency

The current allocation of the levy rates is sometimes inconsistent, comprising a mix based on ease of data collection, risk and cost methodology.

The reasoning behind how the rates were set also lacks some transparency, as there is no readily available information that describes why rates are set differently.

For example, lower rates for fishing vessels, and different rates for foreign freight vessels with and without summer load lines.

The current structure also has foreign passenger vessels paying the same rate for every port they visit in New Zealand, while foreign freight vessels have one rate for the first port they visit and a different rate for subsequent ports.
This methodology can appear to be inequitable, even if there was good reasoning behind the decisions at the time.

*The current approach applies different rates and creates perceived unfairness*

The different rates and perceived unfairness have led certain sectors within the maritime industry to claim that there are inequities across the different levy paying groups.

An example of a specific anomaly is between domestic SOLAS passenger vessels and domestic non-SOLAS passenger vessels, which simply fall under the “Other Commercial” category as follows:

- A passenger ferry that crosses the Cook Strait, which is a domestic SOLAS vessel that has a passenger capacity (Pax Cap) of 1,350 is charged $321,489 per annum based on a Pax Cap rate of $238.14 per passenger.

- A passenger ferry operating in Auckland, which is classified as a domestic non-SOLAS vessel, has a Pax Cap of 651, and is charged $2,970 per annum based on GT, equating to a Pax Cap charge of just $4.56 per passenger.

From an equity perspective the differing approach makes it difficult to justify.
## Appendix 4: Example assessment - economic characteristics of audits and inspections

### Maritime NZ audits and inspections - economic characteristics

<table>
<thead>
<tr>
<th>Type of economic good</th>
<th>Risk and/or cost exacerbators (cause the need for the activity)</th>
<th>Beneficiaries (benefit from the activity)</th>
<th>Categorisation comments</th>
</tr>
</thead>
</table>
| Private good          | **Specific industry participants** who do not comply or meet safety standards as they necessitate subsequent activity to:  
  - either become “safe, secure and clean” operators, or  
  - exit the maritime system | **Specific industry participants** benefit from oversight of their on-going operations, which enables them to operate their vessel as a commercial operation (including passenger and freight transport, and other hire and reward operations) | **Specific industry participants** are secondary beneficiaries and risk or cost exacerbators.  
A narrow view of audits and inspections results in the audit or inspection being private goods and therefore fee-able as the activity is highly excludable (the degree to which people can be excluded from using the good) and rivalrous (the degree to which use of the activity by one person, reduces the good’s availability to others).  
However, where the activities are viewed against other audits and inspections undertaken across the industry participants, the categorisation shifts to club goods. This is because the similar activities are excludable and rivalrous to the industry group and undertaken only in relation to the industry group (whether or not undertaken for a specific industry participant) as the primary beneficiaries and risk or cost exacerbators of the activities.  
For instance, viewing audits and inspections of all industry participants, the activities are an “audit and inspection system” that is part of assurance to the Director of Maritime NZ within oversight functions for the regulatory, compliance and response system, and hence club goods.  
Meeting the follow-up visit costs through a levy can reduce incentives where the industry participant perceives the audit or inspection as free. This is because they do not meet the actual cost that relates to their actual performance, which is lower than the acceptable range, so their behaviour is less likely to change. Industry participants at the lower end of the acceptable performance range, with consequentially higher risk ratings, require a higher degree of additional scrutiny than those industry participants with more acceptable or good performance (and thus lower risk-ratings).  
Non-compliant industry participants necessitate higher levels of activity to either become “safe, secure and clean” or to exit the maritime system. For these participants, fees can create an incentive to comply in the future. For others, the possibility of having to pay additional fees for lower performance can create an incentive to comply. |
| Club good             | **Industry participants in the system as a group** as without the commercial maritime operations having specific risks there would be no need for a bespoke regulatory, compliance and | Those who benefit from safe, secure and clean inland and coastal waters:  
  - **Industry participants in the system as a group**  
  - **Other users of the system** such as passengers, freight customers, fishing quota | **Industry participants in the system as a group** are the primary beneficiaries and risk or cost exacerbators in the system as a club good. Individual and businesses enter the maritime industry because they see a personal or commercial benefit in participating in the system. This participation creates risks for other people (for example, safety, security and marine environment protection risks) that are managed through regulatory requirements and interventions specific to the maritime industry.  
Levy funding is appropriate for audits and inspections because the club good elements of audits and inspections is high due to the degree to which:  
- industry participants as a group cause the risk or cost (i.e. the activity is ‘excludable’) |
| response system because general law would be sufficient to ensure safe, secure and clean inland and coastal waters | holders contracting with fishing vessel operators and other users  
- **Recreational boaters** using inland and coastal waters | • the maritime industry benefits and causes the risk or cost as a group (i.e. the activity is ‘rival’ – use of the activity by one person reduces the resources available to provide other people with the activity or other activities across Government). Recovering the costs from **other users of the system** and **recreational boaters** as a club good is administratively costly because:  
- they are a diverse group not directly in contact with Maritime NZ  
- there is no universal mechanism across the users and recreational boaters through which to collect a user levy and there is no mandatory registration system for all recreational boats (except for New Zealand please vessels going overseas).  
This is compared to:  
- CAA, where a passenger levy applies because it can be collected from passengers through airline invoices when passengers pay for their flights  
- NZTA, where the Motor Vehicle Register provides a mechanism to collect the Road User Charges (which is a levy).  
Recreational boaters pay towards activities undertaken by Maritime NZ, such as recreational boating education and search and rescue and audits and inspections, through the FED they pay when filling their boats with petrol. FED funding is received by Maritime NZ for recreational boating activities. |
| --- | --- | --- |
| **Public good** | **All users of inland and coastal waters where they behave in an unsafe manner or negatively impact on the marine environment** | The **public** benefit from the assurance the Director receives that the maritime system is operating properly and meeting the standards laid down in legislation  
**All Users** of inland and coastal waters who benefit from safe, secure and clean inland and coastal waters | **All users** and the **public** are secondary beneficiaries and risk or cost exacerbators. They are not the primary beneficiaries and risk or cost exacerbators, but they receive a spill-over benefit of safe, secure and clean in land and coastal waters. Spill-over benefits to all users and the public do not usually result in Crown funding for an activity. |
### Appendix 5: Current audits and inspections and the funding source for each

<table>
<thead>
<tr>
<th>Category of industry participant</th>
<th>Regime</th>
<th>Frequency</th>
<th>Costs recovered through</th>
<th>Funding administered by</th>
</tr>
</thead>
</table>
| **New Zealand non-SOLAS**  
(e.g. fishing vessels, charter vessels, passenger ferries, research vessels) | Audits of the Maritime Operator Safety Systems (MOSS) under Maritime Transport Act 1994  
Inspections under HSWA | Initial audits within two years of entry  
Periodic audits at least every four years after that (based on the operators risk profile)  
Follow-up visits for the audit  
Initial and periodic inspections  
Follow-up visits for the inspection | Periodic: Fees – ‘MOSS’ offsite hourly rate  
Follow-up visits for the audit: Fees - ‘MOSS’ office based hourly rate and actual travel time and costs  
Periodic: HSWA Levy (except travel when a MOSS audit is being done at the same time, which are met out of MOSS fees through the MOSS off site hourly rate travel time and costs 33% loading)  
Follow-up visits for the inspection and actual travel time and costs – HSWA Levy | Maritime NZ  
Ministry of Business Innovation and Employment (MBIE) |
| **New Zealand Commercial fishing vessels**  
(under Rules Part 40D under 6 metres non-MOSS operators) | Audits under the Rules Part 40D | Bi-annual audits  
Follow-up visits for an audit | All: Fees charged by third party providers as “authorised persons”. Not charged by Maritime NZ | Third party providers |
| **New Zealand SOLAS**  
(e.g. oil tankers, cement carriers and some of the Cook Strait ferries) | Flag state inspections under the Maritime Transport Act 1994 | Annual inspections  
Follow-up visits for an inspection | Periodic: Fees – ‘Maritime safety audits and inspections (excl. MOSS and IPCSI)’ offsite hourly rate  
Follow-up t visits for the inspection: Fees - ‘Maritime safety audits and inspections (excl. MOSS and IPCSI)’ office based hourly rate and actual travel time and costs | Maritime NZ |
| International Safety Management (ISM)  
Code audits | Safety Management Certificate audits (vessel audits) at least every 2.5 years | Periodic: Fees – ‘Maritime safety audits and inspections (excl. MOSS and IPCSI)’ offsite hourly rate  
Follow-up visits for the inspection: Fees - ‘Maritime safety audits and inspections (excl. MOSS and IPCSI)’ office based hourly rate and actual travel time and costs | Maritime NZ |
| International Safety Management (ISM)  
Documents of Compliance audits (office audits) at least every year | | Periodic: Fees – ‘Maritime safety audits and inspections (excl. MOSS and IPCSI)’ offsite hourly rate | Maritime NZ |
<table>
<thead>
<tr>
<th>Category of industry participant</th>
<th>Regime</th>
<th>Frequency</th>
<th>Costs recovered through</th>
<th>Funding administered by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code audits</td>
<td>Follow-up visits for the inspection: Fees - 'Maritime safety audits and inspections (excl. MOSS and IPCSI)' office based hourly rate and actual travel time and costs</td>
<td>Maritime NZ</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign SOLAS (passenger) (e.g. cruises)</td>
<td>Inspections under the Maritime Transport Act 1994 (Port State Control)</td>
<td>Initial and detailed inspections Follow-up visits for an inspection</td>
<td>Periodic: Maritime Levy per Port visit Follow-up visits for the inspection: Fees - 'Maritime safety audits and inspections' office based hourly rate and actual travel costs</td>
<td>Maritime NZ</td>
</tr>
<tr>
<td>Foreign SOLAS (freight) (e.g. cargo)</td>
<td>Inspections under the Maritime Transport Act 1994 (Port State Control)</td>
<td>Initial and detailed inspections Follow-up visits for an inspection</td>
<td>Initial and periodic: Maritime Levy at the first Port visit Follow-up and scheduled: Fees - 'Maritime safety audits and inspections' office based hourly rate and actual travel time and costs</td>
<td>Maritime NZ</td>
</tr>
<tr>
<td>Offshore installations (e.g. petroleum, gas &amp; mineral exploration, extraction, production, decommissioning)</td>
<td>Inspections under the Maritime Transport Act 1994</td>
<td>Initial and periodic inspections Follow-up visits for an inspection</td>
<td>All: Fees - 'Other chargeable activities' office based hourly rate and actual travel costs</td>
<td>Maritime NZ</td>
</tr>
<tr>
<td>New Zealand other non-MOSS operators (e.g. commercial jet boats, diving operators, rafting, novel craft, hovercraft)</td>
<td>Audits under the Maritime Transport Act 1994</td>
<td>Annual or bi-annual audits Follow-up visits for an audit</td>
<td>All: Fees – third party fees charged directly to industry participants</td>
<td>Maritime NZ</td>
</tr>
</tbody>
</table>
### Appendix 6: Efficiency improvement initiatives

<table>
<thead>
<tr>
<th>Seafarer certification initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Police checks.</strong> Changes to the fit and proper person assessment process have seen us move to a risk-based approach to assess fit and proper person status of applicants under the law. This has resulted in a time saving for the processing of applications.</td>
</tr>
<tr>
<td><strong>Online verification of certificates.</strong> At the start of 2017 we developed an online verification tool for seafarers, employers and other (overseas) maritime administrations to verify a seafarer certificate is valid and correct online without having to contact us via email. This has freed up Advisor time to focus on processing applications rather than responding to verification requests. People seeking verification can obtain the information at a time that is convenient to them instead of only during our business hours.</td>
</tr>
<tr>
<td><strong>Ring-fencing of legacy certificates.</strong> We have listened to industry and recognised there was a case for not treating all seafarers the same in terms of transitioning to the new SeaCert framework.</td>
</tr>
<tr>
<td><strong>Advisor skills.</strong> Upskilling certification advisors to reduce the need for technical advisor input reducing time taken and lowering salary cost expended.</td>
</tr>
<tr>
<td><strong>Sea service assessments.</strong> Seafarers applying for recognition of their foreign STCW certificates no longer need to provide proof of sea service because this is a duplication of work undertaken by the foreign administration when they issue the substantive certificate.</td>
</tr>
<tr>
<td><strong>Process and procedure review.</strong> Removed duplication of effort or unnecessary requirements.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ship Registration - Part B.</strong> A review of Part B ship registration processes led to a redesign of the application form; refresh of information on our website; applications able to be submitted by email; owners able to request renewals and re-registrations by email without having to complete an application form, and documents being stored electronically. This resulted in the average processing time reducing from 9 days to 7.7 days (as at end of 2016). In addition, the percentage of clean (right first time) applications increased by 11% and clean applications were processed in four days whereas applications with errors (requiring further contact with applicants) took 10.5 days to process. Storage costs for hard copy documents have also reduced as a consequence of more applications being received by email and kept electronically.</td>
</tr>
<tr>
<td><strong>Foreign Levy Database.</strong> The Foreign Levy Database replacement project was initiated to provide more efficient levy invoicing services to shipping agents and streamline internal processes. Existing invoicing processes were both a practical and political irritant to shipping agents who had been requesting change for some years. The new solution was integrated with our upgraded CRM platform and provided a web portal for agents to provide the information directly to generate invoices. Recent feedback from shipping agents has been positive and indicated that it has streamlined and made the invoicing process more efficient.</td>
</tr>
<tr>
<td><strong>Storage and printing costs.</strong> Our approach to managing stocks of Maritime NZ publications has been streamlined so more publications are printed as needed rather than large stocks being carried that may become out of date. This has resulted in storage costs reducing from $28,000 per annum to an estimated $16,000 for 2018/19. An increased focus on storing documents electronically, rather than in paper form, has resulted in reduced storage costs. A greater emphasis on use of technology has reduced printing costs.</td>
</tr>
<tr>
<td><strong>Aids to Navigation.</strong> A review of the end to end process (across all process participants) for installing, altering and removing aids to navigation has been conducted. To improve efficiency, we intend to develop a portal for applicants to apply online for approvals for aids to navigation.</td>
</tr>
<tr>
<td><strong>MOSS.</strong> Education and engagement with operators prior to applications being submitted has improved the quality of applications leading to a reduction in processing times. Understanding variation among operators has enabled us to design a more flexible approach to assessing operator plans as part of the application process for a Maritime Transport Operator Certificate.</td>
</tr>
<tr>
<td><strong>Exemptions.</strong> Work on exemptions to streamline processes and reduce applications. Discussions with Recognised Organisations regarding the extent of their delegations in order to streamline exemptions and other areas where conventions are deviated from.</td>
</tr>
<tr>
<td><strong>Operational policy.</strong> Improved workflow management leading to improved triage of work requests.</td>
</tr>
<tr>
<td><strong>Product approval processes.</strong> Leveraging external maritime product approval processes to remove the need for an additional application process.</td>
</tr>
</tbody>
</table>
Appendix 7: Feedback from industry

Day 1

Maritime NZ current context – Director of Maritime NZ

• The current sources of Maritime NZ revenue were explored (including a comparison with other countries) and broad details of the changes to Maritime NZ’s overall funding since 2007 (including the additional functions and activities that occurred during that time). Group discussions highlighted that the sector wants clear information about how the revenue is spent – and noting that there are multiple revenue streams – with fees being a really small part of the overall revenue. There were questions about whether or not the levy payers are subsidising the recreational boating effort – Maritime NZ pointed to the fact that this is separately funded through the FED paid by recreational boaters.

• The last six years of evolution involves a move towards becoming a modern regulator which requires a change in approach to risk based regulation and intelligence-led decision making. In this context there was a general discussion about incident reporting and how Maritime NZ utilises the information to determine its interventions.

• There is a need for increased International Maritime Organization (IMO)/international presence to protect New Zealand’s interests – discussions explored whether the Crown should pay more to support this effort or whether the sector should make a larger contribution. In this context, some representatives indicated that there was a lack of clarity about the role of the Ministry of Transport versus the role of Maritime NZ. There is an impression that Maritime NZ is often required to step up and undertake functions in the international domain that should be undertaken by the Ministry.

Government/Transport Regulatory System Funding principles – Deputy Chief Executive Regulatory and Data, Ministry of Transport

• Outline of Ministry of Transport role in funding reviews, which involves the agency (Maritime NZ) leading the review with support from the Ministry. Industry again queried the respective roles of the Ministry and Maritime NZ – citing the MARPOL Annex VI example and the need for policy decisions to assist industry in making investment decisions.

• Funding reviews in the public sector must be undertaken in line with the Treasury and Office of the Auditor General guidelines. They are currently done on a six yearly cycle with the opportunity to do a midpoint review at year three. The Ministry is considering adopting principles for the transport sector that align with these. The general discussion highlighted industry concerns that there should be clarity about what their levies are being used for. The discussion explored the fact that a levy is not a fee for service and may be applied to wider initiatives.

• There was an observation that Crown funding appeared to have remained static over time while the industry contributions had grown. The Ministry pointed out that the decisions about overall funding sources is not merely related to relative proportions but rather whether it aligns with Treasury and OAG guidelines about who should pay for a particular activity.

• Wider discussions explored whether the FED could be applied to fund other Maritime NZ initiatives – such as work in the commercial sector.

• There was a discussion about the need for a degree of certainty for the sector and Maritime NZ indicated that it has been doing work on forecasting the “pipeline” of regulatory work that is likely to occur over the next six years (especially in relation to the changes coming through IMO) which should give more certainty and reduce the need for one off funding bids.

Seafarer Education Framework – Sector Manager (Competenz)

• Competenz is an industry training organisation that seeks to assist with industry qualifications in the maritime sector. Competenz works with all parties and is inviting feedback on the qualifications review being led through the New Zealand Qualifications Authority (NZQA) and the Tertiary Education Commission (TEC).

• Many industry parties are concerned that the current government subsidies are resulting in training providers creating lengthy courses to attract funding, but that it impacts business operations and imposes unnecessary additional costs on the sector. It was noted this cannot be addressed through the Maritime NZ funding review but needs to be addressed through the Qualifications Review. Competenz is able to assist with this.

• Other issues raised included concerns about the complexity of the current qualifications and training framework. Questions about whether training providers are incentivised incorrectly at the expense of industry and whether the maritime sector can consider reverting to a model that allows on-the-job
The training record book was given as an example of how it has worked historically. A further issue that was explored is whether school students can start some of the maritime learning while at school under the National Certificate of Achievement (NCEA) framework so that it can count towards a maritime qualification.

Levies and fees – Sarah Mehr tens, Independent Lead for Maritime NZ Funding Review

- The distinction between public, club and private goods under the Treasury and OAG guideline for setting charges in the public sector was discussed – highlighting that the current fees for audits, ship registration and seafarer certificates are defined as private goods.
- It was noted that none of these categories are pure and activities can fall across categories. For example audits and inspections straddle the private and club good categories and are treated differently within the current system and by other regulators. The requirement to raise invoices for the many different fees adds cost and inefficiency.
- The discussion explored whether the Maritime NZ funding review should consider addressing these issues by shifting the first visit for audits and inspections to the levy. Doing so would treat these activities in the same way as the Port State Control inspections are currently treated and would align with the levy approach for HSWA assessments, which are levy funded through the HSWA Levy.
- There was general comfort that this should be explored during the funding review. The discussion highlighted that the different approach by other countries in subsidising seafarer certificates and endorsements may suggest that these should also be considered for inclusion as part of the maritime levy too.
- Some industry indicated that they would need to see information first before confirming comfort with this change because they needed to understand what the overall financial impact would be if this change was made.

Day 2

Future direction – General Manager Corporate and Strategic Services, Maritime NZ and General Manager Safety and Response, Maritime NZ

- Discussions highlighted that this funding review needs to consider likely revenue projections for Maritime NZ for the next six years. In planning this review Maritime NZ has therefore considered future trends like technology changes, changes in how people will be involved in the sector, security and resilience, trade etc. There was significant concern expressed by the fact that there were no policy decisions regarding low sulphur fuels and how this could impact the sector.
- It was noted that a midpoint review of the Oil Pollution Levy (OPL) is being undertaken in parallel to the funding review – to allow payers of both to see the full effect of the changes that may occur. There were questions about how Maritime NZ sees the change to low sulphur fuels affecting the OPL. It was noted that the next full OPL review would consider this.
- There was a wider discussion about the fact that Maritime NZ has assessed that over the next six years the areas of focus that may require investment are:
  - Regulatory reform – the continuing changes coming from IMO and any domestic law change. Over the last six years changes like Maritime Labour Convention, BWM Convention and Clear Heads occurred.
  - Systemic risk activities – this is needed to enable Maritime NZ to move to a modern regulator approach and better utilise data for decision making
  - International Engagement – there was general agreement that New Zealand needs to be at the table to influence the international bodies like IMO
  - Capacity and capability for maritime incident response – the Crown funding for “non-oil” maritime incident response runs out in July 2019 and Maritime NZ needs to ensure that there is ongoing funding.

Maritime Levy Allocation methodology – Castalia

- Maritime NZ engaged Castalia, independent strategic economic advisors, who have considered options for a different approach to allocating the maritime levy across the various parties who pay. They noted that there is a need for practicality and simplicity and proposed the basis of risk - noting that ‘risk’ is defined by them as ‘the value of what is placed at risk’ – and that this is unmitigated risk (rather than the position where regulation reduces likelihood or consequence of harm).
- They identified three consistent factors that best act as proxies for ‘the value of what is placed at risk’:
  - Gross Tonnage or length (where GT is not held), people on board and dead weight tonnage across four groups of payers (foreign passenger, foreign...
non-passenger, domestic SOLAS and domestic Non-SOLAS).

- The proposed model does require some data issues to be addressed.
- The discussions identified the need to clarify what is ‘risk’. Many were not clear whether this terminology was helpful.

Other discussions with industry

Other discussions we have had with industry have highlighted the following needs and gaps to address.

- Concerns about the overall cost of compliance (including the cost of survey and training of seafarers).
- Requests for more Maritime Officers, investigators and staff in Wellington to:
  - ensure better support for the industry
  - ensure Port State Control Inspections are undertaken rapidly
  - ensure incidents are investigated promptly
  - improve key services such as billing
  - ensure better representation of New Zealand’s shipping interests at the IMO and under other international conventions.
- Reviewing the Crown contribution to meeting certain costs such as certification of seafarers.

We have carefully considered the initial feedback and input received in preparing these proposals. We also sought independent advice from a well-known industry commentator and specialist, who is not personally affected by this review.

- All agreed that it is worth exploring the model to achieve a more transparent approach – but noted that until they understand how this impacts them individually they were unable to commit to the proposed approach.
- Concerns about transparency of costs, the need for a fair playing field across similar operators and possible cross subsidy by sectors of others.
- Some raised concerns that they may be paying for Maritime NZ’s recreational boating efforts.
- The need to run the OPL review concurrently with the 2018/19 funding review to ensure payers of both can see the full impact.
- Concerns that the hourly rates applicable to certain activities make our business budgeting difficult and create uncertainty of costs for smaller operators.