

**Bureau of Meteorology**

**COST RECOVERY IMPLEMENTATION STATEMENT**

**July 2015 – June 2020**

**ACTIVITY: AVIATION WEATHER SERVICES**

**Table of Contents**

- 1 INTRODUCTION .....1
  - 1.1 Purpose of the CRIS.....1
  - 1.2 Description of the Activity .....1
- 2 POLICY AND STATUTORY AUTHORITY REVIEW TO COST RECOVERY .....1
  - 2.1 Government policy approval to recover the Activity .....1
  - 2.2 Statutory authority to charge .....1
- 3 COST RECOVERY MODEL.....2
  - 3.1 Outputs and business processes of the Activity .....2
  - 3.2 Costs of the Activity .....2
  - 3.3 Design of Cost Recovery Charges .....3
- 4 RISK ASSESSMENT .....4
- 5 STAKEHOLDER ENGAGEMENT .....5
- 6 FINANCIAL ESTIMATES.....6
- 7 A FINANCIAL PERFORMANCE.....7
- 7 B NON-FINANCIAL PERFORMANCE .....7
- 8 KEY FORWARD DATES AND EVENTS .....8
- 9 CRIS APPROVAL AND CHANGE REGISTER .....8
- 10 CERTIFICATION .....8

## **1 INTRODUCTION**

### **1.1 Purpose of the CRIS**

This Cost Recovery Implementation Statement (CRIS) provides information on how the Bureau of Meteorology (the Bureau) implements cost recovery for aviation weather services. It also reports financial and non-financial performance information for aviation weather services and contains financial forecasts for 2015-16 and four forward years. The Bureau will maintain the CRIS until the activity or cost recovery for the activity has been discontinued.

### **1.2 Description of the Activity**

The Bureau is Australia's national weather, climate, water and environment agency. Its expertise and services assist Australians in dealing with the realities of their natural environment, including drought, floods, fires, storms, tsunamis and tropical cyclones. Through regular forecasts, warnings, monitoring and advice spanning the Australian region and Antarctic territory, the Bureau provides one of the most fundamental and widely used services of government.

The Bureau's aviation weather services facilitate safe and economical civil aviation operations through the provision of accurate, timely and relevant forecasts, warnings and other information, while also meeting Australia's obligations under international agreements for the provision of meteorological services to international aviation.

The Bureau's role in providing services for civil aviation is established by the *Meteorology Act 1955*. Authority to arrange for the service is also provided under the Convention for International Civil Aviation (the Chicago Convention) where the Director of Meteorology is the designated Meteorological Authority for Australia and is responsible for ensuring meteorological services are provided to civil aviation in Australia in accordance with the standards and practices set out in Annex 3 to the Convention. In fulfilling this mandate, the Bureau works closely with Airservices, which is responsible for air traffic services, and the Civil Aviation Safety Authority (CASA), which is responsible for the safety regulation of civil aviation in Australia.

The Australian Government requires the aviation industry to use the aviation weather services provided by the Bureau and to pay for such services through a Meteorological Service Charge administered by Airservices (see section 3 for more details).

## **2 POLICY AND STATUTORY AUTHORITY REVIEW TO COST RECOVERY**

### **2.1 Government policy approval to recover the Activity**

Previous Cabinet decisions which provided authority for cost recovery were reaffirmed in the 2009-10 Budget process. The Government amended the funding for cost recovery services provided by the Bureau, to a Section 74 arrangement (retention of cost recovered receipts). In 2011, the Bureau's parent Portfolio refreshed the original policy authority for the Bureau to undertake a number of activities on a cost recovery basis consistent with Australian Government Cost Recovery Guidelines. Subsequently, the Bureau has been authorised for all cost recovery activities, including services to the aviation industry.

### **2.2 Statutory authority to charge**

The authority to impose a charge for products and services is provided to the Director of Meteorology in Section 8 of the *Meteorology Act 1955*.

### 3 COST RECOVERY MODEL

#### 3.1 Outputs and business processes of the Activity

	Activity	Description
Activity 1 Aviation weather services	Management, governance and service delivery	Administration and management activities for the program. Costs include: staffing; conferences; industry meetings; financial management; international Civil Aviation Organisation (ICAO) compliance; management; and quality management (ISO9001).
	Operational services	Weather monitoring, forecast and warning activities and operational expenses.
	Aviation competencies, training and education	Educational and training activities. Costs include: training resources; familiarisation activities; and staff training and user education involving seminars and user manuals.
	Projects (aviation)	Aviation projects agreed to by industry to improve services.
	Projects (research)	Aviation research projects agreed to by industry to improve services.
	Observation and information Systems	Installation and maintenance activities for observation and information systems.
	Non Direct Costs	Bureau overheads and forecast and warning activities.

Table 1: List of cost recovery activities and associated charges

#### 3.2 Costs of the Activity

##### Changes in cost base

The main cost drivers for this five year period include changes to staff salaries, the installation of capital equipment (e.g. new sensors, automatic weather stations (AWS) and associated systems) at remote, regional and major aerodromes including required by the aerodrome forecast (TAF) and other aviation sponsored reviews. It includes non-direct costs and an allowance for CPI increases.

Please note that the projected costs assume that resource levels remain constant. The projected asset rollout for the aviation program includes asset replacement, remediation works and new initiatives. It is not otherwise considered that the cost structure will change over the period of this CRIS by significantly more than an annual increase of three per cent. This is subject to future changes following service reviews.

##### Summary of charging structure

The estimated cost of the service is recovered from the aviation industry through the Meteorological Service Charge (MSC). The charge is incurred for flights over an Australian Flight Information Region (FIR) by:

- all domestic landings operating under Instrument Flight Rules (IFR); and
- all international flights (inbound and outbound).

The MSC revenue is collected by Airservices on behalf of the Bureau.

This charge is applied via one of two rates. The rates are based on the Maximum Take-Off Weight (MTOW) of the aircraft and the distance travelled.

- For aircraft with MTOW ≤ 20 tonnes: MSC = rate \* distance (kms)/100 \* MTOW
- For aircraft with MTOW > 20 tonnes: MSC = rate \* distance (kms)/100 \* sqrt (MTOW)

The calculation of the rates used is based on cost of services to be recovered and the forecasted activity levels of en-route traffic for the year to achieve full cost recovery by the end of a financial year. In the event that there is an over or under recovery, the MSC rates are adjusted to more closely align the estimated revenue to be collected and the costs required to be recovered in the following year. This is reviewed throughout the year and the rate can be changed as required with the agreement of industry.

Activity name	Method of recovery	Total cost of Activity (\$'000)	Volume of Activity	Cost recovery charge	Total cost recovered for Activity (\$'000)
1.1 Aviation charge > 20t MTOW	Expense	28,230	122.7m	\$0.23	28,230
1.2 Aviation charge ≤ 20t MTOW	Expense	1,473	28.2m	\$0.05	1,473
<b>Total Fee for service</b>					29,730

**Table 2: Summary of cost recovery arrangement (2014-15)**

Table 3 identifies Bureau costs incurred in supplying aviation weather services.

<b>Cost explanation 2015-16</b>			
Expense	Cost explanation	Rationale for inclusion	Annual cost
Employee expenses	Salaries/on costs	Direct cost	\$19.201m
Goods & services	Supplier expenses	Direct cost	\$3.928m
Computer ICT costs	IT costs	Direct cost	\$0.715m
Property expenses	Rent and outgoings	Direct cost	\$2.556m
Other costs	Management oversight operation support	Non direct cost	\$5.280m
Assets	Incremental assets	Direct cost	\$2.690m
Total			\$34.37m

**Table 3: Activity expenses**

### **3.3 Design of Cost Recovery Charges**

The Australian Government requires the aviation industry to utilise and pay for the aviation weather services provided by the Bureau.

The incremental costs of providing the service are recovered from aviation. The charge is calculated for the forthcoming year and the rate of recovery is agreed with industry, with resources negotiated for research and other projects required to improve services. The estimated cost of the service is recovered by the Meteorological Service Charge and collected through Airservices which operates a billing and revenue collection service on behalf of the Bureau. The charge is applied based on maximum take-off weight and calculated on distance travelled.

Forecasts are utilised by airlines to make operational decisions, based on their risk and business needs. The 1984 Independent Inquiry into Aviation Cost Recovery and subsequent Government policies reaffirmed that meteorological costs would continue to be recovered from the aviation industry and determined the fee methodology being applied.

### Volume and demand assumptions

Airservices has provided the Bureau with forecast activity levels for the next five years for en-route aviation activity. Airlines provide this information to Airservices annually and this is passed on to Bureau for planning purposes.

	> 20 Tonnes	<= 20 Tonnes
<b>2014-15</b>	122,740,000	28,889,998
<b>2015-16</b>	125,158,000	13,532,000
<b>2016-17</b>	111,225,652	12,356,043
<b>2017-18</b>	115,597,838	12,669,214
<b>2018-19</b>	120,781,559	13,103,528
<b>2019-20</b>	125,083,241	13,543,286

Table 4: Estimated aviation industry forecast activity levels

## 4 RISK ASSESSMENT

Implementation risks	Low	Medium	High
1. What is the proposed change in annual cost recovery revenue for the activity?	<5% <input checked="" type="checkbox"/>	5 < 10 % <input type="checkbox"/>	>10% or new <input type="checkbox"/> <input type="checkbox"/>
2. What is the total proposed annual cost recovery revenue for the activity?	0 - \$10m <input type="checkbox"/>	\$10m < \$20m <input type="checkbox"/>	\$20m + <input checked="" type="checkbox"/>
3. What does the policy proposal or change in the cost recovered activity involve?	Change in the level of existing cost recovery charges <input checked="" type="checkbox"/>	Change in the structure of existing cost recovery charges and/or composition of payers <input type="checkbox"/>	Introduction of cost recovery for a new activity or for an existing activity (or its components) that has not been cost recovered previously <input type="checkbox"/>
4. What type of cost recovery charges will be used?	Levies only <input type="checkbox"/>	Fees only or fees and levies <input checked="" type="checkbox"/>	Fees, levies and other charges <input type="checkbox"/>
5. What legislative requirements are necessary for imposition of cost recovery charges?	Does not involve an Act of Parliament (e.g. Regulations, Determinations etc) <input checked="" type="checkbox"/>	Involves an Act of Parliament (e.g. enabling Act or levy imposition Act) <input type="checkbox"/>	Requires State/Territory legislative changes or referral of powers to the Commonwealth <input type="checkbox"/>
6. Does the proposal involve working with other Commonwealth, State/Territory and/or local government entities?	No <input checked="" type="checkbox"/>	Yes - with Commonwealth entities only <input type="checkbox"/>	Yes – with Commonwealth and State/Territory entities <input type="checkbox"/>



## 6 FINANCIAL ESTIMATES

### Projected Expenses and Revenue

The Bureau does not foresee a material increase in demand for cost recovered services in the next few years. Projected revenue and expense positions do not include provision for any future adjustment to service delivery model. The movement in expenses and revenue in the out-years is primarily driven by parameter increases in the service delivery costs.

The Bureau will roll-out additional equipment to meet further demand for improved observation data for aviation services. This is reflected as an increase in the activity for observation and IT equipment in the table below.

Activity	2015-16 \$'000	'16-17 \$'000	'17-18 \$'000	'18-19 \$'000	'19-20 \$'000	Total
Management, governance & service delivery	20,164	20,466	20,773	21,085	21,401	103,890
Operational services	50	52	53	55	56	265
Aviation competencies, training & education	223	230	237	244	251	1,184
Aviation projects/service improvements	238	245	252	260	268	1,264
Research projects	855	881	907	934	962	4,539
Observation and IT equipment	5,145	5,299	5,458	5,622	5,791	27,316
Non direct costs	5,334	5,494	5,659	5,829	6,003	28,319
Assets	3,064	3,458	3,869	4,297	4,742	19,430
<b>Total aviation services expenses</b>	<b>35,073</b>	<b>36,125</b>	<b>37,209</b>	<b>38,325</b>	<b>39,475</b>	<b>186,207</b>
<b>Overall projected revenue</b>	<b>35,073</b>	<b>36,125</b>	<b>37,209</b>	<b>38,325</b>	<b>39,475</b>	<b>186,207</b>
<b>Operating balance +/-</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Ongoing operating balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Explain balance management strategy	Balance retained as offset future year Rev or Exp	Balance retained as offset future year Rev or Exp	Balance retained as offset future year Rev or Exp	Balance retained as offset future year Rev or Exp	Balance retained as offset future year Rev or Exp	Balance retained as offset future year Rev or Exp

Table 6: Projected expenses and revenues to 2020 – does not include Assets



## 7 A FINANCIAL PERFORMANCE

### Outline of revenue and expense forecast over the next five years

	<u>HISTORICAL</u> <u>2010/11</u> <u>\$'000</u>	<u>HISTORICAL</u> <u>2011/12</u> <u>\$'000</u>	<u>HISTORICAL</u> <u>2012/13</u> <u>\$'000</u>	<u>HISTORICAL</u> <u>2013/14</u> <u>\$'000</u>	<u>HISTORICAL</u> <u>2014/15</u> <u>\$'000</u>
Aviation weather services					
EXPENSES=X	21,693,488	25,307,457	27,315,932	28,358,326	Yet to be finalised
REVENUE=Y	19,512,395	25,294,174	30,139,749	30,434,119	-
BALANCE=Y-X	-2,181,093	-13,283	2,823,817	2,075,793	-
CUMULATIVE BALANCE/surplus b/f			-13,283	2,810,534	-
			2,810,534	4,886,327	-
EXPLAIN MATERIAL VARIANCE	Over collection of revenue and under in Expenses	Over collection of revenue and under in Expenses	Over collection of revenue and under in Expenses	Over collection of revenue and under in Expenses	To be determined
Explain balance management strategy	Balance retained as offset future year Rev or Exp	Balance retained as offset future year Rev or Exp	Balance retained as offset future year Rev or Exp	Balance retained as offset future year Rev or Exp	Balance retained as offset future year Rev or Exp

## 7 B NON-FINANCIAL PERFORMANCE

Aviation is the primary provider of environmental intelligence, including meteorological services to the aviation sector (throughout the Australian flight information regions).

Services provided by the Bureau to aviation enhance the operations of the aviation industry, through the provision of accurate, timely and relevant meteorological services. Services include the provision of forecasts, real-time observations and climatological data, meteorological training and professional advice to assist decision-making processes and support operations and activities.

Objectives for the provision of the aviation weather services program are reviewed quarterly with key performance indicators reviewed annually. As part of the aviation weather services ISO 9001:2008 quality management system, the aviation weather services program conducts regular surveys of users and stakeholders to ensure that the quality of services is maintained.

#### Deliverables:

- All services were maintained and routinely delivered on time.
- The Bureau's aeronautical services handbook received two updates during 2014-15 with refined policies, procedures and product specifications based upon the best international practice and requirements from the aviation industry.
- Warnings and advices for volcanic ash events were provided to meet aviation industry requirements.

#### Key performance indicators:

- A survey of Airservices staff at Sydney Airport demonstrated that our services to be accurate, timely and reliable. 74 per cent of Airservices staff surveyed felt the service provided was always or mostly effective. Aviation Weather Services will be working with Airservices to identify areas where the services provided can be improved to meet requirements.
- At least 99 per cent of routine services were delivered on time.

- Major parts of the Bureau’s aviation function successfully obtained certification or re-certification to ISO 9001:2008 quality management.

**8 KEY FORWARD DATES AND EVENTS**

**Next scheduled update of forward (financial) estimates**

Bureau/Aviation Industry mid-year finance meeting, November 2016.

**Next scheduled update of forward (financial) estimates**

Bureau/Aviation Industry finance meeting, April 2017.

**Next scheduled update of forward (financial) estimates**

Bureau/Aviation Industry mid-year finance meeting, November 2017.

**Next scheduled update of forward (financial) estimates**

Bureau/Aviation Industry finance meeting, April 2018.

**Other key dates and events scheduled update of forward (financial) estimates**

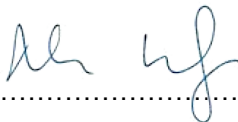
- Bureau/Aviation Industry Consultative Planning meeting, August 2015.
- Bureau/Aviation Industry Consultative Planning meeting, February 2016.
- Bureau/Aviation Industry Strategic Planning meeting, March 2016.

**9 CRIS APPROVAL AND CHANGE REGISTER**

Date of CRIS change	CRIS change	Approver	Basis for change
3/06/2015	New text and financial update	Assistant Director Finance	New cost recovery guidelines

**10 CERTIFICATION**

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



.....

Dr Robert Vertessy  
 Director  
 Bureau of Meteorology

Date: 29 June 2015  
 .....