



Australian Government

WATER
RATING

Cost Recovery Impact Statement

Water Efficiency Labelling and Standards scheme

15 September 2013 to 30 June 2014

The Water Efficiency Labelling and Standards (WELS) scheme is an Australian Government initiative in partnership with state and territory governments.



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1 Overview

1.1 Purpose

The purpose of this Cost Recovery Impact Statement (CRIS) is to document the cost recovery arrangement for the Water Efficiency Labelling and Standards (WELS) Scheme and demonstrate compliance with the Australian Government Cost Recovery Guidelines. This CRIS has been prepared for operations of the WELS Scheme from 15 September 2013 to 30 June 2014. The Department of the Environment (the Department) plans to review these cost recovery arrangements prior to the expiry of the CRIS in 2014.

1.2 Background

The WELS Scheme was established in 2005 by the Water Efficiency Labelling and Standards Act 2005 (WELS Act). The Scheme requires designated water using products to be registered and to display, for the purposes of supply, labelling which shows the water efficiency of the product. The Scheme also sets minimum efficiency and performance requirements.

The Scheme's objectives are to conserve water supplies by reducing water consumption; to provide information for purchasers of water-use and water-saving products; and to promote the adoption of more efficient water-use and water-saving technologies.

The Scheme is a national scheme with Commonwealth legislation supported by corresponding legislation of each state and territory. The Scheme is administered by the Commonwealth on a cooperative basis under an intergovernmental agreement (IGA). The WELS Regulator is an SES employee of the Department of the Environment. Administrative support is provided by officers of the department, who have also been delegated powers and functions by the WELS Regulator. The Standing Council on Environment and Water (or SCEW) which comprises environment ministers of all Australian governments, sets the strategic plan and budget for the scheme, and is consulted when the Commonwealth Minister makes determinations to set the details of the scheme and the fees.

In 2010, the Scheme was independently reviewed. Following consultation with industry and government stakeholders, the SCEW responded to the review's recommendations and approved the 2012-15 WELS Strategic Plan. The SCEW also reconfirmed the Scheme's 80 per cent cost recovery level from industry fees. In order to implement this and other elements of the response to the independent review, changes have been made to the WELS fee structure and legislation, which are reflected in the proceeding sections of this CRIS.

From 22 January 2013 to 14 September 2013, products were registered under a fee for service arrangement which aimed to recover the costs of those scheme activities associated with registration of products. The fees were not intended to recover the cost of non-registration activities including standard development and compliance and enforcement. At that time product registration costs amounted to approximately 50 per cent of the total cost of the scheme.

In order to achieve the 80 per cent recovery target, resulting in the need to recover expenses for non-registration activities such compliance and enforcement, Water Efficiency Labelling and Standards (Registration Fees) Act 2013 was enacted to impose, as taxes, fees for registration.

This CRIS covers the period to 30 June 2014 in order to align with the close of the 2013-14 Financial year. The short time period it covers will also assist more accurate prediction of fee income for the period and will be used as a basis for expense and revenue estimates for the next CRIS.

1.3 Australian Government Cost Recovery Policy

In December 2002, the Australian Government adopted a formal cost recovery policy to improve the consistency, transparency and accountability of its cost recovery arrangements and promote the efficient allocation of resources. The underlying principle of the policy is that agencies set charges to recover all the costs of a product or service where it is efficient and effective to do so, where the beneficiaries are a narrow and identifiable group and where charging is consistent with Australian Government policy objectives. The Cost Recovery Policy is administered by the Department of Finance and Deregulation and is detailed in the Australian Government Cost Recovery Guidelines (Cost Recovery Guidelines).

The policy applies to all Financial Management and Accountability Act 1997 (FMA Act) agencies and to relevant Commonwealth Authorities and Companies Act 1997 (CAC Act) bodies that have been notified. In line with the policy, individual portfolio ministers are ultimately responsible for ensuring agencies' implementation and compliance with the Cost Recovery Guidelines.

The Australian Government Cost Recovery Guidelines and the accompanying Finance Circular can be found at: <http://fwww.finance.gov.au/financial-framework/financial-management-policy-guidance/cost-recovery.html>

2 Policy review - analysis of activities

2.1 Policy authority

The policy authority for a model recovering 80 per cent of the Scheme's operational expenses from industry and the remaining 20 per cent from contributions by governments was announced as part of the 2005-06 Commonwealth Budget. At the November 2011 SCEW meeting, Commonwealth, state and territory ministers reconfirmed the policy intent for the Scheme to recover 80 per cent of its costs from industry. The *Water Efficiency Labelling and Standards (Registration Fees) Act 2013* provides further legal authority for cost recovery within the WELS Scheme to impose, as taxes, fees for applying for registration of WELS products.

2.2 Partial cost recovery

In the case of the WELS Scheme, there are both private and public good characteristics to the way the Scheme operates. Firstly, information provided through water efficiency and labelling is available to all (one of the characteristics of a public good). In this respect, the 2011 Productivity Commission report, Australia's Urban Water Sector stated:

"The WELS scheme has been successful at providing the public with an objective set of information with which to make informed decisions, and should continue."

Secondly, water conservation leads to water bills being lower than they otherwise would have been and reduces the full social costs of water for both the consumers of water efficient appliances and the broader group of water consumers.

The original Budget measure envisaged that the fee revenue from the Scheme would offset 80 per cent of its costs, with the remaining 20 per cent being funded through contributions from governments.

New registration and charging arrangements are required to achieve the 80 per cent cost recovery level. The *Water Efficiency Labelling and Standards (Registration Fees) Act 2013* enables the Commonwealth Minister to set registration fees to recover 80 per cent of the total Scheme's expenses, whereas the *Water Efficiency Labelling and Standards Act 2005* provided for a fee for service.

2.3 Legal requirements for the imposition of charges

Section 7 of the *Water Efficiency Labelling Standards (Registration Fees) Act 2013* provides legal authority to charge fees. This fee is specified in the *WELS Fees Determination 2013* in Schedule 1. The proposed fees for the period 15 September 2013 to 30 June 2014 along with revenue estimates for the year beginning 15 September 2013 is at Attachment A.

The total budgeted cost for running the WELS scheme in 2013-14 is \$1.91million (as agreed by SCEW at its November 2011 meeting).

2.4 Description of activities

The Scheme's full activities include:

- The registration of products;
- Compliance monitoring and enforcement;
- Communications;
- Setting Australian Standards; and
- Policy advice.

During the period of this CRIS, industry fees will be applied with a view to recovering 80 per cent of the cost of all of the scheme's activities. The remaining 20 per cent of scheme costs will be contributed by the Commonwealth, state and territory governments.

2.5 Users and stakeholders

The key beneficiaries of the WELS Scheme are:

- private consumers of water efficient products;
- the broader group of water consumers who share the network with private consumers of water efficiency products; and
- the general public beyond the people who pay for the use of water to the extent that there are any spill-over benefits such as reduced environmental impacts of water supply.

Private consumers benefit in two ways from WELS. Firstly they have access to standardized information on water efficiency of regulated products provided to them at the point of sale.

Secondly, to the extent they choose more water efficient products, they will benefit through a reduction in the volumetric component of their water bills.

All states and territories have water management policies and strategies in place. All have implemented the WELS Scheme, most have provided rebates as encouragement for consumers to purchase and retailers to provide water efficient products and several have undertaken evaluations of the WELS Scheme and the impact of rebates on water consumption and rebate programs.

The evidence from the first five years of the Scheme is that it is widely used, jurisdictions are committed to the Scheme, it provides useful information for both standards and rebates programs, is influencing consumer behavior and delivering both cost savings and reductions in the consumption of potable water.

3 Design

3.1 Design of cost recovery arrangement

Section 7 of the *Water Efficiency Labelling Standards (Registration Fees) Act 2013* provides that fees may be charged which take into account the costs or functions associated with the administration of the scheme. When setting the amount of the fees the Minister must be satisfied that the fees will not recover more than the costs of the scheme. Given the SCEW cost recovery decision for 80 per cent cost recovery, the design of the cost recovery arrangement takes into account 80 per cent of the costs of all of the scheme's activities as listed at item 2.4.

The cost recovery arrangement to be in place over the period of this CRIS will consist of a tiered annual fee structure, starting from \$600 to register 1-5 products (equivalent to \$120 per model for 5 products), to \$121,000 to register 2000+ products (equivalent to \$60.50 per model for 2000 products). The fees are defined in Schedule 1 of the *WELS Fees Determination 2013* (see **Attachment A**).

The variation in the fee per model between the tiers is to take into account that the registration related costs have fixed and variable components, and factors in economies of scale in assessing applications. The product registration database is largely a fixed cost, as the database is required whether one is registering 50 or 5000 products, with minimal difference in development and maintenance costs. Assessing applications, however, is a variable cost because it requires more employee resources to process a larger number of product registrations compared to a smaller number of product registrations. Those registering a smaller number of products pay a higher fee per model, however, than registrants with more models, reflecting that applications from larger applicants tend to be completed to a satisfactory standard, and are thus more efficiently assessed by WELS staff.

All registrations continue to align to a common annual renewal date of 22 January each year.

Therefore in accordance with the Government's decision as confirmed by the SCEW, a portion of the running costs of providing the services and activities will be recovered under this scheme. An activity based costing model has been used to determine the specific costs for each activity of the cost recovery arrangements.

3.2 Basis of charging- fee or levy

The registration fees are imposed as taxes authorised by the *Water Efficiency Labelling Standards (Registration Fees) Act 2013*. Previously the fees were in the form of a fee for service authorised by the *Water Efficiency Labelling and Standards Act 2005*. The benefit of imposing the fees as a cost recovery tax is that the Australian, state and territory governments are able to set a cost recovery goal for the Scheme.

4 Cost recovery model

4.1 Cost recovery activities

The estimated cost recovery revenue of \$1,529,900 collected from all registrants for the period 15 September 2013 to 30 June 2014 is expected to fund 80 per cent of the activities of the Scheme. Governments are to contribute the remaining 20 per cent.

There is a degree of variability involved in modelling the fee revenue forecast. The fee revenue forecast is based on a number of assumptions, including data on product model registrations under the current arrangements that will re-register under the new arrangements, as well as projections about new registrations, registrant drop-outs and consolidations where registrants have multiple registration numbers.

The department will monitor actual fee revenue during the CRIS period. There are a range of options available to manage a significant variance (either in terms of under or over-recovery): for example, fees could be adjusted up or down through the making of a new ministerial determination and CRIS.

5 Projected expenses and revenue for duration of CRIS

The projected revenue and running expenses for the WELS cost recovery arrangement over the period from 15 September 2013 to 30 June 2014 are provided in Table 2. Revenue for the whole of 2013-14 is collected between 15 September 2013 to 5 December 2013 (registration/renewal period), leading to an apparent non-alignment of revenue and expenses. This will be rectified in the next CRIS which will be for whole financial years. Table 3 shows the full year projected revenue and expenses to align.

5.1 Projected revenue and expenses

Table 1: Projected Revenue and Expenses for the period 15 September 2013 to 30 June 2014

Projected Revenue and Expenses	Amounts (\$)
Revenue	-
Contribution from Governments	380,100
Registration Fees	1,506,988
Total Revenue	1,887,088
Expenses	-
Consultancies	51,285
Communications	63,120
Specialist Legal Advice	107,304
Travel	41,428
Staff	1,243,853
Total Expenses	1,506,990

Table 2: Projected Revenue and Expenses for the period 1 July 2013 to 30 June 2014

Projected Revenue and Expenses	Amounts (\$)
Revenue	-
Contribution from Governments	380,100
Registration Fees (Cost Recovery Tax)	1,506,988
Total Revenue	1,887,088
Expenses	-
Consultancies	65,000
Communications	80,000
Specialist Legal Advice	139,000
Travel	52,507
Staff	1,576,493
Total Cost (July 2013-30 June 2014)	1,913,000

Table 3: Summary of Cost Recovery Arrangements for 15 September 2013 to 30 June 2014

Activity Name		Method of Recovery	Total Cost of Activity (\$)	Volume of Activity (Estimate)	Cost Recovery Charge	Forecast Total Cost Recovered for Activity (\$) * For CRIS period
1.1	Processing applications	Registration fee	950,323	20,351	See Schedule 1 of the <i>WELS Determination 2013</i>	748,626
2.1	Compliance and enforcement	Registration fee	550,020	53	See Schedule 1 of the <i>WELS Determination 2013</i>	433,283
3.1	WELS Advisory Group support	Registration fee	18,000	2	See Schedule 1 of the <i>WELS Determination 2013</i>	14,179
4.1	Standards and policy development	Registration fee	394,657	1	See Schedule 1 of the <i>WELS Determination 2013</i>	310,900
TOTAL						1,506,988

* Note: Revenue and expenses will be monitored through standard reporting mechanisms. A range of options are available for dealing with any significant variance between forecast and actual revenue.

6 Ongoing monitoring

6.1 Monitoring mechanisms

The WELS registration team monitors registration activity on a weekly basis, and revenue and expenses are also monitored through the Department's financial reporting and forecasting systems. Cost recovery revenue from this function is also reported in the Department's Annual Report in accordance with the Finance Minister's Orders.

6.2 Stakeholder consultation

Stakeholder consultation (including three stakeholder forums and release of a discussion paper with an invitation to make submissions) was undertaken during January-February 2012. A total of 119 submissions were received from a range of WELS Scheme stakeholders. All submissions were published on the WELS website www.waterrating.gov.au except for those that requested confidentiality. Among proposed changes to the Scheme, the discussion paper outlined four alternative ways fees could be designed to achieve 80 per cent cost recovery.

During forums in Brisbane, Sydney and Melbourne in February 2012, a number of stakeholders proposed an additional fee option to those presented in the discussion paper; stakeholders proposed that all registrants could each pay an equal share of the Scheme's 80 per cent cost recovery level, regardless of the number of product models held by each registrant. Consideration by the department of this consultation feedback led to the development of the tiered fee arrangement outlined in this CRIS, which recognises some of the factors behind the proposal from stakeholders while also aligning with cost recovery principles, such as cost reflectivity, with which the 'equal share' fee proposal would not have been consistent.

Fees were raised to achieve 50 per cent cost recovery in January 2012, as the legal basis for a cost recovery tax was then in development. This also provided an interim fee rise, so that fees did not immediately increase from the previous level, which recovered 20-30 per cent of scheme costs, to the 80 per cent level.

The department released details of the tiered fee option in February 2012 following the stakeholder forums, and the option was supported in some of the public submissions that were received later in the period for comment.

In addition to public consultation processes, the WELS Stakeholder Advisory Group (WELSAG) was consulted on cost recovery issues during all five of its meetings since the Group's June 2011 establishment. Outcomes of WELSAG meetings are published as communiqués on the WELS Scheme website.

The department has continued to communicate with stakeholders throughout 2012 about the tiered fee arrangement through direct emails to registrants, publishing information of the WELS Scheme website, and most recently the convening of stakeholder forums during November and December 2012 in Brisbane, Sydney and Melbourne. During 2013, stakeholders have been reminded that governments intend to increase registration fees to recover 80 per cent of scheme costs.

The WELS Officials Group, comprising departmental representatives from the states, territories, and the Commonwealth, also met on several occasions during 2011 and 2012 to discuss and agree on WELS Scheme matters. Following this process, and consistent with requirements in the WELS Act 2005, fees have been set by the Commonwealth minister after consultations with the states and territories.

6.3 Periodic review

The department undertook a periodic review of its cost recovery arrangements including the WELS Scheme, in 2011-12. The next periodic review is expected to occur by 2016-17.

In addition to periodic reviews of the department's cost recovery arrangements, the WELS Scheme itself was independently reviewed in 2010, consistent with requirements in the WELS Act 2005. The WELS Act requires that the next independent review of the Scheme be undertaken within five years of the previous review.

7 Certification

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



Dr Gordon de Brouwer PSM

Secretary

Department of the Environment

Date of Certification:

Estimated Fees Revenue 15 September 2013 to 14 September 2014

Tier	Number of Products in each Tier	Number of models	Number of Registrants in each tier	Fees	Tier revenue(\$)
1	1 to 5	180	60	600	36,000
1a	6 to 10	458	61	1,100	67,100
2	11 to 20	721	45	1,700	76,500
3	21 to 30	839	31	2,500	77,500
4	31 to 40	995	26	3,300	85,800
5	41 to 50	730	15	4,100	61,500
6	51 to 75	971	15	5,600	84,000
7	75 to 100	1921	21	7,500	157,500
8	101 to 150	2101	15	10,000	150,000
9	151 to 200	1516	8	13,000	104,000
10	201 to 250	946	4	16,000	64,000
11	251 to 300	924	3	19,000	57,000
12	301 to 350	1048	3	22,000	66,000
13	351 to 400	1250	3	25,000	75,000
14	400 to 450	1810	4	28,000	112,000
15	451 to 500	499	1	31,000	31,000
16	501 to 750	682	2	37,500	75,000
17	751 to 1000	787	0	52,000	-
18	1001 to 1500	2783	2	75,000	150,000
19	1501 to 2000	0	0	98,000	0
20	2001 or more	0	0	121,000	0