

## **DEPARTMENT OF WATER**

### **SUPPLEMENTARY INFORMATION**

**Response to questions raised by the Economics and  
Industry Standing Committee Inquiry into Water  
Licensing and Services**

**following from submission dated 6<sup>th</sup> February 2008**

**13<sup>th</sup> February 2008**

### **Supplementary question of how the hourly rate was calculated.**

1. Table C of the DoW supplementary response to the Standing Committee (February 6 2008) contains the total number of hours per year required to administer water licences. Based on cost recovery of \$5.8M this equates to an average hourly rate of \$29.73. The estimated total number of hours was determined by a combination of the number of licences in each class and the estimated hours required to administer the licence.

### **Question 2 - Detailed estimates of water licence administration costs for 2006-07**

Question 2 requested detailed estimates of water licence administration costs for 2006-07. The department's original submission advised that detailed estimates were not available, but that an in-depth analysis would identify more accurately the cost associated with administering water licences in the years 2006-07 and 2007-08. At hearing, the Committee was advised that the figures had not been available at the time the original submission was made, but they would be made available subsequent to the hearing. The department's second-submission response to question 2 advises that internal changes to budget and project management mean that costs can no longer be attributable to discreet activities.

The Committee requires clarification as to why an in-depth analysis as per the first submission is not provided as anticipated, and how the department can now guarantee accuracy of costings used in cost recovery calculations. We find ourselves trying to compare data that relates to costs per activity (compliance, SAT etc) with data relating to total costs per area.

2. The ability to replicate the breakdown of the confirmed discrete administrative activity of licences in the preparation of the discussion paper for the Irrigation Review in 2005 is no longer possible. This is because of the changes to departmental budgetary management and reporting before the Department was established (ie as Department of Environment), and subsequently when the projects were mapped across to the key programmes as the Department of Water was established.
3. However a detailed analysis of the current licensing programme activities, and how they are budgeted and implemented has been undertaken, and is delivered through the tables in the second submission provided by the Department, and confirmed at Attachment 1 Tables 2 and 3. Please note Table 2 in this current submission should replace that Table in the submission of 6<sup>th</sup> February 2008 as an error has been amended.
4. The Department apologises for the lack of supporting information in the earlier submission text to explain the analysis and management of the licensing programme activities.
5. Based on legal advice that the activities of licensing/assessment, compliance and enforcement, State Administrative Tribunal, community input and licensing support as they relate to Part III of the Rights in Water and Irrigation Act were defined directly related to the administration of water licences.
6. These core activities identified in the initial analysis that contributed to the calculations of costings for the licence fee classes in the schedule of fees, are now

rolled up under a single cost centres for the regions and branches for the licensing function and include estimates of both regional and corporate overheads for 2006-07 and 2007-08.

7. Business areas undertaking the administration of water licences are each assigned one cost centre for budget management. The activities undertaken within the water licensing business and assigned to these projects are the same as those identified in previous costing estimates used in the original calculations used in the Blueprint for Water Reform.
8. The Department is confident that these budgets represent the current budget assigned to the licensing programme for the implementation of these core administrative activities, and is consistent with the costs identified through the original calculations undertaken to provide an understanding of the workload per licence class.
9. The Department is committed to undertaking a review of costings and fees as part of the annual certification process as required by Department of Treasury and Finance (DTF), and referred to below, as part of the controls and compliance required to meet DTF obligations, discussed further below.

#### **Question 5 - Fee proposals to the Department of Treasury and Finance**

Question 5 related to submissions to DTF regarding fee proposals, revenue and cost recovery information. The response notes that the department complied with the requirements for 2008 - 09. Given that fees were proposed prior to this time, the response begs the question of whether the required submissions were made in previous relevant years.

10. The Department of Water apologises for the confusion and can confirm that it has complied with the Government certification requirements for tariffs, fees and charges for 2006-07, 2007-08 and 2008-09. Agencies are required to undertake regular reviews of their fees and charges. As part of the budget process it forms part of the general request by Government for agencies to provide updated financial information. While it is unnecessary in most cases to provide a detailed submission to DTF, a completed certificate is required. The department therefore complies with this request on an annual basis.
11. Attached are signed copies of the agency's "Certification to the Department of Treasury and Finance in Respect of Tariffs, Fees and Charges" dated 10 January 2006, 22 December 2006 and 19 December 2007 respectively.

#### **Question 6 - Internal costing policies**

Question 6 asked for information on the department's internal costing and pricing policies and how the department ensures that fees are consistent with government policy. In response, the department simply stated that internal costing and pricing policies are consistent with guidelines. While a government response to a steering committee has agreed that cost recovery is appropriate this does not go to

demonstrating how the department ensures consistency. This very general response does not provide sufficient level of detail to allow the Committee to demonstrate to Parliament the transparency of the department in such matters.

12. The Government guidelines "Costing and Pricing Government Services – April 2007" provide guidance to agencies for the development of charging models and notes that there are a number of charging models available for adoption. As has been outlined in the Department's 14 December 2007 submission and in response to Question 2 above, the licence fees introduced were developed using a ground up approach whereby the individual costs are identified and collated in order to develop a cost base from which to recover from licensees.

13. The licence administration fee model is consistent with these guidelines, and DTF has been involved in informal discussions and more formal budget negotiations around the implementation of the fees since 2006. DTF also contributed to the Government Response to the Blueprint.

14. In order to develop a discussion paper for the Blueprint consultation workshops (Key Direction 9), in 2005-06 the Department (then the Department of the Environment) identified the activities that comprise administration of licences, the total budget represented by these activities, and the budget cost centres that were applicable for funding of those activities. Through the calculations of effort required for the designated classes of licence, the Department then designed a simplistic user based fee structure (based on ranges of licence classes) to recover those costs.

15. These classes of licence for the fee structure were adjusted after the consultation workshops in 2006, but the total amount to be cost recovered (\$5.8 M) remained the same.

16. The principles that were established to develop the fee structure included:

- Full cost recovery for administration of licences (licence fee rather than a broader water resource management charge)
- Classes were defined by the average level of work for each class, estimated number of hours required, in assessing and maintaining a licence/permit.
- The portion of budget assigned to an entitlement class is calculated by:
  - a. *'No of licences per class x hours of work = total hours of work per category;'*
  - b. *'Total hours of work per category / total hours of work = percentage; and'*
  - c. *'Total cost to recover per category = % of total work of category x total budget.'*

17. At no time was the fee intended to be a volumetric charge (ie the amount of water used). The rationale was that the fee would be only for the services or activities relating to the administration of licences.

18. A volumetric-based fee was suggested to the Minister by interest groups as an alternative to the original fee structure, but the Department, on legal advice, found

that it was not legally possible at the time to charge based on a volumetric basis, and that the fee structure based on a fee for service, for the administration of licences was the only cost recovery mechanism available.

19. As part of the implementation process leading up to the introduction of licence fees, the Minister made adjustments to the way the fee was applied to those with domestic licences and surface water storage. These changes have resulted in an expected shortfall of cost recovered revenue to the Department. The fee structures were not adjusted, and there was no cross subsidisation imposed, as the Department was directed to cover the shortfalls within existing CF budget or to approach DTF for additional funding as part of the annual budgetary process.
20. The Department and the Minister provided feedback to questions raised by interest groups from the time of the Blueprint consultations, wrote to affected licensees, developed frequently asked questions fact sheets, provided hot lines for direct advice, and developed targeted print, radio and television information campaigns as a means of countering concerns and possible misunderstanding.
21. The total numbers of licences in the system is dynamic, and has changed over time, and will continue to change as licensees amend, alter, trade, or hand in licences. The licence administration fee (fee for service) will remain static until the review by the ERA. As expected in the current economic climate, the demand and competition for water is increasing, and the numbers of applications in the system also increasing.
22. The Department of Water has consistently identified the budget cost centres on the basis of those that were required for the administration of the licensing regime and again used a similar user based fee structure for the recovery of those costs.
23. The evidence of accuracy of these cost allocations and subsequent recovery proposals is provided by the signature of the Minister and the Director General on the "Certification to the Department of Treasury and Finance in Respect of Tariffs, Fees and Charges" referred to in Question 5 above, attesting to the accuracy of the costing of individual services and that the subsequent setting of the fees was materially accurate.
24. The current licence fee structure agreed to and gazetted in late 2007 does not have the same assumptions and principles applied, and results in partial cost recovery of licence administration costs.

#### **Question 7 - Material accuracy and cost reflection**

Question 7 addressed issues concerning how the department demonstrated material accuracy and cost reflection. The department's response repeated general information previously supplied. We would now like the department to advise the basis on which the (Acting) Director General or his representative signed off on compliance with this requirement. We need to determine the clear rationale for the fee basis - for example, what was the rationale for basing the fees on a volume scale?

It would be also be useful if the department provided all documents/correspondence between DTF and the department in relation to fee proposals, changes etc.

25. The Department's previous 14 December 2007 submission to the Committee and the response to Question 2 above clearly outlines the ground up approach to the development of the licence fee structure introduced in July 2007.
26. The cost of administering a licence in each class was clearly articulated, and consistent with a number of obligations on the State Government (including most recently the National Water Initiative<sup>1</sup>), the full cost of that licence class was sought to be recovered from licence holders under an 'impactor pays' approach of cost recovery for administration of water licences.
27. Based on this detailed analysis of costs and using the ground up approach of cost allocation, the A/Director General was satisfied with the material accuracy of the proposed fees. A further testament to the accuracy of the fees, as outlined in the response to Question 6 above, is the fact that the Minister was willing to counter sign the "Certification to the Department of Treasury and Finance in Respect of Tariffs, Fees and Charges" with the Director General, attesting to the fact that the methodology for costing of individual services and the subsequent setting of the fees was materially accurate.

#### **Water Corporation Licence Information**

28. As previously requested, please also find attached a table (Table 3) outlining the licences held by the Water Corporation, by region and licence type. For ease of comparison I have re-produced the table originally provided at Attachment 1 to our 6 February 2008 submission and added in a second table (as a sub-set of the original) illustrating the number of licences by type and region, held by the Water Corporation.

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<sup>1</sup> Which the State Government signed on 6 April 2006 before any licence administration fees were introduced.

Table 1 Projects and costs of administering water licences for 2006-2007

	Programme	Actual	Non Govt	Region Admin	Total
			91%	22%	
C1001	Pilbara Licensing and Compliance	\$216,212	\$196,753	\$43,286	\$240,038.56
C1002	South Coast Licensing and Compliance	\$109,833	\$99,948	\$21,989	\$121,936.60
C1004	Licensing and Compliance Swan Avon	\$1,252,676	\$1,139,935	\$250,786	\$1,390,720.90
C1005	Kwinana Peel Licensing and Compliance	\$366,751	\$333,743	\$73,424	\$407,166.96
C1006	Licensing and Compliance Goldfields	\$61,304	\$55,787	\$12,273	\$68,059.70
C1007	Mid West Licensing and Compliance	\$615,928	\$560,494	\$123,309	\$683,803.27
C1008	South West Licensing and Compliance	\$1,029,129	\$936,507	\$206,032	\$1,142,539.02
C1009	Kimberley Licensing and Compliance	\$137,644	\$125,256	\$27,556	\$152,812.37
C1301	Water Licensing and Support	\$403,387	\$367,082	\$0	\$367,082.17
C1302	Management Water Corporation	\$259,982	\$236,584	\$0	\$236,583.62
<b>Total</b>		<b>\$4,452,846</b>	<b>\$4,052,090</b>	<b>\$758,653</b>	<b>\$4,810,743.16</b>
	Pro rata Corporate Costs @ 30%				\$1,443,222.95
<b>Grand Total</b>					<b>\$6,253,966.10</b>

**Table 2** Projects and costs of administering water licences for 2007-2008

	Programme	Budget	Non Govt	Region Admin	Total
			91%	22%	
C1001	Pilbara Licensing and Compliance	\$245,703	\$223,590	\$49,190	\$272,779
C1002	South Coast Licensing and Compliance	\$150,204	\$136,686	\$30,071	\$166,756
C1004	Swan Avon Licensing and Compliance	\$1,354,073	\$1,232,206	\$271,085	\$1,503,292
C1005	Kwinana Peel Licensing and Compliance	\$436,441	\$397,161	\$87,375	\$484,537
C1006	Goldfields Licensing and Compliance	\$61,000	\$55,510	\$12,212	\$67,722
C1007	Mid West Licensing and Compliance	\$630,926	\$574,143	\$126,311	\$700,454
C1008	South West Licensing and Compliance	\$1,176,517	\$1,070,630	\$235,539	\$1,306,169
C1009	Kimberley Licensing and Compliance	\$209,960	\$191,064	\$42,034	\$233,098
C1301	Water Licensing and Support	\$469,216	\$191,293	\$0	\$191,293
C1302	Water Corporation Licensing	\$299,282	\$102,698	\$0	\$102,698
<b>Total</b>		<b>\$5,033,322</b>	<b>\$4,174,981</b>	<b>\$853,818</b>	<b>\$5,028,799</b>
	Pro rata Corporate Costs @ 30%				\$1,508,640
<b>Grand Total</b>					<b>\$6,537,438</b>

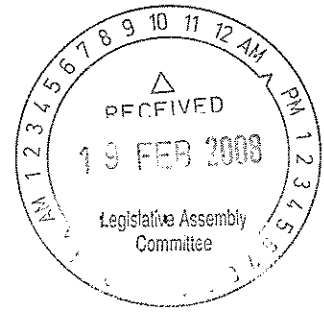
## LICENCES AND REVENUE BY LICENCE CLASS (FEE) AND REGION (INCLUDING WATER CORPORATION LICENCES)

Licence Class	Licence Fee	North West		Mid West		Swan		Kwinana Peel		South West		South Coast		Total Licences	Total Revenue
		Licences	Revenue	Licences	Revenue	Licences	Revenue	Licences	Revenue	Licences	Revenue	Licences	Revenue		
1	\$100	129	\$12,900	69	\$6,900	879	\$87,900	281	\$28,100	275	\$27,500	51	\$5,100	1,684	\$168,400
2	\$150	302	\$45,300	321	\$48,150	2,718	\$407,700	984	\$147,600	817	\$122,550	107	\$16,050	5,249	\$787,350
3	\$250	63	\$15,750	218	\$54,500	415	\$103,750	124	\$31,000	238	\$59,500	14	\$3,500	1,072	\$268,000
4	\$700	59	\$41,300	47	\$32,900	436	\$305,200	76	\$53,200	268	\$187,600	13	\$9,100	899	\$629,300
5	\$1,600	17	\$27,200	13	\$20,800	91	\$145,600	10	\$16,000	28	\$44,800	4	\$6,400	163	\$260,800
6	\$2,500	33	\$82,500	33	\$82,500	120	\$300,000	18	\$45,000	34	\$85,000	5	\$12,500	243	\$607,500
7	\$4,000	8	\$32,000	2	\$8,000	12	\$48,000	0	\$0	10	\$40,000	0	\$0	32	\$128,000
8	\$6,000	8	\$48,000	1	\$6,000	12	\$72,000	0	\$0	13	\$78,000	0	\$0	34	\$204,000
Total		619	\$304,950	704	\$259,750	4,683	\$1,470,150	1,493	\$320,900	1,683	\$644,950	194	\$52,650	9,376	\$3,053,350

## SUBSET: WATER CORPORATION LICENCES BY LICENCE CLASS AND REGION

1	\$100	0	\$0	0	\$0	1	\$100	2	\$200	0	\$0	0	\$0	3	\$300
2	\$150	1	\$150	8	\$1,200	5	\$750	2	\$300	8	\$1,200	2	\$300	26	\$3,900
3	\$250	2	\$500	4	\$1,000	5	\$1,250	1	\$250	4	\$1,000	2	\$500	18	\$4,500
4	\$700	3	\$2,100	17	\$11,900	13	\$9,100	3	\$2,100	11	\$7,700	4	\$2,800	51	\$35,700
5	\$1,600	4	\$6,400	6	\$9,600	8	\$12,800	1	\$1,600	7	\$11,200	5	\$8,000	31	\$49,600
6	\$2,500	3	\$7,500	0	\$0	12	\$30,000	0	\$0	7	\$17,500	3	\$7,500	25	\$62,500
7	\$4,000	3	\$12,000	1	\$4,000	5	\$20,000	1	\$4,000	1	\$4,000	0	\$0	11	\$44,000
8	\$6,000	2	\$12,000	1	\$6,000	7	\$42,000	3	\$18,000	4	\$24,000	0	\$0	17	\$102,000
Total		18	\$40,650	37	\$33,700	56	\$116,000	13	\$26,450	42	\$66,600	16	\$19,100	182	\$302,500

Note: In the majority licences for the Water Corporation are for Public Water Supply purposes. However there are a few licences issued for the reticulation of gardens around Corporation depots, for construction of a treatment plant and the supply of untreated reticulation water to an urban development within Perth



## **DEPARTMENT OF WATER**

### **SUPPLEMENTARY INFORMATION**

**Response to questions raised by the Economics and  
Industry Standing Committee Inquiry into Water  
Licensing and Services**

**following from submission dated 6<sup>th</sup> February 2008**

**13<sup>th</sup> February 2008**

Transmittal To Minister's Office (Executive Use Only)	
Date/Time Sent:	11/1/06
By Whom:	JS
How:	Hand <input checked="" type="radio"/> Bag <input type="radio"/> Courier <input type="radio"/> Fax <input checked="" type="radio"/> Email

## Department of Water

Author: Brendan O'Neil, Director Corporate Services  
Office of Origin: Department of Water  
Your Reference: 605463  
Our Reference: MINW14/06

### MINISTER ASSISTING THE MINISTER FOR WATER RESOURCES

### CERTIFICATION TO THE DEPARTMENT OF TREASURY AND FINANCE IN RESPECT OF TARIFFS, FEES AND CHARGES

#### RECOMMENDATION

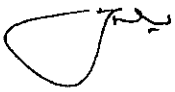
That the Minister:

- 1) Notes this information.
- 2) Sign attached certification and forward to Department of Treasury and Finance.

#### CURRENT STATUS

The Department has reviewed its fees and charges relating to Surface Water Licenses, Fees relating to Licenses and Permits and Registration of Instruments in the Register.

It is intended that the fees and charges remain unchanged for the time being ahead of the Department reviewing all its fees and charges in line with the creation of the Department of Water.



Paul Frewer  
**ACTING DIRECTOR GENERAL**

9 January 2006



Department of Water  
Government of Western Australia

Our Ref: 605463

Tim Marney  
Under Treasurer  
Governor Stirling Tower  
197 St George's Terrace  
Perth WA 6000

Dear Sir,

**CERTIFICATION TO THE DEPARTMENT OF TREASURY AND FINANCE IN  
RESPECT OF TARIFFS, FEES AND CHARGES**

Please find attached the ministerially reviewed and approved certification of the Commissions fees and charges.

Should you have questions regarding this matter please don't hesitate to contact our department representatives.

Yours sincerely

Sheila McHale MLA  
A/MINISTER ASSISTING THE MINISTER FOR WATER RESOURCES

6 January 2006

**CERTIFICATION TO THE DEPARTMENT OF TREASURY AND FINANCE IN  
RESPECT OF TARIFFS, FEES AND CHARGES**

**AGENCY: DEPARTMENT OF WATER**

**Declaration**

Except as indicated herewith, I declare that:

- I have reviewed all tariffs, fees and charges levied by this agency;
- No fees form part of the "household model" (primarily water, electricity and transport);
- The methodology for costing of individual services (and setting of fees) is materially accurate;
- There are no cases of fees where the revenue projections for that service indicate that greater than 100% cost recovery will be achieved;
- There are no issues that are otherwise contentious or high profile; and
- No new fees are proposed.

  
A/Director General

Date 10/1/06

Minister

Date



Government of Western Australia

**Hon John Kobelke** BSc DipEd JP MLA

Minister for Consumer and Employment Protection; Indigenous Affairs; Assisting the Minister for Water Resources;  
Our Ref: 605463 Leader of the House in the Legislative Assembly

Mr Tim Marney  
Under Treasurer  
Governor Stirling Tower  
197 St George's Terrace  
Perth WA 6000

Item Number:	MINW14/06 (Amended)		
Division:	CSD		
CEO			
Approval:	(initial here)		
Date Sent:	13.1.2006		
How:	Email	Bag	Courier
	Hand	Fax	

Dear Mr Marney

**CERTIFICATION OF THE WATER AND RIVERS COMMISSION TARIFFS, FEES AND CHARGES**

Please find attached the ministerially reviewed and approved certification of the Water and Rivers Commission's tariffs, fees and charges (trading as the Department of Water).

Should you have questions regarding this matter please don't hesitate to contact our department representatives.

Yours sincerely

**JOHN KOBELKE MLA**  
**MINISTER ASSISTING THE**  
**MINISTER FOR WATER RESOURCES**



Government of Western Australia

**Hon John Kobelke** BSc DipEd JP MLA

Minister for Consumer and Employment Protection; Indigenous Affairs; Assisting the Minister for Water Resources;  
Our Ref: 605463 Leader of the House in the Legislative Assembly

Mr Tim Marney  
Under Treasurer  
Governor Stirling Tower  
197 St George's Terrace  
Perth WA 6000

Dear Mr Marney

**CERTIFICATION OF THE WATER AND RIVERS COMMISSION TARIFFS, FEES  
AND CHARGES**

Please find attached the ministerially reviewed and approved certification of the Water and Rivers Commission's tariffs, fees and charges (trading as the Department of Water).

Should you have questions regarding this matter please don't hesitate to contact our department representatives.

Yours sincerely

**JOHN KOBELKE MLA  
MINISTER ASSISTING THE  
MINISTER FOR WATER RESOURCES**

16 JAN 2006

**CERTIFICATION TO THE DEPARTMENT OF TREASURY AND FINANCE IN  
RESPECT OF TARIFFS, FEES AND CHARGES**

**AGENCY: DEPARTMENT OF WATER**


**Declaration**

Except as indicated herewith, I declare that:

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- No fees form part of the "household model" (primarily water, electricity and transport);
- The methodology for costing of individual services (and setting of fees) is materially accurate;
- There are no cases of fees where the revenue projections for that service indicate that greater than 100% cost recovery will be achieved;
- There are no issues that are otherwise contentious or high profile; and
- No new fees are proposed.

  
A/Director General

Date 10/1/06

  
Minister

Date 16/1/06