



ATTORNEY GENERAL; MINISTER FOR COMMERCE

EXPLANATORY MEMORANDUM

ENERGYSAFETY BUSINESS PLAN 2014/15

Pursuant to Section 11(2) of the *Energy Safety Act 2006*, I am pleased to table the Department of Commerce's EnergySafety Division Business Plan 2014/15 for the information of Members of the Parliament of Western Australia.

The Business Plan is a key part of the statutory provision for annual industry funding of the Director of Energy Safety and staff (EnergySafety). EnergySafety is responsible for technical and safety regulation of all of WA's electrical industry, most of the gas industry and related activities.

This is the ninth Business Plan for EnergySafety. The first was submitted during the first half of 2006.

The 2014/15 Business Plan is the basis on which the quantum of the Industry Levy for the year will be determined, through a future *Energy Safety Levy Notice 2014* published in the *Government Gazette*. The levy is payable by electricity network operators and gas distribution system operators.

The main financial details of the Business Plan appear at page 34.

The Financial Plan indicates that the bank balance has grown over the past few years but the cost escalation expected in 2014/15 and beyond, as EnergySafety finds success in recruiting to its vacant (predominantly) electrical inspection roles, requires a levy increase for 2014/15 and each subsequent year.

The proposed 2014/15 levy is \$6.612m which is increased from the 2013/14 levy by CPI.

EnergySafety is expecting a significant carry-forward bank balance at the end of 2013/14. This bank balance has built up over the past few years for two main reasons:

- Firstly, licensing incomes were higher than budgeted. The extent and effects of the resources boom were underestimated and the effect of the global financial crisis was over-estimated. The mining growth in Western Australia has dramatically increased the number of fly-in-fly-out electrical operatives.
- Secondly, there was under-expenditure. This occurred primarily because EnergySafety had experienced difficulties in attracting staff, which has meant that labour and on-costs have been lower than budget. The staff shortages have meant that some projects have not been completed, including delays in the new IT-based Compliance Management System (CMS).

EnergySafety is confident that its future budgets are more accurate. It has improved its licensing forecasting techniques and has recently been more successful in filling vacancies.

The budget proposed in this Business Plan is different from past ones in that it is now presented on a full accrual basis, rather than on a cash basis. The reasons for this change include:

- It is consistent and better aligns with the presentation of the State Budget for all other Government entities.
- It is consistent and better aligns with the internal budget requirements of the Department of Commerce.
- Monthly management reports and the Department's annual reports have always been prepared on a full accrual basis and this change to the budget presentation will ensure greater consistency between budget estimates and reporting of actual results. This will result in better financial management information.
- Previous years' Financial Plans used present year dollar values in their out-year projections and only cash expenses, which meant that the impact of non-cash costs, CPI increases and other factors in cost escalation were not sufficiently understood. Decisions about revenue sources (i.e. industry levy levels) were not made in view of full cost expectations.
- Some licence types can be paid/renewed over various periods (either one year, three years or five years), and the cash presentation of licensing revenue did not sufficiently recognise the accounting treatment that accrued future-year related revenues.
- The industry funding model requires that licensing activity and the industry levy provides sufficient funds to meet the full cost of the operation of EnergySafety, which includes recognition of non-cash costs such as depreciation and leave liability expenses.

While the budget estimates are presented on a full accrual basis, the cash impact is also presented, including cash reserve estimates.

As the costs of EnergySafety have been steadily increasing over the past four years without a commensurate increase in the levy, the levy will need to increase. The Financial Plan indicates an increase in line with CPI each year from 2014/15, but forecasts indicate this level of funding will result in cash reserves reducing to a level below that considered prudent (see section 8.3 of the Business Plan). As this is the first year of full accrual budgeting and the cost estimates are less defined in the out-years, EnergySafety will review this in the next Business Plan to ascertain whether increases greater than CPI may be required.

The most significant risk to EnergySafety's budget stems from external economic factors. Electrical and gas licences have been growing at an exponential rate for the past ten years or so, reflecting the resources boom experienced in Western Australia. Approximately 28 per cent of electrical licences are issued currently to persons with an interstate address. Should the resources sector slow-down affect EnergySafety's licensing activity, without another trades-related sector experiencing significant growth, revenues from licensing activity may decline over several years.



Hon. Michael Mischin MLC
MINISTER FOR COMMERCE

17 FEB 2014