



**Australian Government**

**Department of Climate Change, Energy,  
the Environment and Water**

## **COST RECOVERY IMPLEMENTATION STATEMENT**

### **Water Efficiency Labelling and Standards scheme**

**Registering and labelling water-use and water-saving products under the  
Water Efficiency Labelling and Standards (WELS) scheme.**

**2022/23**

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## 1. INTRODUCTION

### 1.1 Purpose of the Cost Recovery Implementation Statement

Charging for regulatory activity involves government entities charging individuals or organisations in the non-government sector some or all of the minimum efficient costs of a specific government activity. The Australian Government Charging Framework (the Charging Framework)<sup>1</sup> sets out the policy under which government entities design, implement and review charging for regulatory activities. The Cost Recovery Implementation Statement (CRIS) is the public document to ensure the transparency and accountability for the level of the charging and to demonstrate that the purpose for charging, as decided by Government, is being achieved.

This document outlines how the Water Efficiency Labelling and Standards (WELS) Regulator within the Department of Climate Change, Energy, the Environment and Water (the department) implements cost recovery to regulate the registering and labelling of water-use and water-saving products under the WELS scheme. It includes:

- financial and non-financial information about the WELS scheme; and
- financial forecasts for 2022/23 and 3 forward years.

This 2022/23 CRIS is to provide an update to ensure it is contemporary and to bring it into alignment with current expectations of communicating approaches to cost recovery. The CRIS is not proposing any changes to the underlying cost model used to determine the approach to charging or the associated fee structure. The department will maintain the CRIS while the regulatory and cost recovery arrangement is in place.

In 2023, the department intends to undertake a review of the WELS scheme cost recovery arrangement, following the tabling of the 2020 Independent review of the operation of the WELS scheme. The department will also consider any issues raised through the engagement on this 2022 CRIS update which may be outside of the scope of the update.

### 1.2 Description of the regulatory charging activity

Regulating the supply of WELS products helps the Australian Government to support the objectives of the [Water Efficiency Labelling and Standards Act 2005](#) (WELS Act). These objectives include:

- conserving water supplies by reducing water consumption
- providing information to consumers of water-use and water-saving products
- promoting the adoption of efficient and effective water-use and water saving technologies.

Broadly, the WELS scheme contributes to national water security and reduces household utility bills related to water usage and the heating of water.

The WELS Act commenced on 18 March 2005. It allows for the Commonwealth Minister to determine (by legislative instrument) that water-use products or water-saving products of a specific kind are 'WELS products' for purposes of administering the WELS scheme. The [Water Efficiency Labelling and Standards Determination 2013](#) currently defines the below as WELS products:

- tap equipment that is for use exclusively over a fixed basin
- fixed showers for use exclusively for personal bathing
- electric dishwashers that are intended for household use
- electric clothes washing machines that are intended for household use (including cold wash only machines and combination clothes washing machine dryers)
- lavatory equipment that uses water
- urinal equipment that uses water
- flow controllers (for use in a WELS product or to be offered for supply separately).

<sup>1</sup> The Charging Framework is available on the Department of Finance website ([www.finance.gov.au](http://www.finance.gov.au)).

WELS products must be registered and labelled before being supplied to the Australian market. This requirement applies to all regulated entities participating in the supply chain. Regulated entities can range from domestic and international manufacturers, importers, wholesalers, retailers or building developers.

The department has the legislative authority to charge a registration fee associated with an application to register a WELS product. This fee applies to licensed organisations both inside and outside Australia. Charging for registration is appropriate because the supply of WELS products to the Australian market creates the need for this regulatory activity. As such, it is appropriate for costs to be recovered from the entities generating the requirement for the regulatory activities.

The department recovers 80% of the costs of administering the WELS scheme (partial cost recovery), through charging a fee for the assessment of registration applications. The remaining 20% is funded by the Commonwealth and States and Territories.

The mandatory registration and labelling of WELS products:

- enables businesses to be recognised for innovation in the development of water saving and water using products
- enables businesses to market their water efficient products accordingly and reach specific consumer cohorts
- provides consumers with information to make informed water-wise purchasing decisions
- provides water efficiency information to the public
- contributes to conserving water.

Regulated entities pay registration fees for two categories of products – ‘WELS plumbing products’ and ‘WELS appliance products.’ The entity within the supply chain that will commonly register a WELS product will be the manufacturer or another entity authorised by the manufacturer to register the product. Approximately 45% of regulated entities under the WELS scheme (i.e. licensed organisations that register WELS products) are located outside of Australia. There are no other stakeholders charged directly under the WELS scheme.

## 2. POLICY AND STATUTORY AUTHORITY TO COST RECOVER

### 2.1 Government policy approval to cost recover the regulatory activity

The Australian Government announced its decision to establish the WELS scheme as part of the 2005/06 budget. Authority to establish the WELS scheme is found on pages 156-157 of Budget Paper 2: Budget Measures ([archive.budget.gov.au/2005-06/index.htm](http://archive.budget.gov.au/2005-06/index.htm)). In the budget paper, funding was announced to administer a mandatory national Water Efficiency Labelling and Standards scheme. The scheme would provide consumers with information about the water efficiency of water consuming products. It was also announced that the cost of administering the WELS scheme would be met by partial cost recovery from industry through registration fees, and through state and territory contributions. Partial cost recovery would occur using a five-yearly registration fee of \$1,500 per product model. This cost recovery model limited the WELS scheme to charging a fee for a service, which could only consider the WELS scheme costs associated with WELS product registration.

The implementation of partial cost recovery has evolved since the WELS scheme was implemented in 2005. The Explanatory Memorandum associated with the *Water Efficiency Labelling and Standards (Registration Fees) Bill 2013* details subsequent changes to the charging model. The Explanatory Memorandum can be found at [www.legislation.gov.au/Details/C2013B00034](http://www.legislation.gov.au/Details/C2013B00034). In November 2011, the Standing Council on Environment and Water (no longer active) decided that the WELS scheme should recover 80% of its administration cost from registrants (i.e. regulated entities applying to register WELS products).

The *Water Efficiency Labelling and Standards (Registration Fees) Act 2013* enables the Minister to set fees for registration applications whilst considering the cost of administering the WELS scheme. All WELS scheme costs may be considered in setting the registration fee, including but not limited to, costs associated with processing registration applications, compliance monitoring and enforcement, policy, standard development and communications.

## 2.2 Statutory authority to charge

Legislation authorising WELS scheme cost recovery is identified below.

### [Water Efficiency Labelling and Standards Act 2005](#)

Section 67 of the WELS Act states that the Regulator may charge fees for services provided by, or on behalf of, the Regulator in the Performance of the Regulator's functions. Section 65 further states that amounts received by the Commonwealth as fees must be credited to an administered WELS Account (to meet requirements of the *Public Governance, Performance and Accountability Act 2013*). Section 66 states that the purpose of the WELS Account is to make payments to further the objects of the WELS Act or in connection with the performance of the Regulator's functions under the WELS Act.

### [Water Efficiency Labelling and Standards \(Registration Fees\) Act 2013](#)

The WELS (Registration Fees) Act allows fees to be applied when registering WELS products (i.e. making a registration application). It applies to registration applications made in or outside Australia, where a registration application is an application made under the WELS Act or a corresponding state/territory law.

Section 7(1) states that the Minister may specify fees for registration applications by legislative instrument. Before making an instrument, the Minister must give a draft of the instrument to each participating state or territory (Section 7(4)) and the instrument may specify the specific amount of the fee or the method of calculating the fee (Section 8(1)). Section 8(2) requires that the Minister must be satisfied that fees are set at a level that is designed to recover no more than the likely cost of administering the WELS scheme.

### [Water Efficiency Labelling and Standards \(Registration Fees\) Determination 2013](#)

The WELS (Registration Fees) Determination is the legislative instrument referenced in Section 7(1) of the WELS (Registration Fees) Act. The Determination defines the charging year as a period of 12 months starting on 15 September and specifies both the fee methodology (Section 5) and the amounts to be charged (Schedule 1 – Application fees).

## 3. COST RECOVERY MODEL

### 3.1 Outputs and business processes of the regulatory charging activity

The WELS scheme regulatory model places the Australian community and regulated entities at the centre of WELS scheme regulatory practice and broadly categorises regulatory activity as:

- setting requirements
- assessing and monitoring compliance
- responding to non-compliance.

These regulatory activities are supported by engagement and education, assurance and evaluation.

The activities (i.e. outputs) of the regulatory charging activity and the key business processes used to deliver the outputs are summarised in Table 1. Further detail on these activities is found at Appendix A. As identified in Section 2.1, the legislative authority for the WELS scheme provides for charges to be applied to the

assessment of registration applications. This charging mechanism is used to recover 80% of the costs of funding the administration of the scheme (i.e. all other aspects of regulatory practice).

Table 1 identifies the authorised charging activities and the associated WELS scheme regulatory activities which are partially funded through assessment of registration application revenue. These associated WELS scheme activities are required as part of the scheme's operation but the costs for which are not being charged through fees.

**Table 1.** WELS scheme activities and business processes

| Activity charged | Cost group                                   | Activity (output)   | Business processes (to produce the output)   |
|------------------|--|---|--|
| Charged          | <b>Intervention</b>                          | <b>Assessment:</b><br>Activities provided to an individual, business or organisation by a WELS Assessment Officer to assess an application to register a WELS product.  | <ul style="list-style-type: none"> <li>Use of ICT systems, standard operating procedures and communication channels.</li> </ul>  |
| Charged          |  | <b>Issue approvals/certification:</b><br>Activities provided to an individual, business or organisation by the WELS Regulator or their delegate to approve (or refuse) an application to register a WELS product.   | <ul style="list-style-type: none"> <li>Application approval/refusal and associated payment processing.</li> </ul>  |
| Not charged      |  | <b>Audit:</b><br>Activities which examine known regulated entities to determine their compliance with WELS legislative or documented requirements.  | <ul style="list-style-type: none"> <li>Use of ICT systems, standard operating processes and records management.</li> </ul>   |
|                  |  | <b>Inspections:</b><br>Activities provided to an individual, business or organisation by a WELS Inspector to determine compliance with the WELS Act.  | <ul style="list-style-type: none"> <li>Use of ICT systems, standard operating procedures and working with entities to bring about compliance.</li> </ul>                   |
| Not charged      | <b>Program management and administration</b> | <b>Workforce and Business Management:</b><br>Activities which consider staff resourcing and systems to support staff in delivering the WELS scheme.   | <ul style="list-style-type: none"> <li>Workforce management and support systems to plan, monitor performance, manage work health and safety, and recruit staff.</li> </ul> |
|                  |  | <b>Business System Administration:</b><br>Activities which deliver a stable WELS Registration System and Compliance Case Management System.   | <ul style="list-style-type: none"> <li>Use and maintenance of ICT systems.</li> </ul>  |
|                  |  | <b>Stakeholder Engagement:</b><br>Activities to promote and encourage voluntary compliance with regulatory requirements, and collaboration with co-regulators to align effort and reduce regulatory burden where possible.  | <ul style="list-style-type: none"> <li>Use of corporate communication and accessibility standards.</li> </ul>  |
|                  |  | <b>Policy and Instructional Material:</b><br>Activities to amend legislation, develop instructional material for compliance and registration processes, and update or develop standard requirements with Standards Australia committees.                                | <ul style="list-style-type: none"> <li>Maintenance of authorising environment (legislation and policy) and following standards development protocols.</li> </ul>           |
|                  |  | <b>Business Improvement:</b><br>Activities which seek to improve the effectiveness and efficiency of the scheme.  | <ul style="list-style-type: none"> <li>Use of management methodologies.</li> </ul>   |
| Not charged      | <b>Assurance</b>                             | <b>Risk Management:</b><br>Activities which involve assessing and managing the risks associated with achieving the objectives of the WELS Act. This includes assessment of risks associated with the supply and labelling of products that fall within the WELS scheme. | <ul style="list-style-type: none"> <li>Use risk management methodologies.</li> </ul>   |

|             |                            |  |  |
|-------------|----------------------------|--|--|
|             |                            | <b>Verification:</b><br>Activities which provide stakeholders with confidence that WELS scheme systems and processes are operating in accordance with their intended design. | <ul style="list-style-type: none"> <li>Following corporate and statutory reporting requirements.</li> </ul>                  |
|             |                            | <b>Surveillance:</b><br>Activities to monitor and support compliant behaviour.   | <ul style="list-style-type: none"> <li>Use of ICT systems.</li> </ul>  |
| Not charged | <b>Incident management</b> | <b>Incident Management:</b><br>Activities to coordinate and manage any incident of non-compliance in relation to WELS scheme compliance.                                     | <ul style="list-style-type: none"> <li>Use of ICT systems and a responsive regulation approach.</li> </ul>                   |
|             |                            | <b>Investigation Support:</b><br>Activities to support enforcement action relating to an alleged breach of the WELS Act 2005.  | <ul style="list-style-type: none"> <li>Compliance with the Australian Government Investigations Standards.</li> </ul>        |
|             |                            | <b>Corrective Action:</b><br>Activities to take proportionate regulatory action in response to suspected or actual non-compliance.   | <ul style="list-style-type: none"> <li>Use of ICT systems and appropriate responses to identified non-compliance.</li> </ul> |

### 3.2 Costs of the regulatory charging activity

The cost of administering the WELS scheme (i.e. the business activities specified in Section 3.1 Table 1) for the 2022/23 year are outlined in Table 2.

The activity costs in Table 2 are based on costs associated with administering the scheme which include direct (e.g. employee salaries and on-costs such as superannuation) and indirect costs (corporate functions such as human resources and property).

Although WELS scheme indirect costs are shown in Table 2, they are not part of the cost base that is recovered from industry during 2022/23. Indirect costs have not been part of the cost base recovered from industry since the start of the WELS scheme in 2005. This approach is no longer considered best practice and future recovery of indirect costs as part of the WELS scheme will be explored in a review of the cost model scheduled to occur in 2023.

**Table 2.** 2022/23 WELS scheme administration costs

| Cost group                            | Cost activity                     | Direct costs | Indirect costs* | Total       |
|---------------------------------------|-----------------------------------|--------------|-----------------|-------------|
| Intervention                          | Assessment                        | \$236,556    | \$61,936        | \$298,492   |
|                                       | Inspections                       | \$187,893    | \$23,595        | \$211,488   |
|                                       | Issue approvals/ certification    | \$68,498     | \$35,392        | \$103,890   |
| Program management and administration | Workforce and Business Management | \$421,570    | \$194,656       | \$616,226   |
|                                       | Business System Administration    | \$298,190    | \$73,733        | \$371,923   |
|                                       | Stakeholder Engagement            | \$793,455    | \$120,923       | \$914,378   |
|                                       | Policy and Instructional Material | \$342,073    | \$82,581        | \$424,654   |
|                                       | Business Improvement              | \$322,510    | \$50,139        | \$372,649   |
| Assurance                             | Risk Management                   | \$130,870    | \$23,595        | \$154,465   |
|                                       | Verification                      | \$42,965     | \$14,747        | \$57,712    |
|                                       | Surveillance                      | \$44,645     | \$9,438         | \$54,083    |
| Incident management                   | Incident Management               | \$118,849    | \$60,166        | \$179,015   |
|                                       | Investigation Support             | \$74,646     | \$38,931        | \$113,577   |
|                                       | Corrective Action                 | \$77,991     | \$41,881        | \$119,872   |
|                                       | Audit                             | \$97,739     | \$53,088        | \$150,827   |
| Total                                 |                                   | \$3,258,450  | \$884,801       | \$4,143,251 |

\* WELS scheme indirect costs are not currently considered under the cost recovery arrangement with industry.

The main cost driver for the single charging activity (registration application assessment) which funds scheme activities is controlled by industry participation in the scheme. As such, the cost driver is market driven based on the volume of applications received. For the period of 2017/18 to 2021/22 there was an average annual

increase in industry fee revenue of 1.5% (Table 3). Future changes in annual industry fee revenue are not expected to exceed the historic average.

**Table 3.** Industry revenue from 2017/18 to 2021/22

|                               | 2017/18     | 2018/19     | 2019/20     | 2020/21     | 2021/22     |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue                       | \$1,570,400 | \$1,606,300 | \$1,636,172 | \$1,618,700 | \$1,663,830 |
| Annual revenue change         |             | 2.3%        | 1.9%        | -1.1%       | 2.8%        |
| Average annual revenue change | 1.5%        |             |             |             |             |

### 3.3 Design of regulatory charges

In determining the cost of the regulatory charging activity, the cost of efficiently administering the WELS scheme is established (outlined in Tables 1 and 2). A fee structure is then applied against the chargeable activity (i.e. assessment of registration applications) to recover 80% of the cost of administering the WELS scheme. As indicated in Section 3.1, the fee applied to the chargeable activity is not representative of the cost of delivering the specific regulatory activity but is used as the mechanism to recover 80% of the cost of administering the WELS scheme. This approach to setting fee rates will be explored in a future review of the cost and pricing model to better align with best practice.

Fees are charged using a tiered annual fee structure, starting from \$600 to register 1-5 models (equivalent to \$600 - \$120 per model), to \$121,000 to register 2000 - 4000 models (equivalent to \$60.50 - \$30.25 per model). Table 4 shows the estimated 2022/23 WELS scheme revenue generated from the charging activity and Table 5 a summary of 2022/23 WELS scheme funding.

Consistent with requirements in the WELS Act, fees have been set by the Commonwealth Minister after consultations with the states and territories. [Fees](#) are published on the Water Rating website.

**Table 4.** Estimated 2022/23 WELS scheme cost recovery

| Charge title                        | Type | Rate   | Estimated volume | Estimated total revenue | Cost activity | Business process   |
|-------------------------------------|------|--|------------------|-------------------------|---------------|--|
| Registration application assessment | Fee  | Tiered fee structure. See Schedule 1 of the <i>WELS (Registration Fees) Determination 2013</i> | 23,487           | \$1,733,227             | Assessment    | <ul style="list-style-type: none"> <li>WELS Registration System - applications submitted by regulated entities.</li> <li>Application assessment – applications assessed by Assessment Officers according to established assessment procedures.</li> <li>Communication – application issues resolved with the regulated entity via the WELS Registration System.</li> </ul> |



**Table 5. Summary of 2022/23 WELS funding**

| Funding source            | Type   | Rate   | Estimated volume  | Revenue     |
|---------------------------|--|--|---|-------------|
| Cost recovery             | Registration fee                               | See Schedule 1 of the <i>WELS (Registration Fees) Determination 2013</i>   | 23,487  | \$1,733,227 |
| State contributions       | Contribution under Intergovernmental Agreement | Agreed by the WELS Officials Group on 1 March 2022 and as outlined in letters from the WELS Regulator to State and Territory representatives | Contributions are made from all States and Territories and are proportional to population size <sup>2</sup> | \$221,000   |
| Commonwealth contribution | Contribution under Intergovernmental Agreement | Agreed by the WELS Regulator on 21 April 2022 and outlined in the WELS Strategic Plan 2022 - 2025  | Contribution by Commonwealth  | \$221,000   |
| Total revenue             |  |  |   | \$2,175,227 |

#### 4. RISK ASSESSMENT

The Department of Finance's Charging Risk Assessment (CRA) tool has been used to assess the risk associated with WELS scheme cost recovery. The CRA tool has determined a medium risk. The department views the risk associated with the update to the CRIS as being appropriately managed. This conclusion is based on the below considerations:

- This CRIS update is not proposing any changes to the current cost model and there will be no differing cost impacts on regulated entities.
- The total proposed annual cost recovery revenue for the activity is less than \$10m. Additionally, the proposed change in annual cost recovery revenue is small and attributed to minor growth in registration applications.
- One type of cost recovery charge is used (fees), however this charge point has been used successfully since 2013. Additionally, legislation to recover costs already exists and there are no legislative changes required for the cost recovery charge described in this CRIS update.
- The cost recovery arrangement involves working with state and territory governments. However, this is undertaken through an established Intergovernmental Agreement, with the agreement reviewed every 5 years as part of the statutory review of the WELS scheme. Additionally, states and territories are engaged on WELS scheme matters and associated funding contributions through WELS Officials Group membership and group meetings chaired by the WELS Regulator.
- The minor changes from the most recent WELS scheme CRIS (published in 2014) include:
  - Use of the Department of Finance's current CRIS template, to ensure transparency and that relevant cost recovery issues are considered.
  - Use of contemporary language to describe cost recovery under the WELS scheme.
  - WELS scheme cost activities and outputs being provided in a greater level of detail.

<sup>2</sup> State/Territory contributions: New South Wales - \$70,278, Victoria - \$57,018, Queensland - \$44,863, Western Australia - \$22,984, South Australia - \$15,249, Tasmania - \$4,641, Australian Capital Territory - \$3,757 and Northern Territory - \$2,210.

- Updating relevant financial figures and forecasts.

To manage risks related to recovery of revenue, the WELS registration team monitors registration activity in the WELS Registration System. Revenue and expenses are also monitored through the department's financial reporting and forecasting systems. Cost recovery revenue is also reported in the department's Annual Report in accordance with the Public Governance, Performance and Accountability Act 2013.

## 5. STAKEHOLDER ENGAGEMENT

The department communicates with stakeholders about WELS scheme cost recovery in person, by phone or emails and by publishing information on the WELS water rating website. Additionally, the department engages in relation to cost recovery with:

- Fee paying businesses
- the WELS Officials Group, comprising departmental representatives from states/territories and the Commonwealth
- the WELS Advisory Group, comprising departmental, governmental, consumer advocates and regulated industry representatives.

Under section 76 of the WELS Act the Commonwealth Minister must cause a 5 yearly review of the operation of the WELS scheme, which must be tabled in Parliament. The 2020 independent review of the WELS scheme and Intergovernmental Agreement was completed in 2021. Part of this review engaged stakeholders on the cost of administering the WELS scheme. Stakeholder comments on the cost recovery arrangement will be considered in a 2023 review of the CRIS (reference in Section 8).

Stakeholders will be consulted on the draft version of this CRIS update in October 2022, using the department's stakeholder engagement Have Your Say platform.

### Background

The current charging model was developed in response to charging recommendations in the 2010 WELS Independent Review. Stakeholder consultation occurred in 2012 to discuss alternative ways fees could be designed to achieve 80% cost recovery. Consideration of this stakeholder feedback led to the development of the current tiered fee structure, which recognised some of the factors behind the proposals from stakeholders while aligning with cost recovery principles.

## 6. FINANCIAL ESTIMATES

Financial estimates for the administration of the WELS scheme including budget for 2022/23 and forward years are shown in Table 6.

**Table 6.** Financial estimates for 2022/23 and forward years

|                                     | 2022/23  | 2023/24      | 2024/25      | 2025/26      |
|-------------------------------------|--|--------------|--------------|--------------|
| Expenses = X                        | \$3,258,450  | \$2,289,000  | \$2,381,000  | \$2,476,000  |
| Revenue = Y*                        | \$2,175,227  | \$2,292,000  | \$2,385,000  | \$2,476,000  |
| Balance = Y – X                     | -\$1,083,223   | \$3,000      | \$4,000      | \$0          |
| Cumulative balance                  | -\$1,083,223   | -\$1,080,223 | -\$1,076,223 | -\$1,076,223 |
| Explain material variance           | <p>During 2022/23 the WELS scheme has:</p> <ul style="list-style-type: none"> <li>committed to significant investment in a number of activities to support the modernisation of the WELS Registration System, progress WELS product efficiency research, perform WELS scheme market research, analyse future cost recovery requirements and investigate WELS scheme product expansion.</li> <li>increased staff resourcing to build capability and capacity to respond to WELS scheme non-compliance</li> <li>entered a number of labour hire contracts to improve registration application processing capacity</li> </ul> <p>These initiatives have resulted in budgeted expenditure exceeding budgeted revenue in 2022/23.</p> |              |              |              |
| Explain balance management strategy | <p>Expenditure which exceeds revenue will be offset against the balance held within the WELS Special Account. Adequate funds exist in the WELS Special Account to account for over-expenditure during 2022/23. In effect, there will be no negative cumulative balance being carried forward to 2023/24. Revenue earned during 2022/23 and funds drawn from the WELS Special Account will fully account for 2022/23 expenditure.</p>   |              |              |              |

\* Forward year revenue includes estimated cost recovery revenue, Commonwealth contribution and state/territory contributions as agreed to in the 2022-25 WELS strategic plan.

## 7A. FINANCIAL PERFORMANCE

|   | 2017/18  | 2018/19     | 2019/20     | 2020/21     | 2021/22      |
|---|--|-------------|-------------|-------------|--------------|
| Expenses (payments) = X                       | \$1,494,000  | \$1,584,000 | \$1,505,000 | \$2,090,000 | \$2,937,000  |
| Revenue = Y                                   | \$1,922,000  | \$1,901,000 | \$2,198,000 | \$2,467,000 | \$1,724,000  |
| Balance = Y – X                               | \$428,000  | \$317,000   | \$693,000   | \$377,000   | -\$1,213,000 |
| Cumulative balance of WELS Special Account    | \$4,272,000  | \$4,589,000 | \$5,282,000 | \$5,659,000 | \$4,446,000  |
| Explain material variance                     | <p>Several initiatives and core business in past years were not commenced due to limited human resources resulting from machinery of government changes and government staffing cap policies. This led to prolonged staged phases of business improvement initiatives, which have since gained momentum. Increased revenue in 2020/21 is contributed to by the forward paying of 2021/22 government contributions in 2020/21. The increase in 2021/22 expenditure relates primarily to investing in building ICT capability and in staffing.</p> |             |             |             |              |
| Explain impact on balance management strategy | <p>The Special Account balance will adjust to appropriately invest in expanding and maturing the administration of the scheme. It will maintain a baseline to allow for fluctuations in industry revenue and maintain a budget to fund legal actions.</p>  |             |             |             |              |

## 7B. NON-FINANCIAL PERFORMANCE

The WELS scheme is a partnership between the Australian Government, state and territory governments and industry. The scheme reduces demand for water by informing consumers about the water efficiency of regulated products at the point of sale.

Through mandating the supply and labelling of WELS registered products to the Australian market, the WELS scheme:

- reduces water demand, supporting national water security
- informs consumers of product water consumption
- delivers savings in consumer water and energy utility bills and reduces greenhouse gas emissions
- promotes innovation and the adoption more efficient water use/water saving products.

Benefits accrue to states and territories through their use of WELS ratings in government policy, rebate programs, sustainable development initiatives and building regulations. Water utilities can benefit through support of water demand management, deferred infrastructure costs and long-term water conservation. Industry also benefits from nationally consistent and authoritative standards for water efficiency and performance of WELS products and can leverage competitive advantage for more water efficient products.

The Institute for Sustainable Futures (University of Technology Sydney) has modelled that the WELS scheme will save 158 GL of water in 2022, \$1.47 Bn in water and water-heating utility bills which and 2.31 metric tons of carbon dioxide equivalent (MT CO<sub>2</sub>-e) in greenhouse gas emissions.

Under Section 75 of the WELS Act, the department must report on the performance of WELS scheme as part of its Annual Report. Performance reporting for 2021/22 shows the WELS scheme as being effective, with compliance with regulations and stakeholder engagement being maintained or improved . Of note, compliance activities focused on responding to allegations and monitoring non-compliant e-commerce listings. Stakeholder engagement included collaboration with regulated entities, co-regulators and standards setting organisations. Additionally, the WELS scheme's 5 yearly independent reviews also examine the non-financial performance of the scheme, with WELS scheme design, effectiveness and efficiency being areas of focus. The review completed in 2020 is expected to be tabled in parliament in 2022.

## 8. KEY FORWARD DATES AND EVENTS

Departments of State must conduct periodic reviews of all existing and potential charging activities within their portfolios at least every 5 years, in accordance with the published [schedule of portfolio charging reviews](#) (PCR) or at other times agreed by the Finance Minister. The department's next PCR is scheduled for 2023.

In 2023, the department intends to undertake a review of the WELS scheme cost recovery arrangement, following the tabling of the 2020 Independent review. During the 2023 review, stakeholders will be consulted on the cost of administering the WELS scheme and options for a contemporary cost recovery model.

The department will also consider any issues raised through the engagement on this 2022 CRIS update which may be outside of the scope of the update.

## 9. CRIS APPROVAL AND CHANGE REGISTER

| Date of CRIS change | CRIS change   | Approver   | Basis for change                                       |
|---------------------|---|--|--|
| 2014                | Certification of the CRIS   | Secretary<br>Department of the Environment                                   | New regulatory charging activity                       |
| 16 December 2022    | Amend description of business processes and update of financial estimates | Secretary<br>Department of Climate Change, Energy, the Environment and Water | Revalidation of the costing model (operational change) |

## Appendix A Description of cost model activities (business service activities)

Four cost groups containing 15 business service activities contribute to the WELS cost base.

### Programme management and administration activities

**Workforce and business management**— this activity has four categories:

- Workforce management activities include staff supervision, allocating workforce resources, managing employee performance, leave, training and other conditions, managing Work, Health and Safety requirements, recruitment and termination.
- Business management activities include business planning and continuity, requesting legal advice, procurement and contracts, programme and project administration, design and management, and management of fixtures, facilities, equipment, supplies and logistics.
- Financial management activities include budgeting, charges and payments, collections and receivables, debt management, financial accounts, reporting and policy development.
- Information management activities include data management, information and records management, and information sharing and collaboration.

Outputs:

- Teams resourced appropriately and in response to changes in behaviour of the regulated community.
- Staff trained in regulatory practice.
- Sound budget administration.

Business processes:

- Human resources - workforce management, planning and development.
- Support systems – work health and safety, recruitment and performance management frameworks.

### **Business systems administration**

Business systems administration includes developing, acquiring, testing, implementing and supporting applications and business systems. This also includes the technical support and maintenance of business systems.

Outputs

- Reliable and effective ICT systems.
- Regular maintenance and enhancement releases to improve usability and performance.

Business processes:

- Systems - ICT system administration and maintenance.

### **Stakeholder engagement**

Stakeholder engagement involves proactive engagement with any person, business or organisation including any associated travel. This includes, engaging with peak industry bodies, secretariat support and attendance at industry consultative committee meetings, consultation on new standards and requirements, publishing website content and other information.

Outputs:

- Maintain the [Water Rating](#) website.
- Respond to queries and consult with stakeholder on WELS scheme changes.
- Publish factsheets and newsletters.
- Manage and participate in industry, standards and government committees.
- Provide the WELS Standard to stakeholders.
- Collaborate with e-commerce platforms and tertiary and vocational educational providers.
- Seek user experiences and testing for system improvements.

- Participate in industry events.

Business processes:

- Corporate communication standards – compliance with publishing and accessibility requirements.

### **Policy and instructional material**

Policy and instructional material include developing, maintaining and communicating the department's policy and instructional material, such as operational and corporate policies, scientific advice, departmental guidelines and work instructions, and associated training development and delivery.

Outputs:

- Develop and publish revisions of the WELS Standard (AS/NZS 6400 Water efficient products – Rating and labelling).
- Contribute to the development and revision of relevant WELS product standards.
- Review legislation and deliver amendments.
- Review and develop instructional material to support the WELS scheme.

Business processes:

- Standards committees - participation in relevant Standards Australia committees and processes.
- Authorising environment - Legislation and policy remaining fit-for-purpose and being prioritised for development.

### **Business improvement**

Business improvement includes assessment, monitoring and management of business performance and business improvement activities. Examples include adjustments to improve programme and service delivery, business performance reports against KPIs and similar activities.

Outputs:

- Acting on internal and independent scheme reviews and audits. This can be wide ranging, such as regulatory system, process and capability improvements, or review of the cost model or regulated product range.
- Evaluating and reporting on regulatory performance.

Business processes:

- Project management – Follow project management methodologies.

### **Assurance activities**

#### **Risk management**

Risk management involves assessing and managing the risks associated with achieving the objectives of the WELS Act 2005. This primarily includes assessment of risks associated with the supply and labelling of products that fall within scope of the WELS scheme. This work includes analysing data and leveraging from this analysis to inform the development of risk controls and treatments. Risk management products support strategic direction, priority setting, resource allocation and compliance monitoring approaches.

Outputs:

- Develop risk plans and treatments.
- Develop products which support strategic direction, priority setting, resource allocation and compliance monitoring approaches.

Business processes:

- Risk management – Follow established risk management methodologies.

## **Verification**

Verification includes activities that provide departmental executive and stakeholders with confidence that WELS scheme systems and processes are operating in accordance with their intended design. For example, data analysis and reports, quality assurance of instructional material, audits and completion of the periodic statutory review of the WELS scheme and associated Intergovernmental Agreement.

Outputs:

- Annual reporting.
- Audit and review response plans.
- Data and reporting products.

Business processes:

- Review - complying with the statutory requirement to enable a 5-year independent review of the scheme.
- Reporting – annual report cycle.

## **Surveillance**

Surveillance includes formal and informal monitoring to detect changes in market behaviours and WELS product supply. Surveillance entails horizon scanning and can involve monitoring at both a cohort and commodity level. Outputs of surveillance activities can include intelligence products and involve working with the regulated community and peak bodies to identify systemic or isolated incidences of non-compliant behaviour.

Outputs:

- Collect, monitor and analyse information and develop compliance products.

Business processes:

- WELS Registration System – use of registration information to monitor compliance with requirements.
- Compliance Case Management System – information captured to track suspected and actual non-compliance and record case management.

## **Incident management activities**

### **Incident management**

Incident management includes coordinating and managing any incident of non-compliance in relation to WELS scheme compliance. This includes the use of the WELS Compliance Incident Management System to track incidents, gathering and assessing information to aid in prioritisation, and liaison with regulated entities to bring about compliance.

Outputs:

- Gather, assess and document information.
- Work with regulated entities to bring about compliance.

Business processes:

- Compliance Case Management System – follow incident recording processes.
- Non-compliance management – using a responsive regulation approach to manage non-compliance and escalate when required.

### **Investigation support**

Investigation support involves providing support for enforcement activities relating to an alleged breach of the WELS Act 2005. Work of this nature will usually be performed by an appointed WELS Inspector. Examples of investigation support include research, data review and analysis, intelligence gathering, purchase and testing of WELS products, provision of advice, evidence collection, records of interview, field visits and escalation briefing.



#### Outputs:

- Research, data review and analysis.
- Evidence collection, intelligence gathering and development of intelligence products.
- Testing of WELS products.
- Provision of advice.

#### Business processes:

- Investigation procedures – Compliance with the Australian Government Investigations Standards, records management and chain of custody processes.

#### **Corrective action**

Corrective action includes actions taken in response to non-compliance or contravention of legislation or procedures, which are managed without a formal investigation by a WELS Inspector. Corrective action activities include directions, advice and support to regulated entities to manage non-compliance (awareness and education) and on-going monitoring to effectively manage the risk.

#### Outputs:

- Warning letters identifying suspected non-compliance.
- Compliance audits and remedial action notices.
- Infringement notices.
- Escalated enforcement actions.

#### Business processes:

- Compliance Case Management System - information captured to track non-compliance and record resolution.
- Compliance procedures – use of compliance tools to adopt a responsive approach to non-compliance.

#### **Intervention activities**

##### **Assessment**

Assessment involves assessing an application and its supporting information to register a WELS product, to determine if the application meets requirements of the WELS scheme.

#### Outputs:

- Assessment of WELS product registration application. There is no specific target for product registrations, as the total number of registrations is subject to demand from regulated entities to supply products to the Australian market.
- Referral of suspected non-compliance.

#### Business processes:

- WELS Registration System - applications submitted by regulated entities.
- Application assessment – applications assessed by Assessment Officers according to established assessment procedures.
- Communication – application issues resolved with the regulated entity via the WELS Registration System.

##### **Issue approvals/certification**

Issue approvals/certification includes the WELS Regulator or their delegate considering the outcome of a registration application assessment and approving the WELS product to be registered unless there are grounds to refuse registration. Approvals can also include the WELS Regulator, or their delegate approving the decision to cancel or suspend a WELS product registration.

#### Outputs:

- Registration of WELS product (unless the WELS Regulator has grounds to refuse to register the product).

- Registration application invoice issued, and payment reconciled.

Business processes:

- Application approval/refusal – Delegate approval or refusal of application to register the product.
- Application payment – invoices and payments processed within the departmental finance system and the WELS Registration System.

### **Inspections**

Inspections include the physical examination of WELS products to determine compliance with the WELS Act 2005. For example, the inspection of WELS products at a WELS business premises which is supplying WELS products to the public (retailer), or building inclusions offered by builders and developers.

Outputs:

- Physical inspections of WELS products at a WELS premise to determine compliance.
- Referral of suspected non-compliance.

Business processes:

- Compliance Incident Management system – manage and track inspections at WELS business premises.
- Working with regulated entities to bring about compliance or initiate escalated compliance responses.
- Evidence collection (if required).

### **Audit**

Audit includes the examination of known regulated entities to determine their compliance with WELS legislative or documented requirements. Audits will commonly occur either in response to the detection of WELS scheme non-compliance, or as proactive audits initiated by the department based on the level of risk of non-compliance. This includes desktop audits, onsite audits (including travel) and includes auditing of on-line retail sites and e-commerce platforms.

Outputs:

- Reactive and proactive audits (desktop or onsite), including the auditing of online retail sites and e-commerce platforms.

Business processes

- Compliance Case Management System – follow audit/incident recording processes.
- Audit management – reporting and records management processes.