

REVIEW OF FEES AND LEVY

[PROPOSED FEES AND LEVY]



BACKGROUND INFORMATION

Purpose of the Act

The purposes of the Plumbers, Gasfitters and Drainlayers Act 2008 (the Act) are:

- to protect the health and safety of members of the public by ensuring the competency of persons engaged in the provision of sanitary plumbing, gasfitting and drainlaying services; and
- to regulate persons who carry out sanitary plumbing, gasfitting and drainlaying.

How the Board is funded

All of the Board's funding is obtained from the levy and fees paid by tradespeople. The Board does not receive any funding from government. The Board is authorised to set the levy and fees by sections 142 and 143 of the Act.

Setting fees

The Board's fees review is also guided by the Controller and Auditor General's *Good Practice Guide to Charging Fees for Public Sector Goods and Services*, and Treasury's *Guidance for Setting Charges in the Public Sector*. The Board has ensured that:

- it has the legal authority to charge the fees and levy it is consulting on
- the fees and levy proposed are set at a level that ensures it carries out its business efficiently
- its processes for identifying costs and setting fees is transparent and accountable
- fees are set at no more than the amount necessary to recover costs over the three year period that the review relates to. The Board is proposing two instances of cross-subsidisation which are detailed in this document
- costs are allocated to fee or levy services as directly as information allows
- fees may over or under-recover costs in individual years in order to provide price stability and give certainty to consumers, but that the net effect over the whole period (three years in this case) should be zero or near zero.

The process so far

The Board resolved to consult on options for the review of fees and the levy, at its meeting on 17 February 2015. Consultation occurred between 25 February and 22 April 2015. This was undertaken by way of direct notification to tradespeople, Info Brief and the website.

The Board received 53 submissions. A summary of the submissions can be found on the Board's website at www.pgdb.co.nz/consultation/recent.html

The Board considered the submissions at its meeting of 12 May 2015. With the help of the submissions, the Board resolved to develop a fees model on the basis that:

- the one year licence period is retained
- the basic fee structure is unchanged except for the introduction of a new disciplinary and prosecution levy
- surplus cash reserves are applied to the review
- Board costs are reviewed
- the cost of photo licence cards is included.

How the proposed fees were developed

The proposed fees have been calculated using a sophisticated model that was developed for the Board by consultants KPMG for the 2012 review.

The Budget

The total cost of operating the Board in the current year (2015/16) is estimated to be \$3,779,496. This is funded from the following.

Function	Contribution
Licence fees	\$1,160,000
Disciplinary levies	\$ 948,600
Offences fees	\$ 479,400
Examination fees	\$ 365,000
Registration fees	\$ 240,000
Interest	\$ 160,000
Fines and costs	\$ 114,000
Other income	\$ 20,520
Reserve funds	\$ 291,976

In developing the proposed fees, the Board estimates that its total per annum costs will be approximately \$3,530,000 over the next three years subject to adjustment for inflation (based on NZ Reserve Bank forecasts) and some minor projected savings.

Use of Reserve funds

In the 2015/16 year the Board has budgeted for a deficit of \$291,976 which it will offset by using some of the funds it holds on reserve. The Board policy on reserve funds aims for reserves of between 3 and 6 months. Currently the Board holds reserves of approximately 10 months. Over the next three years the Board intends to continue to budget for a deficit and plans offset that deficit by gradually reducing the reserve over that time to 4.5 months total reserves.

Actual costs

In order to work out how much it costs the Board to deliver each of its functions, it required its staff to complete time sheets early in 2015. An analysis of the time sheets has been used to determine costs per function.

The proposed levy and fees have been calculated to recover the actual cost of providing the function or service, except in the case of examination reconsideration and exemptions fee. The Board considers that the actual cost of \$259.87 plus GST for examination reconsiderations would present a significant disincentive to apply for reconsideration. The Exemption fee has increased closer to the actual cost of \$552 plus GST.

The functions funded

The functions funded by the proposed fees and levy are:

Licensing

This function includes:

- the annual licensing of tradespeople, including the issue of authorisations for exemptions under supervision, and trainee limited certificates
- issuing provisional licences
- administering competency programmes including CPD
- issuing exemptions under sections 18, 20 and 24 of the Act.

The cost of the proposal to provide standards online for tradespeople is also included in this cost centre. Details of the standards that would be provided are set out later in this document.

The total budget for this cost centre is:

Licensing	
Direct costs	\$363,000
Direct salaries	\$213,000
Share of overhead costs	\$741,000
Total	\$1,317,000

This budget is funded primarily through the following three fees.

- **Licence fees** - This annual fee, proposed to be \$86, applies to the practising licences of registered plumbers, gasfitters and drainlayers, exemptions to work under supervision under sections 19, 21 or 25 of the Act, and provisional licences.
- **Trainee limited certificates** - This annual fee, proposed to be \$71, applies to the limited certificates issued to trainees under section 14 of the Act. The recommended fee for trainees is substantially less than for a licence because some cost components within the licensing cost centre, namely CPD and competency reviews, do not apply to trainees.
- **Applications for exemptions under sections 18, 20, 24 and 52 of the Act** - The fee for these applications is proposed to be \$575. This proposed fee does not represent the true cost of this work, which is estimated to be \$635.81, but \$575 is a substantial increase above the current fee of \$300 and reduces cross subsidisation.

Registration

This function includes:

- considering applications for registration from New Zealand and overseas trained tradespeople
- providing certificates of registration
- entering additions and alterations to the register.

The total budget for this cost centre is:

Registration	
Direct costs	\$ 25,000
Direct salaries	\$ 53,000
Share of overhead costs	\$134,000
Total	\$212,000

The proposed application fee of \$355 is the true cost of registration.

Disciplinary levy

This function includes:

- the complaint and disciplinary processes relating to registered people and provisional licence holders.
- the prosecution of offences under the Act. The most common offence that is prosecuted by the Board relates to people who are carrying out plumbing, gasfitting or drainlaying that they are not authorised to do.

The total budget for this cost centre associated with the complaint and disciplinary process is:

Disciplinary	
Direct costs	\$281,000
Direct salaries	\$263,000
Share of overhead costs	\$516,000
Total	\$1,060,000

The total budget for this cost centre associated with offences is:

Offences	
Direct costs	\$ 70,000
Direct salaries	\$178,000
Share of overhead costs	\$366,000
Total	\$614,000

The budget is funded primarily from the proposed annual disciplinary levy of \$271 which is made up of:

- \$166 for the administering of complaints and disciplinary processes
- \$105 for the prosecution of offences.

Fines and costs that are recovered also contribute to funding this cost centre.

The levy is payable only by registered tradespeople and is paid annually at licensing time. The levy is charged on a per person basis rather than per licence.

The disciplinary levy received will be split into the two amounts required for each function-complaints/discipline and offences. Each amount will then be recorded in separate accounts, called memorandum accounts to ensure that the amounts received for each function are used for no other purpose than complaints/discipline and offences respectively.

Examination fees

This function involves setting and conducting the Board examinations that are one of the minimum standards that must be achieved to enable registration to occur.

The total budget for this cost centre is:

Table ten	
Direct costs	\$194,000
Direct salaries	\$ 42,000
Share of overhead costs	\$ 89,000
Total	\$325,000

The budget is funded primarily from the following two fees.

- **Examination entry fee** - This fee, proposed to be \$290, enables entry to one of the Board's registration examinations.
- **Fee for reconsideration of an examination paper** - This fee, proposed to be \$102, enables the reconsideration of a person's examination paper where the person is not satisfied with the mark they have been given. It is considered by the Board that the actual cost of the reconsideration of \$298.85 plus GST would present a significant disincentive to apply for reconsideration.

It is estimated that 45 people will request reconsideration of examinations during 2015/16.

Other matters considered

Licence period – should it be for more than one year?

The Board considered whether there would be significant cost savings if licences were issued for a two year period rather than for one year. The conclusion reached was that cost savings would be less than \$7.50 per licence over each two year period. These savings would be the result of a reduction in staff numbers of 0.5 persons and savings from items such as postage, stationery and the cost of authorisation cards. The reason that there would be little saving is because the costs that predominantly drive the licensing cost centre are fixed and organisational costs that would not decrease irrespective of the length of time for which licences are issued. For example, the database that contains the register would cost the same each year irrespective of whether licences are issued for one year or for longer.