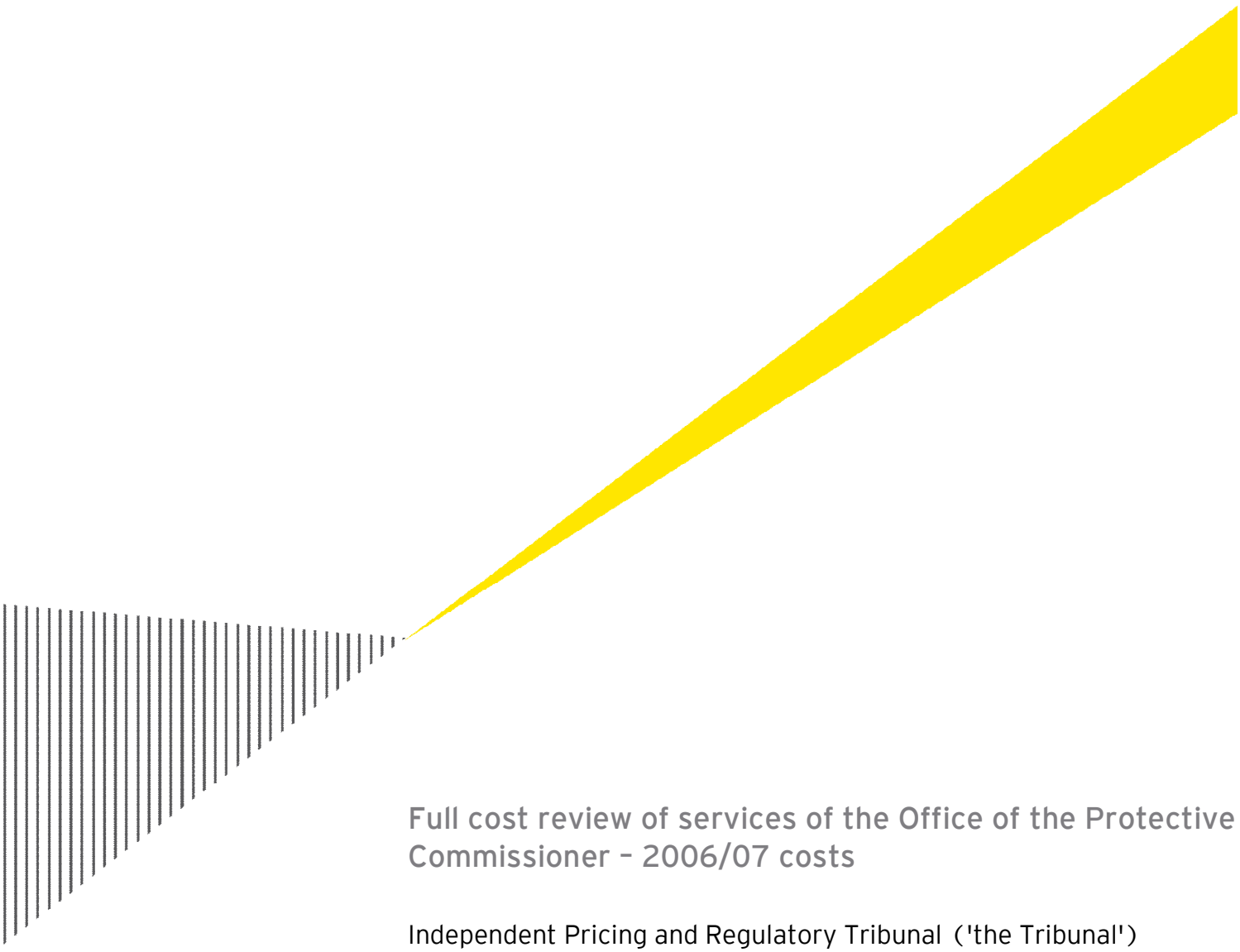

Full cost review of services of the Office of the Protective Commissioner – 2006/07 costs

Independent Pricing and Regulatory Tribunal ('the Tribunal')

1 July 2008

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Dear Dennis

Full cost review of services of the Office of the Protective Commissioner – 2006/07 costs

The Independent Pricing and Regulatory Tribunal has engaged Ernst and Young to provide analysis and advice in relation to the costs of services provided by the Office of the Protective Commissioner ('OPC') to both directly and privately managed clients. As such, please find our report set out below.

We wish to acknowledge the support of Imelda and her team at the OPC for their professionalism and patience over the time we spent at the OPC's offices. We could not have progressed the report without it.

Should you have any queries, please do not hesitate to contact me.

Yours sincerely

Peter Graham
Partner
Attachment
Copy to: Imelda Dodds – Protective Commissioner of NSW

Contents

1. Executive Summary

1.1 Overview

The Premier of New South Wales has requested that the Independent Pricing and Regulatory Tribunal ('the Tribunal') provide assistance to the Office of the Protective Commissioner ('OPC') by undertaking a review of the current fees charged by the OPC to their clients in order to recommend a fee structure that is clear, fair and transparent. The Tribunal has engaged Ernst and Young to provide analysis and advice in relation to the costs of services provided by the OPC to both directly and privately managed clients. Specifically, Ernst and Young were required to:

- Perform a full cost analysis of the OPC's services
- Measure the degree of cost recovery in the OPC by client groups and by service
- Outline the practical steps involved in implementing an activity based costing system in the OPC.

1.2 Results

1.2.1 Cost Analysis

Based on the analysis, we were able to identify costs for 14 core services provided by the OPC to its clients. The costs are set out in the table below alongside their respective allocation of overhead and indirect costs.

Table 1: 14 core services provided by the OPC

Responsibility Centre	Direct Costs $	Indirect Costs $	Overheads $	Total full allocated costs $	% Tota1
Liaison & Co-ordination	4,580,030	1,593,393	896,872	7,070,295	25%
Intake	577,250	256,439	175,930	1,009,619	4%
Finalisation	159,850	48,139	31,702	239,691	1%
Client Service Centre	934,115	272,253	389,420	1,595,788	6%
Private Management Support	1,597,723	526,240	390,566	2,514,529	9%
Budgets & Expenditure	1,856,337	799,006	456,812	3,112,155	11%
Legal Services	1,052,183	424,324	206,586	1,683,093	5%
Property Services	1,586,030	661,763	512,982	2,760,775	10%
Disability Advisory Services	858,512	307,582	194,546	1,360,640	5%
Investment- Funds Management	269,887	495,081	62,787	827,755	2%
Investment- External	175,461	48,554	31,028	255,043	1%
Financial Planning	596,484	287,147	129,064	1,012,695	4%
Taxation Services	357,514	214,952	81,216	653,682	2%
Client Trust Accounts	2,185,964	1,351,844	416,943	3,954,751	14%
Exclude	0	398,509	0	398,509	1%
TOTAL	16,787,340	7,685,225	3,976,454	28,449,019	100%

1.2.2 Cost Recovery

Our analysis of the extent to which the OPC's costs can be recovered through revenue generated by fees it charges to its client in 2006/2007 and the levels of cost recovery by client groups and services is limited. The key findings include:

- Fees charged by the OPC for its services and the cost for providing the services are generally not related
- Past analyses split client groups into a service level category being high, average and low based on disability type. This information was obtained using staff surveys. Further, there were limitations noted with the use of staff surveys. We have not adapted this approach for this analysis in 2008. We are of the view to ask staff to retrospectively estimate time and commitment spent on clients will not give the Tribunal results with which it could rely on. This is further complicated by the fact that the OPC does not split clients into 'bands' according to the level of service provided by OPC staff

- We have highlighted 14 core services that the OPC provides its clients. Key tasks within each service to each client cannot be separated nor split due to limited data availability. Thus we were unable to allocate services provided to clients except at a high level. Refer to Table 17: Cost recovery per client type for calculations

Table 2: Cost recovery per client type

Client Type	Revenue ($)	Cost ($)	Cost recovery ($)	Cost recovery %
Directly Managed Clients (including Banker Arrangements)	21,884,274	25,931,252	(4,046,978)	84.4*
Private Management Support	2,400,398	2,517,767	(117,369)	95.3
TOTAL	24,284,672	28,449,019	(4,164,347)	85.3

*This percentage is equivalent to 90% shown in Fig4.1 of the IPART Issues Paper June 2008. This is due to excluding interest income in revenue noted above.

- As the OPC does not levy a 'fee-for-service', it is not possible to sensibly allocate revenue to the vast majority of the services. Therefore, the only services that we can estimate the cost recovery on are Intake, Finalisation and Investment - Funds Management. These results are presented in section 5.6.

1.2.3 Activity Based Costing (ABC)

Before an ABC system can be recommended to be implemented at the OPC, a detailed cost-benefit analysis needs to be carried out. Whilst there are benefits for OPC Management and stakeholders to understand the true costs to serve clients, there are also significant costs in both implementing and maintaining an ABC system (there are not 'one-off' costs associated with implementing ABC systems). Without undertaking a cost-benefit analysis, we cannot recommend an appropriate course of action for the OPC, especially as there may be social/political benefits that may need to be factored into the analysis.

However, it is our view that for a service organisation such as the OPC, a timesheet system that links to the client information system is the only way that a reliable cost of service will be able to be derived.

2. Introduction

2.1 Purpose and Scope of Review

Pursuant to Section 9 (1)(b) of the Independent Pricing and Regulatory Tribunal Act 1992, the Premier of New South Wales, Morris Iemma, has requested that the Independent Pricing and Regulatory Tribunal ('the Tribunal') provide assistance to the Office of the Protective Commissioner (OPC) by undertaking a review of the current fees charged by the OPC to their clients in order to recommend a fee structure that is clear, fair and transparent.

The Tribunal has engaged Ernst and Young to provide analysis and advice in relation to the costs of services provided by the OPC to both directly and privately managed clients.

Specifically, Ernst and Young were required to:

- Perform a full cost analysis of the OPC's services
- Measure the degree of cost recovery in the OPC by client groups and by service
- Outline the practical steps involved in implementing an activity based costing system in the OPC.

In doing the above, we should take into account the previous OPC reports conducted by RMS Bird Cameron in 2003, 2005 and 2006, IPART in 2003 and Deloitte in 2007. If possible we were also required to compare the OPC costs and cost recovery against external benchmarks.

2.2 Overview of the Report

To assist IPART in providing analysis and advice in relation to the cost of service, this paper will highlight the cost analysis and cost recovery of the OPC for the 2006/2007 year and the implications behind determining these figures. Its structure is as follows:

- Section 3 provides background information on the roles and responsibilities of the OPC, its organisational structure and implications dealing with complex situations. We also comment on the previous reports provided to us and the key issues we discovered
- Section 4 examines the full cost analysis of the OPC's costs split by responsibility centre
- Section 5 discusses how costs might be recovered, and the difficulty in splitting the analysis by client group and service
- Section 6 sets out our views on appropriate benchmarks for the OPC costs and services
- Section 7 discusses our views on the implementation of an Activity Based Costing system and the practical steps needed.

2.3 Limitations

The following important point should be noted:

- The results and recommendations expressed in this report reflect discussions with and information provided by various staff and Management of the OPC. We believe all of the information used is reliable. However, we have not independently verified it. Therefore, we cannot give the Tribunal any warranty as to the accuracy of such information
- The OPC has proposed that from August 2008, it will operate under a new structure. The analysis we conducted was based upon financial information for the financial year ended 30 June 2007 and therefore reflects the operating costs of the structure that existed during that year. Any projection of the results to the financial year ended 30 June 2008 or 2009 does not imply that the costs per service would remain the same, especially under a new organisational structure

- This report is in now way intended as an efficiency review of the services provided by the OPC. That is, we make no comments as to the level of costs incurred by the OPC in providing a particular service and whether the levels of costs incurred are appropriate given the nature of the service
- As noted above, the analysis we conducted was based upon financial information for the financial year ended 30 June 2007. Due to the timing of our review which was conducted in May and June 2008, in some circumstances we have had to use current year information (2007-2008) and assume that it is appropriate to use that information as a basis for the 2006-2007 financial year. Whist it was our preference not to make such assumptions, the information for the financial year ended 30 June 2007 was either not available or time consuming to re-create. We have noted the instances where we have adopted this approach.

3. Background

The OPC provides financial management to individuals who due to disability are unable to manage their own financial affairs. The OPC was established in 1985 in its present form under the Protected Estates Act, 1983 (NSW), and forms part of the NSW Attorney General's Department.

The Protective Commissioner or a Private Manager can be appointed under the Protected Estates Act 1983 to manage the financial affairs of people who by view of disability are unable to manage their own affairs. The breakdown of clients from the OPC's Customer Information System ('CIS') as at April 2008 is set out in the table below.

Table 3: Breakdown of client by disability type

	Directly Managed Estates (8,826 clients)	Privately Managed Estates (2,490 clients)
Psychiatric Disability	46%	8%
Developmental Disability	22%	13%
Age related	15%	39%
Brain Injury	14%	25%
Other	3%	15 %

Where a Private Manager is appointed to manage an estate, the Protective Commissioner will provide information to the Private Manager about their responsibilities, issue directions and authorities, set a security requirement for the estate and review income and expenditure statements (accounts) each year.

The decisions of the OPC can be reviewed, first internally and then on application to the Administrative Decisions Tribunal (ADT).

3.1 Organisational Structure of the OPC

The current organisation structure of the OPC is set out in the organisational chart contained in Appendix A. The Protective Commissioner and Public Guardian is Ms Imelda Dodds. Under the Protective Commissioner there are three divisional Directors; Director Finance & Investment, Deputy Protective Commissioner and Director Assets, Corporate & Legal.

3.1.1 Deputy Protective Commissioner

The Deputy Protective Commissioner is responsible for four branches. These are:

- *Budgets and Expenditure* - responsible for the creation of client budgets, approval of client expenditure and correspondence with Centrelink and Department of Veterans Affairs
- *Disability Services* - prepare disability plans, provide disability advice and the appointment, administration and review of Authorised Visitors reports
- *Liaison & Co-ordination* - made up of three different services; liaison which provides a call centre to OPC clients, planning who develops client plans and provides the raw data for the reviews of financial plans and co-ordination who manages the overall client plan and advises other divisions when a service is required
- *Private Management* - direct and authorise private managers by reviewing accounts and proposals and obtaining authorised visitor and director of nursing reports. Through discussions with various OPC staff, we formed the view that while interaction between the Private Management branch and the specialist groups in the OPC do occur, they are infrequent at best.

3.1.2 Director Finance & Investment

The Director of Finance & Investment is responsible for six branches being:

- *Finance Services (Client)* - processes clients payments and receipts of income
- *Finance Services (Administration)* - internal accounting division of OPC and prepares financial information relevant to the operations of the OPC
- *Financial Planning* - prepares financial plans for clients who invest over $250,000 in the OPC diversified funds and provide advice on affordability issues for the wider OPC client base.
- *Taxation Services* - prepares income land tax returns and seeking of Australian Taxation Office rulings for all OPC clients
- *Investments* - monitors and manages all clients external investments such as superannuation, share portfolios and external bank accounts
- *Unit Registry* - administers and oversees the management of OPC diversified funds.

3.1.3 Director Assets, Corporate & Legal

The Director of Assets, Corporate & Legal is responsible for five branches, being:

- *Business Services*- internal support division within the OPC, primarily responsible for records management and printing
- *Legal Services* - both internal legal advice and advice to OPC clients in regards to personal injury, family law, deceased estate matters and recovery of assets
- *Asset Management* - provide a range of services in regards to clients' properties such as managing the purchase & sale of assets, constructions & renovations of properties and the organisation of property inspections
- *Human Resources* - provides internal support to OPC staff and includes a Learning & Development team
- *Information Technology* - responsible for all IT administration within the OPC.

3.1.4 Implications of Structure

It is important to understand the structure of the OPC. This is because after discussion with OPC management, the structure reflects the core services that the OPC provides its clients. It also highlights the indirect and overhead costs incurred by the OPC in providing these services. By indirect, we mean those costs that are necessary for the OPC to function (e.g. finance department, human resources etc.) but are not directly attributable to a particular service (Asset Management). We address the indirect functions in section 4.4.3 of the report. Overhead costs are those such as rent, depreciation etc. and these are discussed in section 4.4.2.

The OPC undertakes a range of activities related to clients affairs and can be responsible for managing a pension only estate to multi million dollar estates. Each branch set out above (apart from Liaison & Co-ordination) is specialised. For example, if a client wishes to purchase a house, the Asset Management branch will undertake most of the work. However, other specialist branches will also contribute such as Liaison & Co-ordination, Budgets & Expenditure, Financial Planning and Disability Services.

The structure of the OPC has changed significantly over the years. Prior to 2001, every client of the OPC was allocated to an Estate Manager and the Estate Manager essentially undertook all of the activities related to the client's affairs. In 2001, the OPC began to introduce a series of specialist units in an attempt to try and deal with the increasing levels of complexity that client affairs were demanding. For example, the Financial Planning Unit was set up to undertake responsibility for managing the investments of estates in excess of $250,000. It is staffed by specialists and accredited financial planners.

It is important to highlight that while the specialist units were developing, the CIS has not evolved in a way that is able to capture essential information that is necessary to understand the real cost of providing the services of those specialist units. Critically, the CIS does not capture the time and effort spent by staff of the OPC in delivering services to an individual client.

OPC dealing with complex situations

As mentioned above, the OPC provides multiple services for its clients. The example provided below highlights this.

A client or a family member of a client who requested purchase of a residential property would initially contact a Liaison Officer who would set off a chain of events or Tasks:

- Client family member contact Liaison stating that client wishes to purchase an identified property
- As a house purchase is a complex matter Liaison "Task" the purchase to Coordination
- Coordination creates 3 new Tasks:
  - One task to Financial Planning ('FPU') requesting advice on the affordability of the purchase
  - One task to Asset Management requesting a valuation
  - One Task to Disability Services ('DSB') requesting advice on the suitability of the property for the client giving consideration to their disability and/or a report on any modifications required
- FPU respond advising whether or not property is affordable. If it is not affordable the process may need to be recommenced with a lesser value property
- Assets arrange an inspection and valuation with a valuer (properties all over NSW preclude the use of a panel)
- If insufficient information held on file DSB may need to seek advice from a suitably qualified Occupational Therapist or Authorised Visitor to assess both the client and the proposed purchase for any necessary modifications
- If a need for more than minor modifications is identified, the proposed modifications would need to be re-Tasked to Assets for assessment of costs and FPU for assessment of affordability
- Once all of the factors have been assessed a Reasons for Decision document is produced and signed off
- The client and/or family are notified of the outcome of the Reasons for Decision
- If the Reasons for Decision concluded that the property was unaffordable or should not be purchased for other reasons the client and/or family may request an internal review of that decision
- If dissatisfied with the internal review they may appeal to the Administrative Decisions Tribunal. This would necessitate the involvement of the OPC's Legal Branch and may take some months to resolve
- If the Reasons for Decision concluded that the property should be purchased the matter moves to Assets to complete the purchase
- This will involve a number of additional sub-Tasks in Assets which would include pest and building inspections, referral to a Panel Solicitor for the conveyance, arranging insurance and placing a caveat on the property after settlement
- If funds are not available in cash, FPU may need to realise investment(s) to fund the purchase. This will involve consideration of the client's long term needs, current economic situation and any capital gains tax considerations
- If the vendor accepts another offer before accepting the one the OPC makes on behalf of a client the process will need to start over again.

While this example is one of the more complex issues that the OPC will deal with, other services such as purchase of a motor vehicle, particularly where it requires modification to cater to the client's disability is similarly complex. A simpler situation may involve a request to increase the allowance paid to a client by $100 per week. Even this request would involve a minimum of five steps across four of the branches.

With the complexities of the situation as described above and the multiple use of OPC branches, the CIS does not have the capability to track the level of service provided to a particular client in a manner that allows detailed analysis of the range of services provided to that particular client. We understand that changes will be made CIS in conjunction with the introduction of the new OPC structure in August 2008. This is because CIS is a bespoke system that has evolved over time with new features being added on as and when required. This has resulted in a system that is cumbersome and difficult to navigate. It has been in existence since 2000.

The important matter for our analysis is to highlight again that much of the information we required to allocate costs to clients at the OPC is not captured by the CIS. One of the main implications of the functionality of the CIS is further discussed in section 5.3.4.

3.2 Previous OPC and other reports

We have reviewed previous reports submitted to IPART in conjunction with the IPART cost analysis of the OPC as requested by IPART. Whilst we have reviewed the reports and taken into account their findings, we did not replicate the approach adopted in all instances.

3.3 Summary

Based on our review of the current structure of the OPC and previous reports conducted by a range of organisations, we formed our view on an appropriate approach to take for the full cost analysis. Our approach was based on our experience in conducting similar exercises and the information available from the OPC.

Importantly, we have taken a different view from past analyses. That is, we differ in terms of the level of confidence we would ascribe to results derived from an analysis based on surveys. We address this issue in much more depth in sections 4 and 5 of this report. However, it is our view that the Tribunal could not rely on results that we derived from a cost analysis based on high level estimates of time and effort spent by staff, especially when those estimates would need to be produced almost 12 months after the service was provided. That said, we followed a similar approach adopted by past analyses by allocating costs to services where readily identifiable and robust data was available.

4. Full Cost Analysis

4.1 Background

As set above, the Tribunal required us to perform a full cost analysis of the OPC's services. We preformed the following procedures in order to carry out the analysis:

- Obtained the Income Statement for the OPC Administration Fund for the year ended 30 June 2007. These amounts included expenditures related to the Public Guardian which needed to be excluded
- Met with senior management at the OPC to identify the services that it provides to clients
- Met with management of the OPC to understand in the process for preparing the above accounts. As part of this, we gained a detailed insight into the accounting system and importantly the recording of costs at the OPC
- Analysed the cost centre structure adopted by the OPC in order to identify the direct and indirect costs of service provision. We then allocated indirect costs to services to determine the full cost of providing the different services.

4.2 OPC's current costs

We have used the most recent audited financial accounts of the OPC being the financial year ended 30 June 2007 for the analysis of the OPC. We investigated the possibility of using year-to-date financial information for the 2007/2008 financial year. However, after discussions with OPC Management, we concluded that using audited figures for the 2006/2007 financial year would produce more reliable and robust results than using unaudited 2007/2008 year-to-date figures.

The basis of our numbers is derived from the OPC's Annual report for 2007 which contains the actual profit and loss for the year ended 30 June 2007. The table below highlights the OPC's costs for the period.

Table 4: Total OPC's Group Expenses for the year ended 30 June 2007

Expenses (2006-07)	OPC '000s	OPG '000s	Total $'000s
Personnel Services	19,704	4,759	24,463
Lease Expenses	3,032	600	3,632
Depreciation and Amortisation	2,297	148	2,445
Other operating expenses	3,416	576	3,992
Total Expense	28,449	6,083	34,532

Source: OPC financial statements for the year ended 30th June 2007

We also ensured that the cost centre information provided to us from the OPC reconciled to the financial report.

4.3 Identifying Services

In its submission to the Tribunal, the OPC has identified three major phases of a directly managed client's life cycle with the OPC. These are:

- Establishment of a new client
- Ongoing management of a clients affairs
- Finalisation

Within each of the above phases, the OPC has identified a number of services that it provides to its clients. For establishment of a new client and ongoing maintenance, these have been referred to as the '9/28' list. For reference, these are reproduced in full in Appendix D to this report.

In discussion with the OPC, we came to the view that it would be very difficult to separately cost each of the '9/28' services. This is because:

- it would be problematic and extremely time consuming to split cost centres (in effect create new cost centres) where a number of the services outlined in the 9/28 list is provided by one cost centre. For example, (services 2-9 in the ongoing management list are provided by the Client Trust Accounts Group)
- some of the services listed are similar and therefore we considered it appropriate to aggregate them to one service (for example, services 13-18) are performed by the Asset Management Group).

For Privately managed clients, the Private Management group and their role to direct and authorise the actions and activities of the private manager, consists of nine services. These are listed in Appendix E . Again, we came to the view that it is very difficult to separately cost the nine services. This is because:

- Staff members are split in the PM group to look after various clients, not a particular service
- More senior staff members look after complex situations for various clients
- Not all of the nine services are performed for each and every privately managed client
- Information on the time spent by members of staff on particular clients is not recorded and therefore not able to be verified.
- Through discussions with various OPC staff, we formed the view that while interaction between the Private Management branch and the specialist groups in the OPC do occur, they are infrequent at best.

Consequently, we came to view that there were a number of core services that the OPC provides to its clients. The services match the organisational structure of the OPC. Additionally, the cost centre structure currently utilised by the OPC readily allowed us to aggregate costs to services with a sufficient degree of confidence.

The OPC refers to these services in its financial information as Responsibility Centres these include:

Table 5: Responsibility Centres

► Liaison & Co-ordination	► Property Services
► Intake	► Disability Advisory Services
► Finalisation	► Investment- Funds Management
► Client Service Centre	► Investment- External
► Private Management Support	► Financial Planning
► Budgets & Expenditure	► Taxation Services
► Legal Services	► Client Trust Accounts

4.3.1 OPCs link between organisational structure and services

The organisational structure outlined in Section 3.1 is current as at June 2007. This structure is post a restructure that occurred in 2006. We have set out in the table below, the branches within the organisational structure that are closely linked with the 14 core services/ responsibility centres that we have identified.

We consider these core services are more in line with the services that the OPC currently provides to its clients. However, we have attempted to link the core services to the Program Areas outlined by RSM Bird Cameron in its 2003 report.

Table 6: Linkage between organisational structure and services

Branches within OPC	14 Core Services	Program Areas from 2003 report
Budgets & Expenditure	Budgets & Expenditure	Financial and Asset Management

Disability Services	Disability Advisory Services	Financial and Asset Management
Liaison & Coordination	Liaison & Co-ordination Intake Finalisation	Financial and Asset Management
Private Management	Private Management Support	Private Management
Investments	Investment- Funds Management	Funds Management
Unit Registry	Investment- External	Funds Management
Finance Services (Client)	Client Trust Accounts	Funds Management
Financial Planning	Financial Planning	Funds Management
Taxation Services	Taxation Services	Financial and Asset Management
Asset Management	Property Services	Financial and Asset Management
Legal Services	Legal Services	Financial and Asset Management
	Client Service Centre	Financial and Asset Management
		Community Relations
Financial Services (Administration) Business Services Human Resources Information Technology	Indirect Costs allocated to the above 14 core services	Support to various Program Areas

4.4 Cost & Responsibility Centres

The OPC's cost structure is divided into numerous cost centres which to a certain extent reflect its organisational structure. All costs incurred by the OPC are charged directly to the relevant cost centre or allocated to the cost centre by staff numbers. We identified the Responsibility Centres and their respective costs via the following steps.

- Identifying costs centres from the OPC's accounting system
- Allocating costs centres to a responsibility centre
- Identify if the responsibility centre is a direct or indirect cost
- Allocate indirect costs to direct costs
- Summarise the direct responsibility centres.

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4.4.1 Identifying Costs

Costs of the OPC consolidated group for the financial year ended 30 June 2007 amounts to $34.5m . This is made up of OPC: $28.4m and OPG: $6.1m[1]. For the purposes of this report only the costs incurred by the OPC are relevant.

All accounting and management reports are derived from the OPC's accounting system. The Cost Centre reports are also generated from the system. In the data presented to us, there were 66 cost centres which contain details of employee related expenses, total discretionary spending, non-discretionary spending and depreciation. Many of the 66 cost centres became redundant after the restructure that occurred in 2006 or contained very few costs. We amalgamated a number of cost centres with other costs centres with similar functions to identify the appropriate level of direct costs incurred by the OPC.

We then allocated the remaining cost centres to one of 21 Responsibility Centres. These responsibility centres summarise the services that the OPC provide (note that these Responsibility Centres include indirect functions). The summary list of costs centres and the allocation to responsibility centres is shown in Appendix B. The Division/Branch column highlights the branches in accordance with the OPC's organisational structure. The Branches are allocated against each cost centre and each cost centre is allocated to a Responsibility Centre.

[1] While the report is referring to the costs of operation of OPG it is important for the reader to note that OPG's revenue is separately funded by Treasury

4.4.2 Allocation of overhead costs within costs centres

When we analysed the cost centre information provided to us, it became apparent that some overhead costs are already allocated to cost centres. This is consistent with the findings of the 2003 RSM Bird Cameron report.

Major expense allocations to costs centres are as follows:

- Employee Related Expenses – staff costs are directly allocated to their cost centre
- General Fees – Directly charged to appropriate cost code
- Training & Development – Learning & Development incur the majority of costs and are charged to each appropriate cost code
- Custodian & Funds Management Fees - Directly charged to Finance & Investment cost code
- Rent & telephone and other miscellaneous fees – Allocated by head count
- Depreciation - Depreciation of computers is allocated by head count, furniture is only allocated to Clarence Street (all other furniture is rented) and depreciation of software is charged to Information Technology

Whilst some of the overhead costs could have been allocated to each cost centre via a different cost driver (for example, rent costs could be allocated via floor space), we are of the view that the methodology used by the OPC is reasonable. A different methodology is unlikely to produce a significantly different result.

4.4.3 Identifying Responsibility Centres

The table below presents the 21 Responsibility Centres and the total expense for each. We have nominated each responsibility centre as either a direct or indirect client service.

- *Direct* – Responsibility Centres having direct contact with their clients in providing services or supporting centres who may not have direct contact with clients although are working on behalf of the client. For example, Liaison and Coordination have direct contact with a client however Asset Management may spend time on a client regarding a sale of a property and may not contact the client at all. Direct costs in this table total $20.7m representing 73% of total costs.
- *Indirect* – Responsibility Centres that support the operations and management of the OPC as a business therefore, do not provide a service to the client directly. Indirect costs total $7.7m representing 27% of total costs.

Table 7: Responsibility Centres, their description and cost as at 30 June 07

RC Number	Responsibility Centre (RC)	High Level Description	Cost per RC $	Direct/Indirect Cost
1	Liaison & Co-ordination	► Made up of three different services; liaison, planning and co-ordination. ► Liaison provides a call centre service to OPC clients, ► Develops client plans, reviews financial plans and co-ordination ► Manages the overall client plan and ► Advises other divisions when a service is required	5,476,902	Direct
2	Intake	► Service all directly managed clients in their first months at the OPC. ► The overall service provided to each client is generally the same ► Establishing liaison database and including all available client information, ► Identification and securing of client's assets and liabilities, ► Payment of immediate and short term liabilities and needs ► Creation of a schedule for payment of client's "routine" bills and ► Management of client's longer term liabilities.	753,180	Direct
3	Finalisation	► Responsible for all services provided to deceased or discontinued clients	191,552	Direct
4	Client service Centre	► All costs associated with the Clarence Street facility which provides a more personalised service to clients who present challenging behaviour	1,323,534	Direct
5	Private Management Support	► All services provided to Privately Managed clients	1,988,289	Direct
6	Budgets & Expenditure	► Creation of client budgets, ► Approval of client expenditure; and ► Correspondence with Centrelink/DVA	2,313,150	Direct
7	Legal Services	► Legal advice to OPC clients in regards to personal injury, family law, deceased estate matters and recovery of assets on behalf of clients.	1,258,769	Direct
8	Property Services	► Provide a range of services in regards to clients properties. ► Specifically, the purchase and sale of properties, ► Management of constructions ► Renovations; and ► Conducting property inspections	2,099,012	Direct
9	Disability Advisory Services	► Provide disability advice, ► Appointment, administration and review of Authorised Visitors ► Preparation of disability plans	1,053,058	Direct
10	Business Services	► All general business expenses such as records management, printing etc.	1,544,347	Indirect
11	Human Resources	► General HR function at the OPC and also includes two learning and development staff who provide training to OPC staff	357,361	Indirect

RC Number	Responsibility Centre (RC)	High Level Description	Cost per RC $	Direct/Indirect Cost
12	Information Technology	► All internal office costs related to IT at OPC. ► Includes all expenses associated with depreciation and licensing of software.	2,225,306	Indirect
13	Quality Control	► Oversees the internal audit function at the OPC	58,245	Indirect
14	Community Liaison	► Provides written information and education sessions to the community and stakeholders on the role of a financial manager and the OPC	284,497	Indirect
15	Investment-Funds Management	► Oversees the management of clients investments in the OPC diversified funds	332,674	Direct
16	Investment-External	► Manages all directly managed clients external investments including Superannuation, Share Portfolios and external bank accounts	206,490	Direct
17	Financial Planning	► Prepares financial plans for clients who invest over $250,000 in the OPC diversified funds	725,547	Direct
18	Taxation Services	► Preparation of income tax and land tax returns and seeking of Australian Taxation Office rulings.	438,730	Direct
19	Client Trust Accounts	► Processing of payments and receipts of income	2,602,907	Direct
20	Corporate Accounts	► Day-to-day OPC accounting entries and journals,preparation of monthly reports, annual reports and AGD reports.	575,722	Indirect
21	Executive	► Includes Protective Commissioner and all Directors' costs.	2,639,747	Indirect
	TOTAL		28,449,019	

4.4.4 Allocating indirect costs to direct costs

The following Responsibility Centres are considered to be indirect costs and support the OPC's management and organisation as a whole. These are identified below and are allocated to direct costs based on the following cost drivers.

Table 8: Allocation of Indirect Costs Centres

Indirect Cost Centre	Driver	Reason
Business Services	Head Count	A direct link to business services and general business expenses is staff numbers. The increase in staff results in a direct increase in printing, administrations etc.
Human Resources	Head Count	General HR function administers staff in the OPC. The number of staff per cost centre is the most common driver.
Information Technology	PC's / Head Count	The number of PCs in the OPC amount to approx 250, which represents nearly 1 for each staff members hence we have allocated by staff.
Quality Control	Head Count	Internal audit relates to all of the OPC. Amount is only $52k.
Community Liaison	Excluded	Per the 2003 Bird Cameron Report, we have excluded this overhead as it represents a community/social welfare service provided by the OPC and therefore should not be charged to clients.
Corporate Accounts	Total Direct costs per Cost Centre	.This team spend their time reporting for OPC , therefore headcount is not reflective . Total direct cost per cost centre is more reflective of he level of time spent on each cost centre .
Executive	Refer to flowchart Appendix C	This reflects the time management should spend on each branch. (this does not include additional project work or time spent on restructure).

While it could be argued that there are more appropriate cost drivers for the Indirect Cost Centres, the choice of driver was dependant on the availability of information. As the OPC have not adopted an ABC approach, accurate cost drivers are not required to be kept. For example, Quality Control could be allocated based on the areas which it targeted during the 2006/2007 financial year. However this information is not recorded.

4.5 Allocation of Costs to Services

The table below presents the 14 direct Responsibility Centres and the total cost including direct cost and the allocation of indirect costs. The Responsibility Centres also represent a separate core service provided by the OPC.

Table 9: Total costs for each responsibility centre (including direct & indirect costs)

Responsibility Centre	Indirect Cost %	Total Cost $
Liaison & Co-ordination	23%	7,070,295
Intake	25%	1,009,619
Finalisation	20%	239,691
Client Service Centre	17%	1,595,788
Private Management Support	21%	2,514,529
Budgets & Expenditure	26%	3,112,155
Legal Services	25%	1,683,093
Property Services	24%	2,760,775
Disability Advisory Services	23%	1,360,640
Investment- Funds Management	60%	827,755
Investment- External	19%	255,043

Financial Planning	28%	1,012,695
Taxation Services	33%	653,682
Client Trust Accounts	34%	3,954,751
Exclude	100%	398,509
TOTAL		28,449,019

4.6 Summary

Based on the information above we have been able to identify costs to a high level of 14 direct services provided by the OPC.

5. Cost Recovery

5.1 Introduction

The second task that the Tribunal required was to measure the degree of cost recovery in the OPC by client groups and by service. We performed the following procedures in order to carry out the analysis:

- Identify sources of revenue generated by the OPC
- Identify client groups served by the OPC
- Where applicable, allocate costs to client groups
- Where applicable, allocate revenue to client groups and assess the level of cost recovery of those client groups
- Where applicable, allocate revenue to services and assess the level of cost recovery of those services.

5.2 Identify Sources of Revenue

We have used the most recent audited financial accounts of the OPC being financial year ended 30June 2007 for the analysis of the OPC. The table below highlights the OPC's revenue for the period.

Table 10: Total OPC's Group Revenue for the year ended 30 June 2007

Revenue - 2007	OPC $'000s	OPG $'000s	Total $'000s
NSW Government Contributions	7,432	6,751	14,183
Fees	24,285	-	24,285
Interest Income	1,141	207	1,348
Other revenues	56	-	56
Total Revenue	**32,914**	**6,958**	**39,872**

Source: OPC financial statements for the year ended 30 June 2007

5.3 Identify client groups

The OPC currently services three client groups which include the following client types:

5.3.1 Directly Managed Clients

Directly Managed clients are individuals who have a formal Financial Management Order made by a Court or Tribunal appointing the Protective Commissioner as manager of their financial affairs and estate. As at 21st April 2008 there were 8,826 active Directly Managed clients registered with the OPC. This number continues to increase, with over 1,000 new orders made during the June 2007 financial year.

Sixty per cent of these clients have financial assets of less than $25k and are generally dependent on Centrelink or Department of Veterans' Affairs ('DVA') income support and related entitlements. Only four per cent of the clients have financial and property assets valued in excess of $1m.

Included within directly managed clients is another sub-group of clients referred to as Client Service Centre clients. These clients present challenging behaviour and therefore require more assistance and direct contact on a regular basis. As at 30 June 2007, there were approximately 650 clients registered with the Client Service Centre. In order to provide these clients with a more specialised service the Clarence Street facility was established. The facility allows clients to deal directly with the OPC staff on a day-to-day basis.

5.3.2 Banker Arrangement Clients

In 1989 it was agreed that the OPC would informally manage the financial affairs of patients cared for by the Department of Community Services now called NSW Department of Ageing, Disability and Home Care (DADHC). Under direct instruction from the DADHC, it was agreed that the OPC would primarily act as a 'banker' for these clients by managing their general income and expenses. As all clients are in care and reliant on Centrelink income support, only minimal services are provided which include, receipt of pension, payment of board and living expenses and general non-standard payments for holidays etc. Originally these clients were in excess of 1,500. However, overtime the number has been reduced to 719 active clients (as at 21/4/08). The OPC is not taking on any new Banker Arrangement clients and is gradually transferring remaining clients to formal financial management orders by way of application to the Guardianship Tribunal.

5.3.3 Privately Managed Clients

Privately Managed clients have formal Financial Management Orders made by a Court or Tribunal appointing a person/s or 'trustee' company to be the private manager of their financial affairs and estate. The role of the Protective Commissioner is to direct and authorise the activities and actions of the private manager. As at 21 April 2008 there were 2,490 active Privately Managed clients registered with the OPC. This number continues to increase with over 600 new orders made in the 2006/2007 financial year.

5.3.4 Further Breakdown of Clients

We have taken a different approach from that adopted in past analyses of the OPC. The RSM Bird Cameron report of 2003 identified that the disability type of a client (refer to Table 3.1) provides a link to a service driver. That is, the disability type has an influence on the amount of time an Estate Manager requires to provide a service. In our view, while this assumption may have been appropriate in 2003, the increased specialisation of groups within the OPC has resulted in this assumption being redundant in 2008. We could find no evidence, either through discussions with OPC Management or in the CIS that demonstrates that in the current OPC structure, the disability type affects the level of service provided to an individual client.

Moreover, we could not identify bands of client grouping which indicated the level of service provided to clients from the information contained within the CIS (for example, high, average, and low levels of service)[2]. We do understand that at least one similar organisation to the OPC in other another state can readily obtain information which allows this breakdown.

The RSM Bird Cameron report of 2003 also used surveys of staff to allocate costs to client groups. We are of the view based on our experience in conducting similar exercises, we would not allocate costs based on staff survey's for this analysis analysis, especially when those survey's are conducted almost 12 months after the period we are examining. It is our view that a detailed cost analysis should be based on information that is supportable with objective evidence. Moreover, in order for the information to be reliable, it must be contemporaneous. Further, it is our view that the Tribunal could not rely on any results that we would derive from a cost analysis based on such high level estimates of time and effort spent by staff. Consequently, we have not attempted to breakdown client types further, other than those set out in sections 5.3.1 to 5.3.3 above.

[2] This applies to the 2006/2007 cost analysis, Ernst & Young have examined OPC's budgeted accounts for 2008/2009 and some progress has been made in identifying client groups by level of service.

5.4 Allocation of Costs to Client Groups

As we could not identify information that would allow us to split clients into the level of service provided to them, only the average cost of providing services to each client type can be derived.

Table 11: Average cost per client type

Client Type	Cost ($)	Client Numbers	Average Cost ($)
Directly Managed Clients (including Banker Arrangement)	25,934,490**	9,539*	2,719
Private Management Support	2,514,529	2,252	1,117
TOTAL	28,449,019	11,791	2,413

*Total Directly managed clients per the annual report are 8,786 + Banker Arrangement of 753 totalling 9,539.
** Cost is 24,338,702 for Directly Management and Banker Arrangement plus 1,595,788 for the Client Service Centre.

5.5 Allocation of Revenue to Client Groups

5.5.1 Interest Income

There is the question of what to do with the interest income earned by the OPC. In 2006/2007, it is a significant amount ($1.14m). Essentially, the interest income results from OPC's own cash balances. As such, it is not easily allocated to a particular client, client group (or service). Accordingly, we have not allocated this revenue to any client group (or service).

5.5.2 Asset and Service Fees

Revenue from fees is derived from income, assets and services. The revenue above for the 2006/2007 is $24.3m. This is comprised of:

- Management Fees: $15.7m
- Private Management Fees: $1.8m
- Investment Fees: $6.8m

Excluding interest, we have been able to split the revenue by client group being Directly Managed, Privately Managed and Banker Arrangement clients. Each client group have different fee types and these are explained below.

Table 12: Directly Managed fees charged by the OPC

Fee Type	Fee Description
First Year Management Fee	2.1% of the value of the client's estate[3]. This is made up of a standard management fee of 1.1% plus an additional fee of 1% which is capped at $2,200 (The 'cap' has been determined by the Protective Commissioner). The total first year management fee is also capped at $50k.
Subsequent Years Management Fee	1.1% per annum of the value of the client's estate. The Protective Commissioner has capped the management fee for all clients at $50k.
Investment Fee	0.5% per annum of the value of a client's internal OPC investments (e.g. access fund/trust account and Common Fund diversified investments)[4]
Special Fees	The Protective Commissioner may charge fees at her/his discretion for any other service provided to a client which is considered to be exceptional or additional.

[3] the value of a client's estate is the value of all her/his 'feeable' assets inclusive of external financial assets/investments; internal OPC Common Fund investments; and, real property which is not her/his principal place of residence.
[4] the 0.5% per annum is not charged on the value of a client's external investments such as managed funds, fixed term deposits, superannuation and shares

Table 13: Privately Managed Fees charged by the OPC

Fee Type	Fee Description
Income Fee	% per annum on the net annual income of the client
Investment Fee	0.5% per annum of the value of a client's internal OPC investments (e.g.. access fund, Common Fund diversified investments)
Account Fee	A fee of no more than $100 per annum
Special Fee	The Protective Commissioner may charge fees at her/his discretion for any other service provided to a client which is considered to be exceptional or additional

Table 14: Banker Arrangement Fees charged by the OPC

Fee Type	Fee Description
Management Fee	1.1% per annum of the value of the client's estate. The Protective Commissioner has capped the management fee for all clients at $50,000.
Investment Fee	0.5% per annum of the value of a client's internal OPC investments (e.g.. access fund/trust account and Common Fund diversified investments)[5]

The table below identifies the fee type explained above by client group being directly managed, privately managed and banker arrangement. The allocation of the investment fee by client group is described below.

Table 15: Fees Received by client group and fee type

	Directly Managed	Privately Managed	Banker Arrangement	Total
First Year Management Fee	$290,823	-	-	$290,823
Subsequent Years Management Fee	$15,232,665	-	$183,986	$15,416,651
Investment Fee (see 5.5.3below)	$6,068,223	$593,685	$108,577	$6,770,485
Income Fee	-	$1,571,582	-	$1,571,582
Account Fee	-	$187,706	-	$187,706
Special Fee	-	$47,425	-	$47,425
TOTAL	$21,591,711	$2,400,398	$292,563	$24,284,672

5.5.3 Investment Fee

The Investment Fee is calculated based and charged direct to the relevant funds listed below and not to the individual client. Therefore the Investment fee is 0.5% of the Fund Value. The fee is calculated daily and charged to the relevant fund monthly based on the accumulation of the daily calculations. We note that although the OPC receive a fee for the funds invested, included in this fee is an administration charge from the fund manager being State Street Global Advisors (SSGA) and the custodian BNP Paribas Securities Services. The total Investment fee recorded by the OPC for 2006/2007 was $6.8m.

To split Investment Fees by Directly Managed, Privately Managed and Banker Arrangement proved difficult as fees are calculated based on the dollar value of Diversified Investment Funds managed and not by client type. The Diversified Investment Funds are split into eight types of funds being:

1. Access Accounts
2. Australian Cash
3. Australian Cash Plus

[5] the 0.5% per annum is not charged on the value of a client's external investments such as managed funds, fixed term deposits, superannuation and shares

4. Australian Fixed Interest

5. Australian Share

6. Australian Listed Property Sector

7. International Bonds

8. International Shares

The fee is calculated based on 0.5% of the funds value for the first four funds mentioned above. Additionally, the fee charged in relation to the last four funds is more complex. The net effect is that the client pays an Investment Fee of no more than 0.5% on every fund. OPC asked that we do not comment on the amount of funds management and custodian fees as this is commercial-in-confidence.

As the fee is based on the fund value, it is not possible for the OPC to allocate this to individual clients. However, the OPC does have information on total asset values in the fund based on client type. This information was only available to us as at 20 April 2008. As such, we have had to estimate the fee for the 2006/2007 financial year based on the value of the fund on that date. Therefore, whilst not exact, it is a reasonable approximation of the investment fee for the different client types. It can be highlighted from this table that the assets subject to an investment fee for the 2006/2007 financial year were higher than noted at 20 April 2008.

Table 16: Investment fees based on client type

	No of clients @ 20 April 08	Assets subject to an investment fee @ 20 April 08	Investment fee @ 20 April 08	Estimated investment fee @ 30 June 07
Banker Arrangement	719	19,300,989	96,505	108,577
Directly Managed	8,826	1,088,706,316	5,443,532	6,068,223
Private Management	560	105,535,333	527,677	593,685
Total		1,213,542,638	6,067,714	6,770,485

5.5.4 Cost Recovery for Client Groups

The table below sets out the estimate of cost recovery per client type.

Table 17: Cost recovery per client type

Client Type	Revenue ($)	Cost ($)	Cost recovery ($)	Cost Recovery (%)
Directly Managed Clients/ Banker Arrangement	21,884,274	25,931,252	(4,046,978)	84.4*
Private Management Support	2,400,398	2,517,767	(117,369)	95.3
TOTAL	24,284,672	28,449,019	(4,164,347)	85.3

*This percentage is equivalent to 90% shown in Fig4.1 of the IPART Issues Paper June 2008. This is due to excluding interest income in revenue noted above.

5.6 Allocate Revenue to Services

The OPC perform a range of complex services tailored to its clients needs. In section 4 of this report we have been able to summarise these services into 14 Responsibility Centres being:

- Liaison & Co-ordination
- Intake
- Finalisation
- Client Service Centre
- Private Management Support
- Budgets & Expenditure
- Legal Services
- Property Services
- Disability Advisory Services
- Investment- Funds Management
- Investment- External
- Financial Planning
- Taxation Services
- Client Trust Accounts

As the OPC does not levy a 'fee-for-service', it is not possible to sensibly allocate revenue to the vast majority of the services listed above. Therefore, the only services that we can estimate the cost recovery on are:

- Intake
- Finalisation
- Investment – Funds Management
- Private Management

5.6.1 Cost Recovery for Intake

First year management fee is related to directly managed clients. The costs related to new clients belong to the responsibility centre called Intake.

Intake Service area is responsible for the initial service to clients from the date an order is made by the court/tribunal. Intake continues to service new clients for the first 2-3 months after the date of the order although sometimes clients can be in Intake for over 12 months, depending on when information is received. Within this time frame Intake provides the following services to clients:

- Provision of information on service standards to client/ carers
- Establishment of liaison database and entry of available client information, e.g. contact details, family/ carer details
- Identification and securing of client's assets, entitlements and liabilities
- Initial payment of creation of schedule for payment of client's routine bills and longer term liabilities
- Provision/ arrangement of initial advice on disability services and legal matters
- Development of a financial plan (Statement of Advice) in consultation with the client, family and appropriate others

Each of the above services is provided to all Intake clients, however the amount of time per client does differ due to personal variables such as ease of identifying assets. There is currently no management mechanism in place to report the number of tasks completed by service or the amount of time spent on each task, therefore it is not possible to provide a cost recovery by the individual services set out above.

However, we can estimate the cost recovery for Intake including client numbers.

Per section 4.5, the total cost for Intake in 2006-07 was $1.0m. During the year, the OPC reported 1,020 new directly managed clients, who were all serviced by Intake. Therefore the average cost per Intake client is $998.

First year clients are charged a First Year Management fee to cover the additional Intake service provided in the first year. For the 2006/2007 Financial Year, the OPC reported $291k in revenue from the fee. Based on the 1020 new directly managed clients, the average revenue per Intake client is $285.

It is evident that the First Year Establishment Fee is not recovering the costs recorded by the Intake service team. The current fee structure is under recovering by $713 per client or approximately $727k in total.

5.6.2 Cost Recovery for Finalisation

The cost recovery for finalisation is straightforward. The OPC does not charge a fee for finalisation services yet incurs approximately $240k in costs. In 2006/2007 there were 770 clients in finalisation. Therefore the average under-recovery per client is $311.

5.6.3 Cost Recovery for Investment

The Investment Fee received for the 2006/2007 year was $6.8m. The actual fee payable to the OPC is extracted at source monthly and the OPC does not receive a breakdown of the fee paid by each client. Due to the fact the amount is calculated on a daily basis and the amount invested by clients can change from day to day, allocation to a particular client is not possible for the OPC.

The Funds Management cost centre within the OPC specifically services these clients by administering and overseeing the OPC diversified funds. Actual management of client funds is undertaken by State Street who is the overall Fund Manager and B&P Paribas act as the Fund Custodian. Therefore the primary role of OPC staff is related to administrating and reporting fund results/payments to OPC Management. Specifically, the OPC employees are responsible for ensuring that the OPC receives monthly investment fee payments from the fund and that the amount received is correct. To achieve this, the OPC monitors the fund and keeps records of all payments in and out of the fund. Consequently, we are of the view that all clients receive the exact same service regardless of the amount of money invested in the funds.

As at 30 June 2007, there were 9,940 active clients with an investment in the funds.[6] For the purpose of cost recovery, the number of clients is 9,940 and the total cost of the Funds Management responsibility centre was determined to be $829k. Therefore, the total cost per client is approx $83.

The OPC was able to provide us data regarding Clients Subject to an Investment Fee as at 20 April 2008. The data provided the number of clients and also a breakdown by bands of amount invested by each client. We used the data to approximate the cost recovery of the Investment Fee across all client bands subject to the investment fee. Again, it is important to note that this data relates to a specific period of time being 20 April 2008.

Table 18: Cost recovery of Investment Fees by client band

Asset Range ($)	Clients (#)	Asset Value ($)	Approximation of Annual Fee @ 30 June 2007 ($)	Annual Cost @ 30 June 2007 ($)	Annual Cost Recovery ($)
1 - 4999	2924	5,891,087	33,140	242,692	-209,552
5000 - 9999	1127	8,191,814	46,083	93,541	-47,458
10000 - 14999	785	9,778,000	55,006	65,155	-10,149
15000 - 19999	592	10,263,175	57,735	49,136	8,599
20000 - 24999	508	11,379,255	64,014	42,164	21,850
25000 - 29999	385	10,554,151	59,372	31,955	27,417
30000 - 39999	623	21,681,334	121,968	51,709	70,259
40000 – 49999	434	19,425,511	109,278	36,022	73,256
50000 – 59999	300	16,386,187	92,180	24,900	67,280
60000 - 69999	239	15,534,019	87,386	19,837	67,549
70000 - 79999	161	12,018,951	67,612	13,363	54,249
80000 - 89999	122	10,346,935	58,206	10,126	48,080
90000 - 99999	107	10,130,779	56,990	8,881	48,109
100000 - 124999	222	24,908,162	140,120	18,426	121,694
125000 - 149999	161	21,987,848	123,692	13,363	110,329
150000 - 174999	150	24,330,140	136,868	12,450	124,418
175000 - 199999	105	19,558,539	110,026	8,715	101,311
200000 - 224999	94	19,901,732	111,956	7,802	104,154
225000 - 249999	78	18,498,637	104,063	6,474	97,589
250000 - 274999	56	14,704,031	82,717	4,648	78,069
275000 - 299999	60	17,228,366	96,918	4,980	91,938

[6] These figures refer to a specific date in time and therefore do not reflect the entire period i.e. FY 0607. There is no mechanism to retrieve such data.

300000 - 399999	174	60,571,801	340,744	14,442	326,302
400000 - 499999	134	60,091,208	338,041	11,122	326,919
500000 - 749999	183	112,430,788	632,475	15,189	617,286
750000 - 999999	107	91,820,579	516,533	8,881	507,652
1M - 1499999	103	124,788,676	701,994	8,549	693,445
1.5M – 1999999	73	114,879,606	646,251	6,059	640,192
2M - 2499999	36	79,431,911	446,841	2,988	443,853
2.5M - 2999999	22	60,529,808	340,508	1,826	338,682
3M - 3499999	9	28,504,389	160,350	747	159,603
3.5M - 3999999	10	36,965,071	207,946	830	207,116
4M – 4999999	14	61,676,062	346,956	1,162	345,794
5M - 5999999	5	28,096,787	158,057	415	157,642
6M +	2	21,057,299	118,457	166	118,291
Total:	**10,105**	**1,213,542,638**	**6,770,485**	**838,715***	**5,931,770**

* We have determined cost at 30 June 2007 of 838,715 as $83 per client x 10,105 clients.

It can be shown from the table above that the fees charged based on percentage of assets is well above the estimated cost of OPC services by $5.9m. Calculating investment fees as a percentage of assets is industry standard and is not considered unreasonable to the clients of OPC.

5.6.4 Cost recovery for Private Management

We have determined the estimated fees received for Privately Managed clients as shown in Table 17: Cost recovery per client type is $2.4m and respective cost being $2.5m.

The 2005 RSM Bird Cameron report on Private Management Fees review discusses the recovery of fully allocated costs. We identified a significant difference with the methodology between RSM Bird Cameron and Ernst & Young's allocation of additional absorption costs i.e. "indirect" costs. We have identified the differences below.

Table 19: Fully allocated costs for Private Management

	Bird Cameron Report (Sept 05) Table 4. 2006 Costs	%	Ernst & Young calculation 2007 Costs	%
Total Direct Expenditure	1,903,958	57	1,988,289	79
Additional indirect costs	1,411,816	43	529,478	21
Total	3,315,774	100	2,517,767	100

It is not apparent from reading the 2003 RSM Bird Cameron report what the value of indirect costs that were allocated to Private Management. However, as the structure and level of specialist centres have evolved since 2003, it is not appropriate to allocate costs such as Legal, Property Management etc. due to the infrequent use by Private Management. Therefore we are of the view that $2.5m is a more robust and verifiable cost for Private Management services. It is noted that RSM Bird Cameron's costs are used as a basis of the "Cost per service" as discussed in Table 5.2 of IPART Issues Paper June 2008.

5.7 Summary

Our analysis of the extent to which the OPC's costs can be recovered through revenue generated by fees it charges to its client in 2006/2007 and the levels of cost recovery by client groups and services is limited. The key findings include:

- Fees charged by the OPC for its services and the cost for providing the services are generally not related
- Past analyses split client groups into a service level category being high, average and low based on disability type. This information was obtained using staff surveys. Further, there were limitations

noted with the use of staff surveys. We have not used this approach for our analysis as we are of the view to retrospectively ask staff to estimate time and commitment spent on clients will not give the Tribunal results with which it could rely on

- In section 5.6, we have provided the 14 core services that the OPC provides its clients. Key tasks within each service to each client cannot be separated nor split due to limited data availability. Thus we are unable to allocate services provided to clients. In addition, the complexities and integration of tasks within each of the 14 services proves difficult to split
- The analysis of the Investment Fees uses data from different time periods. However, after discussion with the OPC, we are comfortable that the analysis produces a result that is reasonable
- First Year Management Fee is not recovering the costs recorded by the Intake branch. The current fee structure is under recovering by $713 per client or $727k in total
- For Privately managed clients, total fee charged (including an Investment fee proportion) for the 2006/2007 year totalled $2.4m. Total costs for the privately managed group totalled $2.5m. Resulting in an under recovery of approx $0.1m.

6. External Benchmarks

The Tribunal has asked that if possible, we were to try and identify appropriate benchmarks with which to compare the fees charged. Tables 5.2 – 5.4 set out the fee levels charged by the OPC.

After analysing the various services that the OPC must provide to its clients, we are of the view that no comparable benchmarks exist other than similar organisations in other states of Australia. Our views are influenced by the following:

- Other financial planners generally take a percentage fee of monies that clients invest. However, the headline rates that are quoted in publications are not often the final fee that is charged as clients can negotiate a discount to that fee. These financial planners are not subject to the same level of regulation and scrutiny as the OPC and therefore have considerably more flexibility in what they can charge
- The services offered by financial planners are generally limited to planning and taxation. Other services such as legal advice, purchasing shares or asset are generally outsourced at additional cost to the client. The cost of these services is included in the OPC Management Fee and not additional to it
- The core activities of these organisations are not related to disabled clients and consequently their level of expertise varies greatly, however it is invariably below the OPC's. By way of comparison, the OPC's financial planners and other specialists work with and regularly consult with the OPC's Disability Services Branch to ensure that the client's full needs and objectives are incorporated in all of the OPC's investment and client planning. Consequently, the range of services offered by these possible benchmarks are not comparable to the OPC.

7. Implementing Activity Based Costing

As part of our engagement, the Tribunal has asked that we outline the practical steps involved in implementing an ABC system in the OPC. Consequently, this section sets out our views on the implementation of an ABC system at the OPC taking into account:

- the ultimate objectives of ABC
- the current information systems utilised by the OPC
- functions performed by the OPC in servicing its clients.

7.1 Activity Based Costing

In simple terms, ABC is a method for estimating the resources required to operate an organisation's business processes, produce its products and serve its clients. Practically, the ABC methodology employed by an organisation assigns costs through activities to the products and services provided to its customers. It is generally used as a tool for gaining a deeper understanding of the costs to either produce products or serve clients.

Instead of using broad arbitrary percentages to allocate costs, ABC seeks to identify cause and effect relationships to objectively assign costs. Once costs of the activities have been identified, the cost of each activity is attributed to each product or service to the extent that the product uses the activity using cost drivers. In this way, ABC can sometimes identify areas of high overhead costs per unit and so directs attention of management to finding ways to reduce the costs or to charge more for costly products.

7.2 Implementing ABC Systems

There are generally three stages in implementing an ABC system. The first stage is to select an appropriate software tool to assist in developing the ABC model. This can range from spreadsheets to off the shelf packages to bespoke systems. The decision of the appropriate software tool will ultimately be a function of the needs of the organisation and resources (including cost) required to implement.

In the second stage, an analysis is conducted to identify the:

- significant activities that are conducted by the organisation
- costs (generally overheads) that will need to be assigned to activities (sometimes called cost pools
- cost drivers

Costs are assigned to activities based on a cost driver to calculate a total cost of each activity. This is the step that is different from traditional costing approaches. Cost drivers are the most appropriate method for allocating costs after analysis of the activity. For example, for Human Resources costs, the most appropriate driver might be headcount or for leasing costs, the appropriate driver might be floor space occupied.

In the third and final stage, costs are allocated from the activities to products or services based on the products or services consumption of the activities. This stage is similar to a traditional costing approach except that the traditional approach generally relies on volume related characteristics of the product or service without consideration for non-volume related characteristics.

Before the implementation of an ABC system, the following factors need to be considered:

- It's implementation needs very strong support from senior management. Without leadership from senior management, the ABC implementation will be seen as unimportant

- During the implementation, there should be a wide range of involvement from all levels of the organisation. Since ABC affects people across departments, it should involve these people and be fully supported by them
- A well designed ABC system requires intimate knowledge of all parts of the organisation. This knowledge can only be learned from employees familiar with the various parts of an organization's operations. In large organisations, finding these people can sometimes be problematic and interactions with them are often time consuming.

7.3 Benefits of Activity Based Costing

Benefits of ABC include:

- Gaining a thorough understanding of the costs to serve clients. This should assist organisations in making appropriate decisions as to how better or in fact whether to serve a particular group of customers
- Providing visibility and insight into elements of overheads that may not be readily apparent
- If the right conditions exist, the ABC system should improve an organisations profitability by working out the level of cross-subsidisation occurring for different products and services. This should also have flow effects to improve the effectiveness of the budgeting process
- Improving pricing decisions that are based on product or client cost.

7.4 Limitations of Activity Based Costing

An ABC system is not appropriate for every organisation. Significant issues surrounding the effective implementation and ongoing operation of an ABC system include:

- Detailed ABC systems are costly to operate and for the layman, generally difficult to understand. Many organisations chose not to adopt an ABC methodology due to the high cost of maintaining the system
- Related to the above point, a team of dedicated people is required to develop and implement an ABC system, along with regular consultation with, and involvement of, relevant staff throughout the organisation. In addition, the collation, processing, understanding and interpreting of the data is also time consuming and requires dedicated manpower. Activity-cost rates also need to be updated and tested regularly to ensure they remain contemporaneous
- The introduction of ABC must be evaluated after a detailed cost-benefit analysis. ABC is more complex than a traditional costing system and in smaller organisations, the costs often outweigh the benefits. Moreover, for smaller organisations, it does not necessarily follow that the introduction of an ABC system will yield materially different results from a more traditional cost allocation methodology
- Whilst service organisations can obtain benefits from implementing an ABC system, it is generally accepted that it is the implementation of ABC by manufacturing organisations that will yield greatest benefits in terms of understanding the total costs of production
- The problems encountered by traditional cost allocation methods remain. That is, ABC does not eliminate the apportionment problem in simpler cost models. For example, some overhead costs are difficult to assign to products and customers, for example the chief executive's salary
- ABC systems are still only historical in nature. They cannot be used as predictors of future costs

7.5 NSW Government Guidelines on Costing Systems

In June 2007, NSW Treasury released an updated policy on *Service Costing in General Government Sector Agencies* (TPP 07-3) as part of the NSW Government's Financial Management Framework. The aim of the Guidelines was to assist General Government agencies develop a better understanding of their activities and services. Moreover, it outlined guidelines for better practice, and it was expected that agencies and NSW Treasury will use them as a means to improve approaches to costing, as well as the quality of costing information, over time.

In the Guidelines, NSW Treasury outlined its view on ABC systems which is generally consistent with the above. Importantly, NSW Treasury has identified that the benefits of using ABC for service costing will depend on the particular circumstances of the agency. Further, it outlined where it believes ABC can make beneficial improvements to agencies service costing information. For example, it is the view of NSW Treasury that improvements can be made where; □

- a significant proportion of total service costs are overhead costs;
- there is a diverse range of services which vary both in the volume produced and their complexity; and
- sophisticated IT systems are already in place.

Moreover, NSW Treasury has stated that agencies are unlikely to make cost beneficial improvements from ABC where:

- direct costs are a substantial proportion of total costs; and
- overheads can be allocated to services, with a reasonable degree of accuracy, using simple cost allocation bases.

Importantly, NSW Treasury has highlighted that ABC systems cannot improve the accuracy of direct costs traced to services. That is, ABC will work best where direct costs can be can be traced to services - e.g. through the use of a time recording system and do not need to be apportioned across different services.

For example, in Appendix A (Hypothetical Case Study), NSW Treasury uses the example of where a department does not currently have a formal time recording system in place. Consequently, in the ABC exercise, staff were required to estimate the time they apply to each service for a period of three months. The results of this sampling approach were considered to be a good approximation of the time applied for each service on an ongoing basis. However, we would argue that the results of any ABC system for service organisations would be improved greatly had they not had to retrospectively undertake an estimation of time exercise. A time sheet system would have produced the most accurate results and this is implicit in NSW Treasury's Guidelines.

7.6 Practical Steps to Implementation of ABC at the OPC

In this section, we do not discuss the mechanics of implementing an ABC system. We envisage that the methodology would broadly be in line with what we have set out above – e.g. three stages in section 7.2. Here, we outline the important issues that the OPC must contend with in order to implement an ABC system that is successful in the long term.

a) *Qualified Staff* – In order for the OPC to implement and then maintain an effective ABC system, an appropriately experienced member of staff will need to be recruited. Due to the size of the OPC, we do not see that this position would not be fully dedicated to the ABC system. However, a significant portion of the positions time would be required. As detailed above, the successful implementation of an ABC system requires the collation, processing, understanding and interpreting of data and requires dedicated manpower. Activity-cost rates also need to be updated and tested regularly to ensure they remain current. This position/person does not currently exist within the OPC at present.

b) *Formal time recording system* – one of the key elements in the accuracy of an ABC system is the ability to trace direct costs to activities. A time sheet system increases the accuracy of tracing direct costs to services. This is especially true of service based organisations. For example, there are a number of key cost centres at the OPC that contain the costs associated with the Executive Management of the OPC. These costs were required to be allocated to other Responsibility Centres through estimations of time spent from our discussions with relevant OPC Management. As set out in TPP 07-3, Appendix A contains a worked example of an approach where the direct costs are primarily salary and wages, which are accurately traced to individual services using a time recording system. As NSW Treasury points out, provided that the time recording system is reliable, no improvement can be made in the accuracy of the direct costs attributed to individual services.

A time sheet system would have solved this issue. Moreover, a timesheet system would have allowed a detailed analysis of time spent on individual clients and the different services they receive from the OPC. Consequently, cost drivers per client type could have been derived without the need for estimation as we were required to perform for senior management. It is our view that time estimations or surveys performed by staff at the OPC would not yield results that would reliably estimate the 'real' costs of serving particular clients. Through discussions with Management at the OPC, we came to the view that there is not a standard client and that each client requires different levels of services from the OPC. As such, a timesheet system which records time spent by staff on a particular client is the only way to derive an accurate cost to serve for a service organisation such as the OPC.

c) *ABC software tool* – In order to implement an ABC system, the OPC would need to identify an appropriate software tool as it currently does not possess one. Through discussions with OPC Management, we understand that the current financial information system used by the OPC is not currently set up to support an ABC system. Consequently, either the current financial information system will be required to be augmented to support an ABC system or a standalone system is necessary. Prima facie, we would suggest that most financial information systems have some capacity to be set up to support an ABC system and that the OPC should investigate the ability of its system to be adapted.

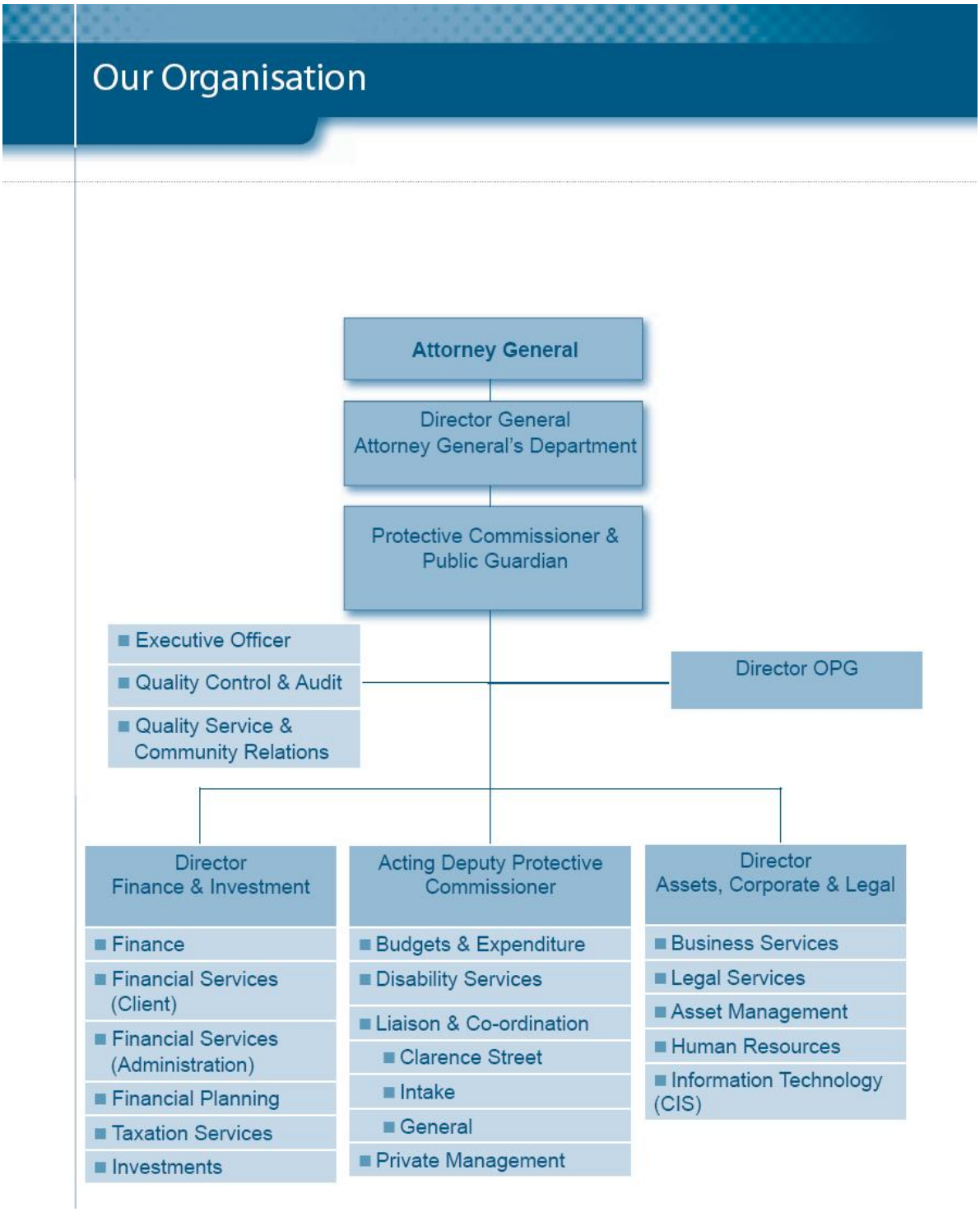
d) *Capturing Cost Driver Information* – One of the key information requirements of an effective ABC system is the availability of information regarding cost drivers. Consistent with past reports on the OPC, there were a number of occasions during our analysis where we identified that information on particular drivers was either not recorded (and retained) by the OPC or not easily retrieved (especially on a retrospective basis when we were analysing the 2006-07 year). We wish to emphasise that this is not a criticism of the OPC. As the OPC does not have an ABC system, there is currently no requirement for it to retain information on cost drivers that would have assisted in our analysis. As outlined above in section 7.2 above, if the OPC was to implement an ABC system, it would need to select particular cost drivers to allocate overheads to Services and then from Services to clients. The OPC would need to undertake a detailed analysis of the appropriate drivers and then set up process to capture and record that information. Examples of cost drivers that will need to be retained include more detailed analysis on tasks performed for each cost service, i.e. number of sales/purchases of assets in the property management team, number of property inspections, number of property maintenance work. In addition, each client should be "banded" based on level of service. This will be reflected in the 2008 restructure whereby clients will be split into 3 service teams, although one of these teams contains over 4,000 clients and will need to be "banded" based on level of service.

7.7 Summary

Taking into account the discussion above, we are of the view that before an ABC system can be recommended to be implemented at the OPC, a detailed cost-benefit analysis needs to be carried out. Whilst there are benefits for OPC Management and stakeholders to understand the true costs to serve a clients, there are also significant costs in both implementing and maintaining an ABC system. There is not a not a 'one-off' cost associated with ABC systems. Without undertaking a cost-benefit analysis, we cannot recommend an appropriate course of action for the OPC, especially as there may be social/political benefits that may need to be factored into the analysis.

What we do recommend is that for a service organisation such as the OPC, a timesheet system that links to the client information system is the only way that a reliable cost of service will be able to be derived.

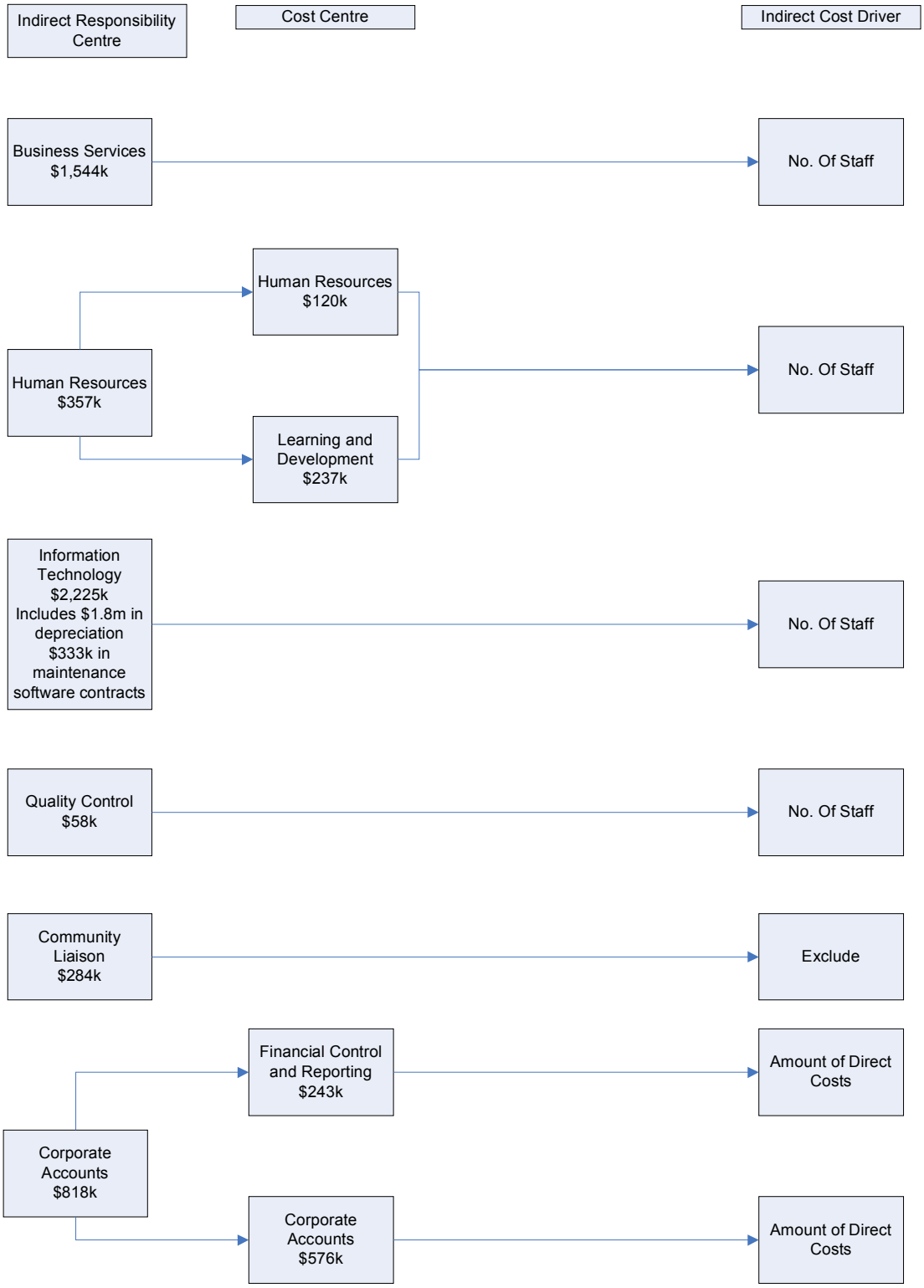
Appendix A 2006/2007 Organisational Chart of OPC

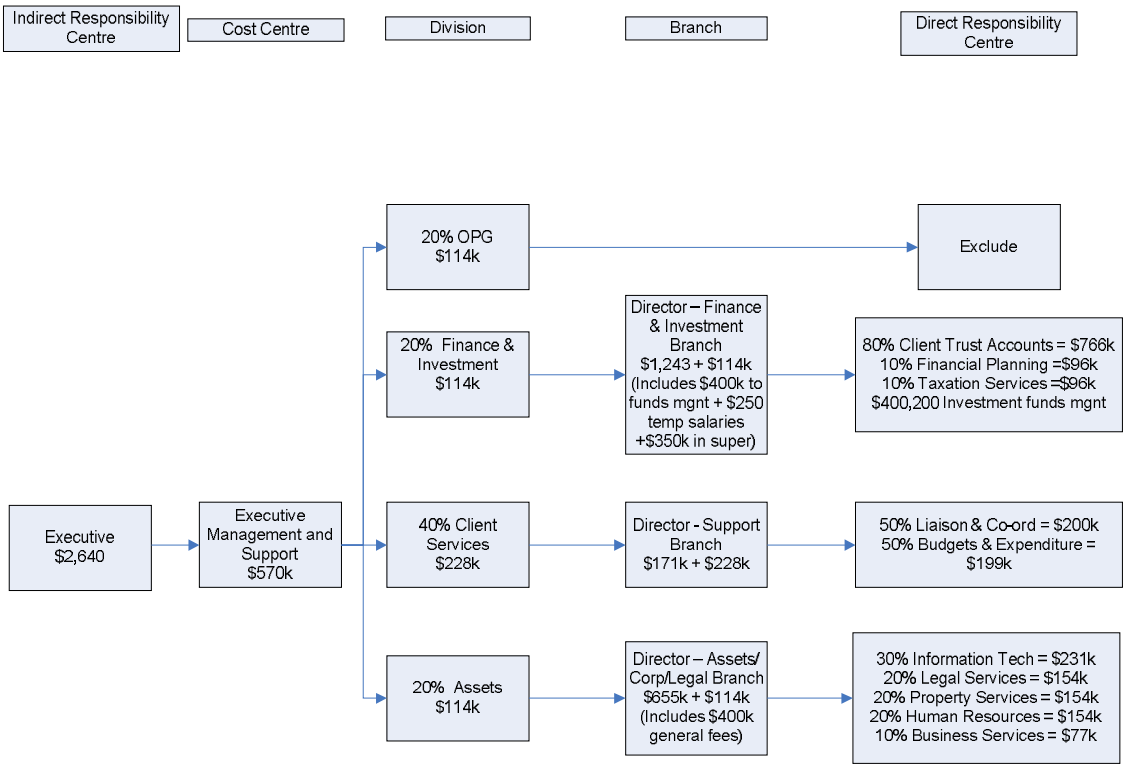


Appendix B Cost Centres allocated to Responsibility Centres

Division/Branch	Cost Centre**	Cost Code	Responsibility Centre
Protective Commissioner	Executive Management	A500	**Executive**
	Community Relations	A510	**Community Liaison**
	Internal Audit & Quality Assurance	A520	**Quality Control**
	Executive Support	A530	Executive
Director: Finance & Investment	Finance & Investment	F090	**Executive**
- Finance	Financial Serv. Br.-A/Director	F095	**Client Trust Accounts**
- Financial Services (Client)	Client Accounts	F100	**Client Trust Accounts**
	Financial Planning-A/Director	F129	**Financial Planning**
- Taxation Services	Taxation	F130	**Taxation Services**
- Financial Planning	Financial Planning Unit	F135	**Financial Planning**
- Investments	Investments (External)	F138	**Investment - External**
	Financial Control & Reporting	F200	**Corporate Accounts**
- Financial Services (Admin)	Corporate Accounts	F600	**Corporate Accounts**
	Unit Registry	F700	**Investment - Funds Management**
Deputy Protective Commissioner	Director & Support Branch	E005	**Executive**
- Budgets and Expenditure	Budget & Exp. Br.-Asst. Direct	E070	**Budgets & Expenditure**
	Benefits Team	E071	**Budgets & Expenditure**
	Budgets & Exp. Team	E072	**Budgets & Expenditure**
	Finalisation	E073	**Finalisation**
- Liaison & Co-ordination	Liaison & Coor. Br. A/Director	E190	**Liaison & Co-ordination**
	Liaison Team 1	E192	**Liaison & Co-ordination**
	Liaison Team 2	E193	**Liaison & Co-ordination**
- Intake	Intake	E194	**Intake**
- Clarence Street	Client Service Centre	E195	**Customer Service Centre**
- General	Reception	E196	**Liaison & Co-ordination**
	Planning & Coor. Team 1	E197	**Liaison & Co-ordination**
	Planning & Coor. Team 2	E198	**Liaison & Co-ordination**
- Private Management	Private Management	E201	**Private Management Support**
- Disability Services	Specialist Disability Services	E300	**Disability Advisory Services**
Director: Assets, Corporate & Legal	Assets Br.- Director	C009	**Executive**
- Asset Management	Assets Br.- Asst Director	C010	**Property Services**
	Business Management	C011	**Property Services**
	Property Management	C012	**Property Services**
	Property Protection	C013	**Property Services**
- Legal Services	Legal	C030	**Legal Services**
- Human Resources	Human Resources-Mgr. HR	C040	**Human Resources**
	Learning and Development	C045	**Human Resources**
- Business Services	Business Services	C050	**Business Services**
- Information Technology (CIS)	**Information Technology**	**C060**	**Information Technology**

Appendix C Allocating indirect costs to direct costs




Indirect Responsibility Centre
Cost Centre
Division
Branch
Direct Responsibility Centre
Executive $2,640
Executive Management and Support $570k
20% OPG $114k
Exclude
20% Finance & Investment $114k
Director – Finance & Investment Branch $1,243 + $114k (Includes $400k to funds mgnt + $250 temp salaries +$350k in super)
80% Client Trust Accounts = $766k
10% Financial Planning =$96k
10% Taxation Services =$96k
$400,200 Investment funds mgnt
40% Client Services $228k
Director - Support Branch $171k + $228k
50% Liaison & Co-ord = $200k
50% Budgets & Expenditure = $199k
20% Assets $114k
Director – Assets/ Corp/Legal Branch $655k + $114k (Includes $400k general fees)
30% Information Tech = $231k
20% Legal Services = $154k
20% Property Services = $154k
20% Human Resources = $154k
10% Business Services = $77k

Appendix D Services to directly managed clients

The following services provided by the OPC have been identified for directly managed clients and are reflected in the current management fees.

First year services - establishment of new clients

- Provision of information on service standards to client/ carers:
- Establishment of liaison database of available client information, e.g. contact details, family/ carer details;
- Identification and securing of client's assets and entitlements;
- Identification of client's liabilities;
- Payment of client's immediate and short term liabilities and needs;
- Creation of schedule for payment of client's "routine" bills and management of client's longer term liabilities;
- Provision/ arrangement of initial advice from a disability specialist on aspects of client's circumstances;
- Provision/ arrangement of initial legal advice and strategy to address any outstanding legal issue
- Development of a financial plan (Statement of Advice) in consultation with the client, family and appropriate others, incorporating:
  - The client's short, medium and long term personal and financial objectives;
  - The client's short, medium and long term needs, e.g. personal care;
  - The client's and appropriate others preferred means of contact;
  - Any cultural, ethnic, religious etc. views/ issues that need to be respected;
  - Annual budget to meet ongoing financial needs and objectives;
  - Strategy to address any outstanding issue relating to the client's disability/ies, e.g. need for special accommodation and/or equipment;
  - Financial plan for investment of the client's funds;

Ongoing services after year one

- Management of issues identified but not resolved during the establishment of relationship, e.g. Family Provision Act claim;
- Collection of regular income due to the client, e.g. Centrelink payments, rent;
- Collection of money due to the client, e.g. damages award;
- Evaluation of claims for payment for past care etc;
- Payment of routine bills, e.g. rates, rent, utilities;
- Arrangement of and payment for insurance policies;
- Provision of advice and assistance with negotiating of client – carer agreements;
- Payment of carer fees/ wages;
- Payments in support of any dependents;
- Provision of security for the client's personal assets, e.g. jewellery, title deeds;
- Acquisition/ arrangement of acquisition of major asset, e.g. residence, motor vehicle;

- Sale/ arrangement of sale of major asset;
- Management of dwelling construction;
- Management of dwelling modification, refurbishment etc
- Management of dwelling repairs;
- Management of leased/ rented property;
- Inspection of and provision of report on real property;
- Securing dwelling contents upon vacation by the client;
- Exercise of shareholder rights etc. in relation to the client's business;
- Provision/ arrangement of advice on the client's circumstances and needs from disability specialist;
- Provision/ arrangement of legal advice and representation to protect client's assets/ rights;
- Preparation of income tax and land tax returns;
- Seeking of Australian Taxation Office rulings;
- Arrangement of and payment for interpreter and translation services for client contact;
- Provision of reports to client/ others on the client's assets, liabilities, income, expenditure as needed or at least six monthly (income/ expenditure) or twelve monthly (assets/ liabilities);
- Review of annual budget, financial plan and client plan as needed or at least annually;
- Provision of Reports and Proposals to the Supreme Court for determination of:
- Major issues concerning, e.g. management of the client's business interests;
- Provision of a loan to family from the client's funds ;
- Provision of reports on the client's circumstances to the Supreme Court, Guardianship Tribunal or Mental Health Review Tribunal to assist review of financial management orders.

Appendix E Services for Banker Arrangement and Privately Managed

The services provided by principally for Banker Arrangement include:

- Receipt of Centrelink entitlements
- Investment of available funds in OPC's Access Fund
- Payment of board and lodging plus client daily living expenses to DADHC and or client accounts maintained by DADHC accommodation residences; and
- Payment for other purchases or client expenses such as non standard furnishings or equipments or holidays etc.

The Private Management team are solely responsible for directing and authorising Private Managers. In order to direct and authorise the OPC currently provide the following services:

- Issuing Authorities and Directions
- Examination of Private Manager's annual accounts
- Obtaining Authorised Visitor Report
- Obtaining Director of Nursing Report
- Consideration of Private Manager's proposals for investments
- Consideration of Private Manager's proposals for sale and purchase of real estate
- Consideration of Private Manager's proposals for real estate other for example leasing
- Referrals to the Guardianship Tribunal
- Reports to the Guardianship Tribunal

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