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8 September 2008

Dr Michael Keating AC
Independent Pricing and Regulatory Tribunal
Level 8
1 Market Street
Sydney NSW 2000

Dear Dr Keating

## Review of OPC Fees – indicative cost allocation applied to the proposed restructure of OPC on its 2008/2009 budgeted accounts.

The Independent Pricing and Regulatory Tribunal ('IPART') has requested that Ernst & Young measure the cost of services provided to Office of Protective Commissioner ('OPC') clients based on client groupings and service areas (these groupings and areas were determined by IPART). The costs were based on the 2008/2009 budgeted accounts as provided to Ernst & Young by the OPC. Please find our approach and results below.

*Summary of Approach*
The approach we took was to identify costs for four client groupings and two service areas as determined by IPART being:

- Three groupings of Client Service Teams ('CSTs'):
  - Primary Service Teams;
  - Supported Accommodation Teams; and
  - Intensive Support Teams;
- Private Management Branch ('PMB');
- Assets; and
- Unit Registry.

The budgeted costs were allocated to client groupings and the service areas on the basis of the direct cost of services they receive from OPC staff (labour costs). Other indirect costs were allocated across client groups by staff numbers. In addition, we reallocated a further number of specialised and client areas to the remaining client service teams.

*Detailed Approach*
We received the budgeted operating expenses for the 2008/2009 financial year end (as of 24th July 2008) from the OPC. We ascertained the direct costs by Branch (being Employee Related Costs) per the restructure the OPC implemented during August 2008. We allocated all other expenses being operating discretionary and non discretionary, maintenance contracts, management fees and depreciation to branches based on either staff numbers or directly allocated to a specific branch.

The following indirect branches and their respective costs were allocated over the remaining branches by staff numbers:

- Human Resources
- Business Services and IT
- Deputy PC
- Protective Commissioner and Executive Support
- Assistant Directors

We note that this is similar to the approach we adopted in our report to the Tribunal titled 'Full cost review of services of the OPC'.

The following specialised/client areas were then allocated by staff numbers to the remaining branches excluding Assets, Unit Registry and Private Management as per IPART's request.

*Specialised Areas include:*
- Legal Services
- Financial and Investment (excluding Unit Registry)
- Disability Services
- Benefits Team
- Budget Team
- Insurances – Risk, Life and Medical

*Client Areas include:*
- Intake Team (CST 1)
- GT Liaison Officer
- PJP Shopfront
- Finalisation

The specialised areas were allocated across the CST's 3-8 (being Directly Managed clients). This is because directly managed clients have the potential to utilise some or all of these services. The client areas being Intake, GT Liaison Officer, PJP Shopfront and Finalisation were also allocated to CST's 3 -8. This is because these client areas are at some stage utilised by all clients of the OPC.

***Results***
The remaining branches and their total costs are as follows. The first two being specific service areas and the remainder allocated to client groupings.

| Branch | # of staff | Direct + Indirect+ Other Divisions (2008-09 budget) | | Total Cost per EY initial report (2006-07 actual) | Difference |
|---|---|---|---|---|---|
| Assets | 23 | | 3,424 | 2,758 | Note 1 |
| Finance & Investment (Unit Registry) | 2 | | 903 | 829 | Note1 |
| Private Management | 22 | | 2,862 | 2,517 | Note 1 |
| Clarence Street (CST 3) | 11 | | 3,255 | 1,588 | Note 2 |
| Client Service Teams 4-8 | | | | | |
| - PJP (CST 4) | 3 | 918 | | | |
| - Primary Service (CST 6-8) | 51 | 15,102 | | | |
| - Supported Accommodation (CST 5) | 15 | 4,328 | | | |
| Total Client Service Teams 4-8 | | | 20,348 | 8,330 | Note 2 |

We note the following:
- Note 1: Costs are higher compared to our initial report due to the difference in methodology used in allocating overheads and indirect costs. The initial report allocation of overheads and indirect costs was more reflective of the branches as compared to this report being allocated by staff numbers only.

- Note 2: Costs are higher compared to our initial report due to the inclusion of the specialised and client areas being allocated to these CSTs.

We have finalised the 4 client groupings into 3 Client Service Team groups - Primary Service Teams, Supported Accommodation Team and Intensive Support Teams and Privately Managed.

*Intensive Support*
The intensive support client group consist of the following branches:

| *Intensive Support Teams* | *Cost* | *Client Numbers* |
|---|---|---|
| Clarence Street (CST 3) | 3,255 | |
| PJP (CST 4) | 918 | |
| TOTAL | 4,173 | 762 |

The cost for each intensive support client is approximately $5,476. This represents approx 762 clients (as at March 2008). These clients are designated clients where intensive service is provided to meet the needs of clients with highly complex problems.

*Primary Service*

| *Primary: Service Teams* | *Cost* | *Client Numbers* |
|---|---|---|
| CST 6 (North West) | | |
| CST 7 (South West) | | |
| CST 8 (Sydney & Greater Sydney) | | |
| TOTAL | 15,102 | 4,500 |

The cost for each primary service team client is approximately $3,356. Primary Service Teams represent the largest number of clients with around 4,500 clients (as at March 2008). Primary Service Teams work with clients where complex to moderately complex contact is a defining feature. The group is separated into three teams representing a separate region. The level of service given to clients varies from complex estates with multiple negotiations underway to simple estates that have a need to contact the OPC on a regular basis for routine enquires. Therefore, each CST has arranged their activities in two ways. Client Service Officers providing telephone and attendance service to clients. Secondly, another group of Client Service Officers who take responsibility for complex to moderately complex matters. We highlight that the key issue is trying to determine the cost per client with various degrees of complexity and that this cannot currently be determined by this analysis.

*Supported Accommodation*

| *Supported Accommodation Team* | *Cost* | *Client Numbers* |
|---|---|---|
| CST 5 | 4,328 | 3,500 |

The cost for each supported accommodation team client is approximately $1,237. The Supported Accommodation Team represents approximately 3,500 clients (as at March 2008) whose estates are stable and where OPC contact is limited. The principal residence of this client group includes aged care facilities, DADHC long term residences and funded group home facilities.

*Privately Managed*

| *Privately Managed* | *Cost* | *Client Numbers* |
|---|---|---|
| TOTAL | 2,862 | 2,490 |

The cost for each stable client is approx $1,150. As at April 2008 there are approximately 2,490 clients. As at July 2008 there are approximately 2,549 clients with the expectation that clients will increase over the next 12 months.

## Service Areas

We have identified Assets and Unit Registry as a specific service area of OPC with the following results:

| Branch | # of staff | Direct + Indirect+ Other Divisions |
|---|---|---|
| Assets | 23 | 3,424 |
| Finance & Investment (Unit Registry) | 2 | 903 |

### *Assets*

| *Assets* | *Cost* | *Activity Driver* |
|---|---|---|
| Property Management & Protection | 3,006 | Various |
| Business Management | 418 | 178 tasks |
| **TOTAL** | **3,424** | |

There are approximately 22 staff in the Assets branch consisting of Property Management (14 staff), Property Protection (6) and Business Management (2).

Property Management and Protection mainly involves the sale and purchases of clients' principal place of residence or investment property and major/minor repairs of client's principal place of residence. Other activities include securing clients valuables on premises, searching of information on new properties and places of caveat, managing property inspections (either for valuables, building or pest), management of rental properties (note: property manager is from a commercial business). Protection includes management of property insurance and registration & insurance of motor vehicles/boats etc.

Due to the varied activities and the complexities of each activity, it is difficult to determine a cost driver for Property Management and Protection. For instance, over the past 12 months there were around 219 sales and 48 purchases, 76 major repairs and over 800 minor repairs. Currently, there are 220 rental properties, 311 searches on new properties and approximatel 220 property inspections. In addition to this, approximately 2000 properties, 600-700 motor vehicles have been registered and insured over the past 12 months.

Business management involves amending ASIC information on behalf of clients who are involved in businesses whether it is directorship, sole trader, partnership, liquidating a business or ascertain business money. OPC has been involved in approximately 178 tasks related to business management during the past 12 months.

### *Unit Registry*

| *Unit Registry* | *Cost* | *Activity Driver* |
|---|---|---|
| Unit Registry | 903 | 10,105 active clients |
| **TOTAL** | **903** | |

The cost is approx $89 for each active client using this service. As at April 2008, there were approximately 10,105 active clients.

**Conclusion**

We have identified the approximate cost of services provided to clients based on client groupings and services areas listed below:

| | | |
|---|---|---|
| *Client Groupings:* | Intensive Support | $5,476 |
| | Primary Service | $3,356 |
| | Supported Accommodation | $1,237 |
| | Privately Managed | $1,150 |
| | | |
| *Service Areas:* | Assets | Unable to identify cost per client due to various tasks involved and complexity of each task |
| | Unit Registry | $89 |

For the cost analysis to be more accurate and meaningful, the allocation of indirect costs and overheads will need to be more specific and reflective of each area. In addition, the above client groupings 'cost to serve' are only a realistic reflection of the true cost to serve if each client of the Primary Service, Supported Accommodation and Intensive Support Team utilises all of the specialised services, when in reality this is not the case.

We also wish to highlight that all activity drivers are based on estimates and budgeted numbers and should be updated to reflect the actual results of the 2008/2009 financial year.

If you have any questions relating to this report, please do hesitate to contact me on 8295 6260.

Yours sincerely

Peter Graham
Partner