



AUDITOR GENERAL  
FOR WESTERN AUSTRALIA

*Serving the Public Interest*

## Auditor General's Report

### Second Public Sector Performance Report 2006



Report 8  
August 2006



**AUDITOR GENERAL  
FOR WESTERN AUSTRALIA**

**THE PRESIDENT  
LEGISLATIVE COUNCIL**

**THE SPEAKER  
LEGISLATIVE ASSEMBLY**

**SECOND PUBLIC SECTOR PERFORMANCE REPORT 2006**

I submit to Parliament my Second Public Sector Performance Report for 2006 pursuant to section 95 of the *Financial Administration and Audit Act* (FAAA). This Report contains three items that have arisen from work undertaken pursuant to section 80 of the FAAA.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON  
AUDITOR GENERAL  
30 August 2006

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## Auditor General's Overview

A common theme in many of my reports is the need for agencies to provide better information to Parliament and the public. Items in this report address this theme.

The first raises the need to clarify probity and transparency arrangements for corporatised entities as they pursue their commercial goals within a framework of public ownership and parliamentary accountability.

The second examines the quality of publicly available information regarding the timeliness of a sample of services and its accessibility. Timeliness of services is important to many citizens. For example, they expect rapid responses to calls for help during emergencies and value on-time public transport. It is the responsibility of agencies to report how well these expectations are met and to inform decision-making by potential users of services. As a simple example, information that there will be a fifteen minute wait for a service may result in a different decision. The disclosure of timeliness information also helps to shape community debate about service priorities as well as performing an accountability role.

The third reports on the adequacy of agency fee setting policies and practices as well as the disclosure of those policies to the Parliament and the public. These policies need to be transparent to ensure proper accountability and to help citizens understand the basis of the fees they may be required to pay. While we found some improvement since my last report on the matter, there was still plenty of room for agencies to do better. To indicate the potential for further improvement, we also assessed transparency against a higher benchmark in the current assessment based on a 2001 report of the Productivity Commission and found that only about one-third of agencies broadly met this benchmark.

The high-level lessons to be drawn from these items extend beyond the agencies reviewed. I encourage agencies to improve the quality, scope and accessibility of their performance information, and to consult with stakeholders on what and how it is to be provided.



# Western Power Senior Executive Payouts

## Executive Summary

During the final audit of the Western Power Corporation's (WPC) financial statements for the nine months to 31 March 2006, it was noted that a number of senior executives had received termination payments that exceeded the written provisions of their contracts. In the absence of appropriate supporting documentation and explanations, further audit enquiries were undertaken.

This examination identifies lessons to be learnt in reconciling accountability of corporatised bodies within a public sector ownership framework.

## Key Findings

- *The Board acted and exercised discretion within its powers in approving termination payments that exceeded the written terms of the employment contracts.*
- *There was inadequate record keeping in respect to executive remuneration, termination payments and performance bonuses.*
- *In the context of public ownership and oversight of this corporatised entity the level of probity and transparency provided by the Board and that expected by the Minister and Parliament, who act on behalf of the community, needed to be clarified.*

## Recommendations

*Agencies should:*

- *develop employment contracts that accurately reflect the intended conditions and provide for a balance of risk and reward*
- *ensure that details of the rationale and impact of changes are properly documented when contract provisions are varied.*

*Government should:*

- *establish agreed levels of probity and transparency with respect to corporatised entities by issuing appropriate guidelines*
- *ensure tailored induction is provided to directors to assist with reconciliation of their commercial experience with the level of probity associated with public ownership and oversight of corporatised entities.*



## Western Power Senior Executive Payouts ... continued

### Background

Western Power Corporation (WPC) was a corporatised body established by the *Electricity Corporations Act 1994*. A Board of Directors and an Executive group managed the Corporation with the Minister for Energy responsible for administering the Act. The Corporation disaggregated on 31 March 2006 with four separate entities created on 1 April 2006.

The primary contact during the conduct of the final audit was the Administrator who replaced both the Board and the Executive. The Administrator took control of WPC, closed down the Corporation and presented the final financial report.

This disaggregation was a complex, difficult task with numerous dimensions, requiring the highest level of diligence and governance; it absorbed significant resources over a lengthy period of time. During the process there were many meetings between key stakeholders including the Minister. The disaggregation occurred ahead of the expected time and all the new entities are now operating as discrete organisations.

About 3 000 staff have been allocated between the new entities and this process alone was a major undertaking for the team involved. Notably only seven redundancies resulted from the process.

### Accountability

Any Board of Directors and their Executive group have demanding responsibilities, including the probity and transparency associated with public sector ownership. Their actions must always be in the best interests of the corporation and be within their capacity to act. They operate within a commercial environment where decisions taken are to be based on commercial realities and accountabilities.

This paradigm is substantially different from the traditional Public Sector perspective and results in some significant differences in process and attitude. For example, a commercial view results in a remuneration structure that is very different from that in the Public Sector, where tenure is generally assured. By comparison, when executives are paid significantly more than comparable public sector roles, there is an expectation of limited rights of tenure and a higher risk of removal if they do not perform.

The dimension of accountability to the Parliament (via the Minister) and thus the community warrants clearer specification given the growing number and diversity of corporatised entities in Western Australia and their distinctly different governance and remuneration arrangements. Until this is done, difficulties will arise for both the Boards and Executives of such entities, as well as the responsible Minister, whenever different interpretations, based on the different paradigms, arise.



## Communication

The early Audit requests for information took too long to resolve and the responses often generated more questions. The responses received lacked clarity and failed the test of openness that should exist between auditee and auditor. In addition it later came to notice that members of the Board did not support some of the content of the correspondence provided by WPC in response to Audit queries. Acceptable explanations were ultimately provided in regard to the termination payments.

The Board and Executive of WPC considered that adequate communication with the Minister existed throughout the disaggregation process. Audit however did not find a satisfactory evidentiary basis to support this view.

## Records

The WPC records in respect to the terminations examined were not complete. Much of the rationale for decisions taken was not recorded at the time and in consequence Audit queries were not answered properly.

Audit has previously raised with WPC the poor quality of its records in relation to a previous executive termination payment. It is of concern that similar issues should arise again so soon.

The *State Records Act 2000* requires that proper records be maintained that explain and support the performance of functions – this is good managerial practice and corporate governance. Within this framework particular care needs to be taken to document significant and sensitive decisions so any matters of concern that arise at a later date can be authoritatively addressed.

Following are some simple illustrations of Audit's concerns regarding WPC record keeping in this matter:

- The original of the letter regarding the termination of one executive (Executive X) could not be found. Only copies were available for examination by Audit. The copy has since been sighted by the originator and confirmed as authentic.
- The termination arrangement for another executive (Executive Y) was not on file and WPC had to get a copy from Executive Y to provide to Audit.



## Western Power Senior Executive Payouts ... continued

- There is no record of any deeds of separation or variation to any of the three contracts examined. Indeed, WPC has confirmed in writing that they do not exist.
- Preliminary legal advice that details the context and rationale for termination decisions was dated 3 July 2006 and obtained following matters of concern being raised by the Minister.

Information provided by Board members and the preliminary legal advice retrospectively explained events, provided the missing contextual information and the underlying rationale for the Board decisions.

### Contracts

There were variations or extensions to all contracts examined. These changes had the effect of increasing the termination payments to the executives.

The Board had the power to sanction changes to contracts and did formally resolve to approve all the terminations. There was a requirement to consult with the Minister in respect to matters that affect the Managing Director and this was done. The contracts for the terminated executives were detailed in note 28 of the financial statements. Each was different in construction and conditions were not applied as written in respect to the terminations.

WPC routinely rolled over executive contracts and treated the completion date as 'nominal'. The Performance Appraisal process within WPC was linked to the bonus and pay revision processes but Audit was not able to determine a link to continuity of service. WPC had not released an executive on completion of the contract term in recent times.

In addition, 12 weeks pay in lieu was paid to executives whose termination was covered by the Certified Agreement 2005 even if the staff member continued to work out the period of notice.

The contract conditions and actual payment (not including Leave payments) are described in the table on page 9.





Contract	Actual
<b>Executive X</b>	
To 31 December 2005 Contract ended – no redundancy entitlement	
To 31 March 2006** with redundancy of 87 weeks (\$478K)	Ends 31 March 2006* 87 weeks (\$478K)
<ul style="list-style-type: none"> <li>• applicant for senior positions in new entities but not successful</li> <li>• other employment options not pursued – new roles too ‘junior’</li> <li>• concern that failure to renew contract would lead to litigation</li> </ul>	
<b>Executive Y</b>	
To 9 January 2007 Termination 26 weeks (\$106K)	Ends 31 March 2006 40 weeks (\$182K)
<ul style="list-style-type: none"> <li>• alternative employment offered but refused as significantly junior to current role</li> <li>• alternative employment clause (comparable remuneration and a role the executive is capable of performing) that affects right to 26 weeks not used</li> </ul>	
<b>Executive Z</b>	
To 30 June 2007 Termination 26 weeks (\$200K)	Ends 31 March 2006* 65 weeks (\$570K)
<ul style="list-style-type: none"> <li>• executive made it clear from the beginning of contract that he did not wish to be employed in any position within the new entities</li> <li>• termination provisions provided to the Minister and approved</li> </ul>	

\*Available for April and May 2006 if required

\*\* New arrangement dated 20 January 2006



### Western Power Senior Executive Payouts ... continued

In each case the option that was exercised significantly exceeded the written contract provisions. Further the records do not detail any consideration of alternatives. The justification provided by WPC for the approach adopted was that as the Minister approved Executive Z, there was an ethical imperative in respect to Executive Y. The treatment of Executive X was based on existing 'custom and practice' and because the executive was essential to the disaggregation process.

The view of the Board members is that there was no variation in the contracts but that the payments were actually a fulfilment of the written and unwritten conditions of the contract. The rationale, in respect to Executive Y and Z, was also based on the attraction of talented individuals from secure employment with an expectation of employment for a set period. This stance contradicts earlier correspondence received by Audit from WPC and is not reflected in the contracts signed by both executives when engaged.

Four other staff have been provided with a termination payment, in addition to the executives detailed in the Financial Statements for the period 1 July 2005 to 31 March 2006. Three of these staff moved into the new entities, two on a trial basis (in an effort to retain corporate knowledge) and one to provide corporate knowledge to the new entity for a set period. All three have now exercised their option for termination payments.

The fourth an executive assistant was awarded a separation payment. No documentary evidence regarding application of the redeployment provisions within the Certified Agreement 2005 was found.



# Informing the Public: Providing Information on the Timeliness of Services

## Executive Summary

Service timeliness is a daily concern to many people. Members of the public made more than 250 000 calls for help from emergency services and made over 100 million public transport (buses, trains, and taxis) trips in 2004-05.

The timeliness of a service contributes to user and more broadly public satisfaction with public services. Agencies need to be responsive to public expectations and perceptions by providing high quality timeliness information to assist users of services and to drive service quality.

This examination reviews the quality of publicly provided timeliness information for a sample of nine key services: police, fire, ambulances, water, electricity, buses, metropolitan and country trains, and taxis. These services are likely to have a significant impact on the public if they are not delivered in a timely manner.

Pointers are provided for improving the usefulness and accessibility of the publicly provided timeliness information.

## Key Findings

- *For the services reviewed, the examination found the Western Australian public are generally well served in terms of the quality of timeliness information provided to them compared to other Australian jurisdictions.*
- *However, the agencies reviewed could improve the usefulness of the timeliness information by:*
  - *providing the range of times it takes to deliver services*
  - *identifying times of the day or days of the year when performance differs*
  - *identifying localities or regions where performance differs*
  - *explaining how the targets are set and the reasons for not meeting targets*
- *Access to timeliness information could be enhanced with websites and other technologies providing additional information.*

## Recommendations

*Agencies should:*

- *review and improve the usefulness of their publicly provided timeliness information, including information about how targets are set and the reasons for not meeting targets*
- *explore opportunities to enhance access to timeliness information.*



## Informing the Public: Providing Information on the Timeliness of Services ... continued

### Introduction

The timeliness of services delivered by Western Australian government agencies is a daily concern to many people. For example, the public made more than 250 000 calls for help from emergency services and made over 100 million public transport trips in 2004-05.

Service timeliness can include:

- response times to deliver services or products, such as the time taken to attend to emergencies or disruptions of supply
- on-time running of scheduled services such as buses and trains.

Timeliness of a service contributes to user and more broadly public satisfaction with government services. Users of services consider time, in addition to other aspects such as quality and cost, when deciding whether they are satisfied with services and what to expect if they use the service.

With this in mind it is important that agencies keep the public informed about the timeliness of services and what is being done to manage service quality.

The introduction of Outcome Based Management in 2005 streamlines performance reporting with government's goals and strategic outcomes and removes the legislative requirement to report output measures such as quantity, quality, and timeliness. However, reporting timeliness information is still of benefit to the public and the revised reporting requirements do not preclude agencies from continuing to develop and disclose timeliness information.

Benefits to the public of providing timeliness information include:

- assisting the public to select and use services that best meet their needs
- to better inform public expectations of service quality
- providing transparency of performance through external scrutiny of services and comparison with similar services in other jurisdictions.

Providing this information to the public can also benefit agencies. For example, by enabling agencies to assess stakeholder concerns, identifying areas for improvement, and motivating and focusing employees by openly articulating required performance.



## What We Did

This examination reviews the quality of timeliness information publicly provided by seven agencies for a sample of nine key services: police, fire, ambulances, water, electricity, buses, metropolitan and country trains, and taxis.

These key services are likely to have a significant impact on the public if they are not delivered in a timely manner. For example, the extent of damage caused by a fire can be minimised by a timely response from fire services, and on-time running is a key factor in ensuring public transport needs are met (Table 1).

Services	Key service reviewed <sup>1</sup> and responsible agency
Fire	Timely fire services attendance ( <i>Fire and Emergency Services Authority – FESA</i> <sup>2</sup> )
Police	Timely police attendance ( <i>Western Australia Police</i> )
Ambulances	Timely ambulance attendance ( <i>Part funding provided by the Department of Health</i> )
Electricity	Timely restoration of electricity supply ( <i>Western Power</i> ) <sup>3</sup>
Water	Timely restoration of water supply ( <i>Water Corporation</i> )
Metro Trains	On-time performance of metropolitan trains ( <i>Public Transport Authority – PTA</i> )
Country Trains	On-time performance of country trains ( <i>PTA</i> )
Metro Buses	On-time performance of metropolitan buses ( <i>PTA</i> )
Taxis	Timely taxi attendance ( <i>Regulated by the Department for Planning and Infrastructure – DPI</i> )

Source: OAG

**Table 1: Services and Agencies Reviewed**

*Many agencies provide or regulate services that need to be provided in a timely manner.*

- 1 Timeliness of call centre services and responding to customer complaints or enquiries are excluded from this review as these have been reviewed by previous Auditor General Reports.*
- 2 Responding to fires in Western Australia is the responsibility of FESA, local governments through volunteer Bush Fire Brigades and also the Department of Conservation and Land Management. The scope of the performance review does not include local governments or CALM.*
- 3 Western Power was reviewed prior to its disaggregation on 1 April 2006.*



### Informing the Public: Providing Information on the Timeliness of Services ... continued

Most of the services reviewed are directly provided by Government agencies. However, taxi and ambulance services are provided by non government operators. Taxi services are regulated by the DPI and the Department of Health provides \$100 million over five years for ambulance services.

The quality of the timeliness information provided for the sample of nine key services was reviewed in terms of its usefulness to the public in addressing three key questions:

- What can the individual user expect from a government service?
- How useful are the targets reported by agencies?
- How accessible is timeliness information to members of the public?

This examination focuses primarily on publicly available information and does not review the accuracy of the information provided by the agencies.



## What Can the Individual Expect?

### Findings

- *For the services reviewed, the examination found the Western Australian public are generally well served in terms of the quality of timeliness information provided to them compared to other Australian jurisdictions.*
- *However, the agencies reviewed could improve the usefulness of the timeliness information by:*
  - *providing the range of times it takes to deliver services*
  - *identifying times of the day or days of the year when performance differs*
  - *identifying localities or regions where performance differs.*

### Recommendation

*Agencies should review and improve the usefulness of their publicly provided timeliness information.*

### What is Being Provided

All seven agencies publicly provide timeliness information for the key services reviewed. The information is generally a high level aggregation and reflects general trends.

For the services reviewed the examination found the Western Australian public are generally well served in terms of the quality of timeliness information provided to them compared to other Australian jurisdictions. This is consistent with Western Australia's unique 20 year history of performance reporting.

Audited key performance indicators (KPIs) published in annual reports are a widely used method to convey timeliness information to Parliament and the public. Other methods include publicly reporting achievements of Customer Service Charter commitments, quarterly and monthly performance reports on agency websites. In addition, most agencies use multiple indicators to report aspects of services. For example, the PTA provides a timeliness indicator for each of the three country passenger trains.

We found that most of the timeliness information for the key services reviewed is provided using performance indicators in annual reports. Some 33 out of 41 indicators reported for the key services reviewed are made available in agency annual reports. Of the 33 indicators, 16 are audited KPIs, with all audited KPIs receiving clear audit opinions in 2004-05. This means that they have been audited and found to be relevant and appropriate, and fairly represent indicated performance (Table 2).



## Informing the Public: Providing Information on the Timeliness of Services ... continued

Services	Type of information	Location provided	Number publicly provided
Fire	annual	in Annual Report	4
Police	annual	in Annual Report	2
Ambulances	annual	in Annual Report	1
Electricity <sup>1</sup>	annual	in Annual Report	16
Water <sup>1</sup>	annual	in Annual Report	1
	monthly	on agency website	2
Metro Trains	annual	in Annual Report	1
Metro Buses	annual	in Annual Report	1
Country Trains	annual	in Annual Report	3
Taxis	annual	in Annual Report	4
	quarterly	on agency website	10 <sup>2</sup>
			41

Source: OAG

**Table 2: Number and type of timeliness indicators publicly provided**

*Thirty-three out of the 41 indicators reviewed were provided using performance indicators in Annual Reports in 2004-05.*

- 1 The performance indicators for the Water Corporation and Western Power are not required under legislation to be audited by the Auditor General.*
- 2 DPI reports 10 indicators in their quarterly reports on the performance of the taxi industry. Four of these are reported as KPIs in the DPI Annual Report.*

The high level nature of performance indicators combined with practical constraints such as data collection costs and varying approaches to service provision can result in agencies not reporting on all relevant aspects of timeliness. Such constraints on reporting timeliness information can mean that the information does not fully reflect all areas of interest to users or the public.

For example, DPI does not report on waiting times for taxi ranks, and hail and private work. DPI advise these forms of access to taxi services cannot be measured consistently. This makes it difficult for taxi users to assess relative waiting times between phone bookings and waiting at a taxi rank. Similarly, FESA does not report on the response times of regional fire stations which are generally manned by volunteers. The majority of volunteer firefighters are from Bush Fire Brigades that are managed and administered by local governments, not FESA.





Timeliness information provided in addition to annually reported performance indicators is useful as it provides a more detailed and frequent account of timeliness performance. For example, the Water Corporation provides monthly response time indicators on their website for several timeliness commitments made in their Customer Service Charter. Similarly, the DPI provides quarterly service timeliness reports on the Taxi Industry in addition to their Annual Report indicators on Waiting Times for Wheelchair Accessible Taxis. An extract from the 2004-05 Annual Report of these indicators is shown below as an example of the type of timeliness information being provided (Figure 1).

Booking Type <sup>1</sup>		Timeframe (Mins)	Target %	03-04		04-05	
				Jobs picked up in timeframe		Jobs picked up in timeframe	
				%	Number	%	Number
Booked	Peak	0-5	≥ 85	63%	1 065	59%	988
	Off-Peak	0-5	≥ 85	72%	22 835	68%	22 116
ASAP	Peak	0-20	≥ 90	56%	962	54%	913
	Off-Peak	0-20	≥ 90	66%	16 337	63%	15 858

‘This measure indicates the waiting time performance for booked and non-booked wheelchair accessible taxis during peak and non-peak hours. Customer expectation of waiting times vary for pre-booked jobs as compared to non-booked jobs.

The data indicates that targets have not been met for the year ending June 2005 and service standards have in general declined compared to the previous year. The variance occurred, in part, due to small increases in demand compared to the previous 12 months but mostly as a result of increased operating costs, which reduced the economic viability of wheelchair taxi work.’<sup>2</sup>

Source: DPI Annual Report 2004-05

**Figure 1: Summary of DPI indicators reported for ‘Waiting Time Performance for Wheelchair Accessible Taxis’**

*Note 1: The indicator is useful to the public because it gives a clear indication of what users can expect depending on time (Peak and Off-Peak) and Booking Type (Booked and ‘As Soon As Possible’). Peak periods are defined as 5.00pm Fridays to 6.00am Saturdays and 5.00pm Saturdays to 6.00am Sundays. The indicator provides a useful assessment of performance and reasons for why targets were not met.*

*Note 2: Extract from DPI Annual Report 2004-05.*



## Informing the Public: Providing Information on the Timeliness of Services ... continued

### Indicating the Range of Times

Most agencies report on service timeliness using simple descriptors such as averages or the proportion of services meeting a target. For example, the WA Police provides average response times and the PTA provides the percentage of bus or train services meeting on-time running targets.

These indicators are useful in providing a broad picture of performance but sometimes more is needed to provide the public with a clearer picture of performance. This is because simple descriptors are sometimes not useful in judging 'how good' or 'how bad' were the percentage of services that exceeded the average or target.

For example, WA Police reported an average arrival time of eight minutes for Priority 1 and 2 emergency calls in 2004-05. Priority 1 and 2 emergencies are defined as urgent life or property threatening incidents. The average time of eight minutes compares favourably against their target of an average of nine minutes (Table 3).

Average time taken to respond to urgent calls for police assistance in the metropolitan area from call received (entered) to arrival at scene

	<b>Actual</b>	<b>Target</b>
Priority 1 and 2 calls	8 mins	9 mins
Priority 3 calls	20 mins	20 mins

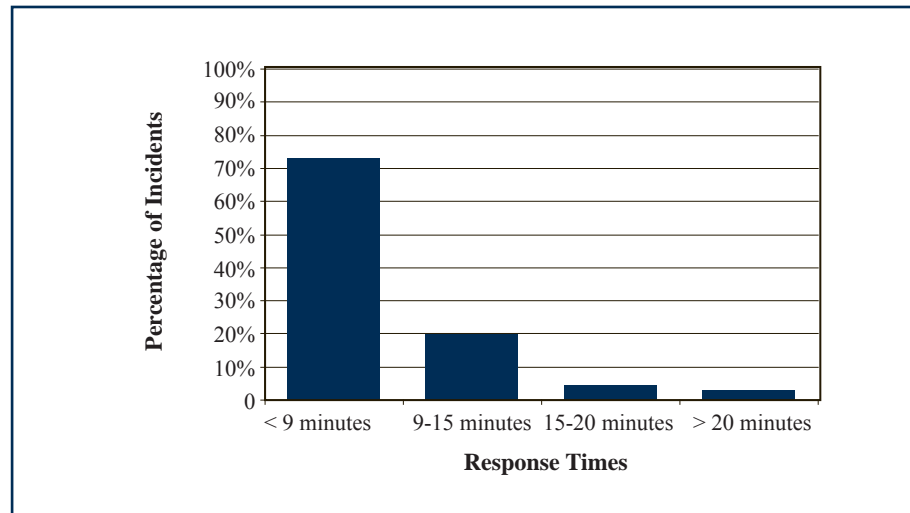
**Analysis:** The average time taken to respond to urgent calls for police assistance in the metropolitan area from call received (entered) to arrival at scene for Priority 1 and 2 calls was eight minutes and 20 minutes for Priority 3 calls. The WA Police Service achieved its 2004-05 targets of nine minutes for Priority 1 and 2 calls and 20 minutes for Priority 3 calls.

Source: WA Police Annual Report 2004-05

**Table 3: Summary of 2004-05 timeliness indicators reported by WA Police**

*Response times do not reflect the time from when the call was received but rather when it was entered into the police dispatch system.*

The average time reported for Priority 1 and 2 calls does not show the range of performance. Internal figures collected by the WA Police show that for more than 1 600 cases (almost 30 per cent of incidents) the arrival time exceeded the target time of nine minutes and for 437 cases (seven per cent) it took more than 15 minutes (Figure 2).



Source: WA Police

**Figure 2: Range of response times for Priority 1 and 2 calls**

*The figure shows the value of providing the range of response times in addition to average times. In almost 30 per cent of incidents the actual response time exceeded the target time of nine minutes.*

Furthermore, WA Police report in 2004-05 it took on average 20 minutes to arrive at the scene of a Priority 3 incident, defined as requiring immediate attention but one that is not life threatening. This compares well against their target of an average of 20 minutes. However, the average time reported does not show the range of performance. For example:

- in nine per cent of cases it took more than twice the target time (more than 40 minutes)
- for 3 000 cases (almost four per cent) a person had to wait more than one hour for assistance (three times the target).

The PTA provides on-time running indicators for metropolitan and country train services but does not report publicly the number of services cancelled. Approximately two per cent of metropolitan train services were cancelled during 2004-05 (equivalent to about 650 000 passenger trips). This is double the internal target of one per cent.

In another example, additional information on the range of performance for the metropolitan bus service would have shown that whilst the bus service has in aggregate met its annual timeliness target for 2004-05 it did not meet its target every month or for every one of its



## Informing the Public: Providing Information on the Timeliness of Services ... continued

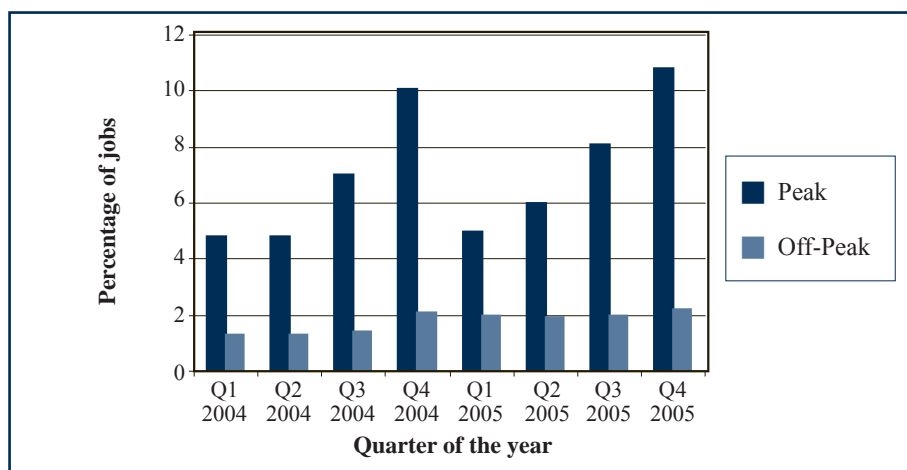
10 service areas. For three consecutive months during 2004-05 the bus service did not meet its overall timeliness target of 90 per cent punctuality and that for two service areas performance fell below 50 per cent during one month.

Agencies need to assess whether an average figure of service timeliness is sufficient to provide an insightful indication of performance. Sometimes, such as in the examples shown above, an average will need to be supplemented with additional information to help the reader get a better understanding of the range of performance. In most cases, it can be expected that range and cancellations should be reported to enhance the transparency of an agency's reporting for its performance.

### Identifying Times when Performance Differs

Information for times of the day or days of the year can provide greater insight into the timeliness of services. Only the DPI publicly provides information for peak and non-peak performance, although other agencies collect this information to manage services.

The DPI provides 10 indicators that specifically identify performance for peak and non-peak periods. These include indicators for Taxi Waiting Times, and Jobs Not Covered. These indicators provide important information to the public. For example, during peak periods up to 10 per cent of taxi bookings are not covered compared to less than two per cent for non-peak periods (Figure 3). A taxi booking that is not covered means that the customer is not picked up despite having made a booking.



Source: DPI Taxi Industry Activity and Performance Summary Quarter 4 2005

**Figure 3: Taxi Jobs Not Covered by times when performance differs**

*Taxi performance clearly differs by the time of the week (peak times of Friday and Saturday night) and the quarters of the year with performance deteriorating significantly in the fourth quarter reflecting the busy Christmas/New Year's festive season.*

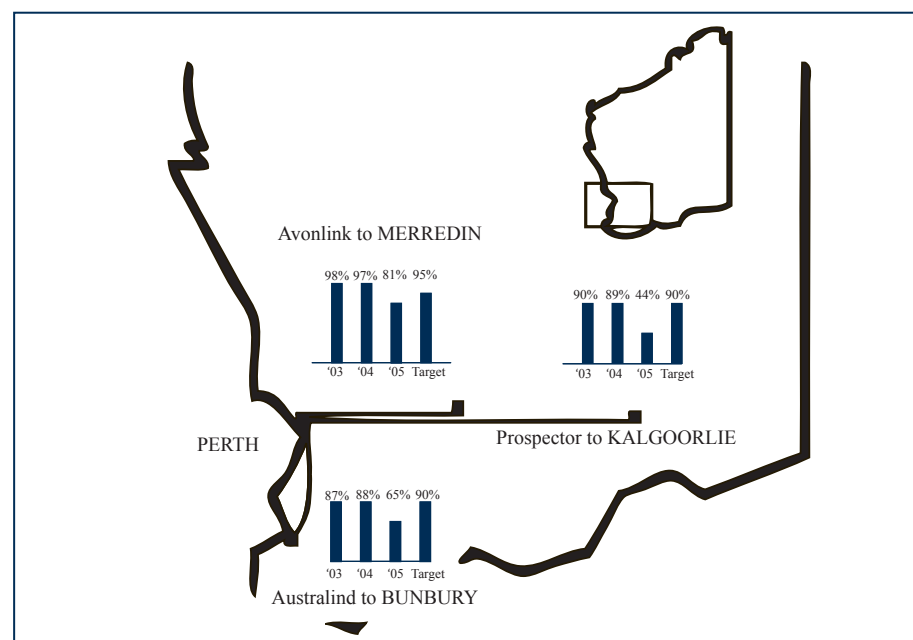


The PTA collects and internally reports on peak and non-peak period performance information for metropolitan trains but this information is not publicly available. This information shows that peak period performance can vary widely and substantially from the target performance of 95 per cent of trains running on-time. For example, during one week in October 2005 on-time running ranged from as low as 54 per cent of trains to as high as 90 per cent of trains during the peak afternoon period from 4.30 pm till 7.00 pm.

### Indicating Performance for Localities and Regions

Publicly provided timeliness information can be used to inform decision-making by the public, such as whether to use a service or what to expect if using a service. To support such decision making it is important to the public that the timeliness information be as relevant to a user's geographical location as possible. Agencies can do this by indicating where performance differs from the average for some localities and regions.

For example, the PTA provides separate timeliness indicators for their three country train services. This provides users of each service with the most relevant information as the indicator only reflects the timeliness of one train service rather than providing an average figure for the overall country train services (Figure 4).



Source: PTA Annual Report 2004-05

**Figure 4: Indicating performance by localities for country train services**

*The PTA report separately for each of their country train services. This is more useful for users of each service than a single indicator.*

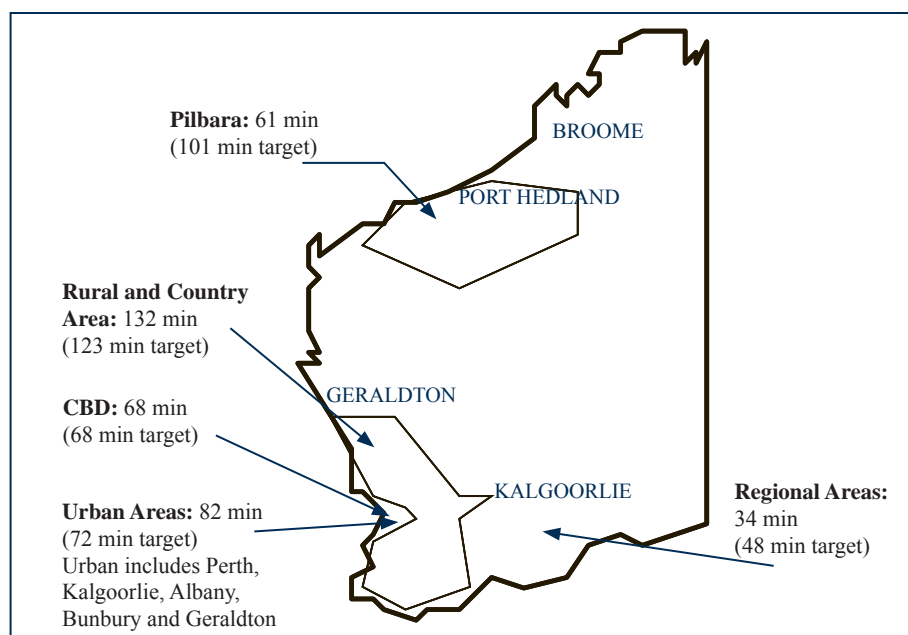


## Informing the Public: Providing Information on the Timeliness of Services ... continued

The DPI and Western Power also publicly provide timeliness information by localities or regions. The DPI provides locality information for the taxi industry and Western Power provides indicators on electricity disruptions for regions in the State.

The DPI in its quarterly reports for the taxi industry provides separate timeliness information for 'Inner and Middle Suburbs' compared to 'Outer Suburbs'. This information shows that timeliness performance is better for 'Inner and Middle Suburbs' than 'Outer Suburbs'.

Western Power provides annual indicators for the average time taken to restore electricity supplies for several distinct regions of the State, allowing users of each region to understand actual timeliness performance and what to expect in terms of the target times for their region (Figure 5).



Source: Western Power Annual Report 2004-05

**Figure 5: Average duration of electricity outage for different regions**

*In 2004-05, average outage duration varied significantly across the regions of the State ranging from 34 minutes in Regional Areas to 132 minutes in the Rural and Country Area of the South-West Interconnect System. Western Power developed and reported against separate targets to reflect the different conditions of each region.*

The other agencies reviewed do not currently provide timeliness information for specific regions outside the metropolitan area. For example, no information is provided for police and fire services for major regional centres despite their sizable populations and the level of Government expenditures in providing police and fire services.



## How Useful Are Reported Targets?

### Finding

*The agencies reviewed could improve the usefulness of the timeliness information provided by explaining how targets are set and the reasons for not meeting targets.*

### Recommendation

*Agencies should review and improve information about how targets are set and the reasons for not meeting targets.*

### Explaining the Basis for Setting Targets

Agencies set timeliness targets to manage the resources needed to achieve a desired level of service. Targets also provide the public with a means to assess the extent to which agencies are achieving intended performance.

All agencies reviewed except FESA set and reported performance against targets for their timeliness indicators in 2004-05. FESA is developing targets for the 2005-06 reporting year.

Agencies do not disclose the basis for setting the targets with the published timeliness information. This makes it difficult for the public to assess the appropriateness of the targets and thus the significance of the performance achieved.

The examination found that agencies use different approaches to set targets, such as past performance, customer surveys and benchmarking with other jurisdictions. For example, the Department for Planning and Infrastructure developed taxi waiting time targets from 1999 market research of the expectations of customers.

Disclosing how targets are set can assist the public to appreciate whether performance below or above a target needs attention or whether the target needs adjusting. For example, two targets for Western Power and one for the Water Corporation have been consistently exceeded for at least the last four years. Disclosure of the basis for these targets would allow Parliament and external users to assess the appropriateness of the target and consider the use of the resources to achieve this level of performance (Table 4).



## Informing the Public: Providing Information on the Timeliness of Services ... continued

Indicator	Target 01-02 to 04-05	Actual 04-05	Actual 03-04	Actual 02-03	Actual 01-02
Electricity: Restoration of unplanned outages within four hours – metro and major regional areas	85%	93%	96%	96.5%	96%
Electricity: Restoration of unplanned outages within four hours – rural and remote areas	85%	90.8%	93%	91.5%	95%
Water: Customers not experiencing interruption to supply greater than one hour	≥ 75%	89%	87%	86%	88%

Source: Western Power and Water Corporation Annual Reports

**Table 4: Examples of performance consistently exceeding targets**

*Disclosure of the basis for setting and maintaining the targets aids public understanding of the significance of the service performance.*

### Disclosing the Reasons for not Meeting Targets

Performance targets help agencies inform the public about performance, guide public expectation about what has been achieved, and what remains to be done. In particular, agencies need to ensure that explanations for performance accompany the timeliness indicators or that there are signposts directing readers to the relevant information.

Of the eight key services reviewed that have targets, only four services met all of their timeliness targets in 2004-05 (Table 5). These were police, ambulance, water and metropolitan bus services. Nevertheless, there are users of these services that did not receive the targeted performance. Of the other four services, over 60 per cent of the targets for electricity, two of the 10 targets for the taxi industry and none for metropolitan and country trains were met.





Service Area	Services meeting their targets	Number of targets met	Number of timeliness indicators publicly provided
Fire	No targets set	No targets set	4
Police	√	2	2
Ambulances	√	1	1
Water	√	3	3
Metro Buses	√	1	1
Electricity	x	10	16
Metro Trains	x	0	1
Country Trains	x	0	3
Taxis	x	2	10
TOTAL	4 out of 8	19 of 37	41

Source: Agency reported indicators

**Table 5: Number of timeliness indicators provided and targets met for key services in 2004-05**

*Four out of the eight services reviewed with targets have met all their targets in 2004-05. FESA did not set any targets for the timeliness indicator of the fire service reviewed.*

The PTA and Western Power provided explanations with the published timeliness indicators for all services that did not meet targets. For example, in 2004-05, the PTA reported greater than anticipated delays to metropolitan services because of speed restrictions and line closures for the new works associated with the New MetroRail project.

Country train services also did not meet their targets in 2004-05. The worst performing was the Perth-Kalgoorlie (Prospector) train service which dropped from 89 per cent in 2003-04 to 44 per cent in 2004-05. The target was 90 per cent on-time running.

A Ministerial Statement, issued in February 2006, expanded upon the reasons in the annual report for the delays of the Prospector service and indicated that performance may suffer further until the full benefits of a repair program are realised and the trains become more reliable.

Western Power provided information in their 2005 annual report to accompany the timeliness and other performance indicators to explain that weather conditions affected electricity supplied through the overhead distribution network and that a capital works program was underway to improve services.



## Informing the Public: Providing Information on the Timeliness of Services ... continued

### How Accessible is the Information?

#### Finding

*Access to timeliness information could be enhanced with websites and other technologies providing additional information.*

#### Recommendation

*Agencies should explore opportunities to enhance access to timeliness information.*

#### Opportunities Exist to Enhance Access to Timeliness Information

Annual reporting is the long-standing approach for agencies to account to Parliament and the public for the expenditure of public moneys and the delivery of services. Newspaper notices, telephone calls, correspondence and public address announcements are also used by agencies such as the PTA to inform customers about individual service issues. The introduction of the Internet and other technologies has opened up new opportunities for informing the public about the timeliness of services.

The examination found that all agencies reviewed utilise their annual reports to provide timeliness information and place these reports on their websites. However, this underutilises the opportunities offered by the Internet to inform the public more frequently and more fully about performance.

For example, the Water Corporation uses the Internet to provide monthly performance information<sup>1</sup> and the DPI uses the Internet to publish, in a booklet format, quarterly performance statistics for the taxi industry<sup>2</sup>.

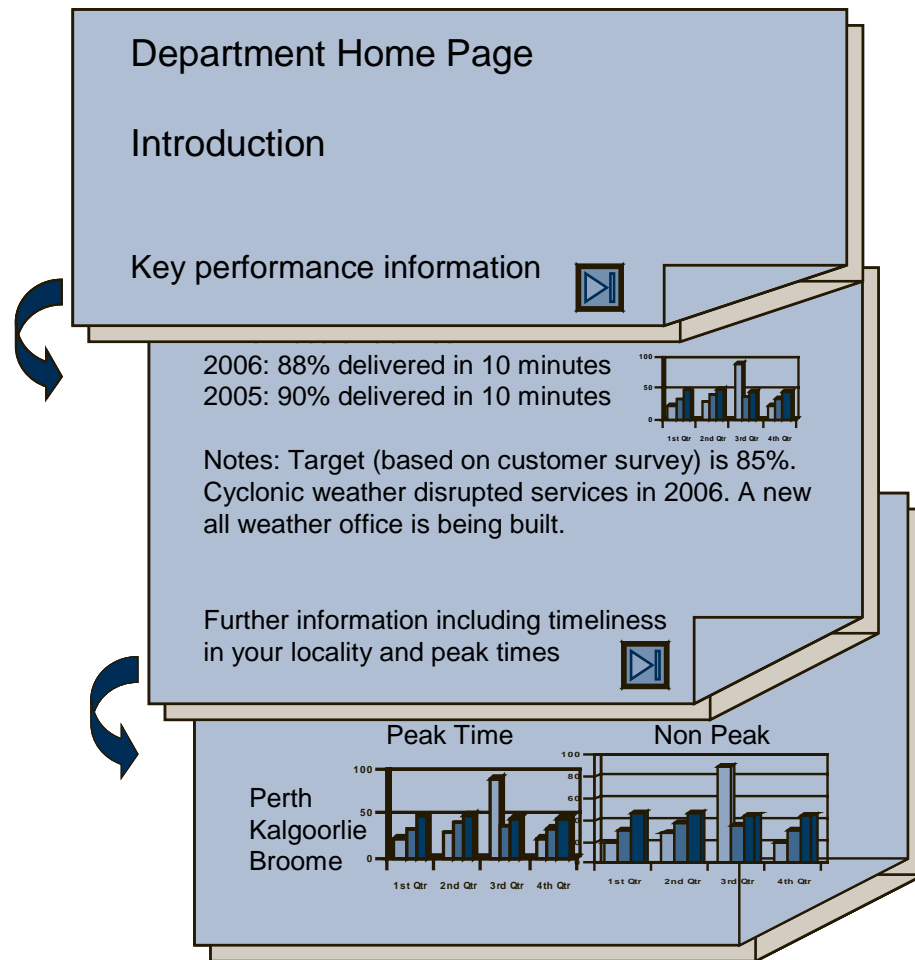
Whilst the Internet is a way to provide more current timeliness information, agencies need to ensure the public can easily access it. There should be a logical hierarchy with high-level performance indicators being clearly linked to more detailed information relevant to an individual service user's needs. None of the services reviewed had more than one level of performance information or made it easy to navigate between levels. Advice on constructing web pages and making it easy for the public to navigate to additional information is available in the *Guidelines for State Government Websites* provided by the Office of e-Government.

Conceptually, timeliness information, using the Internet, might look like the following (Diagram 1).

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<sup>1</sup> [www.watercorporation.com.ua](http://www.watercorporation.com.ua)

<sup>2</sup> [www.dpi.wa.gov.au/taxis/1558.asp](http://www.dpi.wa.gov.au/taxis/1558.asp)



Source: OAG

**Diagram 1: Conceptual example of the opportunity that agencies have in using the Internet to provide additional information**

The PTA systematically provides real-time timeliness information to users for their metropolitan and country train services, such as estimated time of arrival for specific trains. The PTA uses their website, station announcements and directly contacts users, where appropriate, to advise them about delays and changes to schedules (Diagram 2).



## Informing the Public: Providing Information on the Timeliness of Services ... continued

**Transperth** providing public transport services for the **Perth** metro area

**NewsDesk**

- West Coast Eagles v Brisbane (Saturday 29 April 2006)**  
Click here for further information.
- Joondalup CAT service change (7 May 2006)**  
Click here for further information.
- City of Fremantle works (2 May - 2 June 2006)**  
Click here for further details.
- Carramar service changes and information displays (7 May 2006)**  
Click here for further details.
- Mirrabooka service changes (7 May 2006)**  
Click through for further details.
- Route 333 timetable changes (7 May 2006)**  
Click here for further details.
- Riverton service changes and information displays (14 May 2006)**  
Click here for further details.
- Ellenbrook service changes and community information displays (7 May 2006)**  
Click here for further information.
- Booragoon Bus Station stand changes (23 April 2006)**  
Click here for further details.
- Update on SmartRider**  
The full introduction of Transperth's new SmartRider ticketing system is being postponed. We are currently updating the relevant SmartRider information and brochures located on this website to reflect the amended timeframe. Thank you for your patience and feedback on this project. Click through for further details.
- Station access maps**  
Click here to download your station access maps.
- Ecobus timetable**  
Click here to view the Ecobus timetable.
- Savings Calculator**  
Click here to find out how much money you can save by travelling with Transperth.

[Register for Traveleasy](#) | [Login](#)

**TravelEasy**  
Transperth's email update service is free to join.  
[More information.](#)

[Login](#) [Register Now](#)

**SmartRider.** To access the online balance of your registered SmartRider card, login to your TravelEasy account.  
[Help](#)

Source: [www.transperth.wa.gov.au](http://www.transperth.wa.gov.au)

**Diagram 2: Extract from the PTA's Transperth Internet web page advising the public about service delays, the reasons for the delays and what is being done to address the issues**

New technology provides agencies with opportunities to make information more accessible directly to citizens. For example, a public transport provider in Melbourne is developing Australia's first public transport mobile telephone messaging service (SMS) to alert users to service disruptions.



# Setting Fees – Extent of Cost Recovery – Follow-Up

## Executive Summary

This report follows up our 2004 report *Setting Fees – The Extent of Cost Recovery*. That report found insufficient and fragmented policy direction had contributed to inappropriate fee setting decisions and limited disclosure of agency pricing policies.

The follow-up examination sought to draw general lessons from current practices to assist the adoption of good practice in this area. It involved a desk-top audit using information requested from six new agencies to assess current fee setting practices in regard to a sample of their fees. We also sought information from three of the agencies that we examined in 2004 to determine whether fees that were significantly over recovering costs in 2004 are now more closely aligned to cost.

## Key Findings

The follow-up examination found evidence of improvement in agency costing and fee setting practices. Such improvement should be occurring given the established use of accrual accounting, greater understanding of the user pays principle and enhanced functionality of financial systems. However, further improvement is still needed along with continued development of the whole-of-government policy framework and greater transparency of pricing policies.

### *Specific findings were:*

- *Changes are yet to be made to the government guidelines on Costing and Pricing Government Services which are a key component of the whole-of-government policy framework for setting fees and charges. However, they are currently under review with completion expected by late 2006.*
- *Agencies are now required to certify to the Department of Treasury and Finance (DTF) that their fee setting practices are materially accurate and the fees reasonably reflect costs. DTF does not test the reliability of these certifications as part of its oversight role.*
- *Two of the three agencies that were significantly over recovering sampled fees in 2004 have reduced them by between 18 per cent and 50 per cent and as such they now more reasonably align with costs. The third agency has not reduced the over recovering fee.*



### Setting Fees – Extent of Cost Recovery – Follow-Up ... continued

- *Of the current sample of six categories of fees, only probate fees significantly over recovered costs (by almost 200 per cent). No clear justification was available for this level of over recovery.*
- *Only half of the 20 sampled agencies met annual report disclosure requirements for their fee setting policies. However, this was an improvement on the 2004 finding when only one of six agencies was compliant.*

### Recommendations

#### *DTF should:*

- *complete the revision of its guidelines on Costing and Pricing Government Services as a matter of urgency*
- *selectively review the accuracy and reliability of agency fee certifications.*

#### *Agencies should:*

- *be able to assure the public that reliable cost accounting processes are used in the setting of their fees*
- *document the reasons for any significant variance from cost recovery*
- *provide meaningful disclosure of their pricing policies.*



## Background

Thousands of fees and charges are raised each year by State Government agencies. The process of setting fees and the level at which they are set can affect economic efficiency and equity. A poor fit between the fee charged and the cost of service can lead to the under or over recovery of costs, and the misallocation of resources. It can also reduce the incentive for agencies to control costs<sup>1</sup>. Appropriately set fees can also be used to support the policy direction of government.

Our 2004 report *Setting Fees – The Extent of Cost Recovery* examined how six agencies determined the cost of government goods and services and the extent to which they use this information to set related fees. It also looked at the whole-of-government policy framework within which agency fee setting practices operated, including central review by the Department of Treasury and Finance (DTF).

That examination found that there was insufficient and fragmented policy direction and that this was contributing to inappropriate fee setting decisions and limited disclosure of agency pricing policies.

We recommended that:

Government with the assistance of DTF:

- should consolidate the various policy and guidance documents on costing and pricing and develop additional guidance to assist agencies, government and Parliament to make and assess fee setting decisions.

DTF should:

- continue to improve the information agencies are required to provide and so enable DTF to enhance its review of costing and fee setting practices, with particular reference to the over recovery of costs
- ensure that email correspondence is retained to evidence the review and advisory process.

Agencies should, where appropriate:

- prepare their own internal costing and pricing policies
- cost their goods and services such that the substantive cost of each is known
- accurately report the known extent of cost recovery to DTF in their annual fee submission

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<sup>1</sup> Productivity Commission Report No 15 – *Cost Recovery by Government Agencies*, August 2001.



## Setting Fees – Extent of Cost Recovery – Follow-Up ... continued

- ensure their fees are appropriately set and reasonably relate to the cost of providing the good or service
- provide meaningful disclosure of their pricing policies in their annual report.

## What Did We Do?

The follow-up examination involved:

- assessing the whole-of-government policy framework as well as DTF's current processes for reviewing agency fee setting decisions
- reviewing fee setting policies and practices at six agencies. These were:

Agency	Fee Description
Department of the Attorney General	District and Supreme Court Civil Fees including probate fees
Department of Conservation and Land Management (CALM) – (now part of the Department of Environment and Conservation)	Park Access Fees (entry and activity fees at 24 national parks)
Fire and Emergency Services Authority (FESA)	Emergency Services Levy
Department of Education and Training (DET)	TAFE Tuition Fee (comprises resource and general tuition fees)
Lotteries Commission of Western Australia	Retailer Fees (comprises fees for seven different product lines and services)
Swan TAFE	Commercial Fees

**Table 1: Agencies and Fees reviewed in 2006**

*Note: The Department of the Attorney General was until 2006 part of the Department of Justice which was one of the agencies we examined in 2004. We did not look at Court Fees in 2004.*





- sought information about fee setting adjustments made by three agencies identified in 2004 as significantly over recovering costs on some fees. These were:

Agency	Fee Description
Department for Planning and Infrastructure	Motor Vehicle Recording Fee Motor Vehicle Transfer Fee
Department of Consumer and Employment Protection	Business Name Registration Fee Search Extract Fee
Metropolitan Cemeteries Board	Adult Cremation Fee

**Table 2: Follow-up of agencies examined in 2004**

- reviewed twenty 2004-05 annual reports to assess the level of public disclosure of agency pricing policies.

## What Did We Find?

### Whole-of-Government Policy Framework

No change has yet been made to the government guidelines on *Costing and Pricing Government Outputs* which are a key component of the whole-of-government policy framework for setting fees and charges. However, DTF is currently reviewing the guidelines with completion expected by late 2006.

The guidelines, which are not mandatory, were last reviewed in 2001. In 2004 we found that:

- the Costing section of the guidelines were relatively comprehensive and easy to understand
- the Pricing section was difficult to understand and provided limited practical guidance to assist agencies when reviewing fees.

### Agency Internal Policies

Five of the six agencies had their own internal costing and pricing policies, the exception being the Department of the Attorney General. In 2004 only one of the six agencies reviewed had internal policies. Internal policies help to ensure that the agencies' fee setting practices comply with management strategies and are consistent with and supplement government policy.



## Setting Fees – Extent of Cost Recovery – Follow-Up ... continued

### Agency Costing Systems

Effective costing entails identifying all direct costs and accurately apportioning relevant indirect costs to establish the full cost of producing a good or providing a service. Good costing systems enable agencies to identify inefficiencies and make informed pricing decisions. Without good costing systems, fees may be set too high or too low and therefore not recover the appropriate level of revenue.

Four of the six agencies examined had determined the actual costs of providing the service to which the surveyed fee related. The exceptions were the Department of the Attorney General, which had not determined the cost in relation to its District and Supreme Court fees and CALM for its park access fees.

District and Supreme Court fees are charged at different stages of the litigation process such as when a writ is filed, hearing dates are assigned or an appeal is commenced. However, the Department does not know its costs at this level. Rather, it collects cost information at either Registry or whole-of-Court level.

We acknowledged, in 2004, that agencies can cost their goods and services either individually or as part of a group of related services. However, grouping means that agencies have less knowledge about the cost of individual services when it comes to fee setting and that this can lead to cross subsidisation of costs amongst the related services.

Costing on a group basis can best be justified where there are a number of related fees, each generating minimal revenue or where one or two of the group generate the bulk of revenue. However, this justification does not apply to the costing of discrete civil justice services such as Probate and Court of Appeal services.

The absence of actual cost information at the level of the individual service means that there is a risk that civil justice services in Western Australia's higher courts are not operating as efficiently as possible. Information provided by the Department and discussed below raised concerns in this regard.

CALM's park access fees encompass a range of different fees including entry, camping and tree top walks. CALM collects costs at the individual park level but not for all individual services. However, this is considered justifiable as the services are interrelated and are not generating significant revenue.



## Fee Setting – Extent of Cost Recovery

Our examination found that only the Department of the Attorney General's probate fees, which are a Supreme Court fee, were over recovering costs significantly and without a clear rationale. This was an improvement on the results arising from the 2004 examination where we found over recovery at three of the six agencies examined.

Sections 53 and 55 of the *Financial Administration and Audit Act 1985 (FAAA)* require Accountable Officers and Authorities of government agencies to review their fees and charges at least annually. An objective of the review is to ensure that fees achieve, or are making adequate progress towards achieving full cost recovery.

Fees should reasonably reflect the cost of providing services unless there is some overriding economic or social policy objective. If the fee significantly exceeds cost then it may amount to a tax, and as such, the agency may lack the necessary legal authority. For this reason, agencies need to have reasonably accurate estimates of the cost of their services.

However, fees may need to be adjusted above what constitutes a reasonable relationship to costs where government services compete with the private sector. Such an adjustment ensures 'competitive neutrality' with the private sector by eliminating any advantages afforded a government service provider.

Listed below are the results found at each of the six agencies.

### Fees That Over-Recover

We identified two instances of over recovery, one of which lacked clear justification.

#### *Probate Fees (Department of the Attorney General)*

Revenue collected from all probate fees in 2004-05 over recovered the total costs of the Probate Registry by almost 200 per cent. Significant over recovery of costs is one factor in determining whether a fee is a tax. The Department of Attorney General has acknowledged that its probate fees have not been set in relation to costs and that the fees over recover costs of the Probate Registry. During the examination, the Department obtained legal advice that concluded the fees 'are at risk of being characterised as a tax' but that there is 'some doubt about whether this characterisation would necessarily render the fees invalid'. The Probate Registry is but one of a number of offices comprising the Central Office of the Supreme Court.

The Department advised that the total cost of running the Central Office in 2004-05 was \$19.143 million, including judicial salaries, and total revenue in the same year, including probate, was \$5.6 million.



### Setting Fees – Extent of Cost Recovery – Follow-Up ... continued

The Department advised us that it is planning to review probate fees as part of a review of higher court fees and charges scheduled to be completed by December 2006.

Probate is the process of proving and registering a will in the Supreme Court. Five different types of probate fees can be charged. Revenue from probate fees totalled \$2.25 million from approximately 4 900 applications in 2004-05. The Department advised that the cost of running the Probate Registry was \$751 000 in 2004-05. The Department does not know what proportion of probate revenue is generated by each probate fee. However, we were advised that normal applications for probate only require payment of the Application Fee.

The Application Fee is payable at the beginning of the process and is assessed on the gross value of the estate, rather than the actual work involved in granting probate. The fee is \$136 for an estate value of up to \$10 000, \$272 for an estate valued at between \$10 000 and \$100 000 and \$544 for an estate valued in excess of \$100 000.

The Department has not costed the workload associated with probate applications. Therefore, it is unable to demonstrate that granting probate for a higher value estate entails a greater workload for the Court than for a lower value estate. However, we understand that the process of granting probate is relatively straightforward and not significantly affected by the value of the estate.

Legislative authority conferred on agencies to raise fees and charges does not permit the imposition of a tax. A tax must be specifically imposed under an Act of Parliament. Advice we received from the State Solicitor's Office for the 2004 audit was that 'the determination of whether a fee or charge is in fact wholly or partly a tax will depend upon the specific circumstances and legislation relevant to each particular fee or charge'. Some of the factors that may be relevant include:

'if there is no reasonable relationship between the fee or charge levied and the agency's approximate or estimated overall costs in providing and administering the relevant licence or service ... or if the fee or charge does not reflect the value of the licence or service provided.

'the return to an agency, or to consolidated revenue, of a significant or substantial amount of profit or return over and above the amount necessary to recover costs associated with providing those licences/services, or above the value of that licence/service'.



### ***Commercial Fees (Swan TAFE)***

Swan TAFE's commercial fees include a profit margin. This is permissible as the College is operating in a competitive market with private sector providers. Commercial fees are charged for the delivery of a training program tailored to an individual client's needs.

The authority for TAFE colleges to set their fees is provided by the *Vocational Education and Training Act 1996* and includes an obligation to obtain Ministerial authorisation. However, this authority is not being obtained. Swan along with other TAFE colleges and the Department of Education and Training (DET) had considered that specific guidelines issued by the Minister in 2001 provided the necessary authority. Legal advice has since concluded that this is not the case. DET advised in 2005 that it would revisit the relevant legislative provisions when next reviewing the Act<sup>2</sup>.

### **Fees That Recover 100 per cent of Costs or Less**

#### ***Higher Court Fees (Department of the Attorney General)***

Total revenue from Supreme and District Court fees significantly under recovers costs in accordance with the Department's policy to align fees with the Supreme Courts of New South Wales and Victoria. Such a policy does not however provide a basis '...for improving agency efficiency by instilling cost consciousness and promoting demand responsiveness'<sup>3</sup>.

As noted on page 29 the Department does not calculate costs at the level of the individual fee. The available cost information indicates that, at the whole of court level, the Supreme and District Courts are significantly under recovering costs, 29 per cent and 14.5 per cent respectively.

The Department advised that its higher court fees are not set at a rate that reflects the cost of providing the service. Rather, it aims to strike an appropriate balance between user contribution, incentives to settle, access to the court system and the protection of revenue. It seeks to achieve this by adopting fees that are comparable with similar charges in New South Wales and Victoria.

<sup>2</sup> We have reported this matter previously, the last occasion was in the *Audit Results Report on Universities and TAFE Colleges and other audits completed since 11 November 2005*, Report 2 of 2006, April 2006.

<sup>3</sup> Productivity Commission Report No 15 – *Cost Recovery by Government Agencies*, August 2001, page xxxix.



### Setting Fees – Extent of Cost Recovery – Follow-Up ... continued

Our view is that by setting fees in this way, the Department is unable to show that those services are operating as efficiently as possible. According to the Productivity Commission's *Report on Government Services 2005*, WA's District Court is the most costly of all State District Courts measured in terms of Net Expenditure per Civil Finalisation. The same report also showed that the equivalent figure for WA's Supreme Court was:

- only exceeded by South Australia and the Northern Territory
- almost 45 per cent higher than the next highest state (Victoria) and 236 per cent higher than the lowest cost state (Queensland).

The Productivity Commission considers the indicator referred to above as 'imperfect' because of ongoing problems with data, standards, and comparing jurisdictions with different geographic dispersion, economies of scale and social economic factors. However, it is part of a collaborative effort expressly designed to enable ongoing comparisons of the efficiency and effectiveness of Commonwealth and State Government services.

With reference to WA's results the Department said Western Australia 'has a unique demography to service and this heavily impacts on the amount of time judicial officers spend travelling to remote locations'.

#### ***Emergency Services Levy (FESA)***

We found that the Emergency Services Levy (ESL) is recovering costs at a level that is authorised by the *Fire and Emergency Services Authority of Western Australia Act 1998*.

In 2004-05 the ESL was budgeted to recover 100 per cent of authorised costs (\$127.3 million) which represented 81 per cent of FESA's total budget.

The levy charged depends upon four criteria:

1. the ESL category determined by the emergency services available in the location
2. the ESL rate/charge for that ESL category
3. the property's gross rental value (where applicable)
4. the use of the property.

We took comfort that the business modelling system from which the ESL is calculated was subject to an independent review prior to its initial application in 2003.



### ***Park Access Fees (CALM)***

CALM has been significantly under recovering the costs of providing parks services, though this has been with express Ministerial approval.

CALM has responsibility for more than 1 600 reserves across the State of which 96 are classified as national parks. Access fees, which are the only fees raised by CALM are charged at only 24 of the national parks. In 2004-05 access fees raised \$8.751 million or 13.3 per cent of the total cost of running all the reserves (\$65.951 million).

Park access fees are charged by CALM under the *Conservation and Land Management Act 1984*. Ministerial approval to under recover was given in 2000 on public benefit grounds. Ministerial approval was given in late 2005 to increase park revenue to \$20 million by 2015. CALM has not forecast comparative costs for this period.

### ***Retailer Fees (Lotteries Commission of Western Australia)***

The Commission recovered 61 per cent of the costs of providing retailer services in 2004-05. This under recovery of costs was authorised by the Commission's Board in accordance with the *Lotteries Commission Act 1990*.

The Commission advised that its retailer network is comprised mostly of small businesses and that its fee policy of partial cost recovery is designed to contain the costs to these businesses whilst also seeking a reasonable contribution from the retailers towards the costs associated with retailing lottery products.

Retailer fees comprise an establishment fee for new outlets, an application fee where there is a change of ownership, a Lotto service fee and a gaming terminal fee.

### ***TAFE Tuition Fees (Department of Education and Training)***

DET sets TAFE tuition fees well below cost recovery in accordance with government policy.

Latest data available (2004) shows that students contributed \$31.9 million to the \$492.8 million total cost of training. On this basis, tuition fees represented 6.4 per cent of costs (though this included a small resource fee set by the individual TAFE colleges). This is higher than the national average of 4.9 per cent and the highest in the country.

DET advised that the fee is not based upon conventional cost recovery principles. Rather it is based on the premise that '...as the main beneficiaries of training, students should contribute toward the total cost of the training'<sup>4</sup>.

<sup>4</sup> Advised by DET that this was the Cabinet decision of 25/11/91.



## Setting Fees: Extent of Cost Recovery – Follow-Up ... continued

DET also advised that a new review of the fee is underway and will be finalised in mid 2006. The last review of tuition fees was in 2002 by the Functional Review Taskforce. The Taskforce recommended that fees be increased to 15 per cent of cost recovery over five years but this recommendation was rejected by the Expenditure Review Committee in 2005.

### **Progress Made by Agencies Identified as Over Recovering in 2004 Audit**

We found that two of the three agencies that were significantly over recovering costs in 2004 have reduced the relevant fees by between 18 per cent and 50 per cent. These fees now more reasonably reflect cost. The third agency has not reduced the sampled fee.

#### ***Department for Planning and Infrastructure (DPI)***

Our 2004 examination established that the Motor Vehicle Recording Fee and the Motor Vehicle Transfer Fee were significantly over recovering costs. Since then DPI has reviewed these fees and reduced them considerably. From 1 July 2005, the Motor Vehicle Recording Fee was reduced from \$16.20 to \$9.60, and the Motor Vehicle Transfer Fee was reduced from \$14.50 to \$8.

#### ***Department of Consumer and Employment Protection (DOCEP)***

DOCEP has also reduced the fees identified as over recovering. It advised that the Search Extract Fee has been reduced from \$10 to \$5 and the Business Names Registration Fee has been reduced from \$103 to \$85, both effective from 1 July 2005.

#### ***Metropolitan Cemeteries Board (MCB)***

There has been no reduction in MCB's Adult Cremation Fees and the MCB has advised that any reduction is unlikely. The 2004 examination found that Adult Cremation Fees were subsidising other memorial services, though the extent was unknown. The Board advised in 2004 that the cross subsidisation was to maintain the affordability of the other services.

The MCB also advised that work on a model to determine the costs of each element of the memorial products offered by the Board is expected to be completed in the current year. The MCB said that once these costing exercises have been completed it will be in a better position to reassess the appropriate levels of cost recovery which should be applied across its range of services and products.





## Agency Disclosure of Pricing Policies

Our follow-up examination assessed 20 agency annual reports tabled for the 2004-05 year and found that 10 provided adequate disclosure. This was an improvement but is still not a satisfactory outcome.

Fee setting policies should be as transparent as possible to ensure proper accountability. Treasurer's Instruction 903 (4)(x) requires agencies to disclose in their annual reports the 'pricing policies of services provided and, where applicable, reference to the (Government) Gazette or other public document which contains pricing or rating information'.

Our 2004 audit found that only one of the six agencies in the audit sample provided adequate disclosure in their 2002-03 annual reports. The other five provided little or no meaningful information about how they priced their goods and services.

In 2006 the main shortcomings were a lack of detail and a failure to provide a reference to pricing information.

- Some annual reports said the agency had a discretion to impose fees but gave no or inadequate information on the factors that it might consider relevant in the exercise of that discretion.
- Some of the information provided was confusing or lacked sufficient detail to be meaningful.

As part of the follow-up we also assessed transparency in agency annual reports against a higher benchmark consisting of four categories of information highlighted by the Productivity Commission in its 2001 report on *Cost Recovery by (Commonwealth) Government Agencies*. We found six annual reports (30 per cent) broadly met this benchmark.

The categories of information were:

- the legal authority for all cost recovery arrangements
- the overall level of cost recovery
- the objectives, costing and revenue raising of cost recovery arrangements
- if ministerial or Cabinet approval is required for fee setting by the agency, then evidence of this approval.



## Setting Fees – Extent of Cost Recovery – Follow-Up ... continued

### DTF Review of Agency Fee Setting Decisions

#### *Agency Certifications*

DTF has simplified its information requirements relating to agency fee setting decisions. Agencies and their ministers are now required to certify annually that their fee setting practices are materially accurate and the fees are appropriate. However, DTF does not test these certifications for reliability. Some testing is considered necessary to satisfy DTF's oversight role.

In our 2004 examination we found that DTF's review of agency fee setting decisions mainly occurred during development of the annual State budget. Agencies were required to provide copies of their annual fee submissions to their ministers and DTF used the submissions to make recommendations where necessary to a sub committee of Cabinet (the Expenditure Review Committee) which has the authority to approve new fees and changes to existing fees for budget sector agencies.

Our follow-up found that DTF's review still occurs as part of the budget process but agencies are now only required to provide detailed submissions where:

- a review of fees has not taken place
- fees include costs that form part of the 'household model' (eg water, electricity and transport)
- the method for costing these fees is materially inaccurate
- there is over recovery of fees
- fees are considered contentious
- new fees are proposed.

Where none of these circumstances apply agencies are required to certify that this is the case. These certifications are signed by the agency CEO and endorsed by the relevant Minister.

DTF advised us that 53 agencies were required to submit certifications by the end of January 2006. Certifications had not been received from four agencies as at late May 2006. DTF advised the four agencies had until the end of May to provide the certifications failing which the Treasurer would be asked to intervene.



However, the review of these certifications does not involve any testing of their reliability. DTF advised that the certification process was introduced to make clear that responsibility rests with agencies and ministers and that in any event DTF is not empowered to undertake such reviews.

***DTF Record Keeping***

We found DTF is now retaining email correspondence with agencies in accordance with the *State Records Act 2000*. However, DTF is not generating file notes of verbal advice given to agencies, as for instance advice given over the phone. DTF has advised that its officers will be instructed that verbal advice of a significant nature should be recorded using file notes.

# Previous Reports of the Auditor General

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Follow-up Performance Examination: Implementing and Managing Community Based Sentences	25 May 2005
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Management of the TRELIS Project	12 April 2006
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Behind the Evidence: Forensic Services	31 May 2006
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**The above reports can be accessed on the Office of the Auditor General's website at [www.audit.wa.gov.au/](http://www.audit.wa.gov.au/)**

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