Review of fees and charges

Public Trustee of Queensland
24 June 2022

pwc

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Basis of values

Unless otherwise stated in this report:

- all current or proposed fees and charges to customers of PT services are expressed in current day (i.e. FY2022) dollars, and <u>inclusive</u> of GST
- historical financial performance of the PT (including revenues, costs and net performance) is expressed in historical (i.e. FY2020) dollars, and <u>exclusive</u> of GST
- forecast financial performance of the PT (including revenues, costs and net performance) is expressed in current (i.e. FY2022) dollars, and <u>exclusive</u> of GST.

Due to rounding, individual values shown in tables and figures in this report may not sum to corresponding totals.

Recommendations in this report are based on the scope and limitations of PwC's review, and the data relied upon by PwC in undertaking the assessment. This includes a range of assumptions regarding future PT operations, particularly in relation to demand for PT services, the characteristics (and 'mix') of customers and the PT's costs of delivering services.

Environment and assumptions

Environment and assumptions for the review

Since the commencement of this review, and the date of the data relied upon in the review, there have been significant (and continuing) changes in the economic environment impacting on both the Public Trustee of Queensland (PT) and its customers and stakeholders.

The review processes and recommendations (including indicative fees and charges) outlined in this report have been based on a range of assumptions, including PT service delivery processes, costs and customer circumstances existing prior to recent geopolitical and economic developments.

In recognition of this, and consistent with Recommendations 1 and 5 of this report, the PT has committed to a broader sustainability review of its organisation and services. This will include, amongst other things, a more detailed review and assessment of the sustainability of key data and assumptions underpinning indicative fees and charges in this report. In addition to any factors associated with changes to the economic environment for PT services and its customers, page 36 of this report outlines several important factors requiring further consideration, including:

- changing scope of, or approach to, services (e.g. regulatory framework, customer requirements, stakeholder expectations, market practice)
- projections for service demand, including possible impacts of changed charging models
- projections for the cost of delivering services (including indirect costs), such as scope for future efficiencies and any ‘mis-match’ between average escalation in costs and the GIR, and
- potential volatility in the year-on-year performance of some services or activities, and the appropriate pricing for an ‘average’ annual outcome that minimises financial sustainability risk to the PT from this volatility.

Sustainability assessment of costs and assumptions may result in variations against the indicative fees and charges in this report, which may be material. However, this will ensure that new fees and charges implemented by the PT are optimised to recent (and future) economic circumstances.

Contents

1

Context and purpose

Review context and scope

The Public Trustee of Queensland

The Public Trustee of Queensland (PT) is a statutory authority of the Queensland Government, administering the *Public Trustee Act 1978* (the Act). Since 1916, the PT has provided a range of essential services to Queenslanders spanning independent financial management and guardianship for persons experiencing vulnerability, through to estate planning and management supporting the orderly transfer of assets.

For many of these customers, the PT is appointed by a court or other authority to manage their financial affairs. These 'tied' customers have little to no discretion in choosing the PT as service provider, or the scope of services provided. The PT supports equitable and affordable access to services for 'tied' customers, and other persons experiencing vulnerability, through concessional pricing, discounts and/or waivers.

However, the PT is a self-funded organisation receiving no financial support from the Queensland State Budget for its annual operating costs. Therefore, these concessions, discounts and/or waivers, collectively referred to in this report as Community Service Obligation (CSO) policies, challenge the PT's ability to generate annual revenues sufficient to cover the annual costs of operations.

Existing fees and charges

Section 17 of the Act establishes the PT's authority to charge for its services, with the PT publishing its charging structure annually in the Queensland Government Gazette.

The PT's current charging model was established approximately 20 years ago, and has not been reviewed in that period, with only annual indexation of charges in line with the Government Indexation Rate (GIR). A general focus on a 'fee for service' approach to charging, combined with signification variation in the nature of PT services and customer characteristics has resulted in an existing charging framework that is:

- relatively complex (for both customers and PT administrators), with a significant degree of variation in the methodologies and complexity of pricing for different PT services
- based on a legacy approach to delivering services
- not adjusted to contemporary customer demands and expectations
- potentially inconsistent with public or private sector providers of similar services, and
- not (necessarily) reflective of the current cost of delivering services.

In its Annual Report for the 2019 financial year, the PT committed to a comprehensive review of its fees and charges for services to Queenslanders. This commitment was reinforced by the PT in its Strategic Plan 2020-2024.

Public Advocate review

In January 2021, the Queensland Public Advocate published a review of PT fees, charges and practices in response to representations from some financial management customers regarding the financial impact of existing arrangements.[1] The review identified that a majority of financial management customers received a high level of service for limited fee cost. However, it also recommended strategies to improve customer outcomes.

Many recommendations of the review focused on PT practices or policies, but several were relevant to the PT's fees and charges. A central emphasis in the recommendations of the Public Advocate review was transparency and equity in fee outcomes, particularly for customers with lower asset and income levels (i.e. lower wealth). However, the Public Advocate acknowledged challenges for the PT in being able to deliver on recommendations regarding fees and charges for financial management services. These included:

- new customer appointments being made without assessing whether the PT is the most appropriate service provider for a specific customer, and
- the PT being required to 'self-fund' CSOs.

Consistent with the scope of the Public Advocate's review, recommendations were focused on the PT's financial management service offering. However, several themes have relevance to the PT's broader approach to charging for its other services.

Reviewing PT fees and charges

Following the commitment in its 2019 Annual Report, in 2020 the PT engaged PricewaterhouseCoopers Consulting (Australia) Pty Limited (PwC) to benchmark its existing fees and charges to appropriate comparator service providers, including public trustee organisations in other Australian jurisdictions and, where applicable, private sector service providers (PwC Benchmarking).[2]

Subsequently, in April 2021 the PT engaged PwC to identify and assess potential alternative charging models for the PT's key services, including engagement with the public and key stakeholders on the objectives and concerns regarding PT charging structures, levels and outcomes.

This report outlines the approach and outcomes of the review of fees and charges.

1. The Public Advocate (January 2021), *Preserving the financial futures of vulnerable Queenslanders: A review of Public Trustee fees, charges and practices.*
2. PwC (May 2021), *The Public Trustee of Queensland: Benchmarking of Fees and Charges.*

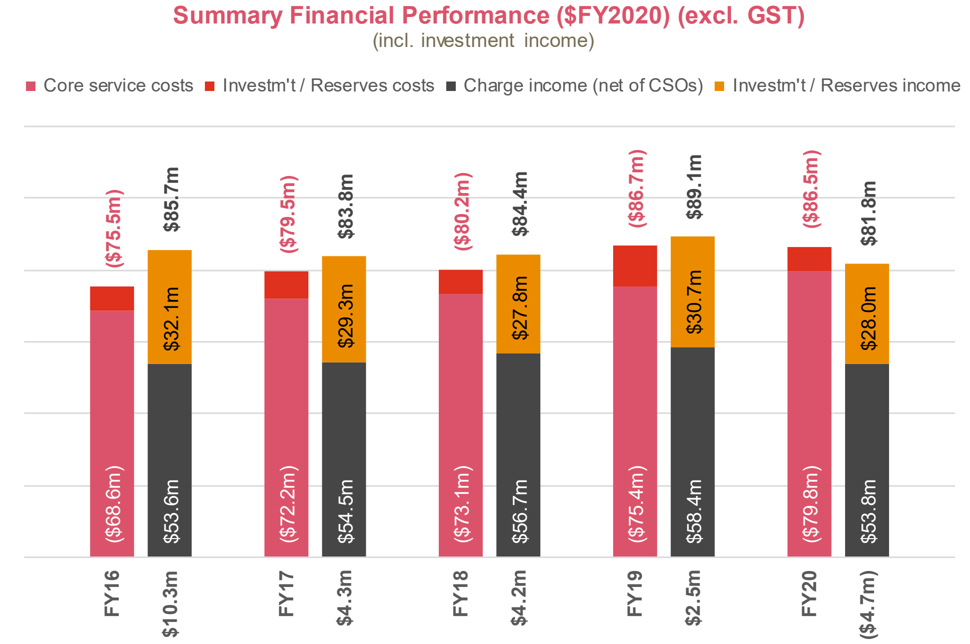
Performance of the existing charging model(s)

PT financial performance – existing fees and charges

Over the period from FY2016 to FY2020, revenue received by the PT from customer charges under its existing model(s) has been consistently less than the annual operating costs of these services. When indexed to FY2020 dollars, the analysis indicates a trend deterioration in charging performance (excluding investment services) from a shortfall of approximately $15.0 million in FY2016 to a deficit of approximately $26.0 million in FY2020.

To compensate for the significant shortfall in charging revenue, the PT has relied on income generated from its investment funds and on accumulated reserves. Using this strategy, the PT has achieved small operating surpluses averaging approximately 5% of annual operating costs. However, over the period from FY2016 to FY2020, this adjusted financial performance for the PT has demonstrated progressive decline, culminating in a net operating deficit in FY2020 of almost $5.0 million, as illustrated in Figure 1.

Figure 1: PT financial performance (incl. investment income), adjusted to $FY2020



Source: PT Activity Based Costing Summary Reports, with PwC indexation adjustments.

Contribution by PT service area

Across its different service areas, the existing charging model(s) deliver significant variation in cost recovery outcomes (after CSOs). Table 1 highlights the important financial management, deceased estate and will-making services of the PT require significant subsidisation from surpluses generated by the PT from other internal sources or activities. The capacity for the PT to sustain this approach is challenged by increasing demand for these subsidised services, against volatility and risk in traditional PT funding sources.

Table 1: Financial performance by service area – existing fees and charges

Service area	FY20 performance	Summary
Financial management	($11.0m)	A key service to vulnerable Queenslanders – significant CSOs result in average cost recovery of ~65% for FY20.
Deceased estates	($5.7m)	Existing pricing set below costs results in average cost recovery of ~65% for FY20.
Wills and EPAs	($5.0m)	A universal free will-making service results in average cost recovery of ~5% for FY20.
Property services	($4.6m)	Significant shortfalls in property management services (partly offset by auctions) results in average cost recovery of ~40% for FY20.
Legal services	($1.8m)	A service with fluctuating demand and revenues, and varying performance – average cost recovery of ~75% for FY20.
Trust administration	($0.8m)	A service with varying performance by trust type – significant CSOs for minors trusts from FY2021 are expected cause a deterioration to average cost recovery of ~80% for FY20.
Taxation services	($0.2m)	A smaller scale supporting service, delivering average cost recovery of ~95% for FY20).
Other services	$3.1m	Miscellaneous activities, with significant CSO costs offset by revenue for management of unclaimed monies – on average, a source of internal funding for the PT.
Investment services	$12.5m	A key source of internal funding supporting sustainability of the PT and its services, but with exposure to market risks.
PT reserves	$8.7m	*Not a PT service to customers, but a key source of internal funding from PT owned properties and accumulated capital reserves.*
Total (FY20)	**($4.7m)**	**Average cost recovery of ~95% for FY20.**

2

Assessment approach

Identification of alternative charging models

Definition of broad charging model concepts

To support the review of potential alternative PT charging, five conceptual charging models or methodologies were identified – for assessment purposes, the existing charging models were included as a 'Base Case' option. Recognising the significant variation in the nature of services delivered by the PT, the marketplace for these services and the characteristics, needs and vulnerabilities of customers for these services, it was not expected that any single charging model would be universally applicable across all PT operations. However, the 'spectrum' of charging strategies represented by the models encouraged broad consideration as to how alternative approaches to charging may support or hinder how the PT delivers each of its unique services, the potential financial impacts to customers and the opportunities/challenges for the financial sustainability of each service and the PT organisation overall.

Figure 2: Overview of the existing (Base Case) and alternative charging models

More Equitable (but more complex) — *More Transparent (but less nuanced)*

01 Base Case

Existing PT Model

Annual indexation of existing charges

- Retention of existing PT charging methodology <u>and</u> charge rates
- Rates continue to be indexed annually using the Government Indexation Rate (GIR)

02 Option 1

Updated PT Model

Re-base existing charges

- Retention of existing PT charging methodology
- Re-base charge rates and thresholds (where applicable), to realign expected cost recovery to contemporary policy and targets

03 Option 2

Professional Services Model

'Standard' fees
- plus hourly rates

- Recognise PT as a quasi-professional services firm, and implement diligent time-recording across the PT
- Establish fixed price charges for 'standard' services
- Charge for time or activities in excess of 'standard' by hourly rates

04 Option 3

Fixed Fee Model

'Standard' fees
- plus fixed increments

- Establish fixed price charges for 'standard' services
- Charge for time or activities in excess of 'standard' by incremental charges linked to specific key cost driver(s) (e.g. by incremental activity)

05 Option 4

Capacity Model

Charges linked to financial capacity

- Transition to a charging methodology based on asset wealth, more aligned to 'standard market' approaches (e.g. other public and private trustees)
- Apply exceptions to this model where applicable to a specific service

Actions relevant to each alternative charging option

- Review and adjust structural CSOs (where applicable)
- Investigate outsourcing services with competitive third party markets

Broader initiatives supporting successful future charging outcomes

- Improve clarity and consistency in communication of charging
- Review indirect cost allocations
- Cost efficiency review of PT service delivery

Assessing alternative charging models

Approach to review

The review of existing charging models, and the definition and assessment of potential alternative charging models, was undertaken on a 'service-by-service' basis. This ensured that the unique characteristics and requirements of each service area and its customers was given appropriate consideration. However, the assessment also considered the implications of existing or alternative charging for a service to the consolidated financial performance and sustainability of the PT as an organisation.

For each service area, potential alternative charging models were defined, with broad reference to the spectrum of charging strategies represented in the conceptual charging models identified in Figure 2. Depending on the nature of a particular service, one or more of the options for conceptual charging models may have been considered inapplicable.

The existing and potential alternative charging models were assessed against five ***key charging principles***, distilled from a range of sources, consultations or commercial circumstances, including:

- Queensland Government charging policies
- PT regulatory framework, corporate strategy and objectives (including sustainability)
- preferences or concerns of PT customers or stakeholders (including relevant recommendations of the Public Advocate report and a separate public consultation exercise)
- operational and administrative efficiency objectives, and
- for some services, recognition that the PT operates in a competitive market.

The key charging principles are outlined in Table 2. PwC recognised that several of these principles have at least some potential to conflict. A specific example is the role of the PT in ensuring that essential services are accessible to persons or groups who may have limited financial capacity to pay the full cost of delivering these services. This has the potential to conflict with the principle of sustainable charging for PT services, and/or equitable charging that minimises cross-subsidisation by other customers of PT services.

The key charging principles were of greater or lesser relevance for specific service areas, reflecting unique characteristics of the customers or market for each service. In particular, whether customers had a choice in PT services or were 'tied' customers experiencing vulnerability impacted on 'balancing' of sustainability versus accessibility and equity.

Three ***additional criteria*** were also identified to support comparative assessment of alternative charging models, focused on more 'operational' factors expected to be critical to the actual and perceived success of a charging model. The three additional criteria are outlined in Table 3.

Table 2: Key charging principles – assessment of PT charging models

Principle	Summary description
1. Transparent	The charging model should present a comprehensive and unambiguous structure for the determination of a service charge, limiting complexity in the range of fees, their application and calculation.
2. Equitable	The charging model should reflect a beneficiary-pays principle, minimising cross-subsidisation between services or groups, or subsidisation by the Queensland taxpayer (except where this is a transparent decision of government).
3. Sustainable	The charging model should support long-term financial sustainability of PT operations, by reflecting the full cost of delivering each key service category including direct and indirect costs, capital costs and margin/return.
4. Efficient	The charging model should reflect the efficient costs of service delivery, while also minimising the capital and operational costs of fee administration and revenue collection.
5. Accessible	The charging model should support Queensland Government policy or strategy for enhanced community welfare outcomes, by supporting the accessibility of essential financial protection or wealth management services to persons or groups experiencing vulnerability, while complying with broader competitive neutrality principles.

Table 3: Additional criteria – assessment of PT charging models

Criteria	Summary description
1. Ease (implementation)	This item considers the estimated implementation complexity, including PT time and cost to design, develop and transition to the 'preferred' charging model(s), including the expected degree of compatibility (or otherwise) with existing systems and staff practices.
2. Incentives (for efficiency)	This item considers the degree to which the methodology for charging is estimated to inherently incentivise efficiency in the way the PT (and its staff) deliver services.
3. Stakeholder (perceptions)	This item considers the expected perceptions of PT stakeholders of the 'preferred' charging model(s), and how this reflects on the PT response to stakeholder concerns.

3

Assessment outcome by service

Recommended model – Financial management services

Overview of service and existing charges

Financial management services is the largest service area of the PT, with approximately 95% of demand being personal financial management services to individuals with impaired decision-making capacity.

Many of these customers are 'tied' customers who have not selected the PT as service provider, and present with broad variation in personal and financial circumstances, and associated varied support requirements from the PT.

The PT's existing charging model for financial management services is relatively complex. It is based on multiple separate charges, including:

- for all customers, a Financial Administration Fee determined across six Personal Financial Administration levels (PFA Levels)
- for most customers, an Asset Management Fee determined across 14 levels of Assessable Assets
- for some customers, a Property Fee differentiating by whether a property is a Principal Place of Residence or not
- for most customers, an Incidental Outlays Fee determined across 10 levels of annual transaction volume, and/or
- for some customers, Additional Services Fees.

A significant CSO fee cap applies, and discounts fee costs for about 80% of financial management customers.

This PT service has operated consistently and significantly below cost recovery levels, with FY2020 performance estimated at approximately 65% cost recovery.

Recommended charging model

The recommended model for financial management services is the **Option 1 (Updated PT Model)**. Key characteristics of the recommended model include the following.

1. Discontinue PFA Level 6 for the Financial Administration Fee.
2. Simplify the Asset Management Fee, and increase the 'cut-off' for no charge from an asset wealth of $5,000 to $50,000.
3. Discontinue charging a separate Property Fee and separate Incidental Outlays Fee.
4. Increase the CSO fee cap from 5.0% to 6.0% of assessable assets.

While this is based on an existing model that has been subject to some criticism, it delivers significant simplification, ceases higher charging for more frequent contact and retains significant subsidisation.

Indicative pricing for this model is estimated to preserve the existing low levels of cost recovery (i.e. at approximately 65%). While, in principle, charges should be increased to improve cost recovery, the planned cost under-recovery recognises that most customers for this service are 'tied' customers experiencing existing vulnerability.

Full cost recovery pricing would be more likely to expose these customers to increased or persistent financial stress and vulnerability, where the customers do not have the discretion to mitigate these risks through a change in service provider or a reduction to the scope of services.

Benchmarking – Financial management services

Estimated affordability – existing model

There is no 'typical' customer for PT personal financial management services. However, several broad customer scenarios were constructed to illustrate the expected affordability of PT charges, by comparison to the range of charging outcomes estimated for other public trustees in previous PT benchmarking exercises.

Compared to other public trustees, the existing PT charging model was estimated as:

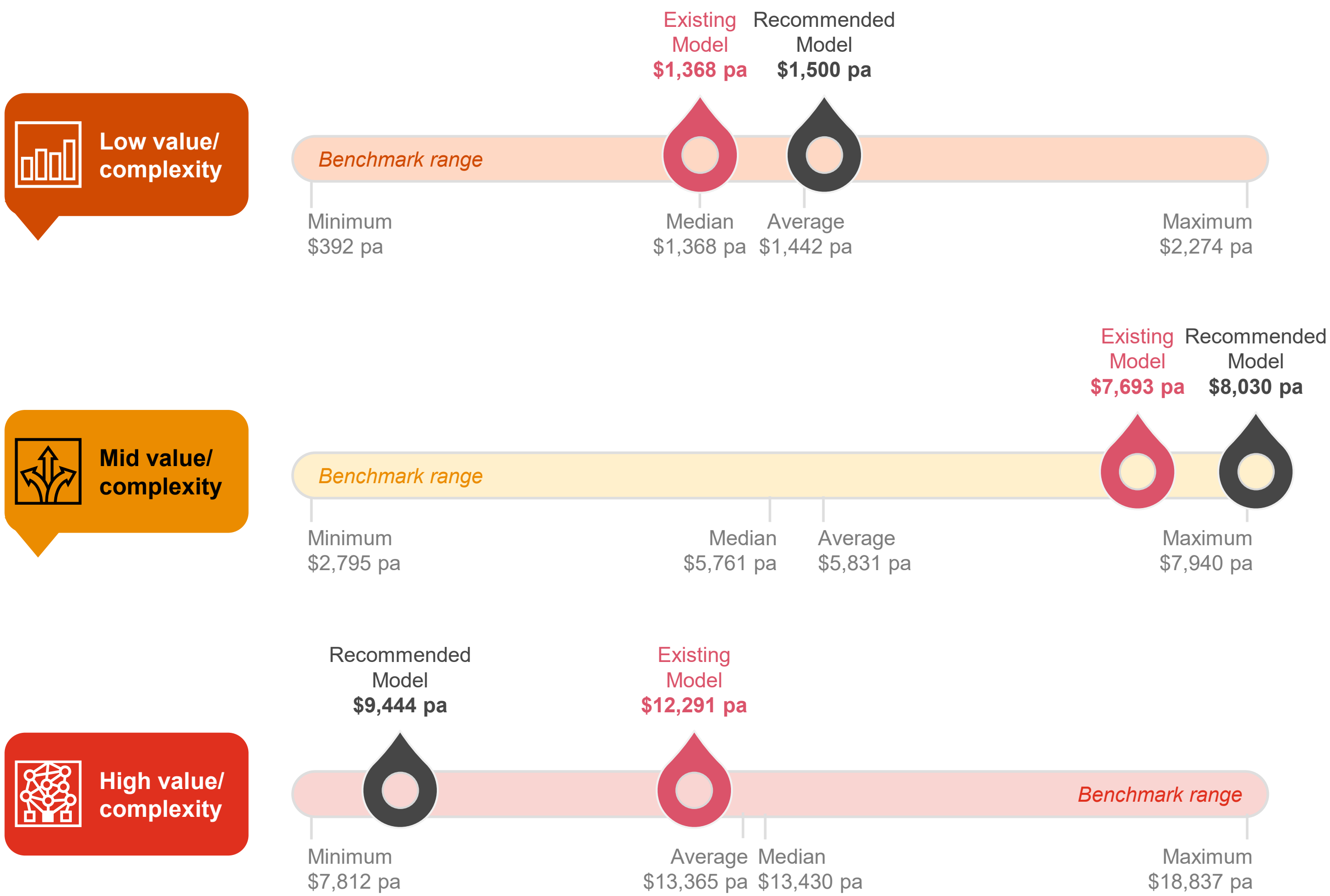
- approximately average cost for relatively low value/complexity customers (PFA Level 2)
- at the upper end of the cost range for 'mid' value/complexity customers (PFA Level 5), and
- below average cost for high value/complexity customers (PFA Level 6).

Estimated affordability – recommended model

Indicative pricing for the recommended model is estimated to:

- significantly improve comparative affordability for customers requiring the highest levels of PT support (i.e. PFA Level 6)
- slightly increase the estimated cost for other customers, but
- retain high levels of CSO subsidy for customers with the greatest levels of financial vulnerability (i.e. low to modest asset wealth).

Figure 3: Benchmarking of estimated PT charges for personal financial management services



Source: KPMG (4 April 2019), *Benchmarking: Personal Financial Management, Asset Management and other services fees*, with PwC indexation adjustments. PwC estimation of PT charging outcomes.

Recommended model – Preparation of wills

Overview of service and existing charges

Historically, the PT has provided a universal free will-making service to Queensland residents. This includes no charge for the preparation of wills, amendment of wills or storage of wills.

Demand for the PT's will-making service averaged approximately 25,000 files per year over the five year period FY2016 – FY2020, at an average annual cost to the PT of approximately $5.1 million (in FY2020 dollars), excluding GST.

While some other public trustees offer a free or concessional will-making service, this typically has a more limited eligibility than with the PT.

This PT service has operated consistently at a nil cost recovery level, requiring full subsidisation of the cost of delivering services from other PT revenues.

Recommended charging model

The recommended model for will-making services is the **Option 3 (Fixed Fee Model)** approach. Key characteristics of the recommended model include the following.

1. Implement a flat fee for preparation of a will (single), with no differentiation for complexity, and priced to cover the costs of customers eligible for a fee waiver (below).
2. Implement a flat fee for preparation of a will (double/couples), with no differentiation for complexity, and priced to cover the costs of customers eligible for a fee waiver (below).
3. Implement a flat fee for wills requiring attendance by PT staff outside the office.
4. Implement a CSO policy that waives fees if a customer has a Centrelink concession card or is a PT financial management customer.

Indicative pricing for this model is estimated to increase cost recovery to approximately 100%. This is based on the indicative pricing for charged will-making services being estimated at rates intended to offset the CSO cost for customers remaining eligible for no charge under the amended CSO policy.

Benchmarking – Preparation of wills

Estimated affordability – existing model

Several customer scenarios were constructed to illustrate the expected affordability of PT charges, by comparison to the range of charging outcomes estimated for other public trustees in previous PT benchmarking exercises.

The PT's existing universal free service causes it to be comparatively affordable under all circumstances.

Subject to more limited eligibility for concessional (or free) wills, other public trustees were estimated to charge:

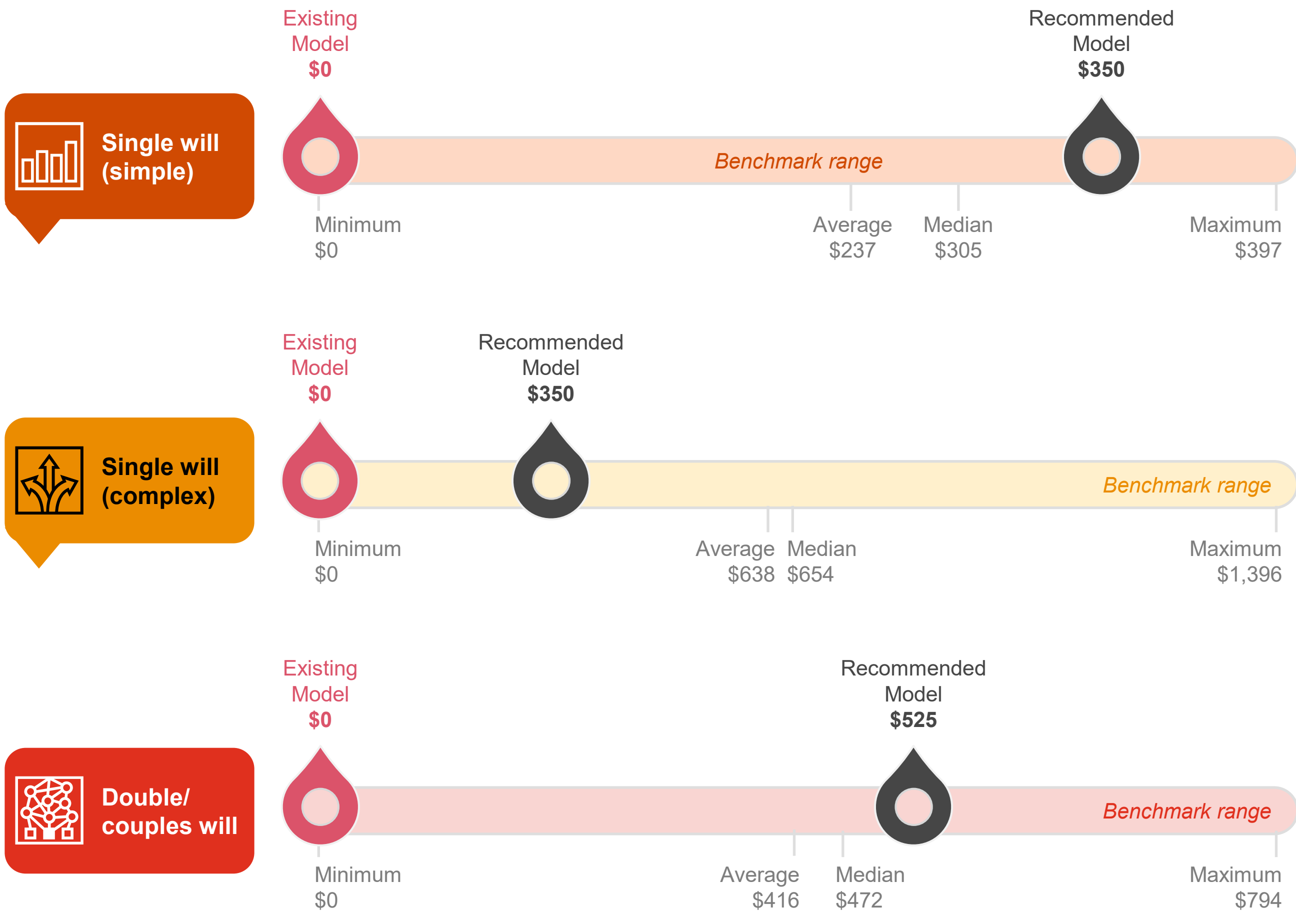
- an average of about $250 - $300 for a single, straightforward will
- for more complex wills, up to approximately $1,400 (or more), and
- an average of about $450 for a double/couples will (if offered).

Estimated affordability – recommended model

Indicative pricing for the recommended model is estimated to position the PT as:

- significantly more affordable for wills with greater complexity, due to the proposed fixed price irrespective of complexity
- slightly above the estimated average cost of other public trustees for relatively straightforward single or double/couples wills, but
- retaining eligibility for free wills for customers satisfying certain eligibility criteria.

Figure 4: Benchmarking of estimated PT charges for will-making services



Source: PwC Benchmarking, with indexation adjustments.
PwC estimation of PT charging outcomes.

Recommended model – Preparation of PoAs

Overview of service and existing charges

The PT's Power of Attorney (PoA) preparation services are primarily categorised as:

- preparation of enduring PoAs (or EPAs), and
- preparation of general PoAs (e.g. for a limited purpose or duration).

The PT's existing charging model for PoAs is relatively straightforward. It is based on:

- for all customers, a PoA Preparation Fee based on three flat charges differentiated by whether the requirement is for a general PoA, a single EPA or a double/couples EPA
- for some customers, a PoA/EPA Revocation Fee based on a flat charge
- for some customers, a PoA/EPA Registration Fee based on a flat charge
- for some customers, an Attendance Fee based on a flat charge.

A broad CSO applies to waive PoA preparation fees if a customer nominates the PT as the attorney.

This PT service has operated at approximate full cost recovery, but is a relatively minor contributor to both PT costs and revenues.

Recommended charging model

The recommended model for PoA services is the **Option 1 (Updated PT Model)** approach. Key characteristics of the recommended model include the following.

1. Discontinue the existing fee waiver for customers nominating the PT as attorney (to reduce conflicts of interest and cross-subsidisation between customers or services).
2. Retain the existing approach of three flat fees differentiated by general PoA, single EPA and couples EPA, but revise pricing to reflect more limited CSO arrangements.
3. Review and revise flat fees for other associated activities or costs.
4. Implement a CSO policy that waives fees if a customer is a PT financial management customer.

A decrease in the number of customers expected to be eligible for a full fee waiver enables a reduction in indicative pricing for this model, while preserving an approximate full cost recovery outcome for the PT.

Benchmarking – Preparation of PoAs

Estimated affordability – existing model

Several customer scenarios were constructed to illustrate the expected affordability of PT charges, by comparison to the range of charging outcomes estimated for other public trustees in previous PT benchmarking exercises.

Compared to charges estimated for other public trustees, the existing PT charging model was:

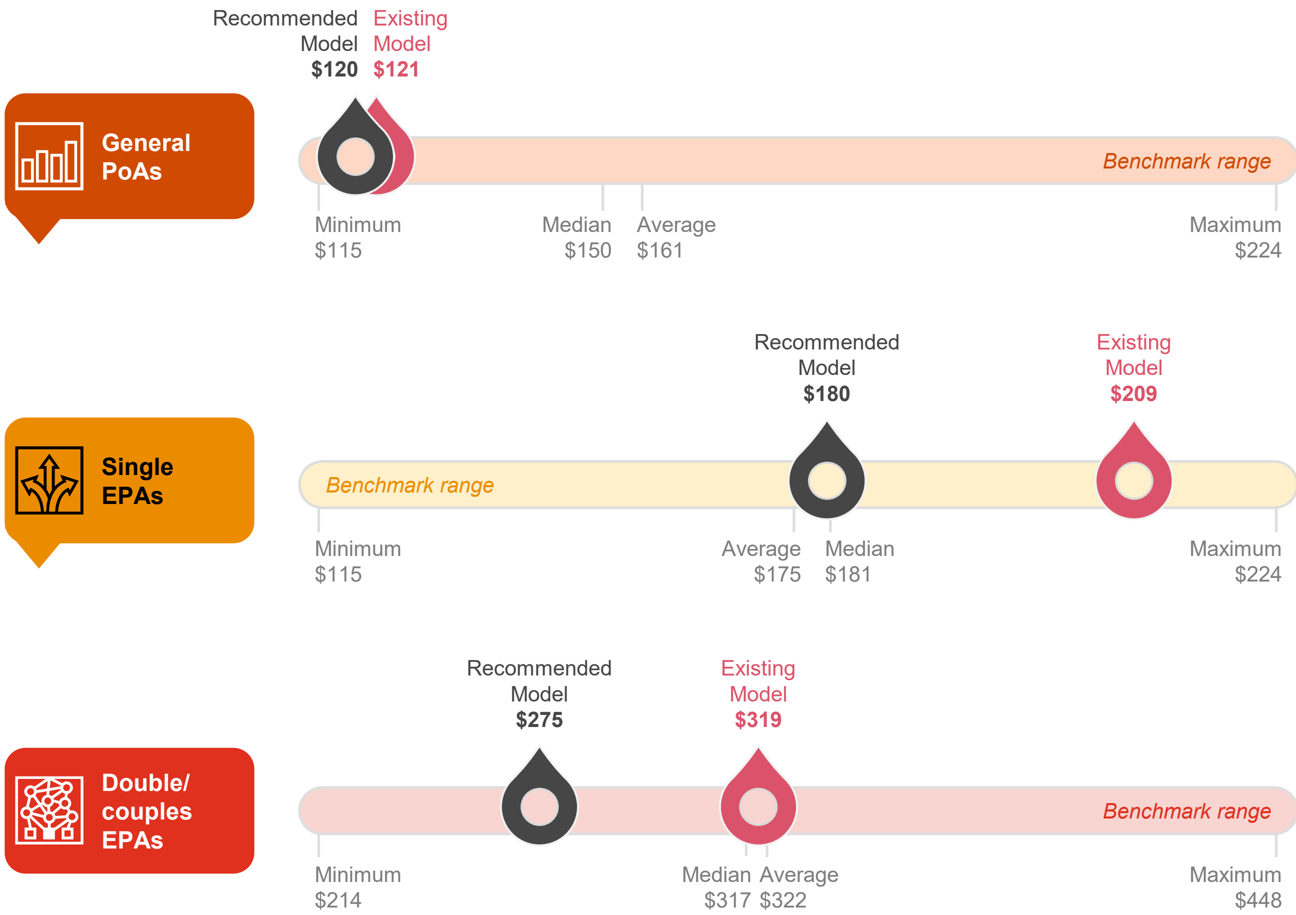
- one of the most affordable for general PoAs (noting many public trustees did not differentiate general PoAs from EPAs)
- towards the upper end of the cost range for single EPAs, and
- about average cost for a double/couples EPA (if offered).

Estimated affordability – recommended model

Indicative pricing for the recommended model is estimated to:

- preserve the comparative affordability of the PT for general PoAs
- make the PT a more competitive provider of single EPA services, and
- make the PT one of the more affordable providers of double/couples EPAs, but
- retaining eligibility for free PoAs/EPAs for customers satisfying certain eligibility criteria.

Figure 5: Benchmarking of estimated PT charges for PoA services



Source: PwC Benchmarking, with indexation adjustments.
PwC estimation of PT charging outcomes.

Recommended model – Deceased estates

Overview of service and existing charges

Administration of deceased estates is the second largest service area of the PT (by cost). The dominant activity, representing more than 95% of PT deceased estate matters, is the PT acting as the personal representative or administrator in a full administration of an estate.

The PT's existing charging model for deceased estates is relatively complex. It is based on

- for all full administrations, a Deceased Estate Fee determined by
  - calculating total Standard Units of Effort (SUoE) by assessing each estate against a detailed schedule of specific tasks, activities or characteristics, each of which is assigned a number for SUoE
  - matching the total SUoE against a schedule of 25 levels of Deceased Estate Fee, but
  - subject to a minimum charge and various exceptions.
- for some estates with specific limited circumstances, a flat Deceased Estate Fee
- for most estates, an Incidental Outlays Fee an Incidental Outlays Fee determined across 10 levels of annual transaction volume, and/or
- for some estates, Additional Services Fees.

No significant CSO policy applies to deceased estate charging.

This PT service has operated consistently and significantly below cost recovery levels, with FY2020 performance estimated at approximately 65% cost recovery.

Recommended charging model

The recommended model for deceased estate services is the **Option 4 (Capacity Model)** approach. Key characteristics of the recommended model include the following.

1. Increase the minimum charge for a full administration.
2. Replace the multi-level SUoE charging structure with a five-tier structure determining the administration charge as a percentage of total estate assets.
3. Discontinue the separate fixed/flat charges for existing exceptions to the normal administration charge (but include a discount for property assets held as a joint tenant).
4. Discontinue charging a separate Incidental Outlays Fee.
5. Introduce a formal fee cap CSO.

Indicative pricing for this model is estimated to increase cost recovery to approximately 100%.

This is achieved by increasing the average charge outcome estimated for administration of deceased estates. Increased charge outcomes for higher value estates are balanced by a more formalised CSO policy designed to limit adverse charging outcomes for small estates.

Benchmarking – Deceased estates

Estimated affordability – existing model

There is no 'typical' deceased estate for PT administration services. However, several broad estate scenarios were constructed to illustrate the expected affordability of PT charges, by comparison to the range of charging outcomes estimated for other public trustees in previous PT benchmarking exercises.

Compared to charges estimated for other public trustees, the existing PT charging model was:

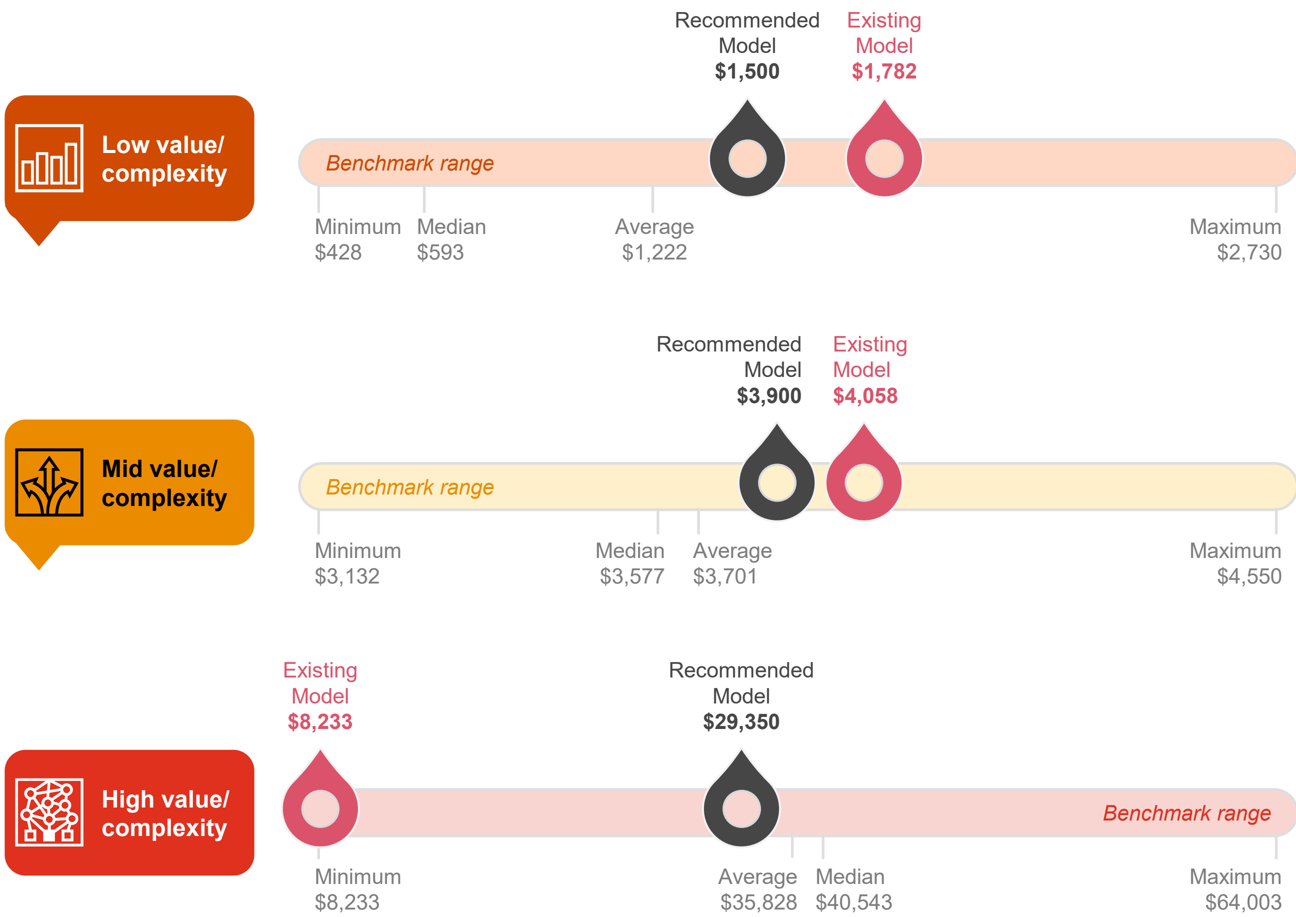
- towards the upper end of the cost range for relatively low value/complexity estates
- towards the upper end of the cost range for estates of 'mid' value/complexity, and
- the most affordable trustee for high value/complexity estates.

Estimated affordability – recommended model

Indicative pricing for the recommended model is estimated to:

- improve the comparative affordability of PT services for low to 'mid' value/complexity estates, but
- significantly increase charges for higher value/complexity estates, while still remaining comparatively affordability against the range of costs estimated for other public trustees.

Figure 6: Benchmarking of estimated PT charges for administration of deceased estates



Source: PwC Benchmarking, with indexation adjustments.
PwC estimation of PT charging outcomes.

Recommended model – Administration of trusts

Overview of service and existing charges

The PT's trust administration services are differentiation by trust type, including minors trusts, testamentary trusts, charitable trusts and other trusts.

With the exception of charitable trusts, the PT's existing charging model for trust services is relatively complex. It is based on multiple separate charges, including:

- for all customers, a Trust Administration Fee determined across eight levels of annual transaction volume
- for most customers, an Asset Management Fee determined across 14 levels of Assessable Assets
- for some customers, a Property Fee differentiating by whether a property is a Principal Place of Residence or not
- for most customers, an Incidental Outlays Fee determined across 10 levels of annual transaction volume, and/or
- for some customers, Additional Services Fees.

A significant CSO fee cap applies, with particularly low fee capping applied for minors trusts (since FY2021).

This PT service has operated at a declining level of cost recovery, estimated to average less than 80% across all trust types. A significant contributor to this 'average' cost recovery outcome is very low cost recovery for charitable trusts, estimated to be less than 40%.

A summary comparison of charging models for charitable trusts is outlined separately.

Recommended charging model

The recommended model for trust administration services is the **Option 4 (Capacity Model)** approach. Key characteristics of the recommended model include the following.

1. Introduce a once-off Establishment Fee for initial trust set-up costs.
2. Replace the existing Trust Administration, Asset Management and Property Fees with a five-tier structure determining the administration charge as a percentage of total trust assets (subject to a minimum annual charge).
3. Discontinue charging a separate Incidental Outlays Fee.
4. Increase the CSO fee cap rate from 5.0% to 6.0% (applying to all trust types except minors trusts and charitable trusts). For minors trusts, fees will be capped at no greater than annual trust income (to protect trust capital), except where the trust was created from a court ordered compensation award, in which case no fee cap will apply.

Indicative pricing for this model is estimated to increase cost recovery averaged across all trust types to approximately 100%.

This is achieved primarily by:

- increasing charges for charitable trusts to approximate full cost recovery, and
- reducing the cost of CSO fee capping of minors trusts, for new trusts established through a court ordered award of compensation

Significant CSO fee capping continues to protect existing minors trusts, and new minors trusts not based on compensation awards.

Recommended model – Administration of charitable trusts

Charitable trusts

The PT's existing charging model for charitable trusts is distinct from other trust types and is relatively simple. It is based on:

- for all customers, a Trust Administration Fee determined as a flat percentage of trust income.

No CSO fee cap applies.

This charging model has delivered relatively low levels of revenue for the PT compared to the existing charging approach for other trust types, while the regulatory and fiduciary obligations associated with charitable trusts require a higher cost to service.

Collectively, this has contributed to administration of charitable trusts having the lowest cost recovery of all trust types, estimated to be less than 40%.

Recommended charging model

The recommended model for trust administration services for charitable trusts is a transition from a distinct income commission model to consistent application of the same **Option 4 (Capacity Model)** approach implemented for other trust types. Limited exceptions proposed to apply for charitable trusts include the following.

1. A higher once-off Establishment Fee, for more complex charitable trust set-up costs.
2. No CSO fee cap for charitable trusts.

The recommended charging model is estimated to increase cost recovery for administration of charitable trusts to approximately 100%.

Benchmarking – Administration of trusts

Estimated affordability – existing model

Several customer scenarios were constructed to illustrate the expected affordability of PT charges, by comparison to the range of charging outcomes estimated for other public trustees in previous PT benchmarking exercises.

Excluding minors and charitable trusts, compared to charges estimated for other public trustees, the existing PT charging model was:

- approximately average for low value/complexity trusts
- at the lower end of the cost range for trusts of 'mid' value/complexity, and
- the most affordable for high value/complexity trusts.

The generous CSO fee cap for minors trusts is estimated to position the PT as the most affordable for this type of trust, across all scenarios.

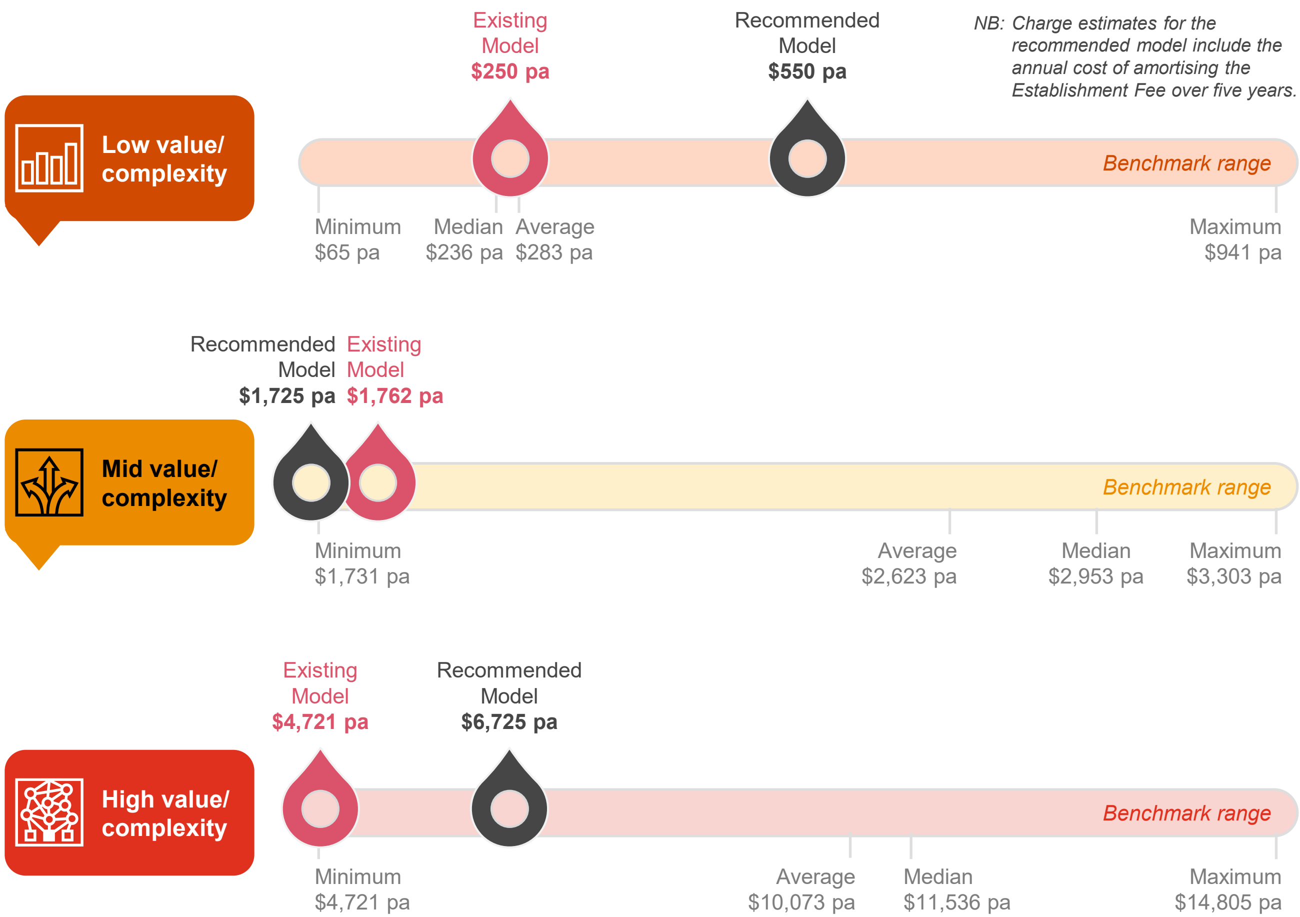
Estimated affordability – recommended model

Indicative pricing for the recommended model is estimated to (for testamentary and other trusts):

- increase the cost for low value/complexity trusts, mainly due to the annualised impact of the Establishment Fee
- preserve comparative affordability for 'mid' value/complexity trusts, and
- increase costs for high value/complexity trusts, while still remaining comparatively affordable.

Minors trusts are expected to remain comparatively affordable, due to retention of the more generous income-based CSO fee cap for these trusts.

Figure 7: Benchmarking of estimated PT charges for testamentary and other trusts



Source: PwC Benchmarking, with indexation adjustments.
PwC estimation of PT charging outcomes.

Benchmarking – Administration of charitable trusts

Estimated affordability – existing model

Several customer scenarios were constructed to illustrate the expected affordability of PT charges, by comparison to the range of charging outcomes estimated for other public trustees in previous PT benchmarking exercises.

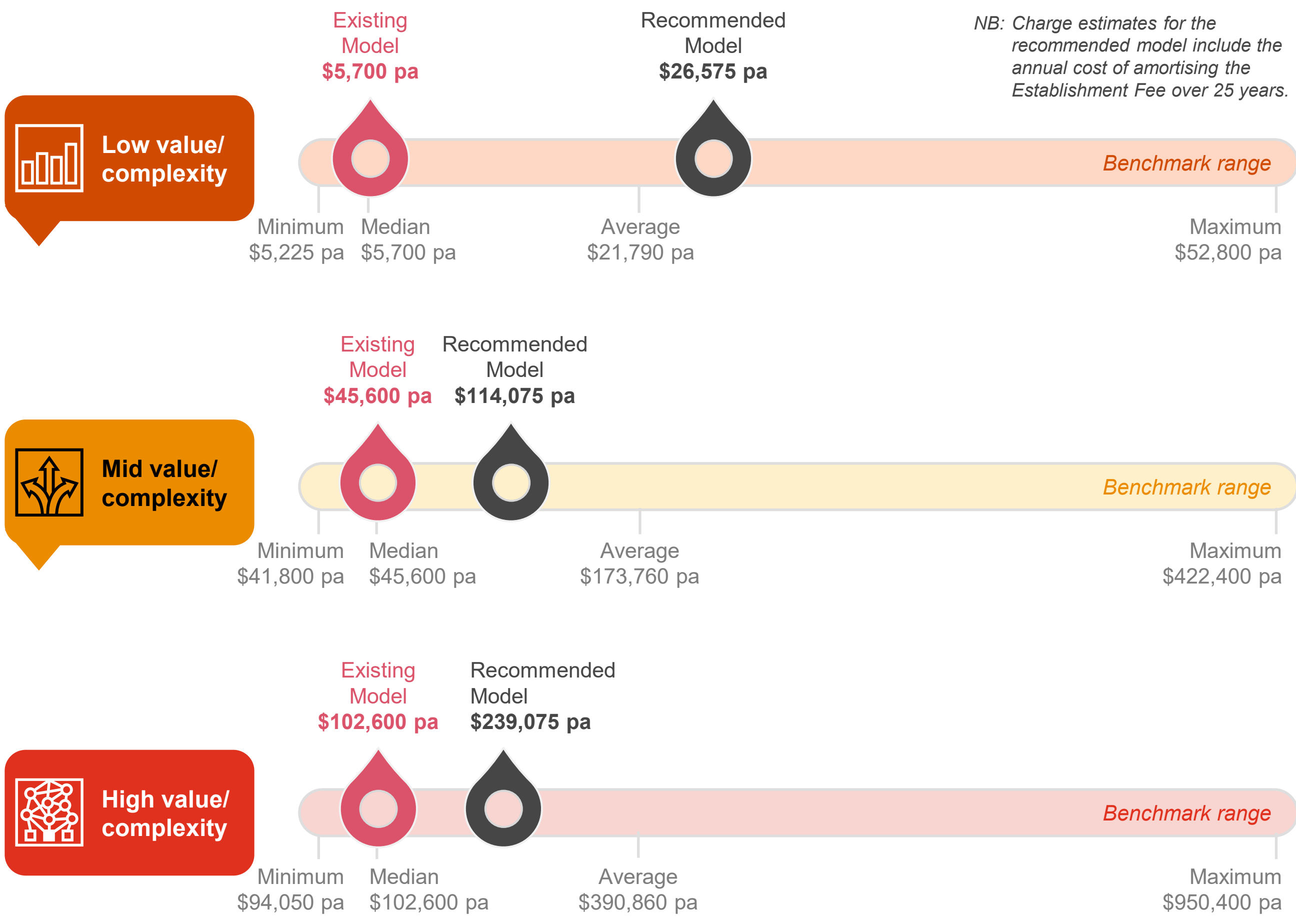
Compared to the range of charges estimated for other public trustees, the existing PT charging model for charitable trusts is at the lower end of the cost range for charitable trusts, across all levels of value and complexity.

Estimated affordability – recommended model

Indicative pricing for the recommended charging model is estimated to increase the PT administration charge for charitable trusts across all charitable trust values (and complexity).

However, the new charging outcomes are still estimated to be comparatively affordable against other public trustees.

Figure 8: Benchmarking of estimated PT charges for charitable trusts



Source: KPMG (18 July 2019), *Benchmarking: Charitable trusts*, with PwC indexation adjustments
PwC estimation of PT charging outcomes.

Recommended model – Taxation services

Overview of service and existing charges

The PT provides taxation services and advice in support of its financial management services, deceased estate services and trust administration services.

The charging approach for taxation services provided by the PT is largely linked to the hours of work required to deliver the services, charged at the PT hourly rate of $268/hr.

There is a competitive third party market for the provision of specialist taxation services similar to those provided by the PT. However, there are potential efficiencies associated with these services being available from the PT to customers for whom it is already providing financial management, deceased estate or trust administration services (e.g. ensuring the scope and quality of taxation services are consistent with the PT's broader regulatory and fiduciary obligations with respect to these customers).

This PT service has had significant growth. While it has operated historically at approximate full cost recovery, recent growth in costs has exceeded growth in charge revenue, resulting in a small (but increasing) under recovery of costs. More recent cost recovery is estimated at approximately 95%.

Recommended charging model

The recommended model for taxation services is the **Option 1 (Updated PT Model)** approach. Key characteristics of the recommended model include the following.

1. Retain the existing approach of charging for all taxation advice and services based on time incurred at a single hourly rate (but revisit whether the standard PT hourly rate remains an appropriate representation of the average hourly cost for these services).
2. Revisit whether a minimum fee per Business Activity Statement is necessary (i.e. potentially discontinue the minimum fee).

Indicative pricing has not been adjusted for the recommended model, likely to result in PT exposure to small ongoing cost under recovery. A small to modest increase in the PT hourly rate would support improved cost recovery and sustainability for this service (and other services charged by hourly rate), with minimal financial impact to any one customer.

Benchmarking – Taxation services

Estimated affordability – existing model

Benchmarking identified that most other public trustees in Australia charge for taxation services based on hourly rates for time incurred. The benchmarking identified an indicative pricing range for other public trustees of approximately $200/hr - $375/hr (including GST).

Compared to charges estimated for other public trustees, the existing PT hourly rate is competitive, and slightly below the average estimated rate.

Figure 9: Benchmarking of PT hourly rate

Source: PwC Benchmarking, with indexation adjustments.
PwC estimation of PT charging outcomes.

Estimated affordability – recommended model

Indicative pricing for the recommended charging model assumed continuation of the current PT hourly rate.

However, it was recommended that the PT review whether this rate remains an appropriate representation of the average hourly cost for its services. A modest increase in the hourly rate could be implemented to support future financial sustainability, while retaining comparative competitiveness with other public trustees.

Recommended model – Property services

Overview of service and existing charges

The PT has historically provided a broad range of property services in support of its financial management services, deceased estate services and trust administration services. However, it has increased reliance on outsourcing for some of these services in circumstances where these are more efficiently and effectively provided by third parties.

The PT's property services team also supports the management of PT owned properties.

In delivering the PTQ's property services, there is a difference in resourcing in regional offices compared to offices in south-east Queensland. In the larger south-east Queensland offices (e.g. Brisbane, Ipswich, Southport), a dedicated group of property officers plan, manage, undertake and review work related to real estate and other personal property. In contrast, some regional offices do not have dedicated property officers and instead all tasks are performed by (or overseen by) trust officers.

There is a competitive third party market for the provision of specialist property services similar to those provided by the PT. However, there are potential efficiencies associated with these services being available from the PT to customers for whom it is already providing financial management, deceased estate or trust administration services (e.g. ensuring the scope and quality of services are consistent with the PT's broader regulatory and fiduciary obligations with respect to these customers).

The PT's existing charging model for property services varies by the nature of the specific service. The actual approach to delivery (and charging) for property services departs from the framework published each year by the PT in the Queensland Government Gazette, to varying degrees by service type. This makes the existing structure relatively complex and lacking in transparency. The key components of the existing charging model for property services are summarised on this page.

Where hourly charging is specified, a rate of $168 per hour is specified in the PT's published fees notice. However, the actual rate charged may vary up to the standard PT hourly rate of $268 per hour, depending on the type of staff providing services.

Benchmarking identified that other public trustees were more likely to outsource property services to private sector providers, retaining only a planning, review and/or oversight role. However, the analysis suggested that existing property services charging by the PT is, on average, competitive.

Recommended model – Property services (cont'd)

Recommended charging model

The recommended model for property services is the **Option 1 (Updated PT Model)** approach. Key characteristics of the recommended model include the following.

1. For property management services (excl. rental management):
   - retain the existing approach of charging for property inventories and clear-outs based on time incurred, but
   - review and 'standardise' the hourly rate and ensure that all time is being accurately recorded, allocated and charged, and
   - absorb the charge for inspections into the broader rental management charge.
2. For property management services (rental management):
   - retain the existing approach of charging based on a percentage of gross rental receipts, but
   - review and adjust the commission rate, and restructure the monthly administration fee as a higher (review) charge applying only if rental management is outsourced, and
   - introduce a charge for initial letting and establishment of a tenancy.
3. For acting as a sales agent (including auctions), retain the existing approach of charging a tiered commission on sale proceeds, and retain the existing commission rates.
4. For storage of assets and chattels:
   - retain the existing approach of charging a fixed weekly storage fee, but
   - review the rate to ensure it remains an appropriate representation of the PT's applicable costs for accommodation, security, utilities and insurance.

In reviewing customer charge rates, the PwC Benchmarking indicated any significant increase in pricing could position the PT as one of the less affordable property service providers in the market – but this will not apply to merely ensuring full recording and charging of time, as opposed to increasing the rate for each unit of time charged.

It is assumed that any adjustments to improve or re-align cost recovery outcomes will be focused on recovery only of costs associated with the delivery of services to customer owned properties, and will not be designed to recover or otherwise subsidise costs associated with property management for PT owned properties.

It is further assumed that valuation services will continue to be outsourced by the PT.

Recommended model – Investment services

Overview of service and existing charges

The PT is responsible for substantial financial assets through its financial management, PoA, deceased estate administration and trust administration roles. The PT manages the short to longer-term investment of these funds in accordance with its legislative obligations under the Trusts Act 1973, including application of the 'Prudent Person Rule'.

Under its Customer Investment Strategy, the PT manages the investment of the majority of customer funds through two PT funds[3].

- the PT Common Fund – focused on shorter horizon investments, and targeting a lower risk return on capital through diversified investment in cash, fixed interest and Queensland Investment Corporation diversified funds
- the PT Growth Trust – targeting higher average long-term returns on capital (but with greater short-term risk and volatility) through investment in the Queensland Investment Corporation Long Term Diversified Fund.

Where appropriate to a customer's circumstances, the PT may also manage and monitor customer investments in one or more external funds.

The PT's existing charging model for the Growth Trust is based on a flat percentage of Funds Under Management (FUM), but with a tiered rebate of a portion of the fee for investments greater than $100,000. Investments in the Common Fund are capital guaranteed by the PT, with the PT's charge for management of this fund being an 'at risk' interest differential (i.e. the difference between the actual return on the fund and a fixed interest rate paid by the PT to investors).

A comparison of the PT's existing rate for the Growth Trust to other public trustees identified that (before rebates) the PT appeared to be towards the upper end of the cost range. However, mitigating factors included:

- the application of material fee rebates by the PT for investments greater than $100,000
- the PT's rate being inclusive of investment management charges from external fund managers (i.e. the Queensland Investment Corporation), and
- external funding support being received by other public trustees, facilitating reduced levels of cost recovery for investment services compared to the PT (which relies on revenue from investment services as internal funding for other PT services).

3. During FY2021, the PT created a new PT investment fund, the Australian Foundation for Charitable Trusts (AFCT). The timing of this meant the new fund was not directly assessed in this review of fees and charges. However, broad consideration was given to whether the nature of this new fund is expected to have a material impact on the forecast financial performance of investment services under the Base Case or alternative charging options..

Recommended model – Investment services (cont'd)

Recommended charging model

The recommended model for investment services is the **Option 1 (Updated PT Model)** approach. Key characteristics of the recommended model include the following.

1. For investment management and trustee services to the Common Fund:
   - retain the existing approach of being remunerated from investment earnings on fund assets, after paying a fixed interest return on customer funds under management, but
   - review the interest rates paid to customers in the context of ensuring they remain competitive against alternative external investments with a similar 'capital guaranteed' risk profile.
2. For investment management and trustee services to the Growth Trust:
   - retain the existing approach of charging a fixed percentage of customer funds under management, but
   - discontinue the tiered fee rebate structure, combined with a corresponding reduction in the rate for the fixed fee.
3. For managing external investments:
   - retain the existing approach of charging a tiered percentage of total investment value, subject to a minimum annual charge, but
   - review the minimum and tiered fee rates to ensure they remain cost-competitive and an appropriate representation of the PT's applicable investment management costs.

Based on comparisons to other public (or private) providers of investment services, retention of the general charging methodologies in the recommended charging model for investment services was not expected to result in the PT being uncompetitive or inconsistent with broader market practice and outcomes, particularly in the context of the PT's obligations regarding investment management and the reliance on returns for internal funding.

Comparative competitiveness of the PT is expected to improve with the fee for the Growth Trust being reduced, along with the proposed removal of the existing fee rebates.

Recommended model – Office of the Official Solicitor

Overview of service and existing charges

The Official Solicitor acts as solicitor for the PT through the staff of the Office of the Official Solicitor (OOS). The OOS is largely comprised of Government Legal Officers, engaged in Government work pursuant to section 27 of the Legal Profession Act 2007 (Qld). The services provided by the OOS include:

- advice in relation to the PT's core areas of wills, estates, estate litigation, trusts, complex financial management and such property matters as arise in trustee work
- general corporate advice, including on leasing and other commercial agreements
- work for the PT pursuant to delegations made under section 11A of the Act (e.g. the sanction of causes or matters, such as settlement of a personal injuries claim, by or on behalf of persons under a legal disability), and
- legal work for Departments of the Queensland Government pursuant to section 16(7) of the Act.

The PT's existing charging model for legal services is predominantly based on charging for time incurred at scale hourly rates, varying by the seniority or skill of OOS staff required. However, for several specific services, fixed fees are quoted for a 'standard' service, with additional hourly charges applying for a 'non-standard' service (e.g. one requiring special skill or complexity).

A comparison of the PT's charging for legal services to other public trustees (and private firms) identified that:

- for probate services, the fixed fee charged by the PT positioned it as being slightly above average cost for simple probate requirements but significantly more affordable for average and complex requirements (even after including additional hourly charges)
- for conveyancing services, the fixed fees charged by the PT were competitive against other service providers, including specialist conveyancing firms
- for other legal services of simple to average complexity, total fees estimated for the PT were typically about mid-range compared to other service providers, and
- for other 'complex' legal services, total fees estimated for the PT were typically towards the lower end of the range estimated for other service providers.

The key driver of the cost advantage for more complex legal issues is the comparatively low hourly rates for the most senior and experienced OOS lawyers.

Recommended model – Office of the Official Solicitor (cont'd)

Recommended charging model

The recommended model for legal services is the **Option 1 (Updated PT Model)** approach. Key characteristics of the recommended model include the following.

1. Retain the existing approach of charging by hourly rates, but with selected quotation for minimum or fixed fees for certain services capable of having a typical or 'standard' service defined.
2. Review the existing schedule of hourly rates, and specific minimum or fixed fees, to ensure they remain an appropriate reflection of the cost and risk to the PT (OOS) of the relevant resources or services, and the value of the specialist skills and experience provided by the OOS – this may require the advice of a specialist legal cost expert.
3. Consider whether it is practical to improve transparency around whether a service is 'standard' or 'straightforward', or not, such as by specifying a threshold number of hours before a service will start to attract additional hourly charges.
4. Consider whether the concepts of 'standard' and 'straightforward' can be consolidated into consistent terminology.

General retention of the existing charging methodologies and pricing in the recommended charging model for legal services would not result in the PT being uncompetitive, or be inconsistent with broader market practice and outcomes.

In reviewing its existing charges and hourly rates, benchmarking suggests that OOS charges for more complex matters could be increased without sacrificing general competitiveness against the market (e.g. through an increase to the hourly rates for more senior and experienced OOS lawyers).

4

Estimate of consolidated outcome

Estimated financial impacts – customers

Customers expected to benefit

While existing and future customers are expected to benefit from a financially secure and sustainable PT, those specific customer categories expected to benefit most from the recommended charging models fall into four categories:

- financial management customers
- beneficiaries of minors trusts
- PoA customers, and
- most customers with funds invested in the PT Growth Trust.

Financial management customers are expected to benefit from:

- continuation of significant subsidisation through planned cost under-recovery
- cessation of the separate Property Fee and Incidental Outlays Fee
- waiver of the new will-making fees, and
- continued eligibility for a waiver of PoA fees.

While, in principle, fees for this service should increase, the recommended model recognised the importance of PT personal financial management services in supporting persons experiencing vulnerability, and the prevalence of ‘tied’ customers. Therefore, less weight was given to cost-recovery objectives and more to applying a broad ‘fee for effort’ charging methodology that avoids adverse fee impacts on existing customer vulnerability.

Beneficiaries of minors trusts are expected to benefit from a proposed preservation of generous and unique CSO arrangements designed to protect the initial capital of a minors trust from erosion, including through PT trust administration fees (i.e. fees are capped at trust income).

Customers seeking PT services for the preparation of a general PoA or EPA are expected to have fixed charges that are lower than the current charges, facilitated by a reduction in eligibility for a full waiver of PoA charges (i.e. customers will be free to choose who they nominate as their attorney without this impacting on whether the PT will charge them for preparation of a PoA or EPA).

Most Investors in the PT Growth Trust will all benefit from a reduced trustee fee, not just those entitled to fee rebates due to a greater investment value.

PT charging outcomes for financial management customers, beneficiaries of minors trusts and PoA customers are expected to be broadly competitive with, or more affordable than, costs that are estimated for other public or private sector organisations providing similar services.

Customers expected to pay higher charges

Customers or service areas that are expected to experience increased costs for PT services include:

- will-making services
- administration of deceased estates, and
- trust administration services (other than minors trusts).

Each of these areas has been persistently under-recovering the PT’s costs of delivering the services, particularly for will-making and deceased estate services. The recommended charging models proposed for these services are based on charging that:

- improves estimated cost recovery to an approximate full cost recovery position
- supports fairness and equity in charging outcomes, including CSOs for customers with vulnerability or limited financial capacity, and
- ensures charging is both cost competitive and consistent with market practice.

In addition to these service areas, the review contemplated a potential increase to a range of other charges, including:

- the PT hourly rate (and abolishing a separate property hourly rate)
- more diligent recording, allocation and charging of service hours (where appropriate), and
- various fixed, minimum or maximum fees specified for certain services (generally lower volume services).

In each of these cases, the charging outcomes estimated for PT customers are expected to be broadly competitive with, or more affordable than, costs that are estimated for other public or private sector organisations providing similar services.

Some financial management customers are also expected to face a minor increase in charges, including as a result of a recommended increase in the CSO fee cap rate from 5.0% to 6.0% of assessable assets. However, most of these customers will continue to benefit from a significant subsidy against the cost of their services, and a net service cost that continues to be broadly competitive with, or more affordable than, costs estimated for other public trustees.

Estimated financial impacts – PT

Estimated PT financial performance

Table 4 outlines the summary financial performance estimated for each key service area or activity of the PT under each of the recommended charging model(s) outlined on the previous pages, expressed in FY2022 dollars. For comparison purposes, the equivalent performance assuming the existing charging model(s) is also estimated (using FY2020 PT customer and cost data to derive an estimated FY2022 outcome). This highlights a potential average annual improvement in PT financial performance by approximately $13.3 million, to a modest potential annual surplus, averaging approximately $5.6 million (excluding GST). A modest annual surplus is not considered inappropriate. It enables the PT to manage annual volatility and a range of future risks without short-term impact to its sustainability, including any cost or risk (including changes in demand) that has not been included in the estimated operating costs (or revenue and CSO forecasts) for this review.

The key drivers of this estimated improvement in financial performance and sustainability are a material increase in forecast revenues for deceased estate, trust and will-making services.

The estimated value of CSO benefits is included for general information, and based on potential charges to customers before application of formal CSO policies to cap, waive or otherwise discount fees.

Table 4: Estimated PT financial performance – Base Case vs recommended charging model ($FY2022)

Service or activity	Existing charging model[4]				Recommended charging model[4]				*Total change in net performance*
	CSO benefits	Revenue (ex. CSO)	Service cost	Net performance	CSO benefits	Revenue (ex. CSO)	Service cost	Net performance	
Financial management	*$31.6m*	$22.9m	($34.5m)	**($11.7m)**	*$26.1m*	$22.7m	($34.5m)	**($11.8m)**	*-$0.1m*
Preparation of wills	*$5.4m[1]*	-	($5.4m)	**($5.4m)**	*$3.2m*	$5.4m	($5.4m)	**-**	*+$5.4m*
Powers of attorney	-	$0.4m	($0.4m)	**-**	*<$0.1m*	$0.4m	($0.4m)	**-**	-
Deceased estates	*$0.2m*	$12.0m	($18.4m)	**($6.4m)**	*$2.0m*	$18.3m	($18.4m)	**($0.1m)**	*+$6.3m*
Administration of trusts	*$2.1m*	$2.5m	($4.1m)	**($1.6m)**	*$1.3m[2]*	$4.1m[2]	($4.1m)	**-**[2]	*+$1.6m[2]*
Taxation services	-	$2.8m	($3.1m)	**($0.3m)**	-	$2.8m	($3.1m)	**($0.3m)**	-
Property services	-	$3.4m	($8.4m)	**($5.0m)**	-	$3.4m	($8.4m)	**($5.0m)**	-
Investment services	-	$15.2m	($2.4m)	**$12.8m**	-	$15.0m	($2.2m)[3]	**$12.8m**	-
Office of Official Solicitor	*$0.1m*	$6.0m	($8.1m)	**($2.1m)**	-	$6.1m	($8.1m)	**($2.1m)**	-
Other services	*$1.3m*	$5.7m	($2.6m)	**$3.1m**	*$1.3m*	$5.7m	($2.6m)	**$3.1m**	-
PT reserves	-	$12.3m	($3.4m)	**$8.9m**	-	$12.3m	($3.4m)	**$8.9m**	-
Total estimates	***$40.7m[1]***	**$83.2m**	**($90.9m)**	**($7.7m)**	***$33.9m***	**$96.3m**	**($90.7m)**	**$5.6m**	***+$13.3m***

Note 1: The CSO value of the universal free will-making service is not reported in PT Activity Based Costing reports. For this comparison, PwC has estimated the value of the CSO benefit as equal to the cost of the service.

Note 2: Until existing minors trusts created from court ordered compensation awards are replaced by new trusts, CSOs will be higher than the estimate, with a reduction to estimated revenue and net performance.

Note 3: Fee rebates are recognised as a cost to investment services. Discontinuing fee rebates under the recommended charging model causes the total estimated cost to deliver investment services to decrease.

Note 4: All values exclude GST

5

Recommendations

Summary recommendations

Basis for recommendations

Recommendations from PwC's review of PT fees and charges are based on the scope and limitations of the review processes and the data relied upon by PwC in undertaking the assessment. This includes making a range of assumptions regarding future PT operations, particularly in relation to demand for PT services, the characteristics (and 'mix') of customers and PT costs of delivering services.

The assessment developed a range of indicative assumptions for possible fee structures and rates that might be implemented for one or more recommended charging models, to support estimation of the possible financial impacts of a transition to these models. It is expected that there will be further review and optimisation of these models by the PT. This might take into account a range of factors such as:

- changing scope of, or approach to, services (e.g. regulatory framework, customer requirements, stakeholder expectations, market practice)
- projections for service demand, including possible impacts of changed charging models
- projections for the cost of delivering services (including indirect costs), such as scope for future efficiencies and any 'mis-match' between average escalation in costs and the GIR, and
- potential volatility in the year-on-year performance of some services or activities, and the appropriate pricing for an 'average' annual outcome that minimises financial sustainability risk to the PT from this volatility.

The recommendations also include broader actions or initiatives for the PT that are relevant to any adjustment to charging that is based on delivering a target level of cost recovery. These highlight that efficiencies in the PT's costs of service delivery, while not part of the scope for this review, are equally important to the affordability and sustainability of services.

Summary recommendations

1. **Adjustments to charges (or CSOs) for any PT service should consider the organisational impact.**

   The PT is required to be financially sustainable on a self-funding basis. Therefore any proposed change to the charging (including CSO policy) for a particular service or activity should also consider the potential broader financial risks or implications to the sustainability of the PT as an organisation, or its capacity to fund continued delivery of other services or activities.

   This is particularly relevant to any proposal to reduce charges (or increase CSOs) for a particular service or activity.

2. **The PT implements revised charging models for its services to increase estimated revenues (on average).**

   Subject to further investigation and optimisation, the PT should implement the charging model updates and changes recommended in this report, including.

   - amendment of financial management charging to simplify the structure and reduce disincentives for more frequent contact, while approximately preserving the existing level of significant subsidisation (cost under-recovery)
   - full cost recovery charging for will-making services
   - full cost recovery charging for administration of deceased estates
   - full cost recovery (and aligned) charging for trust administration services, and
   - simplified and reduced (for most investors) charging for the Growth Trust.

3. **The PT review (and increase) its hourly rate(s) for service charging.**

   A wide range of PT services are charged based on the time required by the PT to deliver services by a 'standard' PT hourly rate, intended to provide full compensation to the PT for its average hourly operating cost (including direct and indirect costs). The PT hourly rate is one of the lowest hourly rates of public trustees in Australia and should be reviewed by the PT and increased (if appropriate) to an up-to-date measure of the PT's average operating cost.

   The PT quotes a lower hourly rate for property management services, which operate at a material under-recovery of cost. The PT should discontinue the separate hourly rate for property services, and apply the standard PT hourly rate.

   A separate schedule of hourly rates for OOS staff and services should be retained, but the hourly rates reviewed to ensure they remain a reasonable charge for the cost and complexity of the services, and the skill and experience of the staff. This is expected to benefit from the advice of a specialist legal cost expert.

4. **The PT ensure all service delivery time is accurately recorded, allocated and charged.**

   The cost to the PT of the time for small tasks or activities not being accurately or reliably recorded, allocated and charged to customers can result in material foregone revenue when accumulated across the organisation over a year. The PT should ensure that where it is entitled to charge customers for time required for delivery of services, that there is a policy and practice of diligent recording, allocation and charging of this time to support equity and sustainability in charging.

Summary recommendations (cont'd)

5. The PT investigate efficiencies in the approach to, and cost of, service delivery.

The most efficient approach to operations and service delivery is not static over time. In parallel with changes to the charging model to improve financial sustainability, the PT should also:

- investigate potential efficiencies in its existing systems, resources, policies or practices used in service delivery, and
- investigate potential efficiencies in changes to the scope of PT services (including potential outsourcing of low volume or specialist/commoditised services).

6. The PT continue to investigate the potential to receive an exemption from charging GST.

The PT is required to add GST to its charges to customers. This increases the total charge payable by customers, and represents a financial challenge for customers experiencing vulnerability, and with little or no choice on the appointment of the PT and its scope of services (e.g. 'tied' customers of PT financial management services).

The PT is already progressing this recommendation and, at the date of this working paper, has submitted an application to the Australian Taxation Office for a private ruling exempting the PT from GST on fees and charges for financial management services.

7. The PT review its fees and charges at least every five years.

To ensure the PT's charging models remain cost competitive, sustainable and equitable, its fees and charges framework should be reviewed:

- if there is a significant change to stakeholder expectations or regulatory framework
- if there is a significant change to PT operational funding (including a persistent change to the value or reliability of traditional sources of internal funding, or introduction of recurring Queensland Budget funding), or
- no less frequently than every five years.

8. The PT investigate strategies to improve the communication and transparency of its charging models, policies and practices.

One principle adopted in the assessment of alternative charging models was improving transparency in charging, including through simplifying or increasing consistency in charging where practical. However, to also support fairness in charging outcomes across a broad range of services and customer characteristics inherently requires a degree of nuance and complexity in charging approach for some services.

The PT can support overall transparency in its charging approach, and expected outcomes, through clear, consistent and effective communication with customers (or other stakeholders). To support understanding, perceptions and acceptance of the recommended charging models, the PT should invest in materials, tools and training focused on clear communication of charging.

Potential policy response to ‘cost of living’ pressures

Potential policy response to 'cost of living' pressures

1 As at the date of this report, there has been increasing community awareness of, and attention to, significant 'cost of living' pressures impacting particularly on households or persons on low income or experiencing broader vulnerability.

The key drivers for these issues are increases in costs over which the PT has little to no influence, such as costs for energy, transport and general household expenses, and with significant uncertainty regarding the duration and broader economic and social impacts of increases in costs.

Therefore, these broader 'cost of living' challenges were not relevant to PwC's review of how the PT charges for its services, and were not considered in the assessment and recommendation of PT charging models.

Ultimately, this assessment was undertaken in the context of identifying fees and charges that are fair and reasonable for the particular services provided, while ensuring the financial sustainability of the PT as a self-funded organisation.

2 However, there may be significant commonality in the characteristics of persons most exposed to recent 'cost of living' challenges and many of the PT's customers, particularly its financial management customers. As such, we recognise the PT and/or Queensland Government may consider this review an opportunity to reduce the financial impact of PT fees and charges to customers expected to be most disadvantaged by broader 'cost of living' increases.

3 Relevantly, costs to the PT of delivering its services are also expected to be exposed to market, economic and geopolitical factors increasing the 'cost of living' for households and individuals. Recommended charging models and indicative pricing have not been adjusted for these potential impacts on PT costs (or sustainability)

4 Should the PT or Queensland Government consider adjusting the recommended PT charging models to support a policy response to 'cost of living' challenges, this should be undertaken in a way that weighs the key points summarised on this page.

Ideally, any policy response should not introduce an unreasonable risk to the financial sustainability of the PT. This might be achieved through one or more of:

- the adjustment(s) to the recommended model(s) having a small to modest expected financial impact to the PT, that is not estimated to result in an operating deficit for the organisation
- the adjustment(s) to the recommended model(s) being temporary or of limited duration, and/or
- the cost to the PT of the adjustment(s) to the recommended model(s) being offset by Queensland Government funding.

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