ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE

SUPPLEMENTARY INFORMATION

Friday, 13 August 2010

Ministry of Transport

Question No B1: The Hon Ken Travers MLC asked, in relation to the Statewide harvest, what are the figures for each of the zones and ports for:

- *tonnage;*
- *tonnage per kilometre; and*
- *percentages on road and rail.*

Answer:

1. Received Tonnages at ports
   - Albany 2.0 MT
   - Esperance 1.6 MT
   - Geraldton 2.46 MT
   - Kwinana 4.85 MT

2. Tonnage by Kilometre
   Information is not available

3. Percentage of road/rail receivals at port (notional)
   Albany receivals
   - Rail 48 per cent
   - Road 52 per cent

   Esperance
   - Rail 11 per cent
   - Road 89 per cent

   Geraldton
   - Rail 49 per cent
   - Road 51 per cent

   Kwinana
   - Rail 96 per cent
   - Road 4 per cent

ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE

SUPPLEMENTARY INFORMATION

Friday, 13 August 2010

Ministry of Transport

Question No B2: The Hon Ken Travers MLC requested a copy of the business case, risk assessment and any other documents that were prepared to inform the decision to contract out work in the Pilbara in relation to heavy vehicle licensing.

Answer:

No documentation exists as heavy vehicle licensing has not been contracted out in the Pilbara Region. However, transport will continue to seek dispensation (where possible) on behalf of Registered Training Organisations (RTO's) to conduct truck tests (i.e. Light Rigid, Medium Rigid, Heavy Rigid, and Heavy Combination) in the Pilbara due to our current staffing problems and an increase in demand for tests.

ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE

SUPPLEMENTARY INFORMATION

Friday, 13 August 2010

Ministry of Transport

Question No B3: Hon Ken Traver asked are there any other licensing services apart from the Pilbara one that you have either privatised or contracted out in the last 12 months or intend to in the near future?

If there has been a case, including the Pilbara one, where you have contracted out, could we get a list of who have been the successful contractors?

Answer:

Three (3) contracts have been awarded in the past 12 months, those being :

- Mr Allan Ferrier - covering the locations of Merredin, Bruce Rock, Kellerberrin, Mukinbudin, Trayning and Bencubbin
- Mr Greg Briotti – covering the locations of Northam, Toodyay, York, Jurien Bay, Leeman and Koorda; and
- Mr Graham Pillati (Collier Bus Service) – covering the locations of Boddington, Bridgetown, Donnybrook, Harvey, Manjimup, Waroona and Williams.

Pilbara has not been contracted out.

PUBLIC

ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE

SUPPLEMENTARY INFORMATION

Friday, 13 August 2010

Ministry of Transport

Question No B4: The Hon Ken Travers MLC requested a copy of the review into the operations of the Driver and Vehicle Services Branch which was completed in November last year.

Answer:

It is assumed that the Hon Ken Travers MLC is referring to the reports relating to a review of the service delivery of vehicle examinations and practical driving assessments. These reports are currently being completed.

B4 - BN-DG - Alternative Servi...

B4 - Edited draft vehicle repo...

Government of **Western Australia**
Department of **Transport**

Briefing Note to the Director General

Subject: Alternative Service Delivery Vehicle Examinations

Issue
The Liberal Party election plan includes a commitment to **initiate action to outsource vehicle inspections to appropriately accredited inspection stations.**

The Driver and Vehicle Services Unit have prepared a strategy designed to allow this initiative to be implemented while managing the associated risks.

Recommendations
Driver and Vehicle Services Unit has developed specific plans to:

- Strengthen the training and accreditation of authorised vehicle examiners;
- Improve systems for auditing vehicle examinations
- Provide improved information systems to support the above initiatives
- Progressively outsource additional vehicle examinations over the next 2 to 3 years, commencing with the lowest risk inspections.

It has identified additional issues which need to be resolved over the next few months:

- A submission on revised fees and charges arrangements to address the cost impact of the additional outsourcing
- Development of a Human Resources Plan to manage staffing issues arising from the outsourcing.

In addition it has recommended that in order to manage risks it would be wise to retain some in house capacity to inspect high risk vehicles such as: custom body, non ADR compliant, and over dimensional vehicles. (This group represents less than 10% of vehicle inspections)

Background or Current Situation
Driver and Vehicle Services Unit currently conducts vehicle examinations through a mixture of in house and outsourced arrangements. Overall approximately 40% of inspections are undertaken by agents. The majority of regional inspections have been outsourced for many years and the Department has increased proportion of outsourced inspections in the metropolitan area over recent years to help it deal with the growth in the inspection task as the Western Australian economy has grown.

The Department does not currently have sufficient internal resources to deal with one off incidents such as the extensive hail damage which occurred earlier in the year or to deal with the rapid growth in inspection volumes which occurred in 2005 and 2006 and which may well re-occur when the world economy begins to grow again. In addition, when these types of events occur there is also likely to be strong private sector demand for people with relevant skills and the department is therefore unlikely to be able to recruit staff to meet the demand.

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Therefore, the Department will need to rely on private sector inspection services to provide the flexibility required to meet demand for vehicle examinations services.

Sensitivities
There are likely to be Union concerns over job losses that are likely to arise from this action in the longer term.

Key Lines
The Department of Transport needs to expand the availability of private sector vehicle examination services to meet the future demand for inspection services. To ensure service levels are maintained it will improve the training and auditing of inspection services.

Decision Timeline
The report recommends a staged implementation process with key decision points at January 2011 and January 2012 (these will need to be revised closer to the event when a final decision is made on timing).

Iqbal Samnakay
A/General Manger, Driver and Vehicle Services

16 / 08 / 2010

☐ Approved
☐ Not approved
☐ Noted

_____ / __ / __
A/Director General

Contact Officer: Iqbal Samnakay Phone No: 9428 4881 Mobile: 0417 982 097

Background

Appropriate licensing of vehicles and drivers is an important component of the functions of State Government. Under the Road Traffic Act the Director General is responsible for the administration of the driver and vehicle licensing functions. As part of these functions the Director General is able to require vehicles to be examined to ensure they comply with relevant standards and drivers to have their competency assessed before deciding to issue, renew, or cancel a licence. To fulfil these functions the Department administers schemes for assessing drivers and examining vehicles.

Up until the global financial crisis the economy of Western Australia was undergoing boom conditions with large numbers of vehicles entering the fleet and many interstate and overseas workers and their families applying for Western Australian Driver Licences. These conditions placed considerable pressure on the customer service delivery functions within the Licensing Division of the Department for Transport, and in particular the driver assessment and vehicle examination functions.

While the last 18 months have been somewhat quieter there is some evidence that the level of activity within the State is beginning to increase again as the economy improves and there is a real risk that the Department's services may not have sufficient capacity to deal with the resulting demand.

In addition the October 2009 report of the Economic Audit Committee *Putting the Public First Partnering with the Community and Business to Deliver Outcomes* suggests that over the next five to ten years:

> *The public sector will increasingly act as a facilitator of services, rather than a direct provider, with all areas of service delivery opened to competition.*

The report also suggests that:

> *Public services and infrastructure will be delivered in a way which maximises the value for the public.*

In this environment the Department of Transport has decided to re-examine the delivery of services to the public to ensure that it is better able to cope with future demand. The first areas under consideration are the provision of practical driver assessments and vehicle examinations due to the difficulties experienced in these areas during the previous boom.

This particular report focuses on the vehicle examinations and a companion report focuses on practical driving assessments.

Current Legislative Arrangements in Western Australia

The Road Traffic Act (1974) provides the legislative framework for the licensing of vehicles and drivers in Western Australia but most of the details of the arrangements are contained in the regulations associated with the Act. A summary of the relevant sections of the Act and Regulations is contained in Appendix 1

The general thrust of the Act and the Regulations is that the Director General has responsibilities with respect to the examination of vehicles and the licensing of drivers for the purposes of ensuring that they can safely use the road system which can be undertaken by the Department or by another person or organisation as an agent for the Director General.

Existing Arrangements for the Inspection of Vehicles

To ensure that the overall management of the vehicle examination function is undertaken appropriately the Department manages a network of sites set up for the inspection of vehicles. This includes departmental sites and Approved Inspections Stations (AIS) run by private sector operators. Historically AIS stations were predominantly used in regional and remote locations where the volume of work was not sufficient to justify dedicated Department facilities and staff, and where the only practical mechanism for delivering inspection services was to use local vehicle repair and maintenance businesses to provide services as agents for the Department. Over the last decade the Department has increased the use of AIS stations in more populated areas (particularly on the metropolitan fringe) to provide additional capacity to supplement the inspection services provided by the Department.

The Department makes sure that both internal staff and contractors have the required skills and are of suitable character before they are allowed to conduct vehicle inspections; provides resource materials; and conducts training in inspection processes for vehicle examiners. Most of the training provided by the Department is in the nature of on the job demonstration and "buddy system" approaches rather than formal training. The Department also audits AIS sites with respect to both site characteristics and examinations conducted to ensure suitable standards are maintained.

Overall these arrangements appear to have worked quite well. There have been occasional incidences of corrupt practice both for in house and out sourced inspections and there have also been concerns with respect to the quality of recording and entry of data. This is a particular problem for remote AIS stations where inspections make up a relatively small proportion of the work and where complex or unusual vehicles are not seen very often. The Authorised Vehicle Examiners working in these sites have lower familiarity with the detail of the vehicle regulations and the inspection process generally, which means that they are more likely to make mistakes. To address these issues the department requires AIS sites to fax inspection forms to the Auditing and Compliance section at Welshpool. All paperwork is manually checked before the data is entered into the Departmental computer system. This approach is labour intensive and slow but improves the accuracy of the work undertaken by the outsourced providers.

The Department does not have a formal system for auditing in house inspections and relies on senior examiners in the branches to monitor in-house performance.

Inspection Arrangements in other States.

Inspection policy varies considerably between the States. All States have some requirements for vehicles with defect notices and written off vehicles to be inspected, but there are substantial variations in other inspection requirements. For example NSW requires all light vehicles older then 5 years to be inspected annually, Vicroads requires vehicles to be inspected on transfer but WA only requires passenger vehicles to have annual inspections and does not require inspection on transfer.

There are also significant variations on the extent to which the inspection is conducted by outsourced agents versus in house inspection staff. In New South Wales the function is almost totally outsourced (except for heavy vehicles over 12 tonnes) but most States have some in house capability to inspect vehicles. Similarly there are variations in the extent to which training of vehicle examiners is done in house or outsourced providers. In New South Wales and Victoria the training of vehicle inspectors conducting basic inspections is predominantly outsourced.

Auditing of inspection services is uniformly conducted in house but there is a strong view in the larger states that there needs to be a more professional approach to auditing with more reliance on auditing professionals and data analysis experts and less reliance on former vehicle examiners.

A summary of the arrangements in the various states is contained in Appendix 2

The key problems encountered in the delivery of inspection services seem to be fairly consistent across the States regardless of the mechanism used to deliver the services. These problems are prevention of corrupt issuing of inspection certificates, ensuring that custom vehicles are compliant and correctly licensed and correct entry of data.

With respect to the inspection certificates there appear to be two main types of corrupt practice. The first of these is the issue of certificates without examination of the vehicle and the second is turning a blind eye to illegally modified or otherwise non compliant vehicles. Because these practices can be quite lucrative for providers it is important that there is sufficient audit capability to detect these practices. Comments from several states also suggest that it is important to have suitable regulatory provisions to enter premises, require production of documents and apply penalties (including fines) if repeated breaches are found.

To ensure that new vehicles are compliant, (in particular custom and heavy vehicles) most states have more than one category of outsourced providers. Typically inspections focussing on road worthiness are widely outsourced to virtually any organisation which applies and meets the required criteria. Inspections involving new registrations (may be non-new vehicles) custom vehicles and heavy vehicles are restricted to a smaller group of providers who have more stringent requirements and have received greater training. There is also a tendency for some of the more complicated inspections to be dealt with by internal staff due to the greater complexity and requirements for more detailed knowledge of the ADRs. (Australian Design Rules).

Incorrect data entry problems lead to incorrect charging or incorrect application of licence conditions and are of concern to all states. Generally the audit system and data analysis are used to detect problems which are addressed by remedial training.

The broad conclusion to be drawn from the discussions with the other States is that the approach to service provision does not significantly impact on the key issues the Department needs to manage with respect to vehicle examinations. Furthermore it appears that there is not one obviously superior approach. The key success factor seems to be to adopt appropriate controls to ensure that the chosen approach operates effectively.

Nature of the Inspection Task

There are three broad reasons for inspecting vehicles which underpin the Departments current policy. Firstly, the Department may inspect vehicles to determine the characteristics of the vehicle. The second is that the department may need to determine the identity of the vehicle and the third is that it may need to confirm the roadworthiness of the vehicle.

Typically, the department is interested in the characteristics of vehicles to determine if the vehicle is able to be licensed. In particular the Department is interested in determining whether the vehicle complies with Australian Design Rules and can therefore be licensed or whether it breaches these rules and must be refused a licence or conditionally licenced. The department also checks on mass and dimensions of vehicles to decide on the charging category of the vehicle and whether it can be licenced with or without route restrictions.

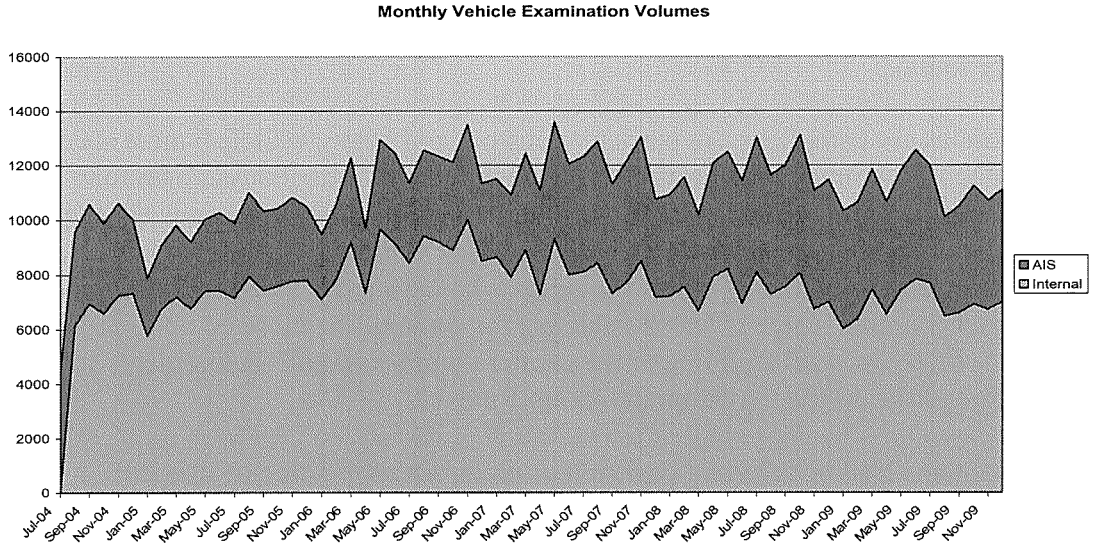
The department confirms the identity of a vehicle so that the history of the licence type and conditions can be accurately recorded against the vehicle identifiers and that the plate issued to the vehicle can reliably be linked to the Vehicle Identification Number (VIN) and other identifiers. This facilitates the future enforcement and recording of the behaviour of the vehicle in the road system.

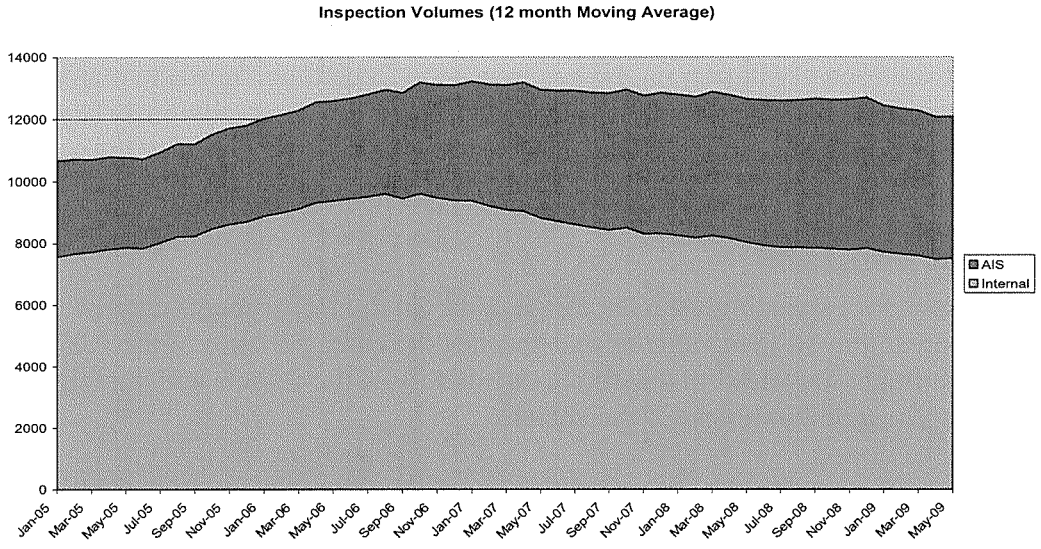
Recording vehicle identity accurately also has other benefits because it can assist in the prevention or detection of other vehicle related crimes such as vehicle theft.

Finally, the Department is concerned with establishing the roadworthiness of the vehicle to ensure that it is safe to use on the roads in WA.

Inspection Volume Trends

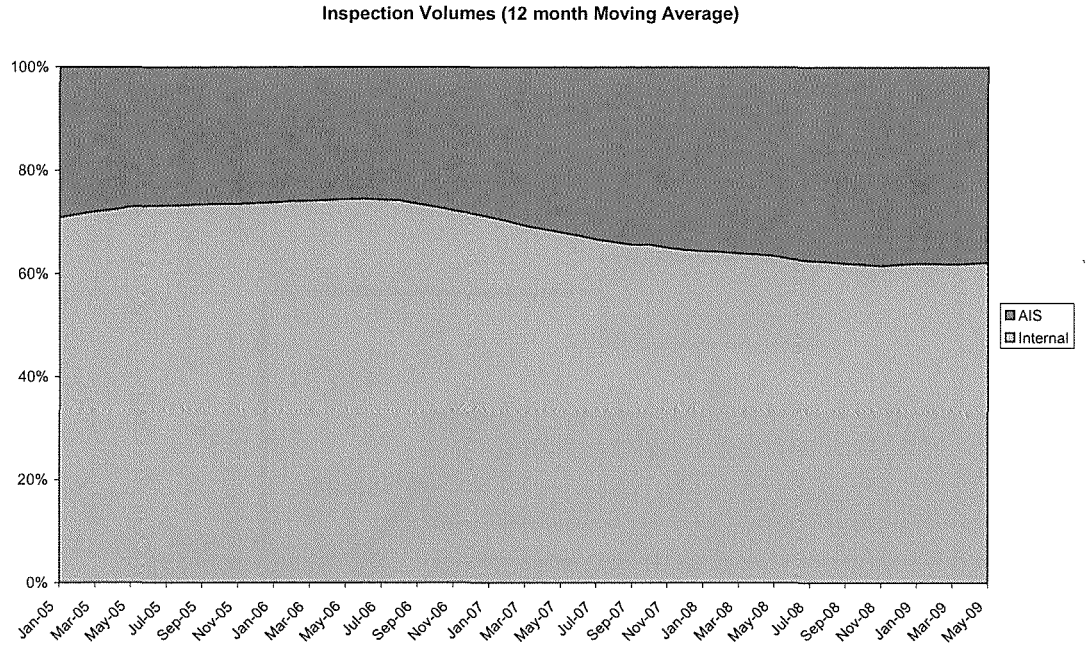
Vehicle inspection volumes are very volatile with inspection numbers varying significantly depending on a number of factors including the level of activity in the economy, taxation issues, enforcement issues and department policy. As a result the estimation of likely future volumes of inspection requires some analysis. If we take the monthly inspection volumes and take a 12 month moving average we can more easily see the long term trends in the data.





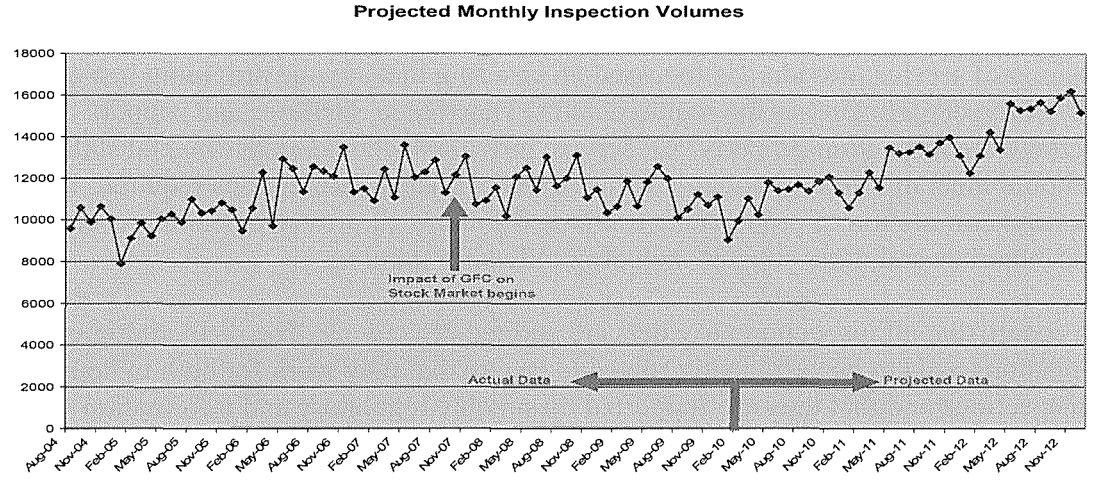
From the moving average diagram it is clear that the inspection volumes grew strongly during the previous economic boom and flattened off but did not drop by much once the peak of the boom was over. It is also interesting to note that most of the early rise in examination volumes was accommodated by expanding the number of inspections undertaken by in house staff. However, at the peak of the boom the Department had difficulty in recruiting sufficient staff to cope with demand and the resulting excessive waiting times for vehicle inspections forced the Department to appoint some new AIS sites to provide additional capacity. The Department also introduced a booking system at most of the metropolitan licensing centres resulting in reduced capacity to undertake in house inspections. In combination these initiatives resulted in a reduction of the

proportion of inspections conducted by departmental staff from almost 75% to just over 60% over a period of about 2 years.



If, as expected the Western Australian economy starts growing rapidly again when the major north-west shelf development projects take off, it is likely that demand for inspections will again grow rapidly. If the level of growth is similar to that experienced between May 2006 and September 2007 the total volume of inspections could easily grow by about 25% in an 18 month period. It is also likely that if this type of growth is experienced the Department will again have difficulty employing suitable staff because of the competition for skilled employees from the private sector.

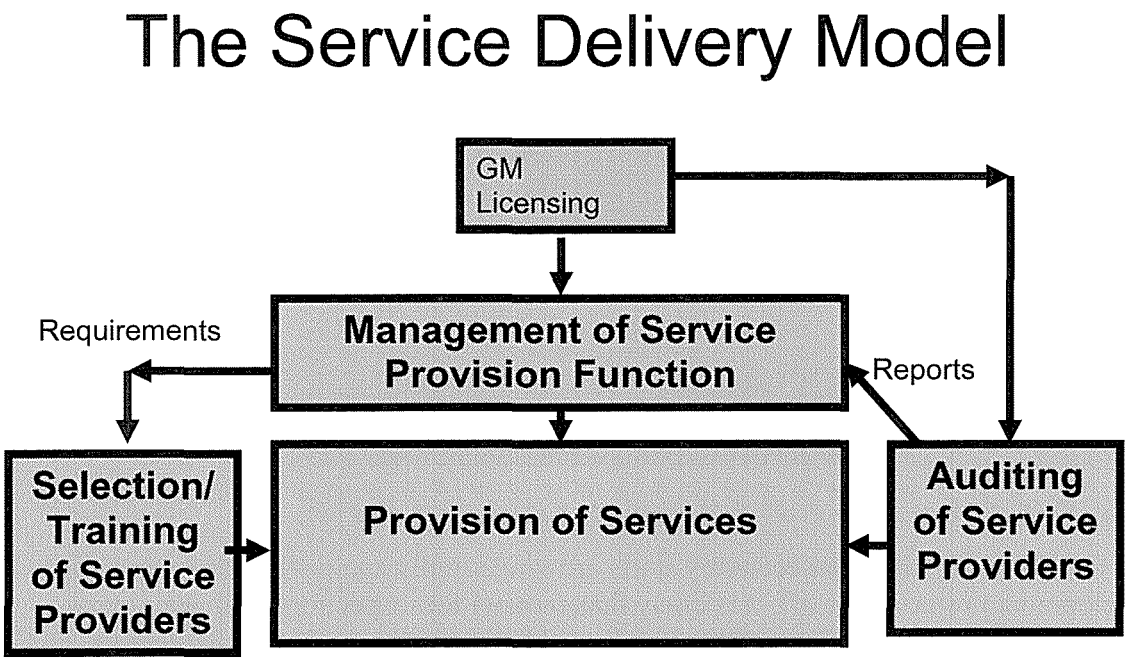
The following diagram reflects an attempt to project future inspection volumes based on average yearly cyclical variation and the assumptions that the level of economic activity is likely to remain relatively constant until the end of the 2009/2010 financial year but that after this time the volume of inspections will grow at the same rate as occurred during 2006/2007.



From this graph it would appear that it would be prudent to plan for an increase of 4000 inspections per month in inspection capacity just to cope with growth over the next two years. This equates to about 50,000 additional inspections per annum. To provide this additional capacity the Department has a choice of either providing the additional capacity through outsourced arrangements or by engaging additional staff and expanding the Departments inspection station network.

Service Delivery Model

Based on the analysis of the approaches to the examination of vehicles which are used across Australia, the following model has been developed to reflect the key activities which need to be undertaken to ensure effective delivery of inspection services.



The management of the service provision function is concerned with ensuring that sufficient capacity is available within the system to meet demand and to satisfy appropriate performance standards against the key performance criteria. This involves monitoring the growth in the inspection task and engaging additional service delivery capacity as appropriate to ensure that the Department has sufficient capability to deliver the required services. This additional capacity can mean engaging additional in-house vehicle inspectors or by engaging additional AIS sites to provide the services. It is important to ensure that the selection and training of providers meet appropriate standards and to respond effectively to any performance issues identified in audits.

Selection and training of service providers is focussed on ensuring that anyone providing inspection services on behalf of the department has the required skills, knowledge, facilities and support materials to undertake the inspection properly. All service providers whether departmental staff or AIS employees should meet minimum standards with respect to basic qualifications required, fit and proper checks and completion of prerequisite training. Similarly all providers should receive the same resource materials and other support including follow up training.

It is important to ensure that all inspection providers are audited effectively. The methodologies used to audit inspections need to be sufficiently robust to ensure that they work for both in house and outsourced inspections and that they are supported by suitable regulatory and information systems frameworks.

If all of these elements are in place and working effectively all of the key performance criteria can be effectively managed.

Criteria for Assessing Service Delivery Performance

In order to assess whether there are better ways to deliver vehicle examination services we need a mechanism to decide which options are likely to produce the best results. In making these assessments this report uses the following criteria to make this assessment:

Criteria 1 ***Capacity to deliver the services.*** For in house services this relates to the capability of the department to recruit and retain suitable staff with the required skills abilities and attitudes and for outsourced delivery options it involves questions as to whether the industry has the capability to deliver the required assessments.

Criteria 2 ***Quality of the inspections.*** This includes factors such as

- Accuracy (we assess to the standard)
- Consistency (same person assessed by different people/methods produces the same result)
- Bias (people of same skill level should end up with the same result)
- Risk of corruption

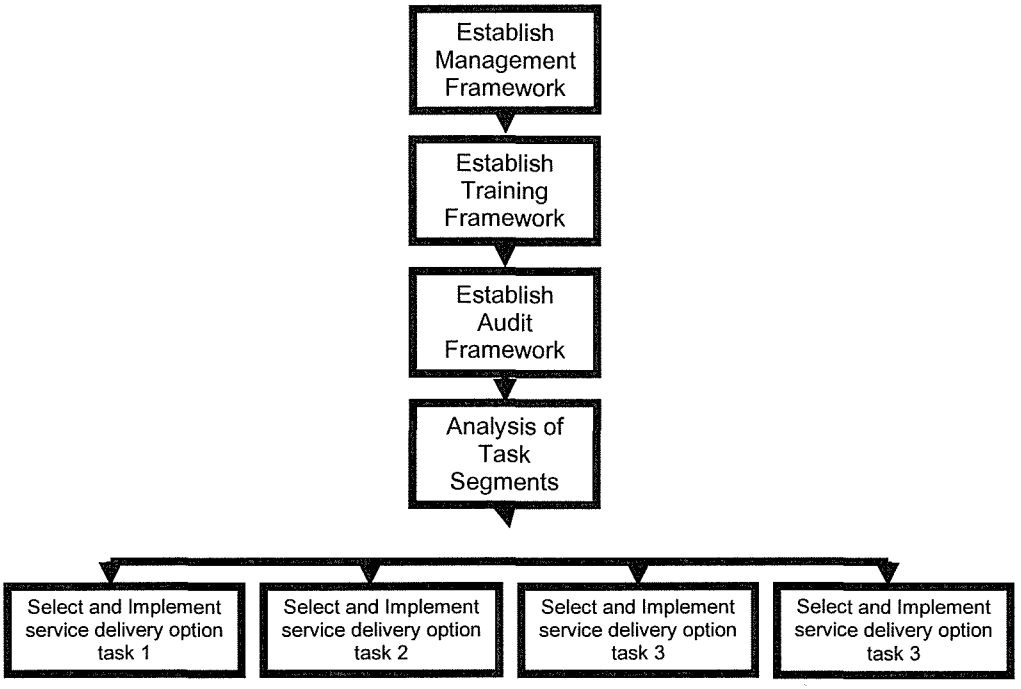
Criteria 3 ***Accessibility*** This involves answering questions related to the availability of sufficient assessments to meet demand, the availability of these assessments at times and places that suit applicants and general "user friendliness" of the service. The Economic Audit Committee Report cited earlier has stressed this as a key criteria.

Criteria 4 ***Value for Money.*** Finally we need to consider the cost of the proposed approach both from the impact on the Department and on the public. Inevitably there will be service/ cost trade off issues which need to be considered.

Proposed Approach

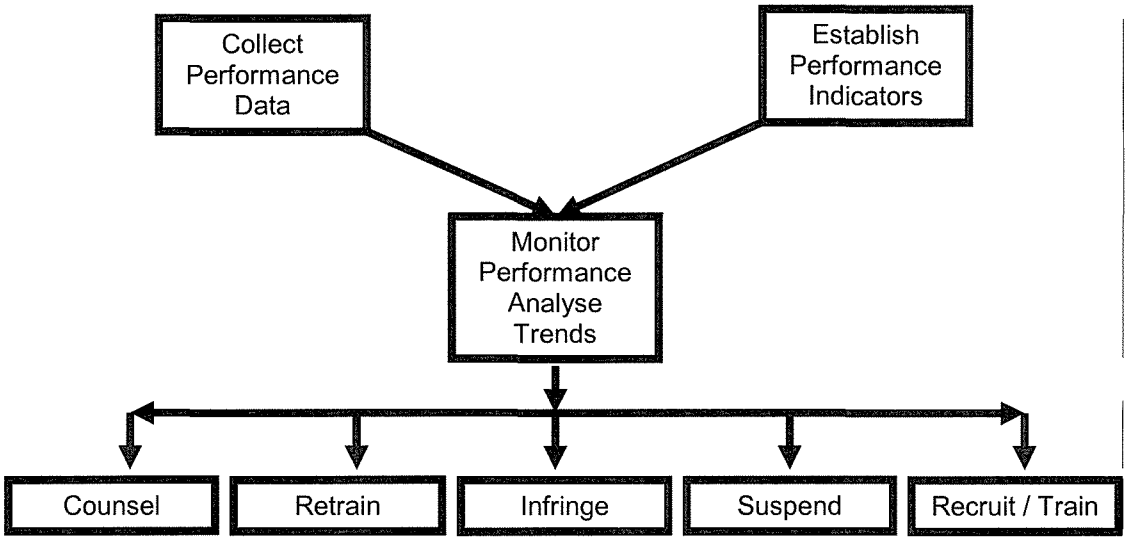
The proposed approach to reviewing the inspection services is to outline the initiatives necessary to deliver the key elements of the model. More specifically recommendations will be made on the required management, training and auditing frameworks and the information systems necessary to support them. Once these key elements of the model are in place decisions can be made on the appropriate channels to best deliver the various segments of the inspection task.

This approach is illustrated by the following diagram.



Management Framework

In order to manage the vehicle inspection function the Department needs to be able to predict the demand for vehicle inspection services and ensure that adequate capacity exists to service the expected demand and ensure that the waiting times for the public remain acceptable. The Department also needs to monitor performance against quality related criteria and take action to address any performance shortfalls. Currently the Department will address poor performance by counselling examiners, undertake retraining, and in extreme cases suspending or cancelling their authority to act on behalf of the Department. If necessary the Department can appoint new staff or authorised agents to keep up with demand. The discussions with other states have also suggested that having the capacity to issue infringements may strengthen the Department's ability to manage poor performance and corruption concerns. The following diagram summarises the key tasks involved in managing the inspection function.



The Department has existing draft performance indicators for the inspection function that tend to focus on internal workload and activity measures (see appendix 3). These performance indicators need to be revamped to more effectively reflect the key performance criteria outlined earlier. This is

probably best achieved by conducting a workshop focussed on identifying the key indicators to be used for each of the criteria discussed earlier

Currently the collection of information on the performance of inspection service providers is managed by a combination of reports from the TRELIS database and manually collected statistics. The implementation of the OAS:IS application will result in improvements to the inspection data recorded within TRELIS which will reduce the dependence on manually collected statistics. OAS:IS will also provide a platform for the reports which will support the analysis of performance and growth trends.

However, to effectively manage the analysis of performance trends, the Department will need to ensure it has the capability to undertake the required monitoring and remedial activities. Currently this function is dispersed within the organisation and some of these functions are being undertaken by the area responsible for auditing the inspection function. Structural consolidation of the management functions is desirable as is the structural separation of the audit and management functions.

The Department currently uses its legislative power to appoint agents. The terms and conditions of the appointment are contained the agreement the AIS stations are required to sign to confirm they are interested in providing services on behalf of the Department. As a result if the Department becomes aware of a performance problem it can counsel examiners or proprietors of AIS stations; can conduct remedial training; or can suspend or cancel an agent's authority to conduct inspections on behalf of the department. In practice this provides limited ability to influence the behaviour of an uncooperative operator because the only real option is to suspend or cancel their authority. In regional areas with limited availability of operators this may create problems for the department and even in the metropolitan area the Department may hesitate to suspend the provider unless the problems are really clear cut because of the risk of bad publicity or complaints to the Minister.

Dealing with performance problems with internal staff can also be problematic. Public service employment conditions make it difficult to manage staff who perform poorly. To address this problem other jurisdictions have moved away from using specialist driver assessment or vehicle examination staff toward multi-skilled or outsourced arrangements because these provide them with the opportunity to pull staff out of problematic public contact roles more easily.

Discussions with other states suggest that the introduction of an infringement system which allows the Department to apply monetary penalties to breaches of the agreement may be a worthwhile option. In particular the experience in Victoria and New South Wales suggests that where a provider has been consistently issuing fraudulent certificates the short term financial benefits from the corrupt practices far outweigh the costs of being suspended. Introducing infringements provides an opportunity to take the financial benefits out of the corrupt behaviour and therefore makes it less attractive.

Introducing infringements for breaches of the agreements would require amendments to regulations and possibly legislation. While it is not essential to pursuing the service delivery options outlined in this paper, better legislation would strengthen the Department's ability to manage providers.

To manage the inspection function the Department also needs to ensure that there is sufficient capacity available to meet future demand for serviced. This may require the recruitment and training of additional providers to ensure that additional capacity is available in time to meet the growing demand for inspection services.

Key Recommendations - Inspection Management

- Hold a workshop to develop suitable performance indicator framework based around the key criteria of quality, accessibility, capacity and cost effectiveness
- Implement OAS:IS application
- Ensure the area managing the inspection function has the capability to collect and analyse the required information and has the capability to initiate suitable remedial action
- Ensure separation between the audit and management functions
- Develop a framework for penalties which can be applied against agents engaging in fraudulent or deceptive conduct.

Selection and Training

In order for an individual or organisation to be authorised to examine vehicles they must be appointed by the Department.

Currently the Department requires all vehicle examiners (both internal and AIS based) to be qualified motor mechanics. Training is completed on the job with initial training followed by a period of supervision by a trained examiner. In contrast, Queensland does not formally undertake any training for basic AIS providers but requires agents to hold relevant trade qualifications and industry licenses; New South Wales requires 8 hours of TAFE training for safety inspectors and three additional days TAFE training for inspectors who deal with new registrations and modified or custom vehicles. Victoria also requires vehicle inspectors to undertake appropriate courses conducted by correspondence using a provider on behalf of Vicroads.

In addition to technical qualifications and training the Department requires criminal checks to be conducted on all potential examiners and also places requirements on the facilities and equipment required for any premises that undertakes inspections. Other States have similar requirements.

There are, however, some issues and inconsistencies in the way the department undertakes the selection of Authorised examiners and sites and trains staff in the inspection process. The criteria and procedures for appointment of AIS sites are not well documented and need to be formalised to ensure that standards are consistently applied. Appendix 4 contains a draft manual for these procedures which will need to be finalised and endorsed so that a standard approach can be applied in the future.

With respect to training staff the Department largely relies on a buddy system approach to the training of vehicle examiners. The Department has a well documented set of technical standards but currently does not have manuals or formal training courses to cover the full spectrum of issues that examiners need to be trained in.

In order to comprehensively train staff to conduct vehicle examinations there are five elements of the task that need to be covered in any training. These are as follows:

1. Rules of conduct. There are a number of rules controlling how an AVE or AIS site must behave which have been designed to ensure good governance and avoid conflicts of interest. These rules are contained in the agreements that the Department signs with AVEs and AIS sotes but are not currently the subject of explicit training.
2. Inspection Process. Under current procedures new AVEs learn about how to conduct an inspection by being shown by an experienced examiner, and being supervised for their first few inspections. This process does not ensure consistency because there may be variations in how people are taught either because of inconsistencies between existing examiners or because they do not encounter the full range of vehicles or issues during this supervision

period. There is a nationally agreed standardised vehicle inspection process which has been adopted by most other States but has not been formally adopted in WA (although WA has agreed in principle to adopt this procedure). It is recommended that this procedure should be documented and AVE's should be formally trained on the procedure in a classroom setting to complement the buddy system currently in use and to ensure consistency.

3. Technical standards for inspections. This is the one area where WA has a comprehensive manual which documents the standards that need to be adhered to when conducting inspections. This manual is issued to all AVEs so that they can refer to it when conducting examinations. While it is not necessary for the AVEs to know all of the content of the manual off by heart, some formal training in how to use the manual would be worthwhile.
4. Data entry and documentation requirements. Currently AVEs use the paper MR1 form to record inspection information which is faxed to Welshpool for data entry. In the future they will be required to enter the majority of data through OAS:IS although some inspection stations and some types of inspections may be required to continue using the paper form. In any event there needs to be both comprehensive training and manuals prepared for both types of data entry. Both the training and the manual should focus on ensuring that the data entered is accurate and complete.
5. Procedures for issuing certificates and for contacting support staff in the case of an incident or message arising from OAS:IS.

All of the above elements need to be reflected in a comprehensive manual supported by a formal training course which should be a prerequisite for becoming an authorised vehicle examiner. This is not intended to replace the on-the-job supervision provided to new examiners by the Department but will help ensure a greater degree of consistency in practices and provide a useful reference. Consideration should be given to the use of specialist trainers to provide the initial training. This has been done successfully in both Victoria and New South Wales and has the advantage of freeing Departmental resources from this task. This would mean that we could accelerate the process of bringing on new AIS sites. A first draft of the manual has been prepared and is contained at appendix 5. This manual does not yet contain the information related to the system documentation for the OAS:IS application. The manual is currently under construction and will be completed prior to OAS:IS going live. Once this final element is complete the complete manual can be finalised and adopted as the basis for consistent training of examiners.

Along with the manual two options for training course outline are included for consideration.

The Department should also adopt the approach used in other states whereby a distinction is made between inspections which are primarily for the purposes of determining roadworthiness of existing licenced vehicles and inspections which are aimed at new registration of vehicles where capturing vehicle details and determining vehicle identity are the primary objectives. There is a fundamental difference in the skills required to undertake these two tasks and the training and authorisations of AIS sites and AVEs should reflect this. It is therefore recommended that a two tiered AIS regime be introduced where sites and examiners are initially authorised to undertake the simpler transactions only and a reduced set of sites is authorised to undertake the more complicated transaction if they can demonstrate the required skills and these sites will receive more intensive training and more stringent monitoring.

Key recommendations – Selection and training

- review/ refine/adopt selection package
- review/ refine/adopt training package
- Conduct workshop to discuss options for use of outsourced training to speed process of recruitment of new AIS sites
- Incorporate AIS materials and inspection manuals into Departmental web site

- Provide hyper-links from OAS:IS to manuals – process for maintenance
- Adopt 2 tiered AIS structure

Auditing Framework

In some ways the vehicle inspection function as a whole is itself an audit tool for the vehicle fleet. The Department uses the inspection function to ensure that:

- It can identify vehicle in the fleet for the purposes of issuing licences and follow up enforcement actions,
- That the characteristics of the vehicles in the fleet are correctly captured so that the appropriate licences and permits can be issued to the vehicle and that the correct fees are charged for these licenses, and
- That the vehicle is compliant with appropriate standards
- That the vehicle is roadworthy and does not present a significant road safety risk.

There are a number of issues surrounding the policy decisions the Department makes on which vehicles should be inspected and which should not. These policy decisions have a bearing on how effective the inspection function is at achieving these objectives. However, for the purpose of this paper the current inspection policy will be accepted as a given and the focus will be on ensuring that the inspections we do conduct are done correctly.

There appears to be a perception amongst Department staff in WA that corrupt behaviour is more prevalent in outsourced arrangements because of the potential profit motive for unscrupulous operators. However, the recent CCC investigation in Western Australia and the Anti-Corruption Branch prosecutions of Transport Department staff in South Australia indicate that these problems also occur for in house inspections. As a result it is important that all transactions are monitored closely regardless of the delivery channel.

The key challenges is to develop a new approach to auditing which is risk based, comprehensive (covers both internal and external services) and focuses on ensuring that departmental systems are operating correctly and that suitable controls are in place to manage risks. Any system which is developed must be able to handle both in house and outsourced inspections and ensure that quality is maintained regardless of the channel used.

Examination of the approaches to auditing used in other states suggest that there are a number of elements of the way that they approach auditing which we can learn from to improve auditing practice in WA.

The current auditing of inspection services in WA focuses on using skilled vehicle examiners to check data submitted by AIS sites. This approach is very labour intensive, does not audit internally conducted inspections and is not the most effective way of targeting the key risks faced by the Department.

In terms of the structure and reporting relations, both NSW and Victoria have more formal audit structures than WA with Victoria being the most sophisticated. In Victoria the audit function does not report through the inspection management function but instead reports up through the Vicroads audit function to the CEO. Any audit findings are reported to the inspection management function for action but the audit strategy is determined by the managers of the audit function rather than by the functional manager. The manager of the audit team is a person with professional auditing expertise and frames an audit strategy using risk based techniques. The Victorian audit team is responsible for auditing vehicles, drivers and other contract for service functions such as licence production, number plates and invoice printing. The broader audit team consists of a number of data analysis specialists and some staff with technical expertise such as vehicle examiners.

To implement this type of approach in WA, the first and probably most important change is to ensure the Audit function is more independent from the inspection function. Comments from Vicroads suggest that avoiding too heavy a reliance on former inspection staff is important to ensure that the most efficient and cost effective result is obtained.

In Western Australia's case the audit function should report to the General Manager Licensing to ensure that there is sufficient separation from the operational side of the business. It would probably also make sense to mimic the approach used by Vicroads and also make the same audit section responsible for auditing driver assessments and key contractual arrangements (Salmat, AB Note etc)

The manager of the function would require formal auditing knowledge and experience. This will require a new job description for the manager of the audit function. There will also need to be a boost in the data analysis capability of the area with some specialist positions created to undertake this role. (a suggested structure and a copy of the Victorian JDF for the manager of the audit function are attached in appendix 6.

The key task of the new manager would be the development of a formal audit methodology to more effectively target the key agency priorities. The focus will be on managing the key risks for the business by ensuring that adequate controls are in place to manage these risks and on using targeted sampling techniques to monitor the effectiveness of the controls. This is a significant departure from the current arrangements which rely on blanket checking of transactions to detect and correct errors. The March 2001 report by Cressida Consulting for the Licensing Business unit entitled *Development of a Framework for Quality Assurance and Auditing of Motor Vehicle Examinations (MVES)* provides a number of suggestions which may assist the new manager in developing the audit methodology.

The revised audit methodologies will be complemented by the OAS:IS application which is due for progressive delivery from late 2010. OAS:IS provides a web based front end which sits over the TRELIS database in the back end and provides simplified inspection data entry and support for enhanced auditing of transactions.

OAS:IS moves away from the current text based data entry approach to a system based simplified approach to entry of vehicle characteristics data and vehicle defect information using pull down menus and standardised data entry. This should simplify the entry of data and reduce data entry time. OAS:IS also shifts the data entry for inspections conducted in AIS sites from the Welshpool AIS section to the vehicle examiners in the AIS sites. This frees department staff from the need to enter the data and allows a greater focus on auditing the inspection system. OAS:IS provides a series of functions to support the audit process. OAS:IS provides an online mechanism for monitoring inspections as they are submitted and allows both the manual selection of a vehicle for audit or the automatic selection of vehicles for audit based on user defined rules which can be rapidly tailored to target any particular categories of vehicles of interest. OAS:IS will also provide improved data to support more sophisticated analysis of the inspection process. OAS:IS is designed to be used by both internal staff and agents and therefore will support the extension of the auditing to both internal and external delivery channels.

To make the best use of the additional features of OAS:IS the Department will require additional data analysis capability to support the development and execution of the audit Strategy. Other States have found that detailed analysis of inspection data and in particular changing patterns of inspections are useful tools for targeting auditing actions.

Ongoing specialist examination experience will still be required to conduct field audits and support activities where specialist knowledge is required. Relieving the existing staff from their data entry duties will allow their specialist skills to be better used.

Discussions with the other States suggest that to make field audits more effective auditors will need better legislative support. In particular we need to ensure that field auditors have adequate powers to enter premises, demand documents, require vehicles to be made available for re-inspection and the power to apply suitable penalties to AIS sites found to be beaching the rules.

Key Recommendations – Audit Framework

- Implementation of OAS:IS Application as a mater of priority
- Create new Organisational Structure for Audit Section
- Engage staff
- Undertake development of Audit Strategy and Audit plan
- Implement required regulatory and/or legislative changes to support the audit function

Service Delivery Options Analysis

From the trend analysis it is clear that the department will need to make plans to expand its capacity to undertake vehicle examinations over the next few years. The Department also has a choice as to how it goes about finding that additional capacity. It could choose to continue using the current approach and provide the majority of services in house or it could choose to increase the number of AIS sites to provide the additional capacity.

If the Department was to try and continue with the in house model, it is highly likely that it would have difficulty providing sufficient capacity internally. While there is some potential to be able to carry out additional inspections at existing sites, additional inspection staff would need to be selected and trained to meet this demand. Finding suitable staff is likely to be difficult as the economy improves because employment rates are already high and the likely impact of the Gorgon and Pluto projects is likely to result in increased demand for skilled tradesmen such as motor mechanics. In fact there is a significant risk that the Department's internal inspection capability may decrease at this time due to a loss of staff to the mining industry.

As a result it is apparent that the Department will need to undertake some additional outsourcing of inspection services to the private sector to deliver sufficient capacity to meet demand.

With respect to the accuracy of the inspections undertaken, the proposed improvements to training and the implementation of the OAS:IS application and the associated audit functionality should result in improvements to the overall accuracy and consistency of inspection results and should make the detection of fraud simpler. The objective in implementing these changes is that they should ensure consistency in standards across sites and delivery channels.

However,iIn order to ensure that adequate quality standards are maintained the Department will need to ensure that OAS:IS support is available for the particular types of inspection services to be outsourced and that the revised management, training, selection and auditing regimes appropriate for the inspections concerned are in place.

When considering the accessibility criteria, the use of additional outsourced arrangements is likely to improve the accessibility for the public in several ways. Additional AIS sites will provide a greater variety of locations that the public can access and provide more flexibility in the times that these inspections can be undertaken. This greater flexibility should also result in lower wait times because the private operators will be able to respond more flexibly to increases in demand. The

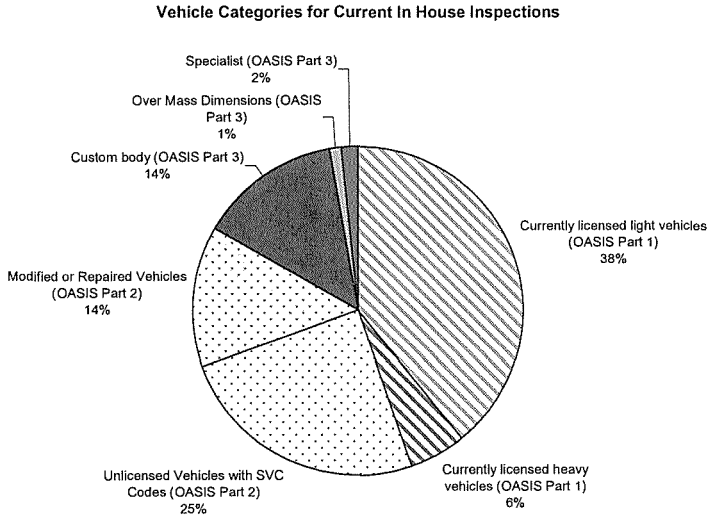
public will also be able to take advantage of waiting rooms, courtesy buses and other arrangements that some private sector organisations provide for customers.

When considering the cost of these proposals there is a complicated interaction between Departmental pricing policies, the costs of the enhanced training and auditing regimes and the degree to which services are outsourced. If the extent of additional outsourced arrangements is matched to the projected increase in demand the outsourced arrangements are likely to be a quite cost effective mechanism of providing the additional capacity. If however the outsourcing arrangements are extended further there is likely to be a loss of revenue to the Department which will need to be considered. In any event it is highly likely that a review of the fees and charges will be required to fund the required changes.

The likely costs and fee impacts of the various options are discussed later in this report.

Risk and Volume Analysis

For the purposes of considering service delivery options, analysis has been undertaken to identify various cohorts of inspection and separate them into groups based on the reasons for the inspection, the complexity of the inspection, the skills required of the staff and the facilities required to undertake the inspection, the current capacity of industry and the degree of risk involved in the inspection. The broad categories are illustrated in this diagram and discussed bellow.



The simplest vehicles and least risky cohort of vehicles inspected are standard passenger vehicles which have already been registered in WA and have not been modified or subject to major accident damage since first being registered. There are an estimated 28,000 vehicles currently inspected by the Department (2008 figures) which fit into this category. The key issue with these vehicles is road worthiness, the Department has already recorded their characteristics and key identifiers and the inspection objective is to ensure that the various systems such as brakes and lights are working correctly. This is very similar to the functions mechanics perform when undertaking normal maintenance and repair functions and qualified mechanics should be capable of undertaking these functions with minimal training. There are already large numbers of suitably qualified mechanics in the community so there is a significant body of people in the community with the required skills to examine these vehicles if a decision was made to outsource them.

Similarly the inspection of already licensed heavy vehicles requiring safety inspections should also be relatively straightforward with the only differences between this and the previous group being the higher complexity of the vehicles and the requirement for relevant experience and facilities to

examine these vehicles. There are an estimated 4,000 vehicles (2008 figures) which fit into this category.

There is a perception among Departmental inspectors that AIS sites would be inclined to turn a blind eye to vehicle defects where the vehicle is owned by an established customer in order to preserve their ongoing business relationship. Allowing AIS to both inspect vehicles and also optionally undertake the work to repair the vehicle (although there should ideally be a separation between the person that undertakes the work and the one who does the inspection) would minimise the incentive for the AIS to turn a blind eye to defects because they would benefit from the repair work. This approach may slightly increase the risk of examiners finding imaginary defects in order to get the repair work but this risk is likely to be managed by the ability of the owner of the vehicle to choose an alternate repairer to fix the defects. The risk of an individual examiner taking bribes to pass defective vehicles is something that can happen for both internal and outsourced vehicles and needs to be managed through the audit process.

OAS:IS Part 1 has been tailored to make the inspection of the above 2 groups of vehicles as simple as possible and to support the auditing of these transactions.

The next simplest and risky cohort of vehicles is standard vehicles (with Standard vehicle Codes(SVC)) which are unmodified and have not been subject to significant accident damage but which have not previously been licensed in WA. This cohort of vehicles makes up about 18,000 of the vehicles currently inspected by the Department. These vehicles have similar requirements to the first categories in terms of skills and facilities and required to undertake the inspections but they have added complexities in that the vehicles identities need to be checked and recorded and the characteristics also need to be recorded. However, the fact that these vehicles are factory standard and have SVC codes recorded in the system mean that the entry of the vehicle's characteristics into the system can be much simpler because the examiner does not need to record all the data separately and can rely on the SVC Codes to ensure that correct data is entered into all of the relevant fields. Examiners undertaking this work will need a slightly higher level of training to ensure that they can handle the additional identity and data collection tasks and may need to be subject to tougher screening and higher audit levels because of the additional risks associated with the potential for laundering stolen vehicles associated with these inspections. However, there should still be a large cohort of potential providers for these inspections.

OAS:IS Part 2 has been designed to optimise the inspection of these types of vehicles and support the required auditing.

The next group of inspections in order of complexity and risk is standard vehicles which have been modified or subject to major accident damage. For these vehicles the provisions of the vehicle modifications regulations and the Written Off Vehicle requirements need to be understood and complied with which requires a significantly greater amount of skill and knowledge on the part of people undertaking the inspections and may involve requirements to obtain modification permits and WOVR reports. There are about 10,000 vehicles per annum which would fit into this group.

The final three groups are significantly more complicated and require significantly higher levels of expertise on the part of examiners. These groups are new inspections for:

- ADR compliant vehicles built with custom bodies (approx 10,000 vehicles);
- overlength and overmass vehicles (approximately 1,000 vehicles); and
- specialist vehicles(approximately 1,200 vehicles)

The first of these groups includes typical heavy and light vehicles where a custom body has been added to a cab chassis base, trailers, caravans and other customised vehicles. To inspect these

vehicles the examiners need additional knowledge to know how to measure and record the dimensions and other vehicle information required to fully describe the vehicle. Examiners also need a higher level of understanding of the Australian design rules to ensure that the vehicle has been built in a compliant manner.

The second group requires similar knowledge and experience but deals with vehicles which must be licenced subject to Main Roads WA route restrictions to ensure that they do not damage the road infrastructure. As a result, licensing these vehicles may require consultation with Main Roads

The final group includes vehicles such as cranes, agricultural equipment, and concrete pumps. These types of vehicles often have unusual characteristics such as non standard axel spacings, attachments and unusual dimensions and are often only used on the road to move between work sites. These vehicles are often conditionally licensed and examiners need a very comprehensive understanding of licensing rules, Australian Design rules and Main Roads requirements.

Under current inspection arrangements AIS sites are used to collect information related to the characteristics of these vehicles on a paper based MR1 form and the review of the paperwork by Departmental staff at Welshpool to ensure that the more complicated issues related to the licensing of these vehicles are addressed correctly. In addition some specialist AIS arrangements are in place for particular categories of vehicles such as caravans or heavy vehicles whereby the AIS station specialises in particular types of vehicles to allow the appropriate skills and knowledge relevant to those vehicles to be developed and maintained this is more common in the first of these groups of vehicles. Because of the complexity involved and the requirements for detailed knowledge of the relevant rules, a large proportion of the more complicated inspections are conducted by the Department rather than by AIS sites and in particular by the Welshpool Licensing Centre.

Because of the complexity involved with these vehicles there have been examples of inconsistent licensing of these vehicles at different sites and between examiners. Part 3 of the OAS:IS application will be developed to streamline the process for inspection and licensing of these types of vehicles and to ensure greater consistency between sites and examiners.

Staging

Given the above analysis it seems sensible that if a decision is made to increase the level of outsourcing, the implementation should be staged to allow risks to be managed. This provides the opportunity for industry to gear up to be able to provide the volume of inspections required and allows the Department to ensure that the enhanced auditing and training arrangements proposed are working effectively on the lower risk examinations before a decision is made to extend the arrangements to the higher risk categories.

The implementation of the OAS:IS application will provide a framework for efficiently auditing transactions. OAS:IS is designed to work for both in house and outsourced inspections and applies the same auditing frameworks for both types of inspections. OAS:IS will also provide online access to the relevant training manuals. The implementation of OAS:IS has already been aligned with the identified risk categories and is designed to allow the lowest risk and highest volume inspections to be dealt within first. OAS:IS would operate happily with the current mix of transactions and would work equally well with other mixes containing greater proportions of outsourced transactions.

However, while any decisions to increases outsourced inspection numbers are essentially policy decisions, it would seem sensible to ensure that the appropriate releases of OAS:IS are in place before the corresponding categories of inspections are outsourced.

A staged implementation also allows for progress to be monitored so if industry is not able to keep up with the demand the pace can be slowed down to ensure adequate supply. It also allows the audit and training approaches to be fine tuned to ensure that the process stays on track. Within each stage it is also not necessary to outsource all of the inspections within the category. If sufficient AIS capacity is not available to undertake all of the transactions a proportion can still be left in house.

Furthermore, in future rather than adopting a "one size fits all" approach, where, once appointed, an AIS site is automatically authorised to conducts all types of inspections from very simple road safety inspection through to complex new registrations on custom vehicles, the Department should (at least within the metropolitan area) operate a tiered system as is used in most other States. Under this approach most AIS sites only authorised to conduct road safety inspections on vehicles which have already been registered in WA and only a subset of AIS sites (the more competent and trustworthy ones) are authorised to undertake the more complex and higher risk inspections.

The recommended staging to minimise risk is, therefore, as follows:

At some time after the completion of Stage 1 of OAS:IS the Department would begin the process of outsourcing the following categories of vehicles:

1. Currently registered or recently registered factory standard light vehicles (still have plates) which have not been modified or subject to major repairs and require a safety related inspection
2. Currently registered or recently registered factory standard heavy vehicles (still have plates) which have not been modified or subject to major repairs and require a safety related inspection

New AIS sites brought on to undertake these inspections should be restricted to examining only these categories of vehicles. If Government decided that it wanted to outsource all of these vehicles it is likely to take time to select and train sufficient AIS sites necessary to handle all of the inspections in these categories. It is also unclear whether there will be sufficient interest by industry to allow all of this category to be outsourced.

At the end of this stage an assessment of its success should be undertaken to identify any required enhancements to the auditing and training regimes and to decide whether to proceed with further outsourcing. At this point the Department would also identify any AIS sites who are suitable to inspect the more complicated categories of vehicles. Then after the implementation of stage 2 of OAS:IS those AIS stations deemed suitable should be authorised to undertake the next category of vehicles as follows:

3. Unregistered standard vehicles which have not been modified or subject to major repairs (SVC Code available) and require a safety related inspection

Those AIS sites which are also qualified to inspect WOVR vehicles or otherwise qualified could also be authorised to undertake the next category of inspections

4. Standard vehicles which have been modified or subject to major repairs and require a safety inspection. (need a system for mod or repair certificates)

At the end of this stage another progress assessment should be made before a decision is made to continue with further outsourcing.

The final categories of vehicles are at significantly higher risk of errors and should only be outsourced if the Department is completely confident that its control mechanisms are working successfully.

OAS:IS Part 3 will significantly reduce the number of new vehicles in the remaining categories which need to be examined by allowing dealers, body builders and manufacturers to self certify new vehicles within these categories. Before it decides to outsource the remaining vehicles the

Department also needs to consider whether the industry is likely to develop sufficient capability to deal with these vehicles or whether the department wants to retain these skills in house to ensure that it has the technical capability to be able to address the policy issues for the more complicated vehicles, However, if a decision is made to proceed further the department could consider outsourcing some or all of the remaining categories of vehicles:

5. Custom body "As of Right" vehicles
6. Over width, Over Mass etc vehicles (MRD Permit types)
7. Specialist vehicles (Special Purpose Vehicles, Agricultural equipment, cranes etc)

Impact of Outsourcing Initiatives on the Share of Inspections Conducted In House

Currently the Department conducts approximately 60% of all inspections in-house and 40% are conducted by AIS sites. If all inspection which could be outsourced under category 1 were to be taken up by AIS sites the percentages would be 37% in house and 63% by AIS sites. If Category 2 inspections were to similarly move to AIS sites the percentages would be 67% and 33% respectively.

Once OAS:IS Release 2 is in place and vehicles in category 3 moved to AIS sites the percentages would be 18% in house and 82% outsourced. Inclusion of category 4 vehicles would change the percentages to 90% outsourced and only 10% in house.

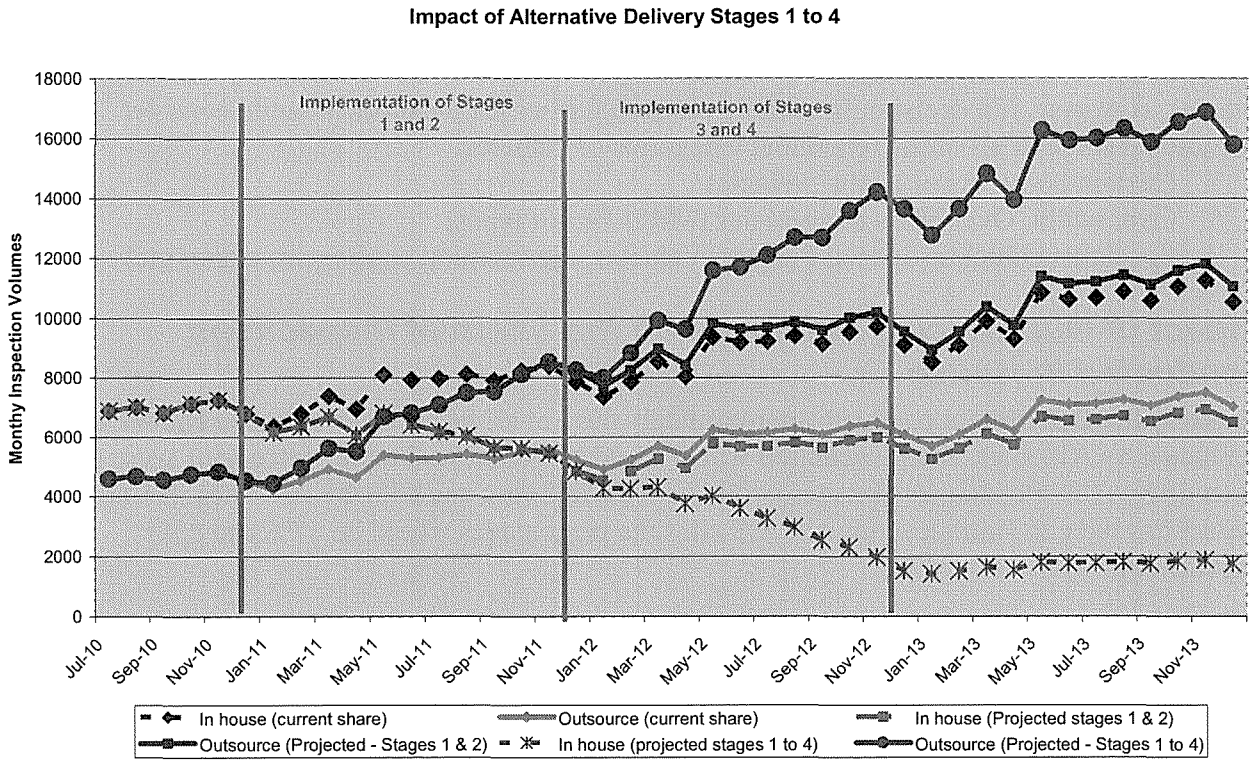
Implementing OAS:IS part 3 would reduce the number of vehicles within the final categories needing inspection. This would then reduce the in house inspection share further. The exact percentages are not able to be determined without further analysis but it is estimated that the percentage of total inspections remaining in house would drop below 5%.

The Department would then be faced with a decision as to whether it should outsource the remaining few thousand inspection or whether it should maintain these in house to ensure the retention of the required skills within the Department.

Timing

Based on current estimates the first release of OAS:IS is likely to be progressively implemented in the 2010 and 2011 calendar years. Once the software has been finalised the internal staff and AIS staff that will use the software need to be trained and the software rolled out into production. In addition any new examiners working in the AIS sites will need to be trained. It is likely that this will take approximately 6 months to do. Once established a new AIS sites will take some time to builds up its patronage. Experience with existing metropolitan AIS sites suggests that this will take up to 12 months. As a result, the most optimistic date for the full outsourcing of vehicles in categories 1 and 2 is the end of 2011. In practice it may take up to another 6 months to achieve this level of outsourcing. For similar reasons the complete outsourcing of category 3 and 4 vehicles would be unlikely to be possible before the beginning of 2012 at the earliest.

In order to allow time for the appropriate reviews and fine tuning of audit methodologies and training plans and to provide some margin for implementation problems it is probably more realistic to assume the beginning of 2013 as the earliest date that the Department could get to the point where 90% of its inspections were outsourced. The following graph represents an indicative estimate of the likely best case progress if the options outlined were pursued.



Impact on staffing

Anecdotal evidence suggests that effective auditing of outsourced arrangements takes about half the effort that conducting the inspections in house uses. It may be that, over time, the Department could improve its audit methodologies to reduce the time taken but for the purposes of an initial estimate this figure will be used.

It is also worth noting that any significant increase in the degree of outsourcing will create a short term demand for additional staff to conduct training.

Based on the growth rates and transaction percentages outlined above, we would expect that the by the end of 2011 inspection volumes will have grown to about 168,000 per annum and that the approximately 112,000 outsourced and 56,000 in house. This represents an increase in outsourced inspections of around 50,000 and a decrease of 38,000 in-house inspections. If we take into account that auditing inspections currently uses about half the resources that conducting the inspections does, the net impact on the workforce would be about 2 FTEs worth of reduced work. (9 less examiners required but 7 more auditors needed). However when the amount of work required to select and train the additional examiners is taken into account it is unlikely that any significant staff reductions would occur over this period. In addition, it would be unwise for the Department to reduce the number of assessors it employs until it is confidant that the outsourced providers are likely to be viable in the longer term.

If after reviewing the first stage a decision is made to push all new registrations and modified and repaired vehicles out to AIS sites by the beginning of 2013, the likely volume of inspections will be approximately 192,000 of which up to 173,000 would be outsourced and 19,000 still conducted in house. Based on existing audit practices this would have a net impact of about 10 staff, (27 more auditors needed but 37 less vehicle examiners required). However by this stage the proportion of examinations running through OAS:IS will allow the audit approach to be streamlined which may result in a significant reduction in the number of staff to required to audit this number of inspections. Until the new Audit regime is fully operational it will be difficult to know exactly what impact the additional outsourcing would have on staff numbers. In addition as noted earlier the

Department needs to be confident in the capacity of the private sector providers to deliver the required level of service on a sustainable basis before it would be able to reduce its internal staff numbers.

It is very important that a comprehensive human resource strategy is developed to manage the impacts on staff. In the sort term this strategy will need to focus on managing the retraining of examination staff to allow them to undertake the training and auditing of the new AVEs engaged by the new AIS sites and the associated changes to organisational structure. In the longer term, the strategy will need to deal with the reduced requirements for vehicle examination staff and the issues surrounding training the affected staff or managing their redundancies. The HR strategy cannot be finalised until the structure of the auditing section is confirmed and the future auditing strategy has been agreed. The detail of the strategy will also depend of the final rate at which the new arrangements are taken up.

Revenue Impacts 2010-11

One of the difficulties faced by the Licensing Business unit in outsourcing vehicle inspection is that under the current model the inspection fees for AIS inspections are retained by the providers and as a result the Department looses the corresponding amount of revenue. The current fees and charges are set up to not only cover the operating costs of the inspection service itself but also make a contribution to the operating costs of the broader licensing business and the corporate overheads for the Department of Transport. As a result there is a net loss of revenue for the Department as inspections are shifted from in house to AIS sites. This is a particular issue because the Departments costs are relatively inflexible in the short term.

Fees and Charges for the 2010-2011 financial year are effectively already set and would be difficult to change these fees at this late stage. Therefore, the Department will have very little capacity to generate any additional inspection revenue in the 2010-2011 financial year to cover any revenue loss or other costs associated with implementing alternative service delivery options.

However, it is unlikely that the OAS:IS application will be rolled out fast enough for the Department to begin the roll out of significant numbers of additional inspection services until the beginning of 2011 If this is the case the loss in reenue will be relatively small. From the analysis outlined earlier If OASIS part 1 was fully operational by the end of 2010, the net full year impact of the implementation of the first two stages would only be 12,000 inspections (50,000 – 38,000). However, given that this is unlikely to be achieved before the end of 2011 due to the progressive roll out and the time lag between AIS stations opening and achieving full volumes the impact in the 2010-2011 financial year is only likely to be approximately 25% of this amount which equates to 3000 inspections. This is likely to equate to somewhere between $250,000 and $350,000 in lost revenue over the full financial year depending on the exact mix of heavy and light vehicles. If the roll out of OAS:IS is delayed the corresponding financial impact reduced.

Longer term Funding and Budget Impact

The current costing model and the associated fees and charges are a significant barrier to wholesale outsourcing of the vehicle inspection function. Under the current funding arrangements the Department regulates inspection fees but allows AIS sites to retain the scheduled fees for inspections they conduct on behalf of the Department and the Department only retains the inspection fee for inspections conducted in house.

From a theoretical perspective the Department can justifiably set fees and charges for vehicle examinations at anything between the marginal cost of the examination and the full cost of providing the examination function as a stand alone service. In practice the Department has

produced a costing model which allocates corporate overheads on the basis of staff numbers and because the vehicle inspection function is relatively labour intensive, a significant proportion of the inspection fees is used to recover corporate overheads for the Department. Furthermore when the adjustments are made within the model to allow for the retention of fees by the outsourced providers the remaining in house inspections are left with an even higher proportion of the corporate overheads

As a result any move to conduct inspections using alternative providers reduces revenue by far more than the marginal cost of the services provided resulting in a net financial cost to the Department. This approach also means that the Department may be setting fees at a level that is higher than the providers would charge in a competitive market. If the AIS providers have lower cost structures than the Department it is likely that they are likely to be making windfall profits from the regulated fees in competitive environments like the Perth metropolitan area. However, in smaller country centres there is a risk that, in the absence of a regulated fee, providers might charge higher fees reflecting the lack of competition from alternative providers. \

Broadly speaking the strategy for the fees and charges should be to

- Establish a new fee which is applied as a surcharge on all inspections and which is designed to recover the long run cost of operating the audit function
- Department customers would be charged the fee regardless of whether they used Department or AIS sites.
- This new fee should be recovered from AIS sites at the end of the month based on the number of inspections they have processed. These fees should be direct debited from the AIS sites nominated bank account. This process should be able to be facilitated using OAS:IS/ TRELIS.
- Implementing this approach will require consultation with the AIS providers, and may require adjustment to the standard fee charged by AIS.
- Start up charges such as the cost of selection and training of new entrants should be recovered from new AIS applicants directly and ongoing costs such as top up training should be recovered from annual fees for the scheme.
- Corporate and other overhead costs which were previously allocated on the basis of staff numbers should be re-allocated to the recording fee

It may not be possible (or justified) to move directly to this model. There may be a need to develop an interim pricing submission for the 2011/12 financial year to address the expected shortfall in that year with an interim pricing scheme with a view to move to the final arrangements in 2012/13. The Fees and charges issues are discussed further in Appendix 7

Summary of Suggested Approach

The first priority should be to complete the development of the OAS:IS application to provide enhanced controls and auditing capability.

- Licensing should expect to maintain existing vehicle examiner numbers until at least the end of 2011 to provide adequate resources for upgraded training and auditing functions and managing the roll out of additional AIS stations.
- Licensing should review the draft inspection manual and training course outline and once finalised adopt this as the basis for the training of new vehicle inspection staff and outsourced providers. Consideration should be given to using training specialists to deliver the formal content part of the course under a contract for service arrangement. Supplementary "in situ" training should continue to be provided in house.
- Licensing should review the revised AIS appointment documentation provided and adopt this as the process for new appointment of AIS sites
- Licensing should create a new Licensing Auditing section
    - This section should be headed up by a person with specialist audit expertise and supported by specialist data analysis staff.
    - The head of the Auditing Section should report to the General Manager and should conduct Audits in accordance with a risk management based auditing strategy which has been endorsed by the Licensing Leadership team and the General Manager.
    - The first priority of these staff should be to develop the audit strategy for the vehicle examination function and a corresponding implementation plan. The strategy and plan should ideally be approved prior to the completion of the rollout of OAS:IS part 1.
    - Current AIS operations should continue as they are until the roll out of OAS:IS part 1 to AIS sites is complete.
    - At this point the existing AIS functions should be separated into a training role, a data entry role and an audit specialist function.
    - The Audit specialists should then report to the head of the Licensing Auditing section.
    - With the role-out of OAS:IS parts 2 and 3 the data entry role would diminish significantly but there may need to shift additional staff into the audit function
- No significant extension to the outsourcing arrangements should occur until OAS:IS Part 1 is in place and has been adequately tested within the existing Licensing sites. This is likely to be early 2011.
- In future, Licensing should use a tiered AIS arrangement similar to that used in other states, where AIS sites are initially only authorised to undertake safety inspections on unmodified registered vehicles. Once they have demonstrated adequate performance and received additional training selected inspection stations could then be authorised to inspect more complicated inspections such as new registrations, inspections of modified vehicles or WOVR inspections.
- In order to provide adequate capacity to meet the demand for vehicle inspections Licensing should consider moving all inspections on unmodified standard vehicles which are already licensed vehicles to AIS sites. This is likely to increase the share of inspection undertaken by AIS sites from the current 40% to just above 60%. This is likely to take most of 2011 to implement and will require the current staffing level to be maintained to allow for the selection training and auditing of the new AIS stations. This initiative is likely to result in a loss of revenue of between $250,000 and $300,000 in 2010/11 and no significant cost reductions. It should however avoid the need for recruitment of additional staff and upgrades to facilities which might otherwise be required to meet demand for inspection services in house.

- At the completion of this phase the Department should conduct a review to identify any problems encountered in outsourcing these inspections and to identify any changes to systems or auditing practices which are required to ensure adequate inspection quality is maintained.
- At this point an assessment will need to be made on how many of the AIS sites are suitable to be authorised to examine the more complicated categories of inspections. This will allow an assessment of the capacity of the industry to cope with additional outsourcing.
- Licensing will then need to decide whether to proceed with further outsourcing of the inspection function and the pace at which the remaining inspections should be released to the private sector if it does go ahead. If a decision is made to go ahead, there will be significant impacts on inspection revenue and staff requirements. The Department will need to develop scenario based human resource, accommodation and funding plans to cope with the possible outcomes of whatever decision is made.
- At this stage it is considered that it would be unwise to move custom bodied vehicles, over dimensional vehicles or specialist vehicles to AIS providers due to concerns over the capability of industry to adequately inspect these vehicles. Any moves to outsource these vehicles should be deferred until the outsourcing of other categories of vehicles is bedded down.
- As a result it is suggested that the scenarios considered should be:
    - the outsourcing of categories 1 and 2 vehicles to AIS providers by the end of 2011 and the retention of the remaining inspections in house (40% in house)

  Provided this proceeds successfully
    - The progressive outsourcing of category 1-4 vehicles to AIS providers by the end of 2012 and the retention of the remaining inspections in house (10% in house)
- Licensing needs to put together a revised set of fees and charges for the 2011-12 financial year which will allow the Department to recover the net revenue loss through the outsourcing of vehicle inspections. The revenue loss in 2011-12 should be the same regardless of which scenario comes to pass. Similarly the Department will need to prepare a fee submission for 2012-13 for the second scenario in case this is needed.
- Broadly speaking the strategy for the fees and charges should be to
    - establish a new fee which is applied as a surcharge on all inspections and which is designed to recover the long run cost of operating the audit function. (if the fee is incorporated into the agreement with the AIS it may not require legislative
    - This new fee should be recovered from AIS stations at the end of the month based on the number of inspections they have processed. These fees should be direct debited from the AIS sites nominated bank account. This process should be able to be facilitated using OAS:IS.
    - Implementing this approach will require consultation with the AIS providers, and may require adjustment to the standard fee charged by AIS.
    - Start up charges such as the cost of selection and training of new entrants should be recovered from new AIS applicants directly and ongoing costs such as top up training should be recovered from annual fees for the scheme.
    - Corporate and other overhead costs which were previously allocated on the basis of staff numbers should be re-allocated to the recording fee
- With respect to human resources there is likely to be limited impact on Department staff out to the end of 2011, but beyond this tame there is likely to be a significant reduction in the staff required to conduct inspections but there may be a smaller increase in the required audit staff. In 2012 and 2013 the level of impact will depend on whether categories 3 and 4 are outsourced or not. If they are not the impacts will not be very large and can probably be managed through natural attrition. However, if they are outsourced the Department will need need to decide how best to address the resulting problem of excess staff.

- With respect to accommodation the outsourcing of categories 1 and 2 is unlikely to allow significant rationalisation of Department inspection sites but the implementation of 3 and 4 could allow the rationalisation of sites to progress saving costs.

Appendix 1 Summary of WA Legislation

Appendix 2 Summary of Inspection Arrangements in the Eastern States

Appendix 3 Existing Performance Indicators

Appendix 4 AIS selection Manual

Appendix 5 Technical Manual

Appendix 6 JDFS

Appendix 7 Fees and Charges