

NSW Local Government Operational and Management Effectiveness Report – FY13

Oberon Council

**PwC and Local
Government
Professionals
Australia, NSW**

11 November 2014



pwc



Foreword



Stuart Shinfield
Partner
PwC Analytics

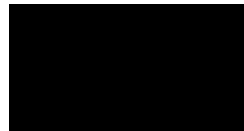
It is my pleasure to introduce the PwC and Local Government Professionals Australia, NSW Local Government Operational and Management Effectiveness Insights Survey for councils in NSW.

This study has analysed an unprecedented range of data from councils across NSW, representing the diversity in size, locality and maturity of local government in the state. We are very thankful to the council staff who have worked hard over the last several months to carefully compile and submit detailed data for their councils to enable this study to be delivered.

Government and media regularly create data sets that seek to benchmark council performance. In collaboration with LG Professionals, NSW we set out to develop a study that was quite different: rather than measuring the results of outcomes, and focusing on measures that were perceived to be directly valuable to citizens, we developed a study that aims to provide insight to local government professionals. We have focused on issues that we believe can enable more effective management of these complex and critical organisations – looking inside the workforce and operations of councils to provide meaningful information and insight. We have incorporated the results of other PwC research into this project, to add local and international experience and perspectives from across different sectors.

The timing of the release of this report coincides with the NSW Government's 'Fit for the Future' program. This program makes it clear that the next few years will be a period of major change for councils in NSW, and we trust that this study provides valuable input into the important deliberations many councils in NSW will face in upcoming months.

We trust that the survey analysis presented in this document will provide valuable insights into your current performance, and also help you to understand the implications, and identify opportunities for improvement in your organisation. We hope these insights give you and your council a broader understanding of the context within which you operate and enable you to build a compelling business case for change.



Annalisa Haskell
CEO
LG Professionals
Australia, NSW

This is possibly the first benchmark study with a self-determined design that focuses on the actual performance of local government in NSW. The survey represents the culmination of two years of work that has been truly collaborative. It has only been with the tireless voluntary effort from many of our members and local government professionals committed to supporting the real progress of the industry, that we have been able to deliver a sector-led result through a process of collective learning and information sharing.

Our goal at LG Professionals, NSW is to provide leading and practical support for all councils no matter how big or small, and there is no doubt that we could not have delivered this result without the goodwill and support of the sector's professionals and PwC. The idea was that by working together we could provide a holistic solution that had at its core a high-quality approach to delivering contemporary, data-driven insight about how we perform as a sector in the important areas of people and operations.

We believe that as business managers, you have the important task of providing a high level of strategic insight to an industry that can be impacted by strong and sometimes uncontrollable external influences and opinions.

We are pleased to provide a wide contextual picture as well as the perspective of individual councils on performance, taking into account the uniqueness of council operations. The aim of this survey was always to help councils refine and enhance their strategies and decision making with a focus on measuring and reporting relevant business areas.

We are proud that we can support the sector to work together in a new way for the benefit of all, and wish to take this opportunity to thank all the participating councils that have worked with us and are ready to take this significant step forward together.



NSW local government highlights

Gen Y staff turnover

Over 50% of the workforce are baby boomers and approaching retirement age. As Gen Y staff enter the Local Government workforce, they often don't stay. It is concerning that Gen Y has the highest turnover rate of any generation, at 23%.



Gender diversity

While 40% of the surveyed workforce is female, when it comes to women progressing into senior management roles, only 10% of General Managers and 22% of Directors are female.

Role of the CFO

Only 43% of CFOs or senior finance professionals work closely with the General Manager and senior executive team to define the business strategy.



63%

43%

IT strategy

Only 43% of councils have a formal IT strategy, but 63% say they have plans to revise or develop an IT strategy.

Outsourcing and shared services

The top three areas being outsourced or shared during the 2012–13 financial year are legal (94%), IT hosting and support of systems (61%) and procurement (50%).





NSW local government highlights

82%

Risk policy

82% of councils have an approved risk management policy in place.

Audit and Risk Committee
76% of councils have an Audit and Risk Committee and 65% outsource or co-deliver internal audit.



145 Min

Council meetings

The median council meeting length was 145 minutes, and the median number of resolutions passed was 27.

Corporate KPIs

32% of councils did not have corporate KPIs in place in the 2012–13 financial year.



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Methodology

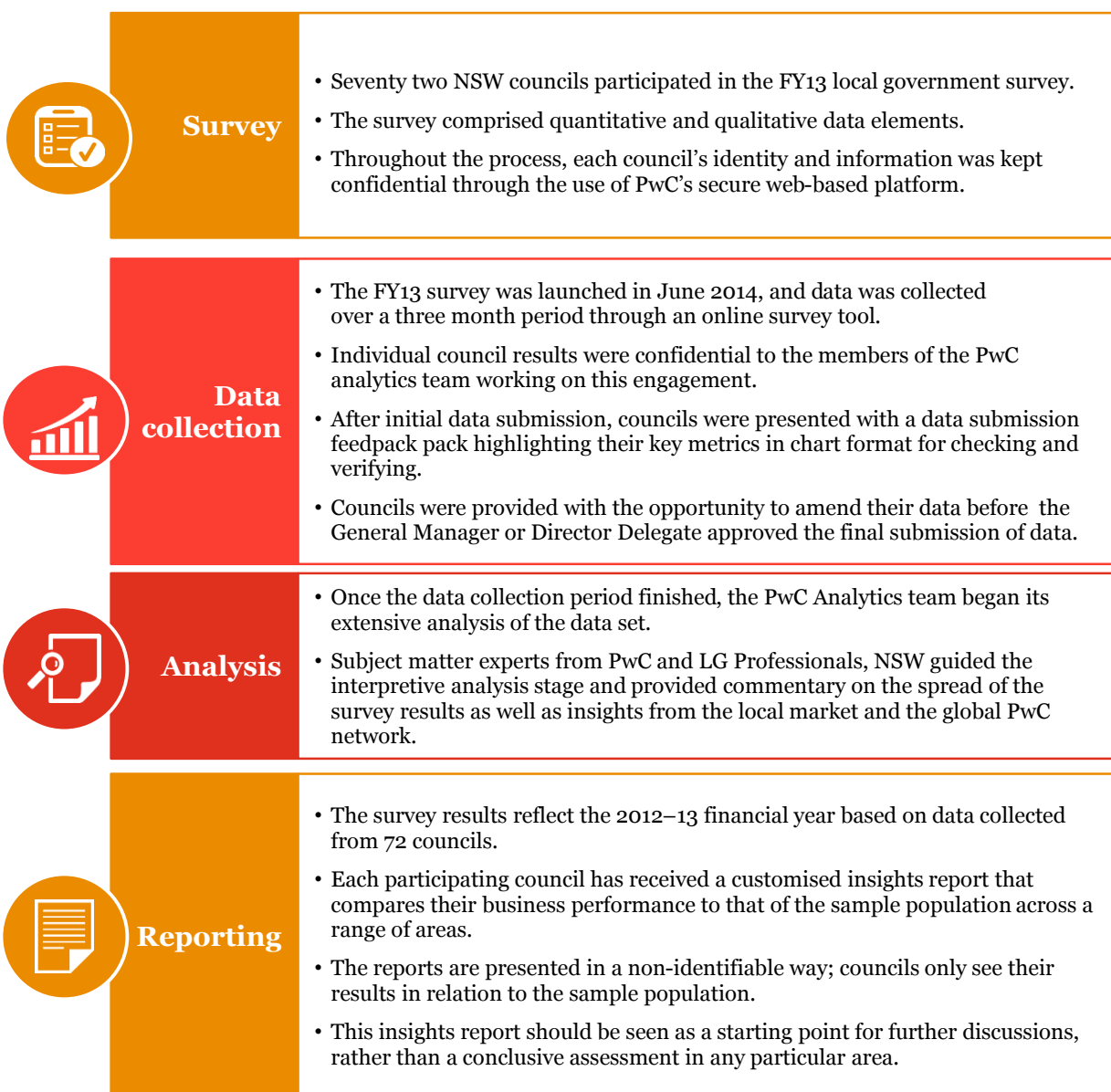
PwC and LG Professionals, NSW are pleased to release the NSW Local Government Operational and Management Effectiveness Report. The results of the survey predominantly focus on the 2012–13 financial year. This report is the first of three annual reports in a three-year research plan, with participating councils completing annual surveys and receiving findings and meaningful comparisons focusing on operational and management excellence.

In 2013, we launched a pilot survey to test a small subset of datapoints. PwC audit clients from within the NSW local government sector, along with a small group of other councils, were invited to participate. Once the pilot was shown to be a success, the final survey was refined by a local government technical working group.

In providing the current benchmarking insights, PwC is drawing on its extensive experience in both local government and in the development, delivery and analysis of a variety of business process surveys across multiple industries.

Below is the process we undertook to produce this customised insights report for each participating council.

How the report was produced:



Disclaimer:

PwC has not verified, validated or audited the data used to prepare this insights report. PwC makes no representations or warranties with respect to the adequacy of the information, and disclaims all liability for loss of any kind suffered by any party as a result of the use of this insights report.

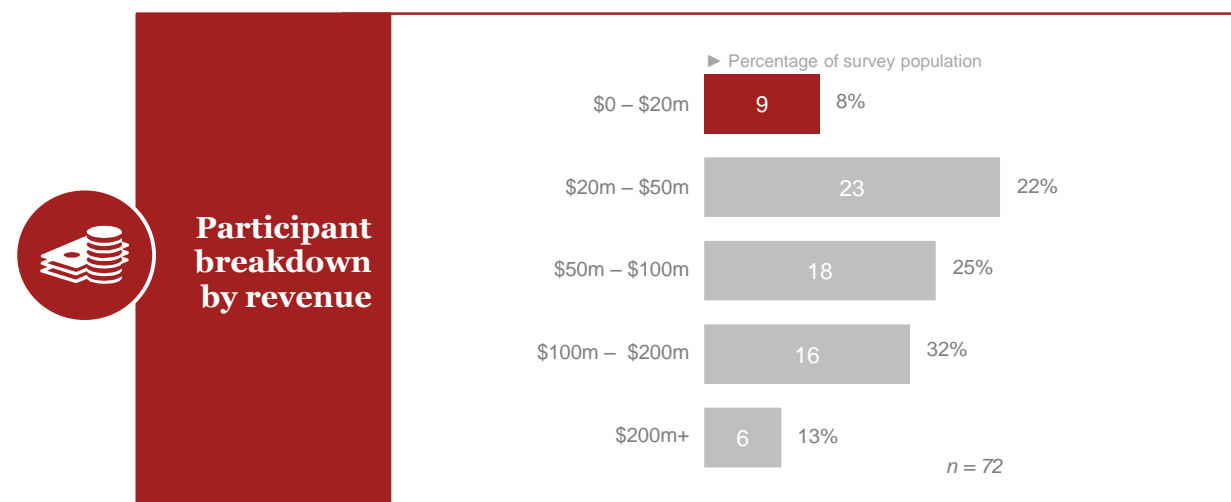
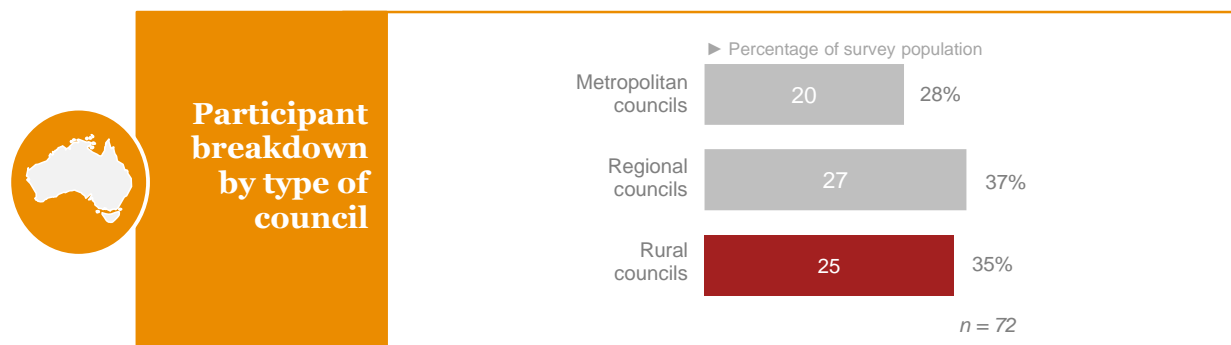
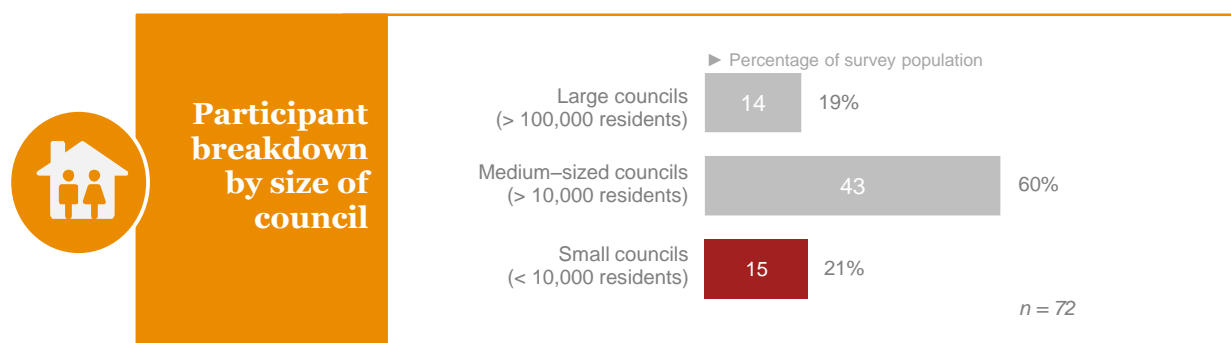
Survey Population

This insights report contains data from 72 NSW councils. The average annual revenue of participating councils was \$80.9 million. The average number of FTE employees across the councils was 345.2.

Throughout this report, participating councils have been identified by size of resident population and type of council.

To group councils by size, we used the Australian Bureau of Statistics 2012 estimated resident population. Large councils have more than 100,000 residents, medium –sized councils range from 10,000 to 99,999 residents and small councils have fewer than 10,000 residents.

We used the Office of Local Government comparative information NSW Local Government 2011-2012 - time series data report to group councils into metropolitan, regional and rural classifications. We merged metropolitan and metropolitan fringe and renamed it metropolitan. We also merged large rural and rural and renamed it rural.



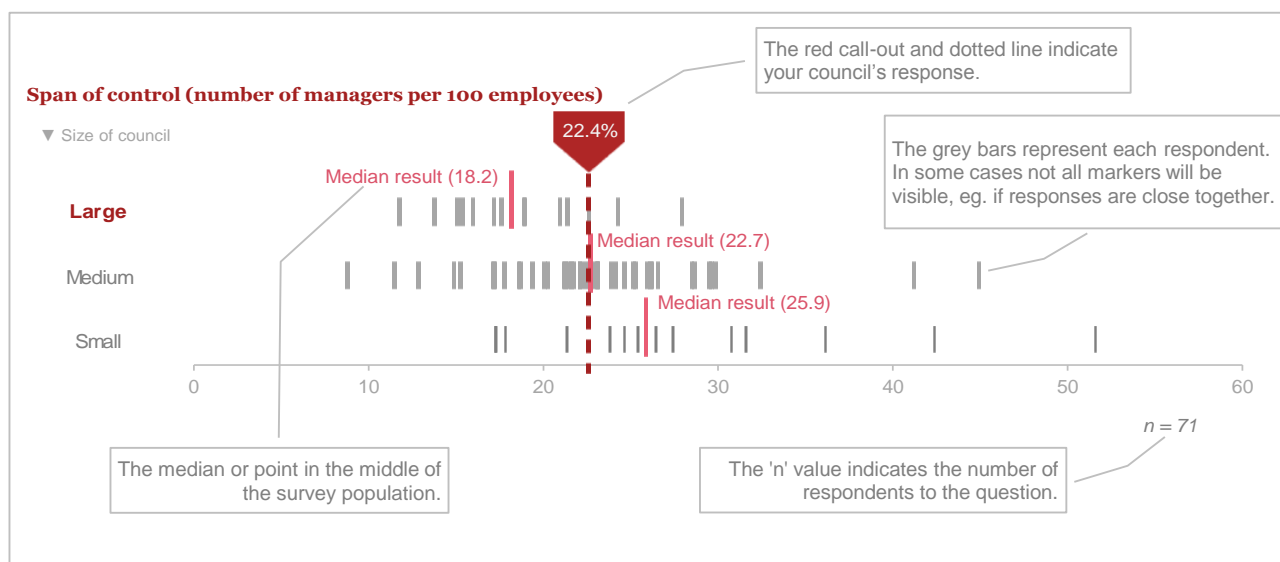
Understanding this Report

PwC and LG Professionals, NSW's Operational and Management Effectiveness Report FY13 is customised for individual survey participants. All charts within the report represent the individual council's results relative to the sample population that responded to that particular question.

The commentary provided in the report has been prepared for the overall study and while it does not change for each council, it should provide relevant information to help you understand the context of your council's result.

To assist you in reading and interpreting the results of this survey, for each response to a question, your council's input is displayed in **red (indicated by the legend)**. If no input was recorded, this red indicator will be missing from the charts and the result for the overall population will be displayed.

A distribution chart features in sections of the report. This chart conveys a great deal of information, as explained below:



Before reading this report, it is important to note that it is not an in-depth customised analysis or review of each council's business operations. Instead, it reflects the results from the survey questions for your council in relation to the total sample.

The benefits of participating in this type of survey should allow councils to:

- evaluate their own practices to understand current operational and management performance
- identify areas of focus when striving to optimise operational excellence
- understand how Australian businesses — and in some cases international businesses and Australian Federal Agencies — perform in the areas of workforce, operations and finance using results from similar surveys conducted by PwC in Australia and globally.

The survey provides insights into the following areas:



Workforce



Oberon Council's workforce profile at a glance

5,214 population in 2012



Rural council



How have your headcount and employee costs changed from FY12 to FY13?

1.2%

Decline in headcount



4.1%

Growth in employee costs



Who has joined and who has left your council during FY13?

9% Staff turnover rate



6 New starters



7 Leavers



New starters

Leavers

<18 20 22 24 26 28 30 32 34 36 38 40 42 44 46 48 50 52 54 56 58 60 62 64 66 68 >70

Gen Y

Gen X

Baby boomers

Does your council have a gender-diverse workforce?

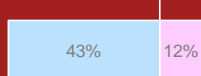
32% of your employee headcount is female



17% of your employees at manager level and above are female



Baby boomers
1943–1966



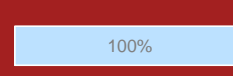
Generation X
1967–1980



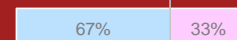
Generation Y and beyond
Post 1980



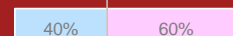
General Manager and Director



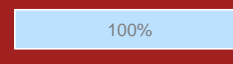
Manager



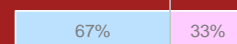
Team Leader



Supervisor



Other staff



Male Female

Workforce structure and cost impact

Remuneration

Remuneration – comprising employee pay and benefits – is a dominant cost across many service-based organisations, including local government. This is confirmed by our ‘Share of Total Expenses’ measure which shows that, as an overall median, council employee remuneration comprised 37% of total expenses from continuing operations during the 2012–13 financial year. While this median percentage is higher for metropolitan councils (41%), it is invariably a significant controllable cost for all councils and illustrates how important it is to effectively manage staff resourcing decisions.

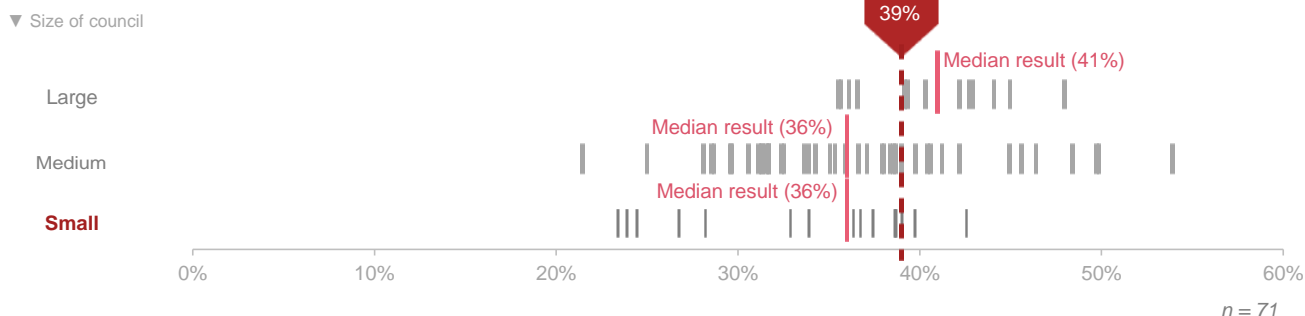
Overtime

Overtime expenditure is another important indicator of efficient resourcing. The median council spend on overtime to permanent and fixed-term contract employees, as a proportion of total salaries and wages, was 4% during the 2012–13 financial year. What does that equate to in dollars? Large councils’ median overtime spend was \$1.1 million, medium-sized councils \$660,000 and small councils \$205,000. We encourage all councils to review their overtime spend in detail – such as by business unit, staff level and time of year – to identify and address trends and patterns. Overtime can be an efficient way to have experienced resources on hand when you need them, but if not managed carefully, it can easily become a drain on council funds.

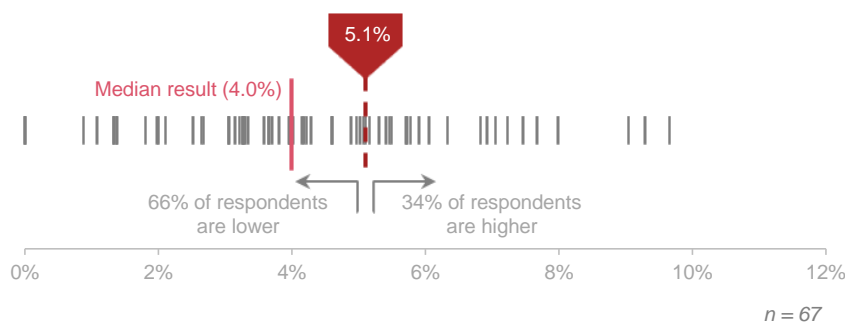
Agency staff

An additional workforce-related cost is the use of agency staff. Our NSW local government survey shows that the median spend on agency staff in the 2012–13 financial year was 1.7% of total employee cost. Large councils’ median agency staff spend was \$1.55 million, medium-sized councils \$414,000 and small councils \$2,400. It is important that councils have clear policies and procedures for using agency staff and that these costs are reviewed monthly by senior management.

Remuneration as a percentage of total expenses from continuing operations

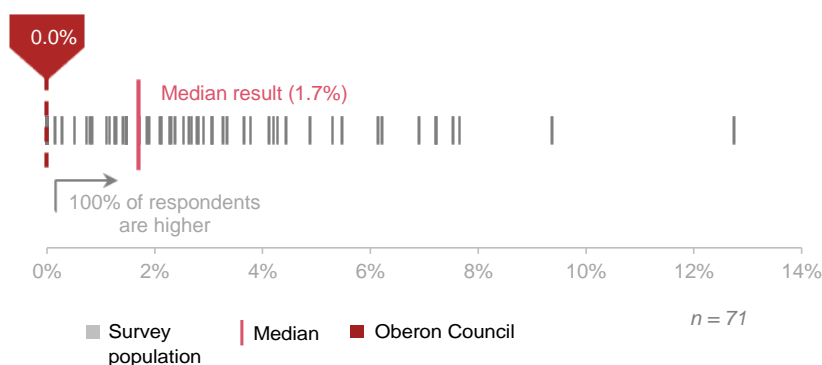


Paid overtime as a percentage of total salary and wages



**Your FY13
overtime
spend was
\$254k**

Agency staff spend as a percentage of total spend on employees and agency staff



Key considerations

- Do you have the right balance of talent investment and cost management?
- Do you use workforce analytics to manage a workforce profile that is both productive and sustainable?

Organisational design

Span of control

The NSW local government sector has a relatively high proportion of employees with managerial responsibility, with our survey revealing an overall median of 22.2 managers for every 100 employees. By comparison, global PwC data¹ suggests that even in the most specialised technical industries a result of 16.7 managers for every 100 employees is achievable.

Large councils reported a result closer to this benchmark, with 18.2 managers for every 100 employees. However, there are much narrower spans of control (more managers per 100 employees) in medium-sized councils, with 22.7 managers per 100 employees. This trend continues, with small councils reporting a result of 25.9.

Within the corporate service areas, our survey shows that finance, HR and IT functions operate with a higher number of managers than customer service. While this seems logical, given the higher degree of work complexity in these three areas, each council should ensure its layers of management in corporate services divisions match the needs of the council.

The optimal size of an organisation's management depends on a number of variables. These include managers' capabilities, geographic location, and the diversity and complexity of work. However, there has been a recent trend to broader spans of control to reduce costs, speed up decision making, increase flexibility, support staff development and enhance responsiveness to market changes.

Councils should question whether their current workforce structure is ideal for their operations, and consider whether there are too many layers of management within their workforce. One of the challenges facing local government is the diverse range of specific functions councils must perform. There may be a tendency for councils to only consider technical specialists for management roles within specific functional areas. Yet employees with strong leadership and management abilities can effectively lead teams across different functional areas – is this opportunity being realised in your council?

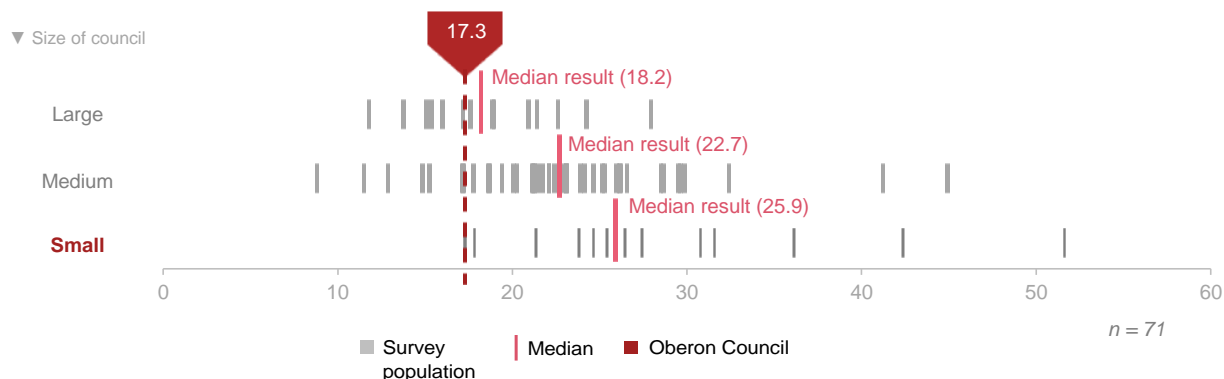
Key considerations

- Are there significant variations in 'span of control' metrics, organisation layers and workforce grades across your council's business units?
- What is the right organisation design for your current and future business model, and how does this translate to an optimal span of control?
- Do you have the right balance of strong, competent management roles that can operate at a high capacity?

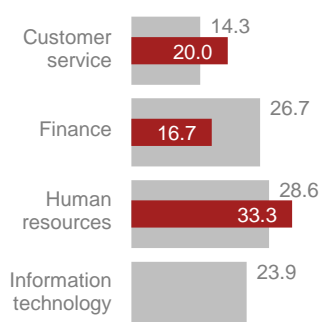
Definition

Span of control: Number of managers (defined as supervisor level and above) per 100 employees.

Span of control (number of managers per 100 employees)



Span of control by corporate service areas



n = 69

¹PwC Saratoga – PwC's global HR benchmark database 2013

Don't fall short on new talent

Rookie ratio

Our survey reveals that the proportion of employees who are new to councils (and potentially also new to local government) was relatively low, at 19%. By comparison, the PwC Australia 2013 Benchmarking Insights Report² showed that Australian businesses' median 'rookie ratio' was significantly higher, at 38%.

There appear to be significant differences between the rookie ratio for staff who manage compared to staff who do not manage. For management, the rookie ratio is just 12% of council employees at supervisor level or above, compared to 21% of other staff. A reasonable level of management stability is desirable to retain organisational knowledge and relevant experience. However, injecting new talent into management can help identify new ways of working, drive innovation, and incorporate new capabilities that may help deliver future resourcing strategies.

Key considerations

- Does your council's brand bring the right talent through the door?
- Are you developing the talent of your current workforce and assessing new ways to attract and retain key staff?
- Are you refreshing your management layer with a good balance of existing and new managers?

Definition

Rookie ratio: Proportion of employees who started work in the last two years (1 July 2011 – 30 June 2013).

Within the corporate services areas, human resources has the highest level of new employees, with a rookie ratio of 25%. Incorporating new talent into human resources may be advantageous, given the need for focused workforce strategies in the local government sector. Examples of these programs include diversity, succession planning, talent, and leave management, reward and recognition.

Improved talent management requires a workforce strategy that demonstrates the strength of the employer brand, alongside effective performance management and reward. This is an important area of focus for the local government sector as it competes with corporate Australia for skilled and talented employees, especially at management level.

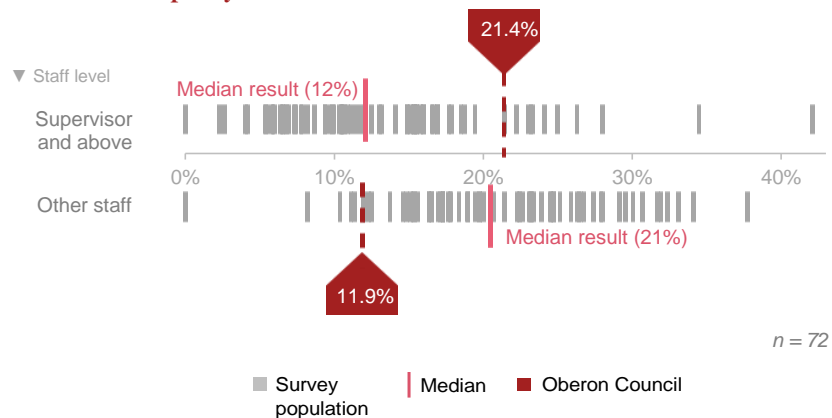
Those councils that maintain and attract the right employee capabilities into the right roles will have a clear competitive advantage over others.



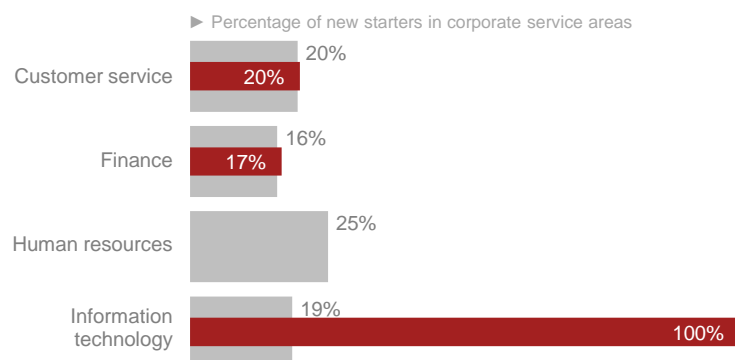
The overall survey population rookie ratio is

19%

Rookie ratio split by staff level



Corporate service rookie ratio



²PwC Australia, 2013, Benchmarking Insights Report, 'How do you know if you lead or follow?'

Are you striking the right balance between retaining and refreshing your people?

Staff turnover

Our survey reveals a median local government staff turnover rate of 11% over the 2012–13 financial year. This result is significantly lower than the median result of 20% based on our survey of corporate Australia in 2013.³ This means that costs such as recruitment and training are likely to be well contained for many councils. However, councils with a turnover rate below the median local government result should consider whether they are offering enough opportunities to promote key internal talent and attract new employees.

A moderate level of staff turnover can help prevent employee stagnation. It can also reduce staff costs in cases where long-term employees attain seniority benefits that exceed the level required to perform the role.

We investigated council turnover in more depth and discovered that one in five terminations related to employees with less than one year of service. It is important to recognise that this may indicate a variance in councils' external and internal employer brands – what is promised compared to a council's actual culture or job role. Creating a clear and compelling employment proposition is an important factor in retaining key talent, but intangibles such as a strong employee culture and leadership are required to make a lasting difference.

In summary, councils should be exploring their turnover rate with a focus on the rate at which employees leave during their first year of service. Equally important is a review of your current induction program, integrating new starters quickly, assigning a 'buddy' and holding regular 'check in' sessions with their manager are imperative. In addition, conducting formal, structured and independent exit interviews can, in some cases, shed light on why particular staff, gender groups or generations are leaving your council.

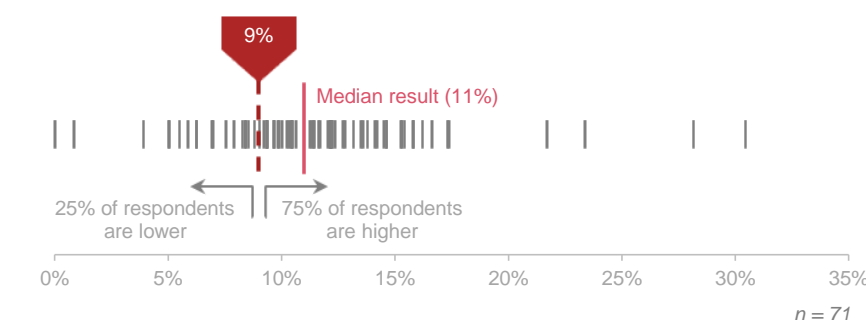
Key considerations

- Have you consulted with your employees on whether your internal brand is aligned with your external employer brand?
- When did you last review your induction program and assess whether it is meeting the needs of new starters?
- Which groups of employees have lower levels of engagement?
- Do you conduct exit interviews to better understand why your staff are leaving?

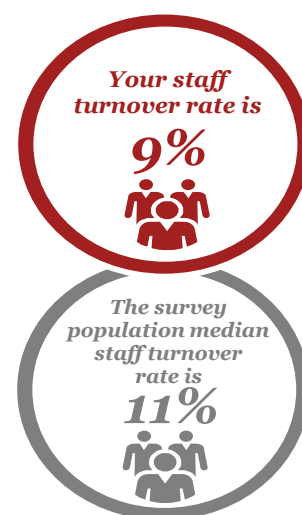
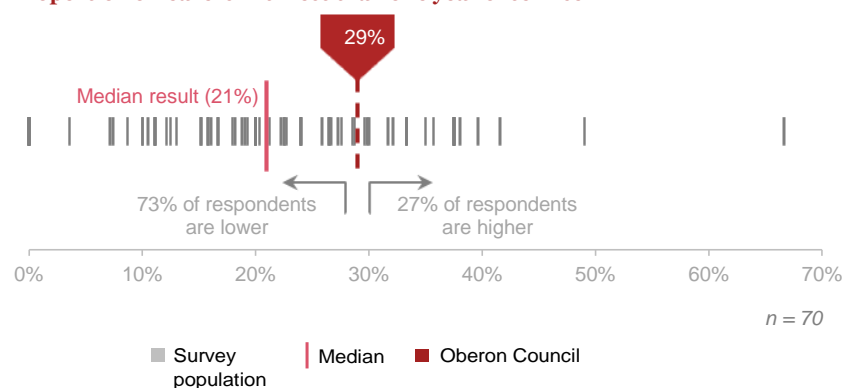
Definition

Turnover rate: Total leavers divided by opening headcount.

Staff turnover rate



Proportion of leavers with less than one year of service



³PwC Australia, 2013, Benchmarking Insights Report, 'How do you know if you lead or follow?'

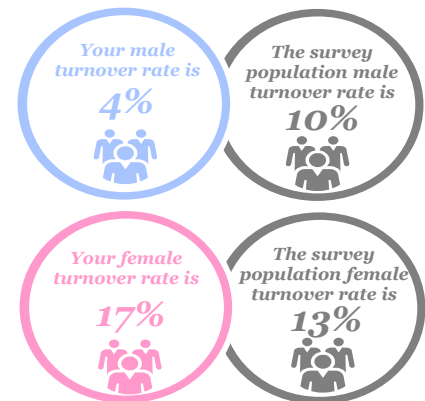
Who is leaving your council?

Staff turnover in detail

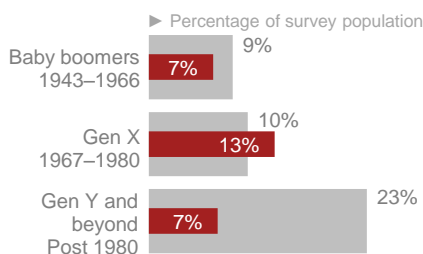
For councils to better understand the type of employees leaving their council, we have included below a breakdown of leavers as a proportion of opening headcount by generation, tenure, gender, staff level and corporate service area.

Our survey results show that the churn in Gen Y is significantly higher compared to Gen X and baby boomers. During the 2012–13 financial year, councils lost 23% of Gen Y employees compared to only 10% of Gen X and 9% of baby boomers. This shows that Gen Y are nearly two-and-a-half times more likely to leave a council.

This links to the much higher churn rate among staff with less than five years experience, indicating the difficulty councils may have in retaining employees new to their organisation. Both these insights give rise to concern when you consider that more than half of the existing workforce is made up of baby boomers who are approaching retirement age.

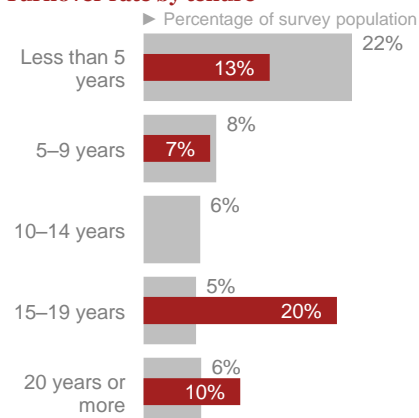


Turnover rate by generation



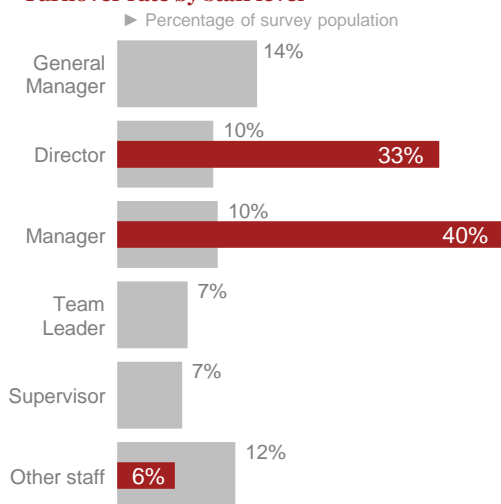
n = 70

Turnover rate by tenure



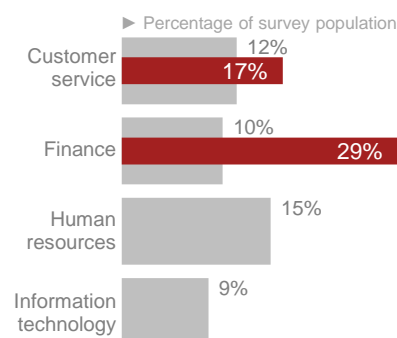
n = 70

Turnover rate by staff level



n = 65

Turnover rate by corporate service area



n = 60

■ Survey population
■ Oberon Council

Why you need a recruitment strategy

Recruitment

A clearly defined and communicated recruitment strategy is vital to help ensure your organisation attracts the best talent. This strategy should incorporate workforce planning – particularly for the future talent requirements that will enable your council to deliver your community's strategic objectives. Equally important is building an overall employment brand by showcasing the benefits of working for your council.

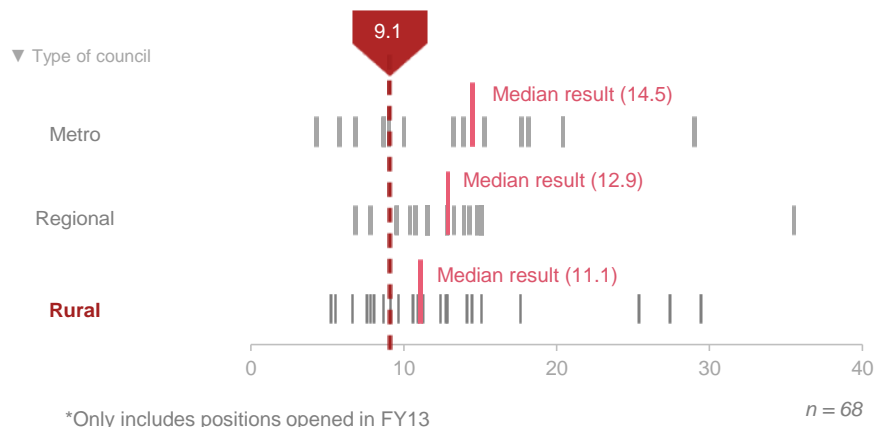
We examined how long it took for councils to fill open positions between 1 July 2012 and 30 June 2013 and discovered that rural councils take the least amount of time with a median of 11.1 weeks, while metro councils take a median of 14.5 weeks to fill positions. This suggests that attracting the right talent into the sector is challenging. This in turn places pressure on existing resources and can add to the cost base if the council uses agency staff.

During the 2012–13 financial year, open positions were more likely to be filled externally in all staff levels apart from supervisor level. This indicates a lack of succession planning, and our survey results support this, with only 14% of councils reporting they have a succession planning program. When looking at gender diversity as part of the recruitment strategy, our survey reveals that metro councils have a higher percentage of female new starters at 51%, followed by regional with 45% and rural with 43%.

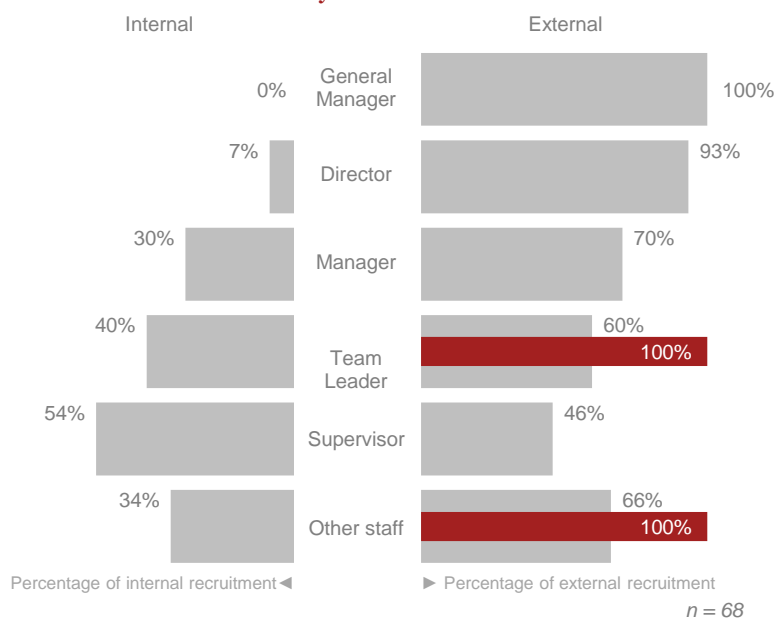
Key considerations

- Do you have an up-to-date recruitment strategy outlining your organisational approach to finding and recruiting new staff members?
- Do you know the most successful method for recruiting staff in your region?
- Do you have an employer brand to present to prospective employees?
- How will you measure your results and know whether your recruitment strategy is working?

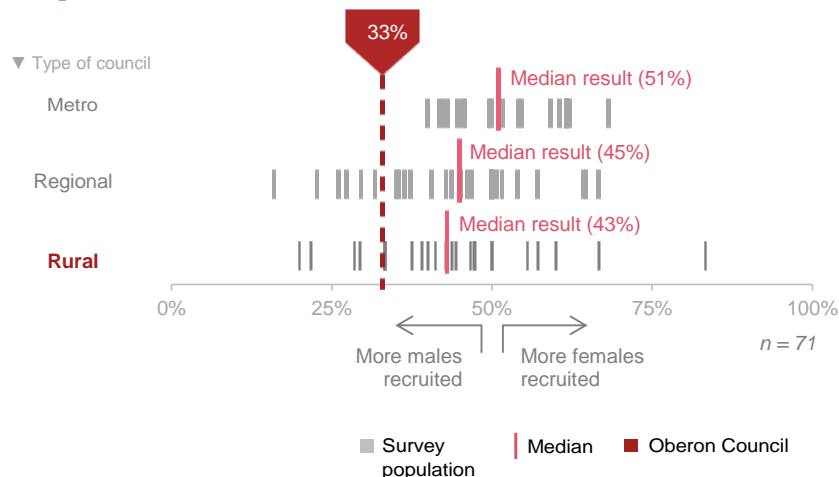
Elapsed weeks to fill open positions at 30 June 2013*



Internal and external recruitment by staff level



Proportion of new starters that were female



Gender diversity: a critical need for change

Gender diversity

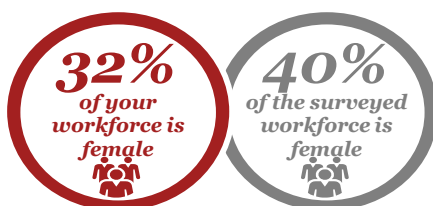
Organisations that actively promote and engage in gender diversity are generally better placed to attract and retain key talent, enhance their employer brand and improve their overall performance. The local government sector is an inclusive workplace for females – the overall rate of female participation in our survey is 40%. However, our results reinforce the idea that the NSW local government sector faces significant challenges in gender diversity when it comes to females progressing into management roles.

Our survey shows that women comprise 22% of NSW local government directors and only 10% of general managers. The imbalance is also present at the manager level, with females comprising only 33% of managers. Getting to management is a major milestone in most career paths and it appears that this is not happening for females in local government to the same level as males.

The gender divide within corporate service areas shows that customer service, HR and finance all have significantly more females than males; however, IT is imbalanced the other way, with 62% males.

New data collected by the Workplace Gender Equality Agency, from Australian companies that form the S&P/ASX 100, shows that females make up on average 33.7% of all managers but the glass ceiling becomes very tough to breach for women seeking promotion from senior management levels to the C-suite, where only 14% are female.⁴

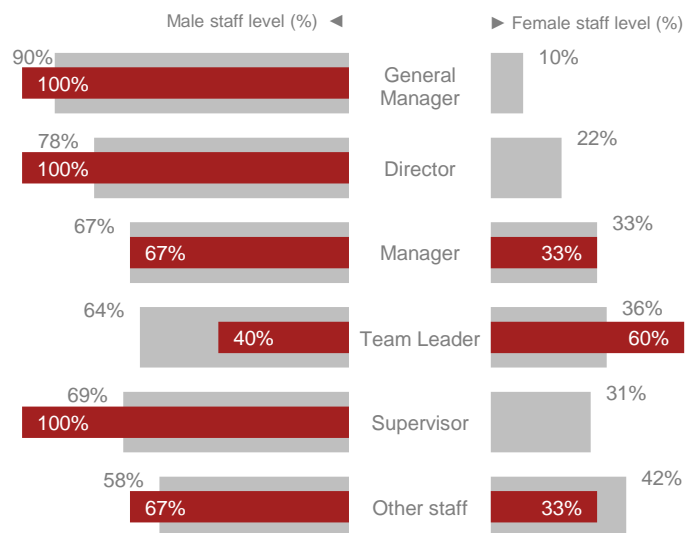
We encourage councils to recognise the potential female pipeline for management roles and senior management positions, and to assess their gender diversity results objectively. This is the first step for councils in understanding whether their workplace offers equal opportunities for women to progress and grow their careers in management and leadership.



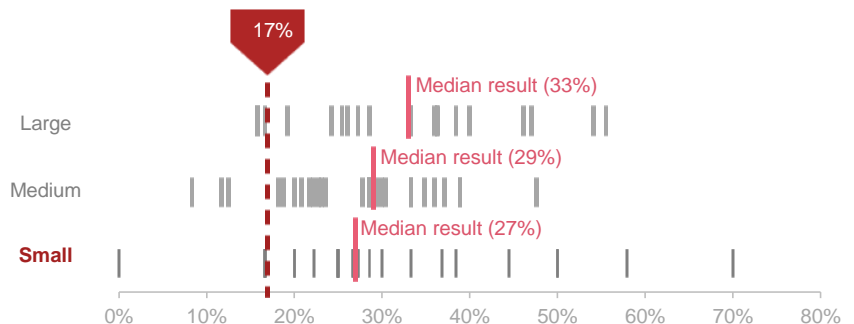
Key considerations

- What is your council's strategy for improving diversity, and is your senior management team accountable for this?
- Does talent measurement include a focus on gender diversity?
- Are you encouraging equality in prospective candidate selection? Are you promoting fairly based on merit? Or, are you losing female talent and, if so, why?

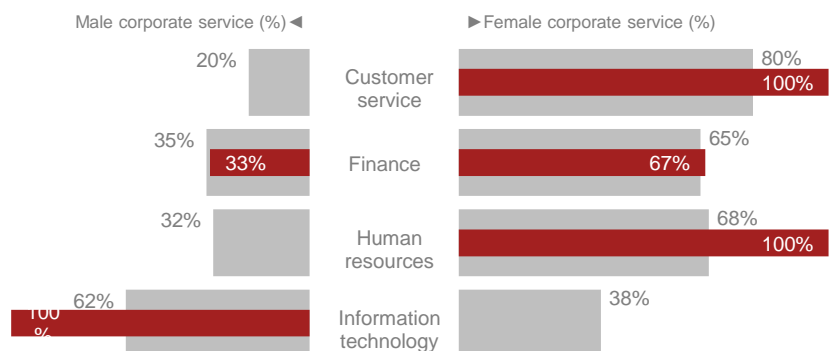
Staff-level gender split at 30 June 2013



Proportion of females at manager level or above



Corporate service area gender diversity



n = 60

⁴ The Australian Financial Review, 10 October 2014, 'New data shows location of glass ceiling'

Removing the glass ceiling

Promotions

Australia is undertaking a major workforce reform in the participation of female workers across sectors and seniority levels, and this change takes time. We collected data on promotion rates, based on promotions achieved during the 2012–13 financial year, to measure the promotion equality for female staff across seniority levels.

Our results show that change is happening in the local government sector. While only 22% of current directors are women, the proportion of women being promoted to this position is more promising at 40%. Equally positive is the fact that women comprise 54% of promotions to manager, suggesting there is a stronger pipeline of women for the more senior roles in years to come.

The reality is that most organisations struggle to achieve the benchmark of women comprising 50% of promotions at senior levels, because women represent much less than 50% of the staff eligible for promotion from the middle ranks. Because of this disparity, it can be difficult to understand if promotion equality even exists – is there an even chance of being promoted whether you are male or female? The results of this promotion equality analysis are presented in the chart opposite, with the 45° line representing equal promotion rates for males and females. The results are stark, and reveal those councils that are actively focusing on the progression of female workers in their organisations.

Some specialist technical areas within local government, such as engineering, planning and finance, are highly valued in senior management and have traditionally been male-dominated fields. Councils should review the cross-disciplinary diversity of their leadership teams to provide strong representation of females while these traditional barriers continue to break down. There may be opportunities to expand the decision-making diversity of councils by expanding the leadership team beyond the 'direct reports' to the General Manager.

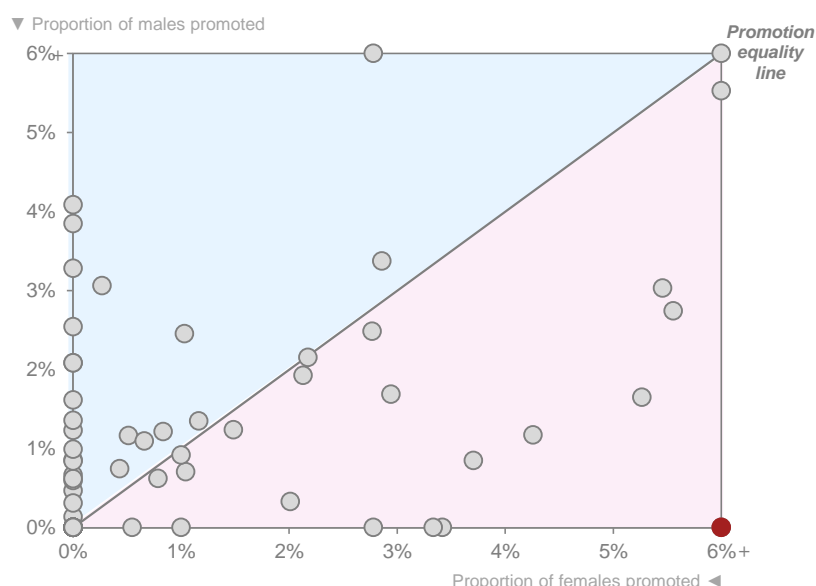
New diversity policies generally need to be in place for an extended period of time before they can have an impact on employee resourcing and promotion decisions. To deliver a sustainable outcome, diversity strategies should be broad and focus on key career catalysts including initial employment, middle-management progression, and senior management and executive appointments.

The issues being experienced in local government are not unique. The 2012 Australian Census of Women in Leadership shows that only 9.2% of executives in the ASX 500 are female.⁵ The report identified a number of barriers to equal opportunity for women, including workplace culture, lack of female leaders and gender stereotypes.

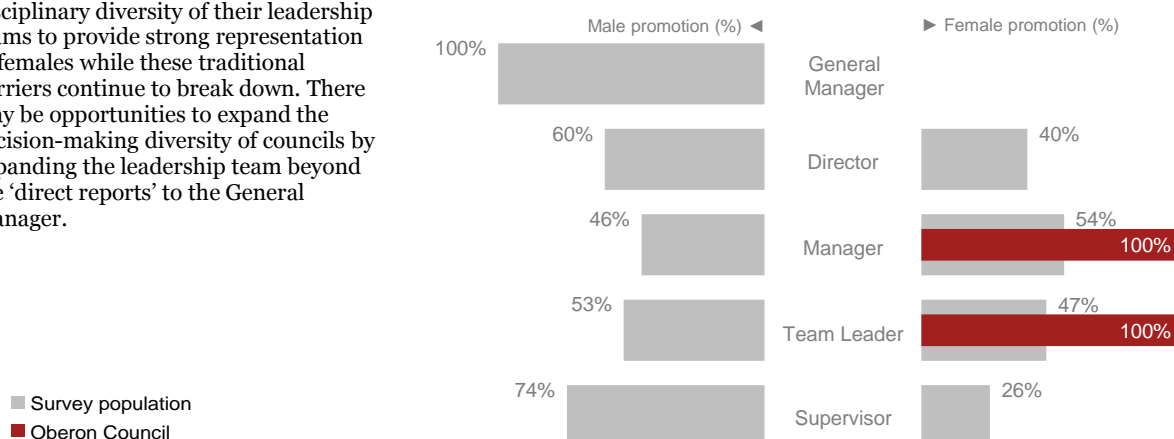
The report also discussed the issues of unconscious bias and how to raise awareness of this issue. As a starting point, we recommend reviewing recruitment and promotion processes with a focus on gender diversity. It is well known that career acceleration often coincides with the time of having children, and it is critical to ensure that the workplace offers flexibility to retain these skilled people through this period of transition.

A leadership team that is openly committed to and accountable for implementing effective diversity strategies is more likely to have employees talk favourably about their organisation. This in turn enhances the value of the council's brand and gives it a competitive advantage when attracting the best talent.

Likelihood of promotion by gender



Promotion gender split by staff level



n = 71

⁵ Committee for Economic Development of Australia (CEDA), June 2013, 'Women in Leadership: Understanding the Gender Gap'

Case study: Leichhardt Municipal Council

Gender diversity

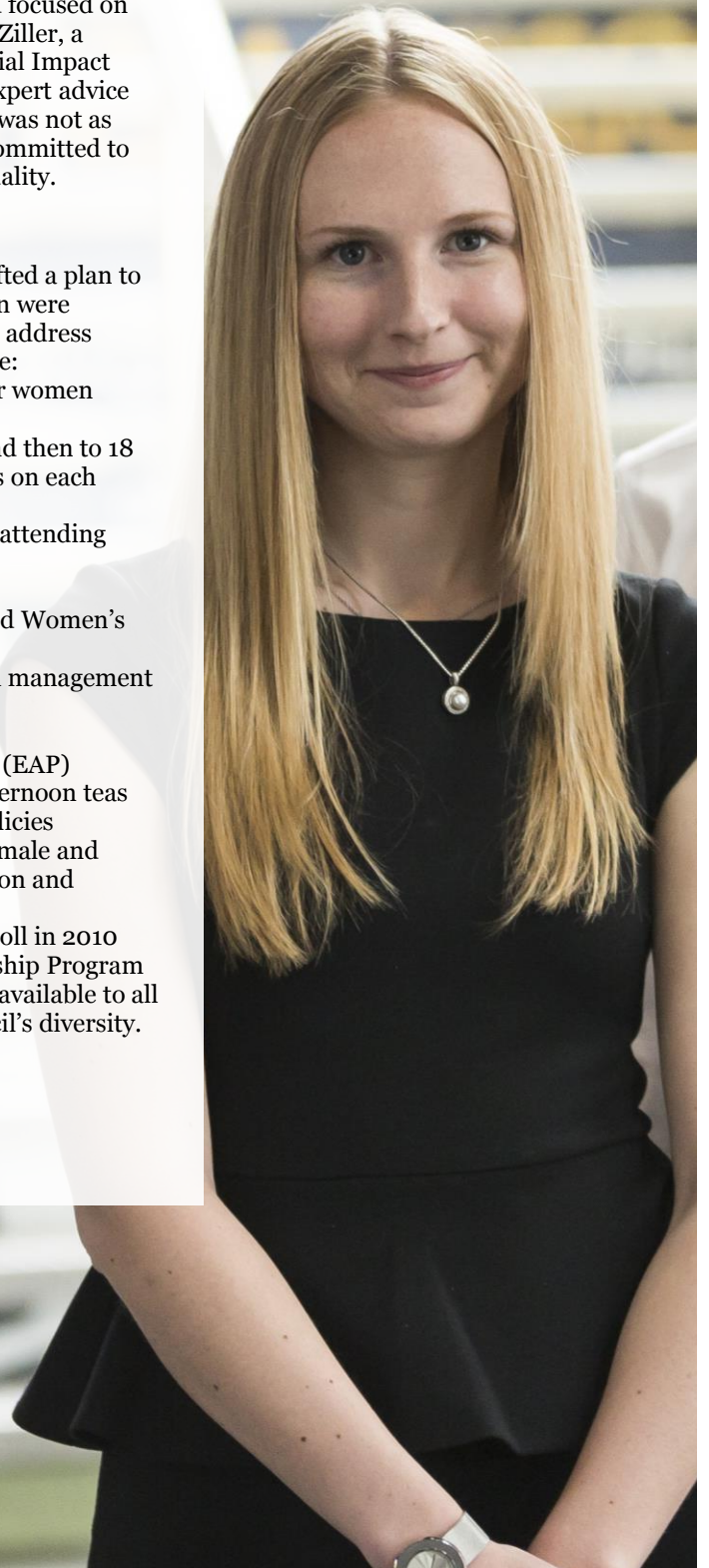
When did Leichhardt Municipal Council (Leichhardt) realise that there was a need for change?

Until 1995, diversity hadn't been a concern for the senior leadership team at Leichhardt Municipal Council (Leichhardt). However, an offsite conference dedicated to equal employment opportunities (EEO) changed this dramatically. The event included the council's entire management team and focused on critically analysing its diversity program. Dr Alison Ziller, a consultant who lectures on Social Planning and Social Impact Assessment at the University of Sydney, provided expert advice on the matter. The key finding was that Leichhardt was not as diverse and tolerant as it could be. As a result, we committed to achieving better outcomes in both diversity and equality.

What approach did Leichhardt take?

Following the conference, council management drafted a plan to increase diversity. The decisions outlined in the plan were supported by statistical data. Initiatives designed to address gender diversity at Leichhardt over the years include:

- creating an EEO budget for affirmative action for women
- celebrating International Women's Day
- increasing maternity leave from 8 to 12 weeks and then to 18 weeks (Leichhardt was the first council to do this on each occasion)
- providing childcare to support councillors while attending meetings and conferences
- holding regular EEO training and education
- taking part in the state government's Springboard Women's Development Program
- encouraging industry or wider networks through management development programs
- conducting regular employee surveys
- implementing an Employee Assistance Program (EAP)
- attending conferences, networks lunches and afternoon teas
- having designated recruitment processes and policies
- ensuring the council's leadership team has both male and female members to balance its gender composition and provide role models
- starting an International Women's Day honour roll in 2010
- implementing the Women in Leichhardt Leadership Program (WILL), a year-long skill-development program available to all employees that increases awareness of the council's diversity. Currently there are 15 participants.





What results did the change achieve?

A generational change in the EEO culture at Leichhardt Municipal Council has led to a significantly more diverse workforce. As a result of this transition, we achieved Bronze accreditation at the 50/50 Vision Gender Equity Awards in 2010, and are aiming for Silver accreditation in 2014.

What challenges did Leichhardt face and how were they overcome?

As can be expected with large-scale cultural shifts, there was some initial resistance within the organisation. To overcome this, all decisions made as part of the plan to increase diversity were backed up by evidence drawn from council workforce data. Furthermore, every two to three years, our council employees are required to attend an EEO training session that includes coaching on recruitment and selection techniques. This is vital to reinforce diversity across the council and provide the opportunity for new starters to access the training.

It has been challenging to identify and retain female role models at our council. To help address this, Leichhardt always has male and female representation in the senior leadership team. In addition, dedicated development opportunities and mentoring programs are provided to retain high-performing women.

How does Leichhardt continue to measure progress on diversity?

We take a multifaceted approach to achieving gender diversity. Qualitative data from exit interviews and general employee observations is used to identify any areas of concern, while quantitative data from employee surveys and recruitment records is used to support ongoing progress reviews.

What recommendations would Leichhardt give councils looking to pursue a similar program?

It is vital that any diversity program is linked to key business outcomes and has the full support of an organisation's management and leadership teams, particularly the General Manager. Our General Manager has been particularly supportive and taken a direct role in developing and promoting the recent initiative of the Women's Leadership Program in Leichhardt Council. This not only underscores the importance of diversity, but also helps to ensure that sufficient funds are budgeted for EEO directives. Councils pursuing EEO outcomes also benefit from defined policies, procedures and processes, as well as repeated appropriate training and education for all staff, including management.

Don't leave succession planning too late

Generational diversity

Creating an inclusive culture that encourages workforce diversity can assist in the generation of a better range of ideas and the implementation of improved local government social policy. A diverse workforce is more likely to reflect broader community views and will assist the council to better understand the community's needs and deliver better outcomes.

Our survey results show that council employees over 50 years of age represent 37% of the workforce, compared to the Australian labour force average of 27%.⁶ Males make up 41% and females 32% of the workforce over 50 years of age. We also found that the male baby boomer⁷ generation dominates, comprising 33% of the overall workforce during the 2012–13 financial year.

By June 2018, 10.4% of workers who were employed by councils as at 30 June 2013, will reach the retirement age of 65 years and have the option to retire. By June 2023, this figure will more than double to 24%.

What does this all mean? NSW local government is going to have a large number of employees approaching retirement over the next five to ten years. Clearly, many councils should be examining their longer-term HR strategies now, along with the impending retirement rates of their workforce. However, as mentioned previously, only 14% of NSW councils surveyed have a formal succession planning program in place.

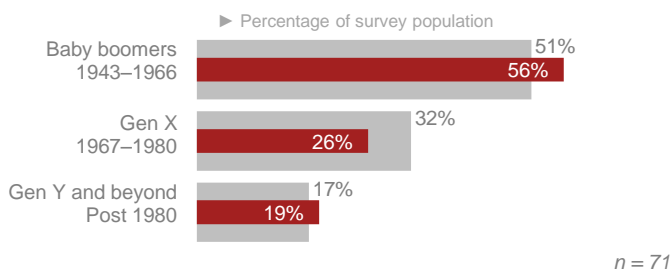
In light of the current high proportion of baby boomers in councils and impending generational change, it is essential for councils to consider:

- career paths that incorporate flexibility for employees in the years leading up to retirement
- strategies to increase the recruitment and retention rate of Gen Y and Gen X
- succession planning and knowledge transfer to the next generation of leaders

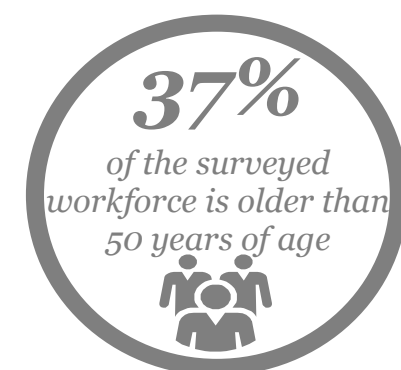
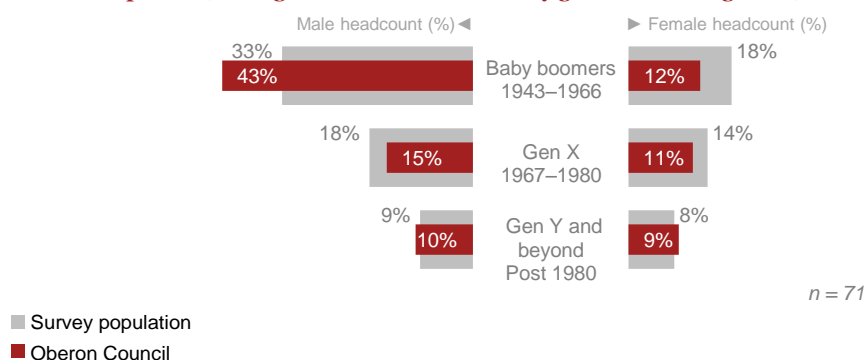
The 2013 PwC Global CEO Survey⁸, which surveyed 1,330 global CEOs, highlights that 71 % of CEOs are engaging in active succession planning, including identifying multiple successors, a much higher number than in our local government survey. In addition, to create a more agile and responsive organisation, 79% of CEOs are including managers below board level in strategic decision making as a way to develop the leadership pipeline.

Just as important is understanding the different values and perspectives of Gen X and Gen Y employees, who comprise 32% and 17% respectively of the surveyed local government workforce. This will help create a culture that is better placed for workforce changes where older and younger employees can work together in harmony.

Generational headcount mix



Workforce profile (closing headcount breakdown by generation and gender)



⁶ Australian Bureau of Statistics 2011. Census of population and housing

⁷ Australian Bureau of Statistics definition of baby boomers

⁸ PwC, 2013, 16th annual 2013 Global CEO survey, 'Dealing with disruption, adapting to survive and thrive'

Do you have an active leave management strategy in place?

Annual leave

High leave balances present both an employee wellbeing issue and a financial liability for organisations. Failure to rest and recuperate may result in health problems and stress-related productivity issues. We found that despite the Award entitlement being four weeks of annual leave per year (and five if the employee is regularly required to work a seven-day-a-week rotating roster system), 12% of employees have more than eight weeks of annual leave accrued.

The following factors could impact a council's financial liability if an active leave management program is not established:

- high leave balances at management level
- council award salaries that are guaranteed to increase annually (cumulative effect)
- annual and long service leave paid at an employee's current pay level.

If these factors are not addressed, leave balances will continue to increase in value the longer they remain unused. Budget management issues could occur if departments do not plan for an increase in leave entitlements during the budget-setting process.

The Local Government (State) Award 2014 covers the requirement for council employees to use both annual and long service leave. Councils should regularly review their employee leave balances and consider establishing a leave management strategy or re-invigorating their current leave strategy. Councils may wish to look at additional leave policies that encourage staff to reduce their leave balances.

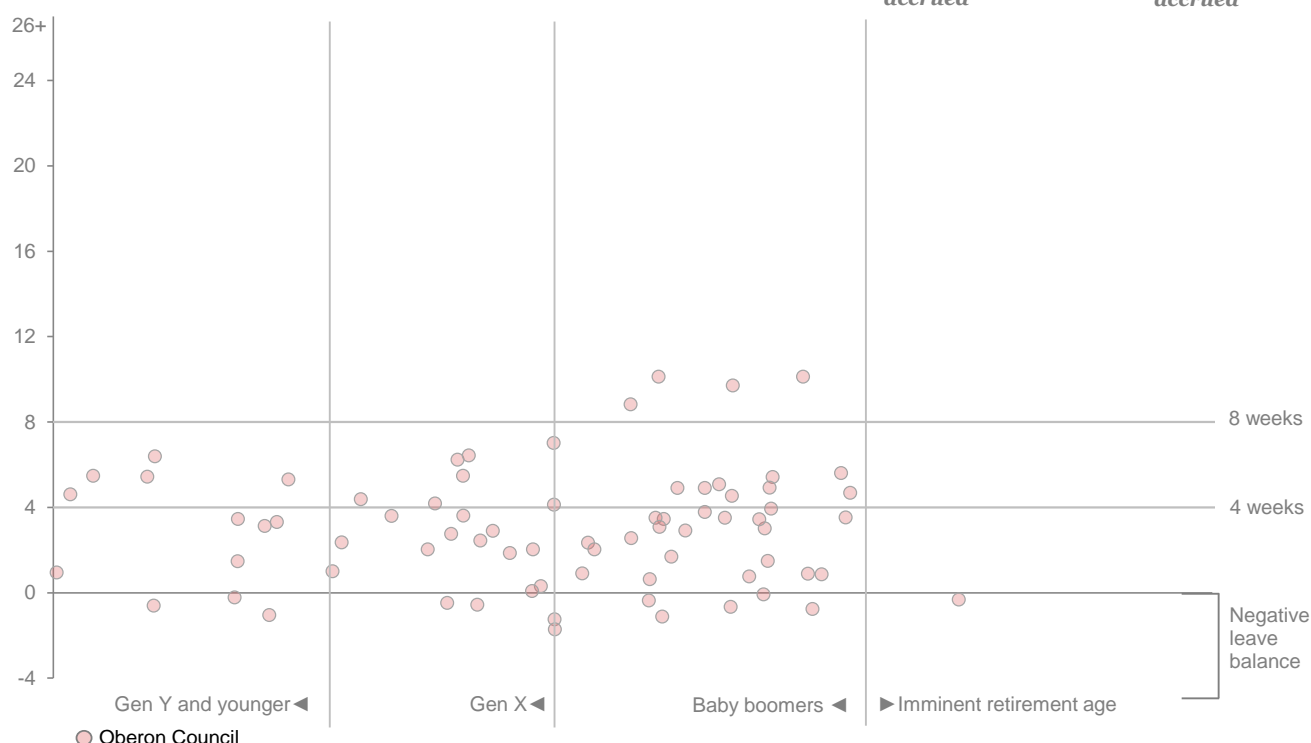
Key considerations

- Do your managers regularly review each employee's annual leave balance?
- Are your senior managers with high leave balances modelling the desired leave behaviour?
- Have you considered the financial impact of Award salary indexing on high accrued leave balances?
- Do you encourage a culture where leave is used as a way to maintain good health and wellbeing?



Employee annual leave balance in weeks by year of birth

▼ Annual leave in weeks



The importance of managing long service leave and retirement

Long service leave

Given the high proportion of baby boomers in the local government workforce, we encourage each council to review its spread of long service leave balances across the generations.

Councils with a significant proportion of their workforce in the baby boomer generation would be wise to be aware of the extent of their financial liability, due to the impending retirement of this group of employees. These councils may wish to establish an active leave management strategy, or other arrangements, to avoid a cash flow shock over coming years, and to help manage the transition from work to retirement for employees and for the council.

Encouraging employees to use their long service leave may lead to:

- a better understanding of the responsibilities within roles across the organisation
- an improved skill base as existing employees accept opportunities to 'act' in different roles
- a more engaged workforce, due to the variety of work on offer
- a smoother transition from work to retirement, leading to better employee welfare and knowledge retention in the council
- the ability to establish a long-term plan should skills shortages be identified

- new insights, to better inform a succession planning program
- a refreshed workforce, possibly leading to lower sick leave and lost time from injuries
- more educated staff regarding the value of using leave balances
- a higher quality of work.



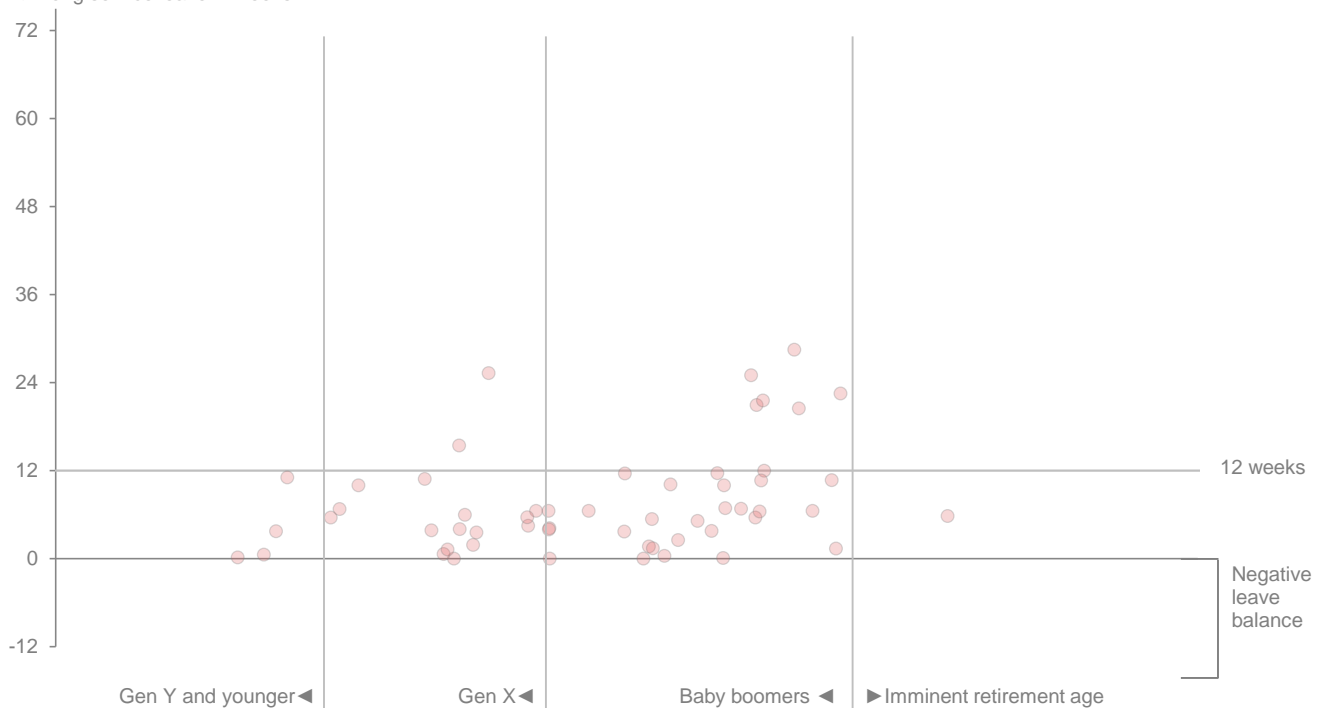
10%
of your
workforce has
more than
12 weeks long
service leave
accrued



28%
of the surveyed
workforce has
more than
12 weeks long
service leave
accrued

Employee long service leave balance in weeks by year of birth

▼ Long service leave in weeks



● Oberon Council

What you can learn from sick leave and absenteeism

Absence

Our survey also explored the use of sick leave during the 2012–13 financial year. The median number of sick leave days per employee across the survey group was 6.0 days. We acknowledge that the Local Government Award (2014) provides a higher level of sick leave entitlement to employees compared to Fair Work Australia.

Employees will sometimes experience serious illness and require extended sick leave while they recover. Equally, many employees are fit and well and will take very little, or no, sick leave in a year. To draw the focus away from these two groups of people, we have focused our analysis on the middle 50% of each council's workforce, in terms of the amount of sick leave taken.

Across the entire survey population, the 25% of employees who used a small amount of sick leave took 2.7 days or less, and on the other end of the spectrum are the 25% of employees who took 11.5 days or more. So, 50% of staff took between 2.7 days and 11.5 days of sick leave – this is the 'normal' range. Our view is that the active management of sick leave within this range can lead to valuable benefits.

High levels of absence can have a stifling effect on productivity, as well as adding to costs through lost time and short-term replacement staff. The absence rate can be used as an indicator of two key workforce outcomes:

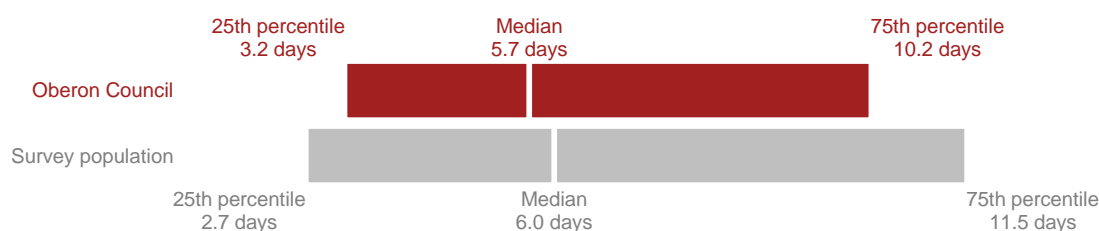
- the volume of absence management that needs to be performed
- the extent to which excess absenteeism is due to low employee engagement.

Where employees at supervisor level and above have a high level of absenteeism, this can have a demotivating and domino effect on lower levels of staff. It is especially important for smaller councils to examine their sick leave profile, as replacing staff on sick leave from the existing pool of resources can be difficult, and if agency staff are used as backup, employee costs can escalate.

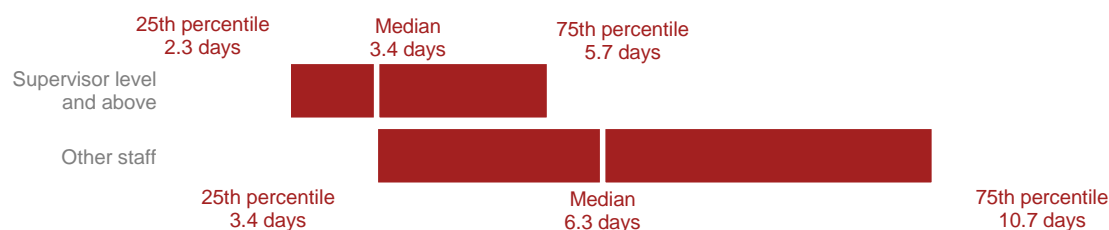
Key considerations

- Are your HR systems accurately capturing and reporting the full scope of all employee absences?
- What employee groups are reporting high levels of absenteeism?
- Can absenteeism be used as a key indicator of employee engagement in your council?

Days of sick leave taken



Days of sick leave taken by staff level – Oberon Council



■ Survey population
■ Oberon Council

Do your managers have access to management development training?

Management development training

According to our survey, more than two-thirds of councils have a formal management development program in place. Popular ways of delivering this type of training include external leadership programs, conferences, and professional courses leading to formal qualifications.

External mentoring programs are not as prevalent. This is one area councils could focus on, because mentoring programs are a positive way for employees to benefit from the experience of more senior people when progressing to a manager or C-suite level.

Our survey showed that 61% of directors and nearly 60% of general managers and managers participated in some form of management development training during the 2012–13 financial year. By comparison, only 42% of team leaders and 36% of supervisors attended management development training. This indicates that many staff who have 'people responsibility' are not getting access to important development opportunities. It also suggests a focus on talent management, with councils investing more as staff reach manager level and above.

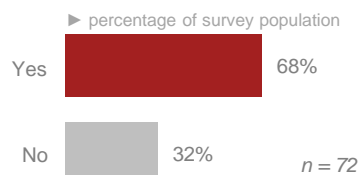
A management development program forms part of the value proposition for employees. Retaining and attracting leaders who can think strategically and motivate others to embrace the organisation's vision and values can set an organisation apart from others.

We also found that 40% of councils did not have a dedicated budget in place for management development training. This indicates that some councils are not prioritising this type of training for their managers – a group that has the most ability to influence, motivate and appraise others.

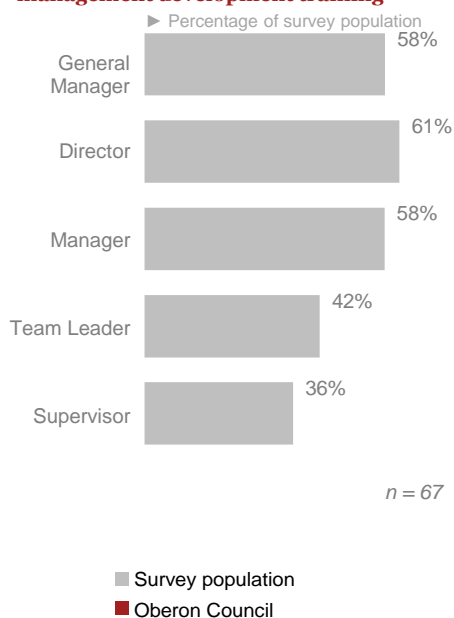
Key considerations

- Are your managers equipped with up-to-date technical and professional skills to enable them to be effective leaders of your workforce?
- Do you prioritise learning and development for employees at supervisor level and above?

Does your council offer formal management development training?



Percentage of staff that participated in management development training



What type of management program/s were offered?



Strategy and performance are intrinsically linked

Performance appraisal

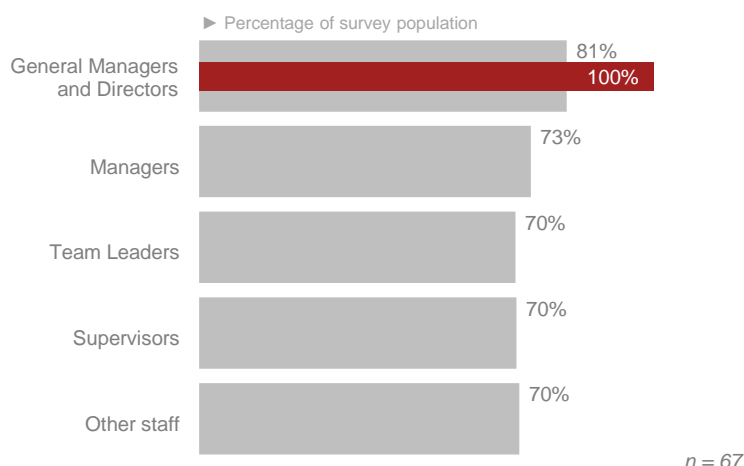
Creating a culture of continuous improvement that fosters honest and timely performance feedback can have a significant impact on employee morale and productivity. Regular informal feedback and recognition is just as important as conducting a formal performance appraisal, either annually or every six months. In these formal sessions it is important to review achievements, identify performance issues and plan for further development needs. Formal performance appraisals also allow an organisation to identify skill gaps and then plan accordingly.

Our survey shows that general managers and directors are more likely to receive a formal performance appraisal compared to any other staff level. While 73% of managers are receiving performance appraisals, there is still a large portion (27%) who do not receive feedback during the year.

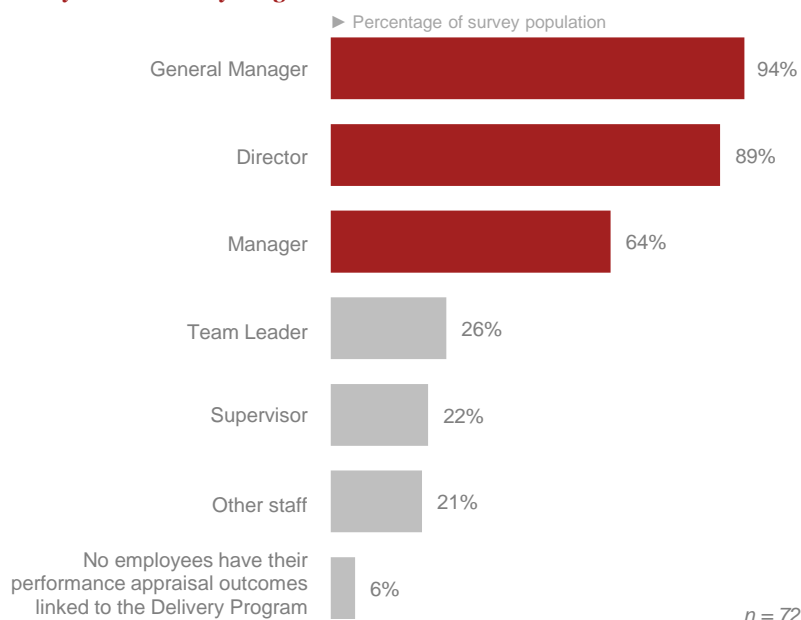
Lack of performance appraisals at the manager level is concerning as this function is the 'glue' between senior management and staff. It suggests that senior management are not performing their roles adequately when it comes to performance management of their managers.

An organisation's success relies heavily on its people. That is why it is best practice to establish clear organisational goals and objectives and link these to an employee's performance appraisal. We would expect to see all general managers and directors with appraisal outcomes linked directly to the Delivery Program, and we found this occurred for 94% of general managers and 89% of directors. We see reasonable evidence of this cascading to managers, with 64% having their performance outcomes linked to the Delivery Program; however, there is still room for improvement.

How many of your employees had a formal annual performance appraisal in FY13?



Which staff levels have their performance appraisal outcomes linked directly to the Delivery Program?



■ Survey population
■ Oberon Council

Are your workforce costs growing faster than your revenue?

Productivity

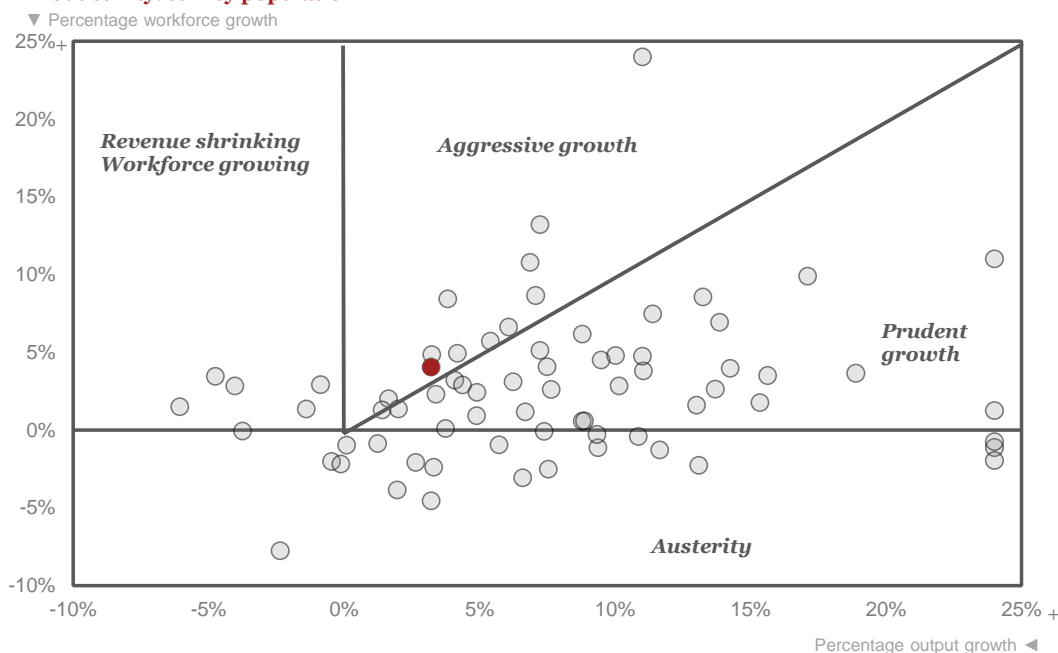
There is a strong drive for increasing workforce productivity in councils, with regular ongoing performance assessments in this area. How do you know if you indeed are successfully delivering more with less?

Productivity is not easy to measure, as there are many variables that can impact costs and outputs. However, we believe that we should try to assess whether councils are improving the relativity between the level of their controllable outputs (measured by controllable revenue) compared to the increasing costs of their workforce.

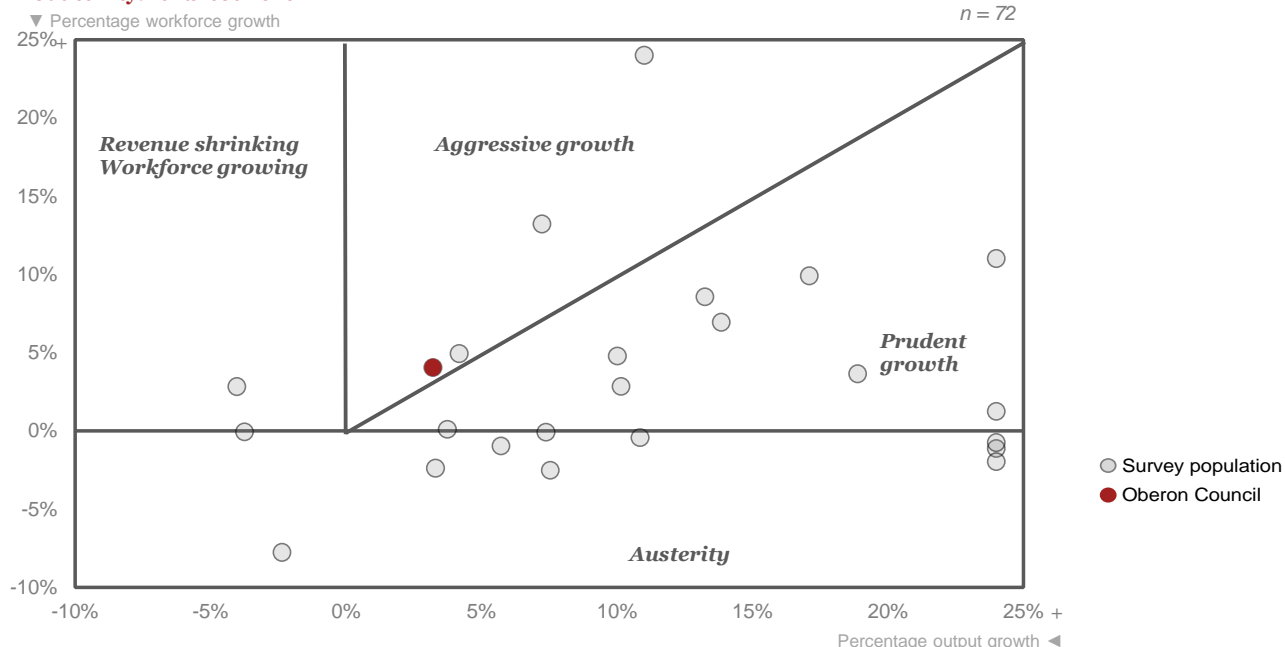
In calculating the percentage of output growth, we compared controllable revenue between FY12 and FY13. In calculating controllable revenue, we excluded all types of grants, revenue from providing outsourced services, and domestic waste management revenue. In calculating the percentage of workforce growth, we compared total employee costs between FY12 and FY13.

The results present a directional view of councils' overall performance and these have been classified into segments on the charts below. Overall, most councils reported increasing their controllable revenues at a faster rate than their workforce costs, which presents a pleasing picture for financial sustainability. This is shown by the clustering of circles within the 'prudent growth' area of the chart. Many councils are in a period of 'austerity', reducing workforce costs compared to income, as they perhaps seek to address past sustainability issues.

Productivity: survey population



Productivity: rural councils



How do you manage lost time injury incidents?

Lost time injury incidents

The cost of workplace injuries can be considerable. There are both direct costs like workers compensation premiums and payments to injured employees, as well as indirect costs such as lost productivity. There is also the personal wellbeing cost to the injured employee.

In our survey, we collected data on lost time injury incidents during the 2012–13 financial year. We acknowledge that councils with a higher percentage of outdoor workers may have a higher rate of incidents. On the scatter chart below, we have plotted each council's rate of incidents (measured as the number of incidents per 100 employees) against the average incident cost. The bubble size represents the average lost days per incident.

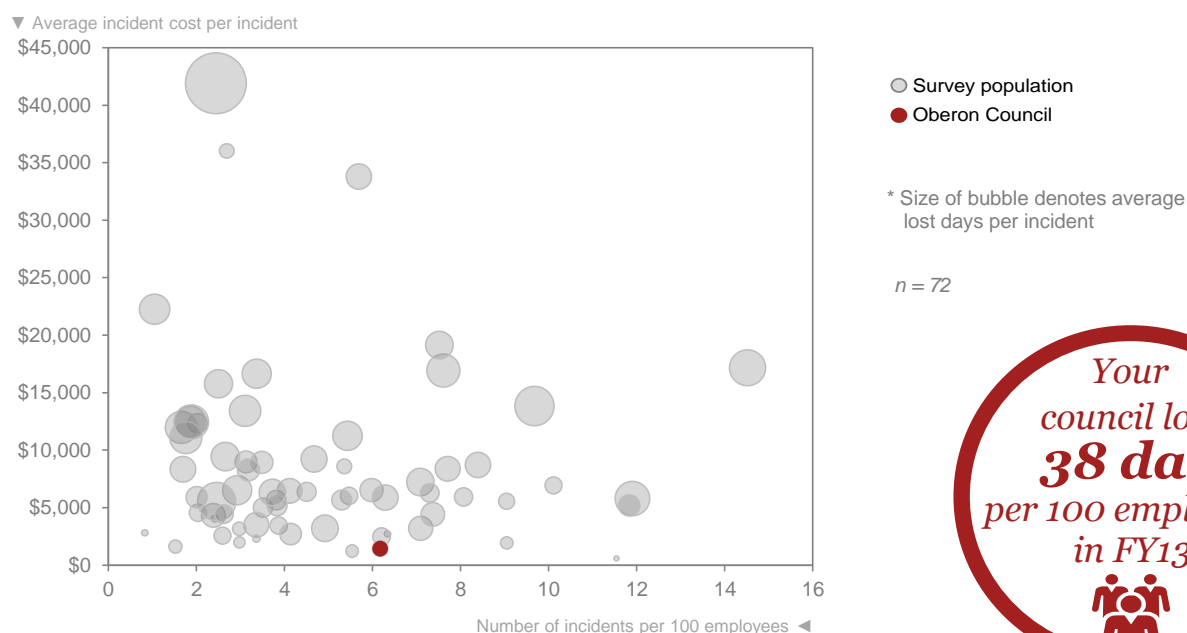
We also investigated whether certain age brackets were more likely to have an incident. Our evidence shows that incidents are more likely for workers at either end of the age spectrum. The over 60 years age group has the highest average rate of incidents, with 5.9 incidents per 100 employees, followed by the 18 to 30 years age group, with 5.4 incidents. Councils should further explore the nature of these incidents in an effort to implement awareness and wellbeing programs that target these two distinct age groups.

While the 45 to 60 years age group has the highest percentage of overall incidents, this is purely a reflection of the size of this age group within the overall workforce population.

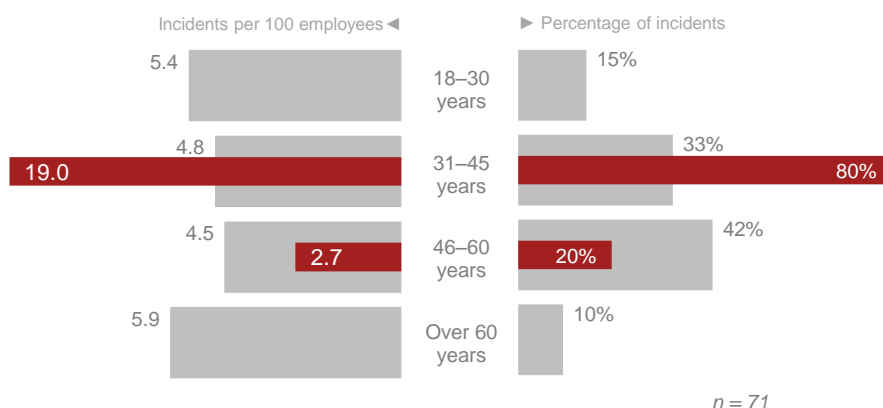
Key considerations

- Does your council have a higher-than-average number of incidents per 100 employees?
- What was the nature of the incidents? How do they rate on a scale of very serious to minor?
- Were your incidents costly?
- Do you have a prevention program in place to minimise incidents?

Lost time injury incidents



Incidents per 100 employees by age bracket



Your council lost
38 days
per 100 employees
in FY13



The survey population lost
51 days
per 100 employees
in FY13



Finance



Finance partnering with the business

The role of finance

Councils face large and growing financial pressures and their finance teams must support the management of costs that can be highly volatile. In this environment it is crucial for council finance teams to be adaptable to rapid change. Your council is likely to have an edge if it has an experienced Chief Financial Officer (CFO) or senior finance professional who works closely with the general manager and senior management team to define the broader vision and strategy, and who embraces and promotes strategic transformation.

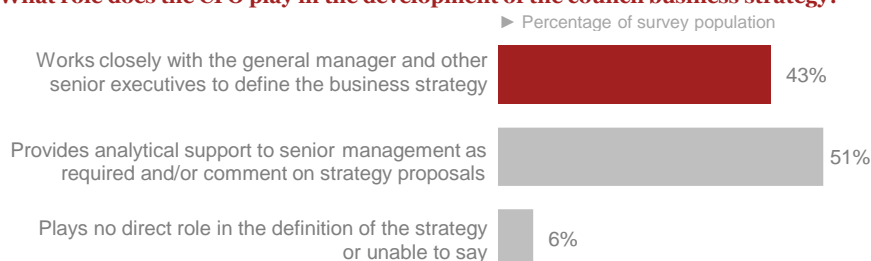
Our survey reveals that only 43% of councils have a CFO or senior finance professional who works closely with the general manager to define the business strategy. Our result is lower compared to PwC's 2013 report on federal government benchmarking on corporate services⁹, where 25 federal government organisations were surveyed. In the federal government survey, 52% of senior finance professionals work closely with the general manager to define the business strategy.

We further examined the type of qualifications within each council's finance function and found that one-third of finance employees hold at least a bachelor degree and 15% have attained a postgraduate qualification.

Excellent finance functions don't develop by chance. They are built over time by a sustained and focused program, led by CFOs who invest continually in people, process and technologies.¹⁰

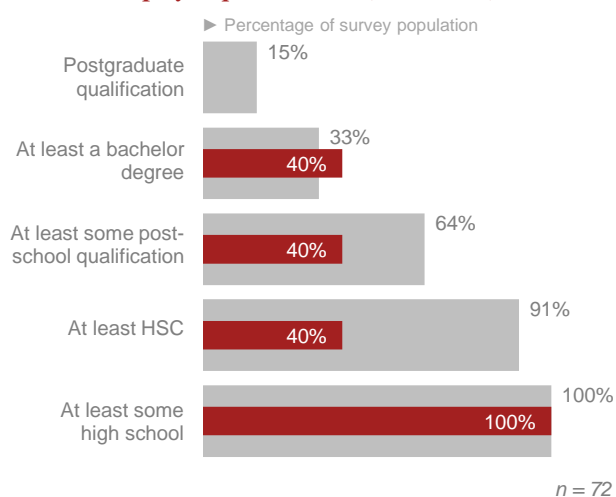
Timely access to both historical and forecast financial information is crucial for the general manager and senior management to make informed business decisions. Nearly half of the surveyed councils receive approved financial information on a monthly basis, but 44% still only receive financial information quarterly. As reform continues to play a vital role in the NSW local government sector, we encourage councils to more actively look at the quality and timeliness of their data, to effectively measure business benefits.

What role does the CFO play in the development of the council business strategy?

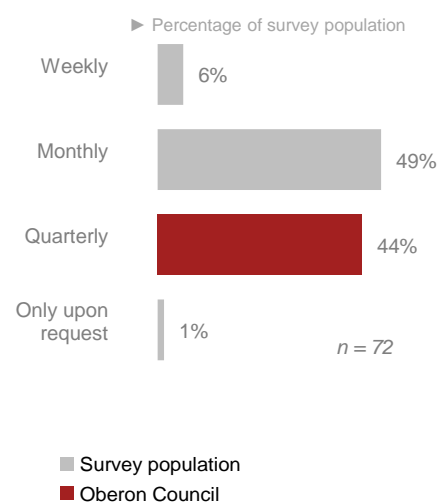


n = 72

Finance employee qualifications (cumulative)



How often do you report approved financial information to the general manager and senior management?



⁹ PwC Australia, 2013, 'Understanding Productivity: Federal Government Benchmarking on Corporate Services'

¹⁰ PwC, 2010, 'How can CFOs lead and change through these challenging times?'

What is your finance function really costing you?

Finance function cost

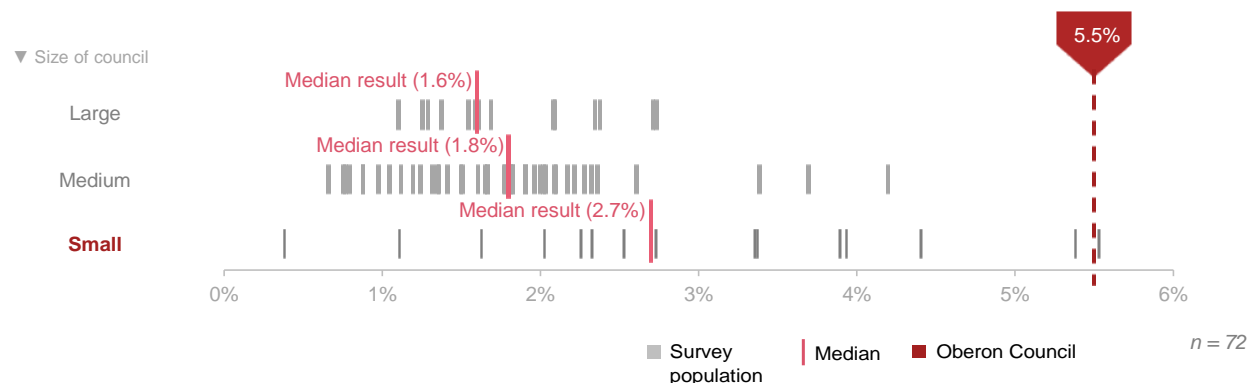
While the cost of running a finance function is often used as a key measure of its effectiveness, value is also derived from more strategic and commercial financial insights. Evaluating the allocation of resources across three key areas of finance – business insight, compliance and control, and transactional efficiency – can help identify what may be hindering progress towards greater efficiency and effectiveness.

In the NSW local government sector, the finance function is heavily weighted towards transactional efficiency, with 68% of finance's full-time equivalent (FTE) effort allocated to this task. Only 16% of time is assigned to insight-focused activities. Councils that include payroll in the finance function are likely to see a higher FTE in transactional efficiency, compared to those councils that outsource payroll or include it within the human resources division.

In comparison, a recent global PwC finance effectiveness study¹¹ shows that corporate finance functions are now devoting 25% of their time to insight-related activities. These organisations are slowly transitioning finance from a budgeting and control function to a driver of business transformation and performance, striving to deliver strategic insights to key stakeholders.

In our local government survey, we also explored the cost of the finance function as a percentage of revenue. All cost elements such as remuneration, outsourcing, technology and other costs have been included. Remuneration is the largest component, at 76%, with the remaining cost areas each comprising around 7% to 8% of the total finance cost.

Cost of finance as a percentage of revenue



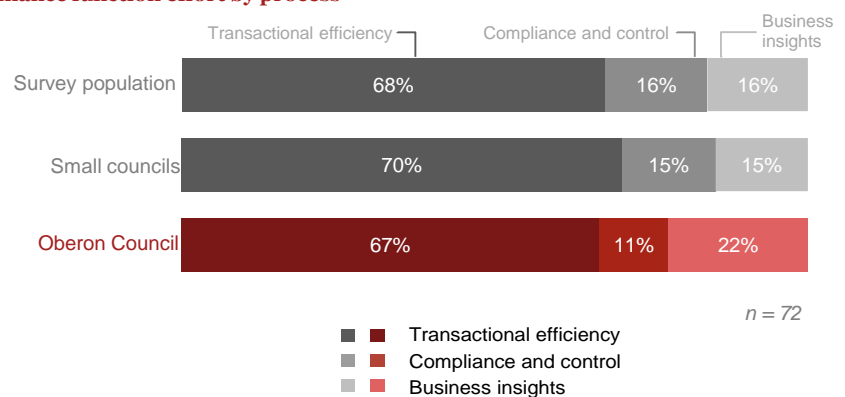
Our results indicate that councils in the lowest cost quartile operate their finance function at around 1.4% of revenue, while the overall median cost of finance is 1.9% of revenue. The narrow finance span of control measure reflects these higher costs, with 26.7 managers for every 100 employees – indicating a high proportion of finance employees with managerial responsibility. Yet only 16% of this valuable resource is being used to deliver value-adding business insights.

These local government finance costs are higher than the Australian private sector, which has a median of 1.5% and 0.6% of revenue for companies in the lowest cost quartile.¹²

Key considerations

- Have you rationalised reporting requirements to ensure data is aligned to internal and external reporting requirements?
- Have you invested in technology to support better analysis and reduce the amount of time spent gathering and manipulating data?
- Have you explored outsourcing or sharing transactional activities with other councils?

Finance function effort by process



¹¹ PwC UK, 2013, 'Unlocking potential: finance effectiveness benchmark study'

¹² PwC Australia, 2013, 'Benchmarking Insights Report, 'How do you know if you lead or follow?'

Balancing insight and efficiency

The budgeting and forecasting process

The time taken to finalise a budget or prepare a forecast varies between industries and organisations. However, it is widely acknowledged that companies spend considerable time and effort preparing, consolidating, summarising, communicating, explaining and reviewing the information they use for financial planning.

When assessing the time councils spend on the budgeting process, we measured from the date the process officially began to the date of final approval (the date the council approved the budget). The median results for the 2013–14 financial year budget process were relatively high across councils of all sizes, ranging from 114 business days in small councils to 168 business days in large councils. This suggests finance teams are spending a significant portion of the year on a process that often involves much data gathering and manipulation, instead of generating value-adding business insights.

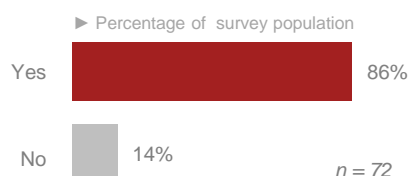
A recent global PwC finance effectiveness benchmark study¹³ showed that the median budget cycle for corporate organisations was 103 days in the 2012–13 financial year. Comparing this figure with our NSW local government sector findings suggests there may be inefficiencies within the council process.

The global study credits incremental improvements in technology and automation for reducing budgeting and forecasting cycle times. Simplifying the overall planning process is another area where organisations can become more efficient. Executing the process at the right level and identifying key business drivers that significantly impact performance allows for the right level of data to be reviewed at the appropriate management levels. It may also release capacity, allowing more experienced finance staff to spend more time developing budget insights instead of just gathering information.

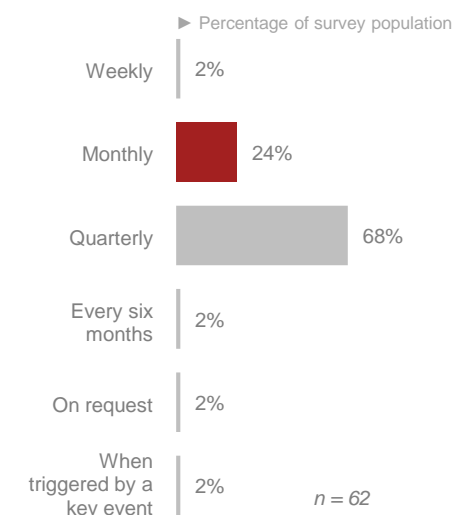
Given the relatively long cycle time for budget preparation in NSW local government, it is encouraging to see that 86% of councils formally forecast their performance to budget throughout the year. This is important for two reasons. First, preparing forecasts allows councils to gain insights into future financial performance and to refresh possibly outdated budgets. Second, when prepared frequently and with rigour, forecasts can also be used as a mechanism for generating insights and analysis to help better understand the business and its performance drivers.

However, we found that only 24% of councils are preparing forecasts every month. This level of frequency is low considering 58% of federal government organisations prepare forecasts on a monthly basis.¹⁴ Could the time taken to prepare budgets be encroaching on what may be a more valuable use of time by senior finance staff?

Do you formally forecast your performance to budget throughout the year?



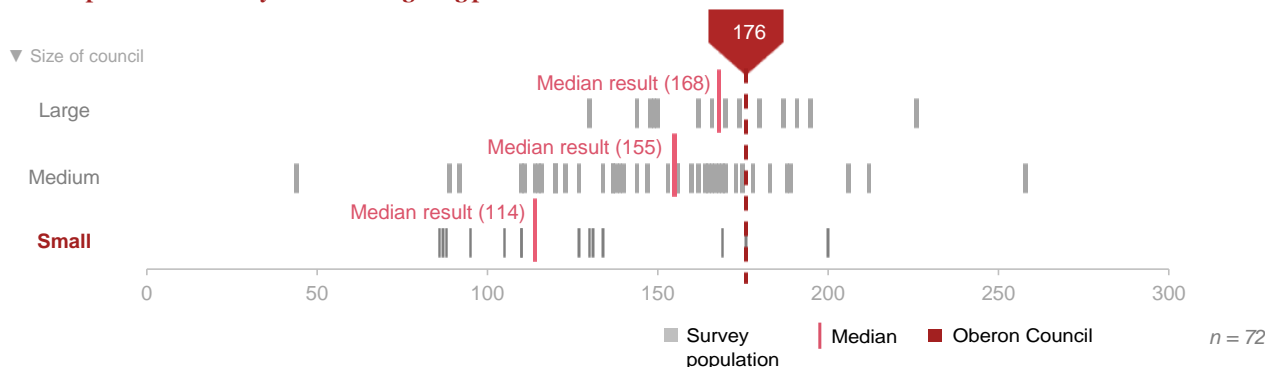
What is the primary frequency of forecast preparation?



Key considerations

- How can your organisation more effectively complete forecasts and bring together valuable information on its key business drivers?
- In which areas of the planning, budgeting and forecasting process can you realise benefits by increasing automation?
- As you re-forecast, do you formally consider the impact of future changes on next year's budget and beyond?

Total elapsed business days for the budgeting process



¹³ PwC UK, 2013, 'Unlocking potential: finance effectiveness benchmark study'

¹⁴ PwC Australia 2013, 'Understanding Productivity: Federal Government Benchmarking on Corporate Services'

Are you leveraging technology to create real-time insights?

Finance processes

Demand for data-driven insights is rising, along with escalating market and industry regulation that requires businesses to capture increasing amounts of data. This is placing pressure on financial reporting teams and making it more difficult to achieve efficient and effective reporting processes.

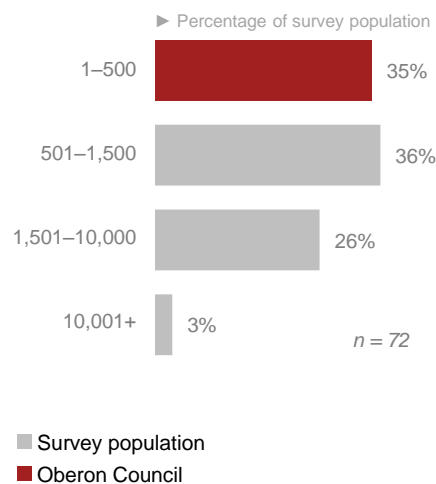
Investing in technology and automation will alleviate pressures at month and year end by removing manual processes. This in turn will allow finance teams to make better use of their time by analysing data and providing insights to the organisation.

Our survey shows 36% of councils are still manually loading information into spreadsheets to produce financial reports, compared to only 21% of federal government organisations.¹⁵ At the other end of the spectrum, 24% of councils are tackling these challenges by increasing their use of business intelligence (BI) tools. This shows a slightly higher uptake compared to federal government organisations, where less than 20% are moving to BI tools.

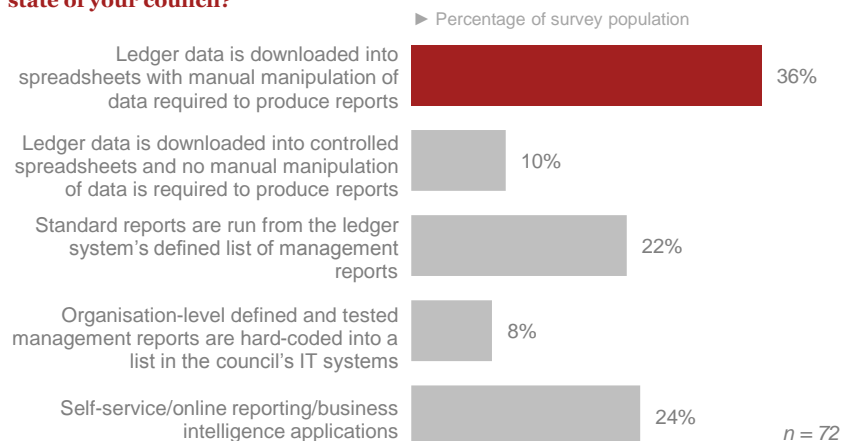
BI tools are designed to retrieve, analyse and report data at the click of a button. They can create a more efficient and effective close-to-report cycle. BI tools can also offer dashboards with real-time data presented in ways that enable senior management to quickly analyse the information and make time-critical decisions, instead of responding based on outdated data.

A key measure of how effectively an organisation uses technology in its close process is how many manual journals the finance team needs to process. A substantial proportion of councils still process a significant number of manual journals, with 29% processing more than 1,500 manual journals annually. Strategies to reduce manual journals include automating all recurring journals and setting materiality thresholds for making reclassification entries. The benefits gained include the ability to redeploy finance resources to more value-adding tasks, as well as a more robust control environment.

What was the total number of manual journals processed in the year ending 30 June 2013?

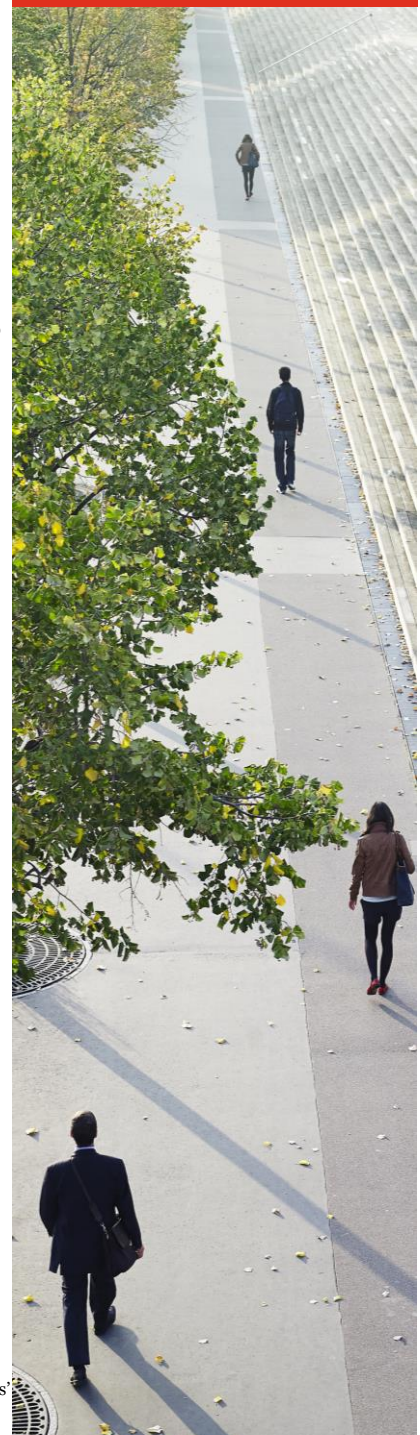


For the majority of key financial reports, what option is most aligned with the state of your council?



Key considerations

- Is finance providing relevant and timely business information to support decision making?
- Is your finance team frustrated by their lack of time to add value through business insights?



¹⁵ PwC Australia, 2013, 'Understanding Productivity: Federal Government Benchmarking on Corporate Services'

Source of income

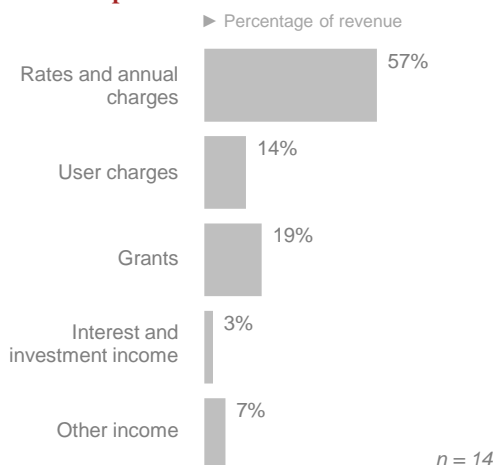
Revenue profile

Our survey shows that in the 2012–13 financial year, rates and annual charges comprised the largest portion of revenue for metro (57%) and regional (46%) councils. By comparison, rural councils obtained just 31% of their revenue from rates and annual charges, tending to rely more heavily on grants (40%) as a source of income.

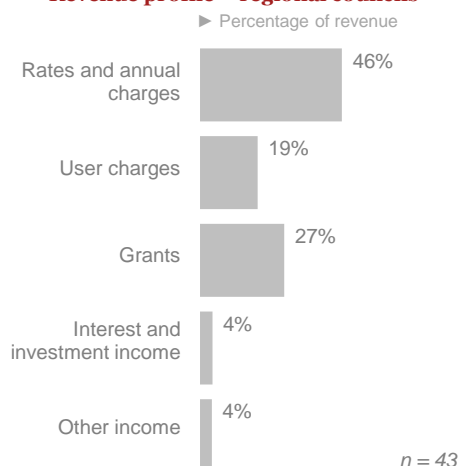
Historically, councils have been limited in their ability to optimise revenues or stimulate new areas for revenue generation, due to rate pegging by the NSW government. The Special Rate Variation (SRV) process has been a critical enabler for councils to take more control of revenue derived from rates. While more councils have now followed this approach – 32 councils in 2014 – the majority are yet to participate in the SRV process.

Councils are actively reviewing their current revenue profile and sources of income to determine how best to gain more control over this critical component for future sustainability.

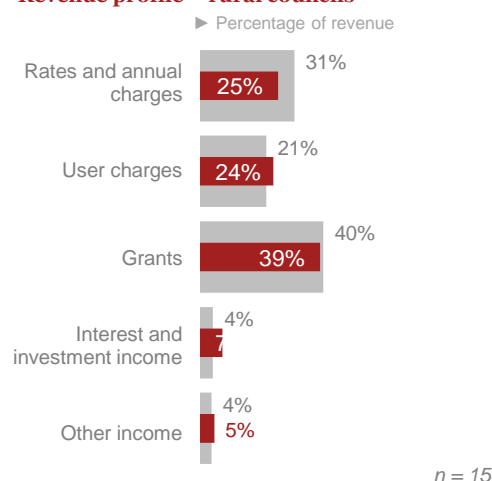
Revenue profile – metro councils



Revenue profile – regional councils



Revenue profile – rural councils



■ Survey population
■ Oberon Council

Optimising working capital

Collection of rates and annual charges

Efficient operations in accounts receivable and payable departments are essential to effective working capital management. Automation of financial processes can help build agility into labour-intensive processes, increase cashflow visibility, and enhance the relationship between councils, rate payers and suppliers.

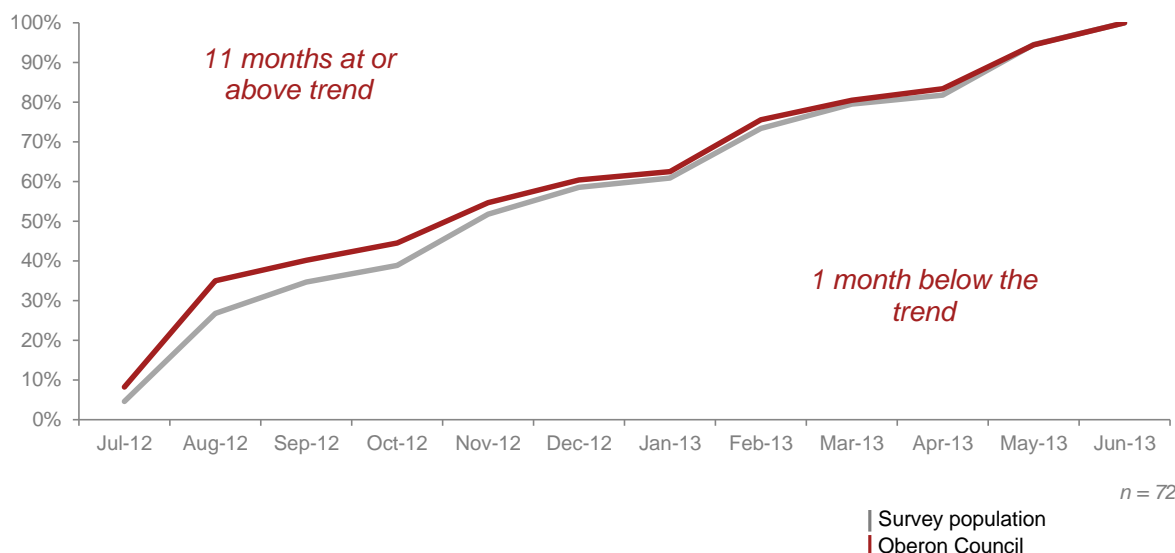
More consumers are opting to receive utility, phone and other household bills electronically. However, our survey shows this is an area requiring development as only 33% of councils are offering or developing this service. The benefits of electronic bills for councils include a potential reduction in paper and postal costs, and improved cash collections. It also signals to the community that the council has a progressive attitude to the adoption of new technology.

The charts below show how councils compare to the survey population when it comes to the cumulative collection of rates and annual charges throughout the year, as well as quarterly cash collections. In FY13, quarter one cash collections were higher than all other quarters, reflecting the pattern of some residents and businesses paying these charges upfront for the year ahead.

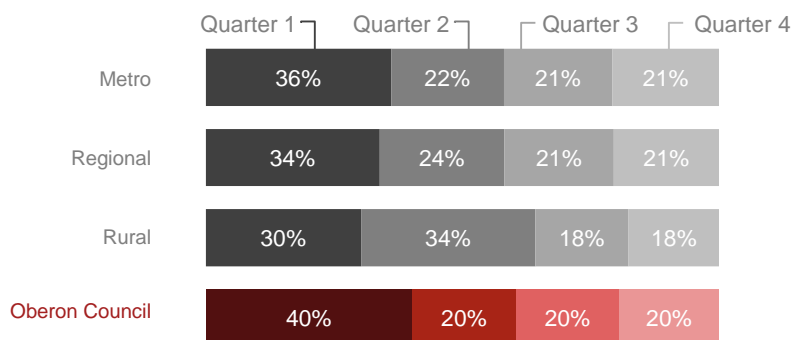
Interestingly, while rural councils get off to a slower start, by the end of the second quarter they have collected 64% of total rates and annual charges, while metropolitan and regional councils have only collected 58%.

Every council should undertake a review to determine how quickly it collects rates and annual charges. To assist, we have shown below, the dollar-value equivalent of 1% of your rates and annual charges revenue collected. This allows you to calculate how far ahead or behind your council may be quarter by quarter.

Cumulative collection of rates in FY13



Quarterly collection of rates and annual charges in FY13



▲ Percentage of rates and annual charges collected

n = 72



Tracking and managing capital projects

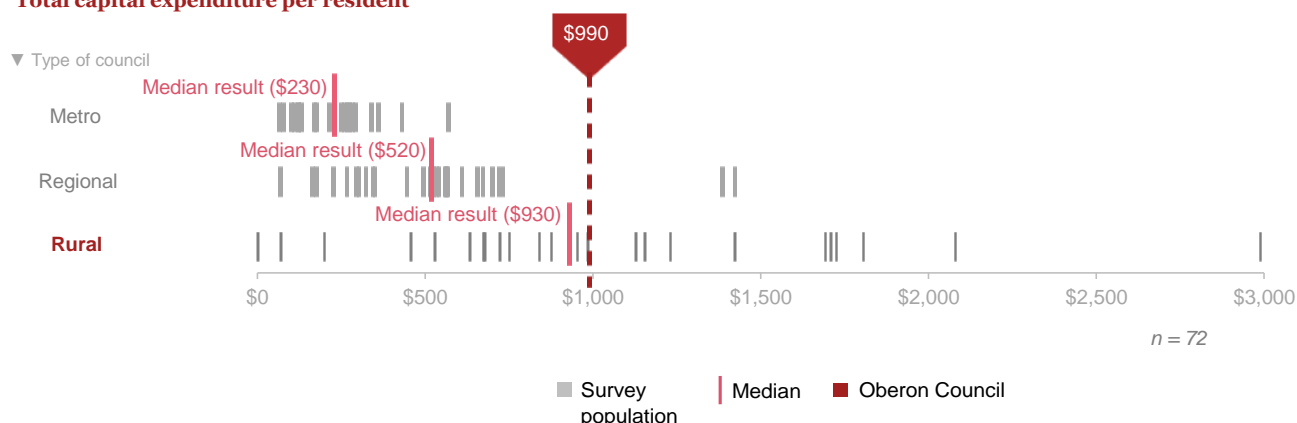
Capital projects

The effective management of capital expenditure is particularly important due to local government's asset-intensive nature and the limited capacity of council operating budgets to absorb variations in the financial outcomes of capital projects. The Office of Local Government capital expenditure guidelines discuss the responsibility councils have to their community for the prudent management of community assets and finances.¹⁶

In our survey, we found that rural councils spend more per resident on capital projects than regional and metro councils, with a median result of \$930 per resident. A key component of this higher spend per resident is the maintenance required for large state infrastructure such as, but not limited to, roads and bridges.

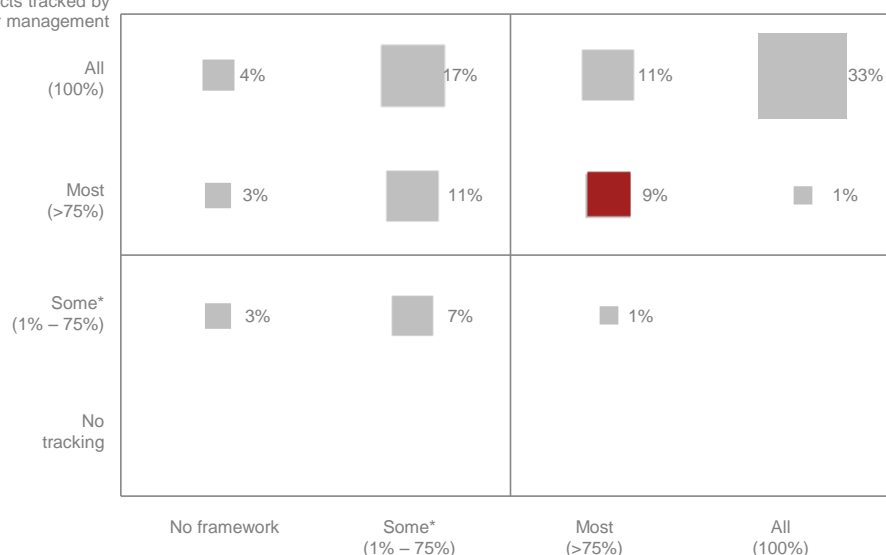
When assessing our survey results on capital expenditure projects, we found there is capability to formally track projects by senior management, but there is scope for improvement when it comes to project management. While 89% of councils said that all or most capital expenditure projects were formally tracked by senior management, only 55% have a project management framework in place for all or most of these projects. Given the high volume of spend in this area, having rigour around project management is recommended.

Total capital expenditure per resident



Capital expenditure tracking projects

▼ Percentage of projects tracked by senior management



* Please note that 'some' (1 to 75%) includes all responses of some, few and limited

n = 71

¹⁶ Office of Local Government, December 2010, Capital expenditure guidelines



Case study: Bankstown City Council

Finance function

How long has Bankstown City Council's (Bankstown) finance function placed particular emphasis on business insight activities?

Bankstown City Council's (Bankstown) finance function has played an important role in supporting business planning and providing data insights since 2000. The Office of the General Manager and the finance team are collectively responsible for preparing the Long-Term Financial Plan, Delivery Plan and Operational Plan. The Finance team is accountable for management accounting and budgeting performance. We do obtain external assistance in managing our cash investment function and debt collections.

What were the results of finance partnering with the business?

We have developed an integrated approach across the council by being more involved in developing the business strategy. This has allowed Bankstown to incorporate our asset management and service expectations as part of our Long-Term Financial Plan, enabling us to manage our known liabilities and cash reserves for future strategies.

Regular financial reporting, forecasting and policy reviews have given our council greater awareness of any impending issues or challenges and the ability to intervene or address them.

What processes has Bankstown put in place to ensure continuous improvement in the finance function?

We continually review our finance function against the following criteria:

- Are all processes automated and streamlined?
- Do we require any ongoing training or business support across the business to ensure sound financial management?
- Should we use any external support and assistance in technical or specialised services?
- Do we need to strengthen working relationships and processes impacting the finance function?

How does Bankstown measure and review the finance function's progress ?

We implement an annual customer survey to measure satisfaction with the reporting facilities, budgeting process and other financial matters. The survey also captures suggestions for improvement from employees. This process is integrated with the Operational Plan and Unit Plan outcomes for financial services, to guarantee continuous improvement.

What is Bankstown's approach to overcoming challenges?

We ensure there is ongoing accountability for the accuracy of any financial information processed and that all business units are responsible for managing their own budgets. The focus for the finance team is to adopt an analytical approach focused on supporting the business and alleviating any concerns raised across the council.

What recommendations would Bankstown give councils looking to pursue a similar program?

It is imperative that councils continually measure and review their service level agreements and evaluate the capability of the finance function to meet council needs. Continuous improvement is crucial to ensure that the finance function can meet and respond to changing needs. Furthermore, it is critical to, assess financial measures and keep the rest of the council informed through regular and relevant reporting.

Operations



Fostering productive corporate services functions

Corporate services

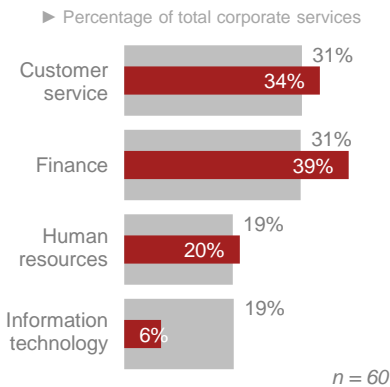
Productive corporate services functions provide critical information and services across a council to cultivate effective business processes and management. Often they are required to provide innovative solutions to both council employees and the community at large. These services are generally performed within tight constraints, including limited budgets.

Within our survey results, customer service and finance FTEs comprised the largest portion (62%) of total corporate service area FTEs. IT FTEs only represented 19% of corporate service FTEs, suggesting councils may be limiting their capacity to innovate and increase efficiency because 'day-to-day' running activities are consuming the available budget.

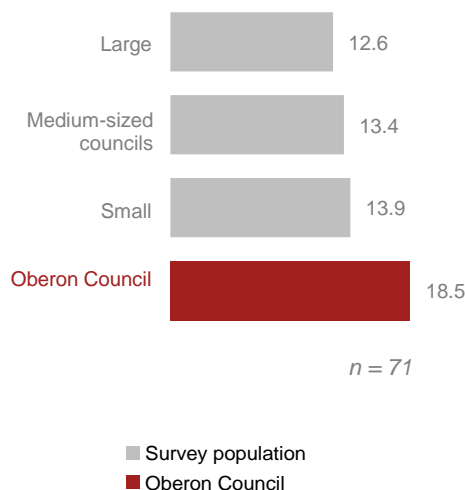
Perhaps this low level of investment in IT resources explains why 39% of councils received recommendations to make significant or somewhat significant changes in their IT corporate service reviews in the 2012–13 financial year. It may also explain why only 43% of councils have a formal IT strategy. You will find a more detailed review of the IT function later in this section of the report.

Our survey also reveals some economies of scale that operate in corporate services functions. The result of 12.6 corporate services staff for every 100 council employees in large councils compares to a result of 13.9 staff per 100 employees in small councils – representing a 10% difference in the resources employed.

Breakdown of total corporate services FTEs



Number of corporate service staff per 100 employees



Corporate service FTEs represent
16.8%
of your total FTEs



Corporate service FTEs represent
12.2%
of surveyed FTEs



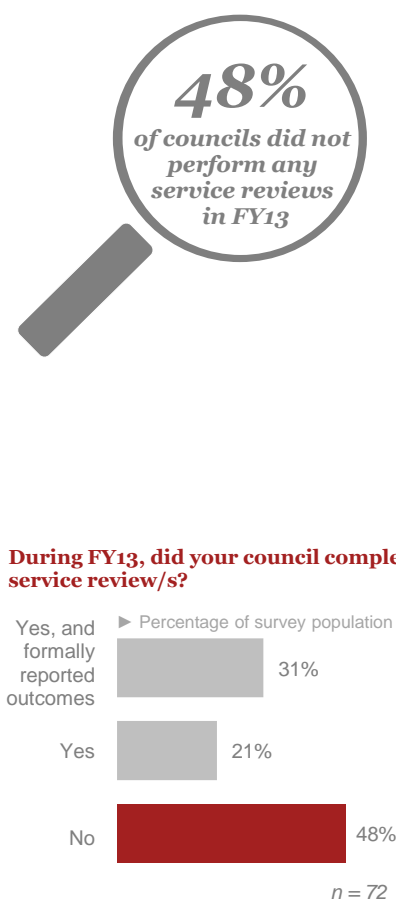
Have you conducted service reviews recently?

Service reviews

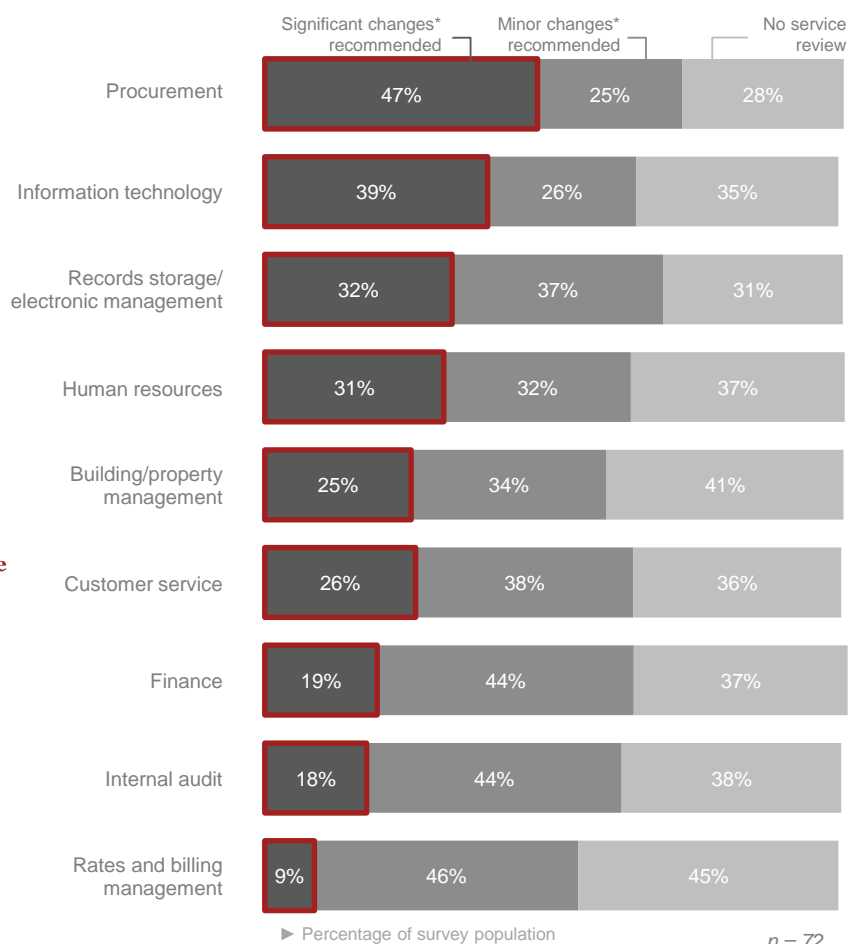
In our survey, we explored whether councils performed systematic and formal reviews of their services (either internal or external) to identify potential service delivery improvements. We found that 52% of councils conducted at least one service review in the 2012–13 financial year. However, 21% did not formally report the outcomes to the general manager and senior management. This means that only 31% of councils formally reviewed and reported results within the key decision-making levels of management within their council.

When it comes to the number of service reviews performed in the 2012–13 financial year, 32% of councils conducted one to five reviews and 13% conducted six to ten reviews. In the drive for efficiency, it is concerning that half of the councils surveyed did not perform any corporate service reviews in the 2012–13 financial year. We would expect more councils to be reviewing these functions in the 2013–14 study, as councils look for ways to improve efficiency in corporate services.

To better understand the degree of change recommended for certain corporate service areas, we investigated the results of the service reviews that took place in the 2012–13 financial year. Based on the service reviews conducted, the top four areas requiring significant or somewhat significant change were: procurement (47%), IT (39%), records storage/electronic management (32%) and human resources (31%). It is not surprising for IT to be one of the top areas requiring change, given the low level of investment in IT resources. Areas requiring minor or no changes include rates and billing management (46%), internal audit (44%) and finance (44%).



Extent of recommended changes for corporate services reviews



* 'Significant changes' includes both significant and somewhat significant
 * 'Minor changes' includes both minor and no changes

■ Survey population
 ■ Oberon Council

Leading councils have an IT strategy

Importance of an IT strategy

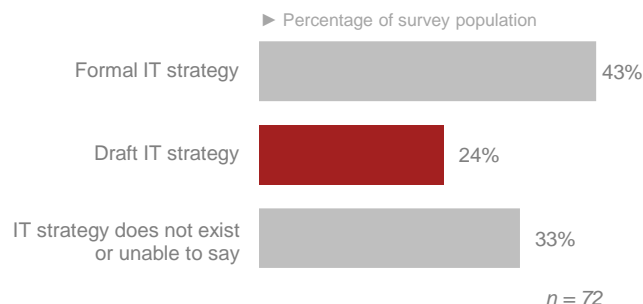
IT and digital technologies are now an inseparable part of our everyday lives. The 2014 PwC Global CEO survey showed that 91% of Australia's CEOs believe technology will be the biggest transforming trend for their business.¹⁷

Yet our survey showed that 57% of councils do not have a formal IT strategy in place, and 58% of councils regard the effectiveness of their IT systems as only 'adequate' to support the business. This indicates that councils are not sufficiently enabled to deliver to their future needs. This trend is especially evident in smaller councils, where 73% do not have a formal IT strategy. Councils that have adequate or less than adequate IT systems and no IT strategy in place should ask themselves how they will improve without such a key operational strategy.

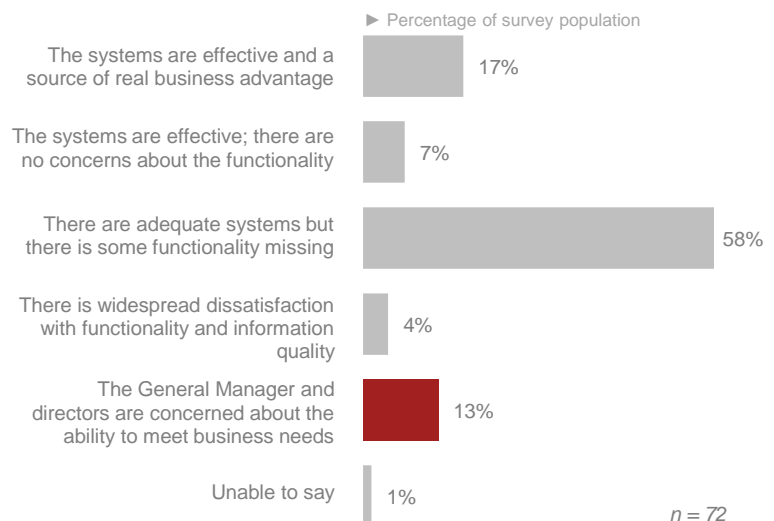
We understand that investment in significant IT infrastructure can skew results by periodically inflating costs. Despite this, our survey findings on IT spend per employee vary significantly across council size. Larger councils are making a higher relative investment in IT infrastructure, with a median spend of just over \$5,000 per employee, while that figure drops to just below \$3,000 per employee for smaller councils. As a point of interest, councils in the highest quartile spent \$6,300 or more per employee in the period, which may reflect these councils making substantial long-term investment. We also found that the presence of a formal IT strategy indicates councils are committed to invest in IT.

A formal IT strategy will help drive the adoption of new technologies that will enhance operations and help councils make informed decisions based on up-to-date data, rather than relying on gut instinct.

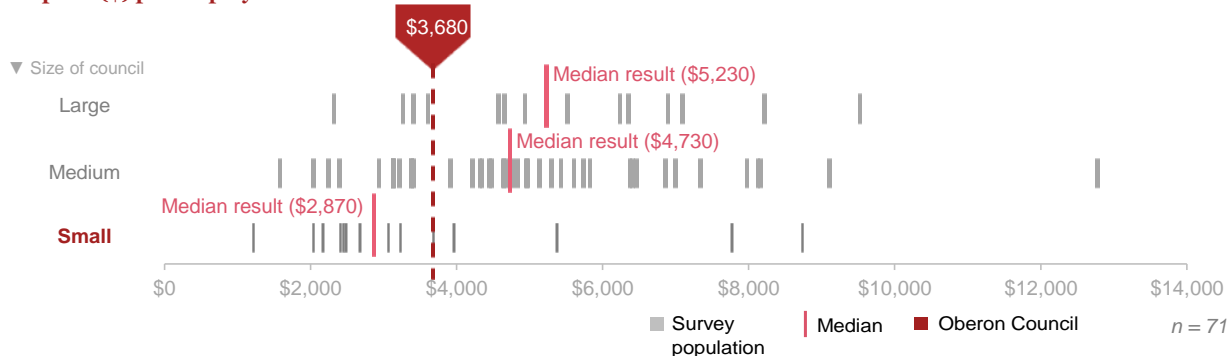
Does your council have a formal or draft IT strategy that aligns to the business strategy?



How effective are IT systems at supporting your business?



IT spend (\$) per employee



¹⁷ PwC, 2014, 17th Annual Global CEO survey: 'Fit for the future, capitalising on global trends'

Managing your IT projects

IT priorities and projects

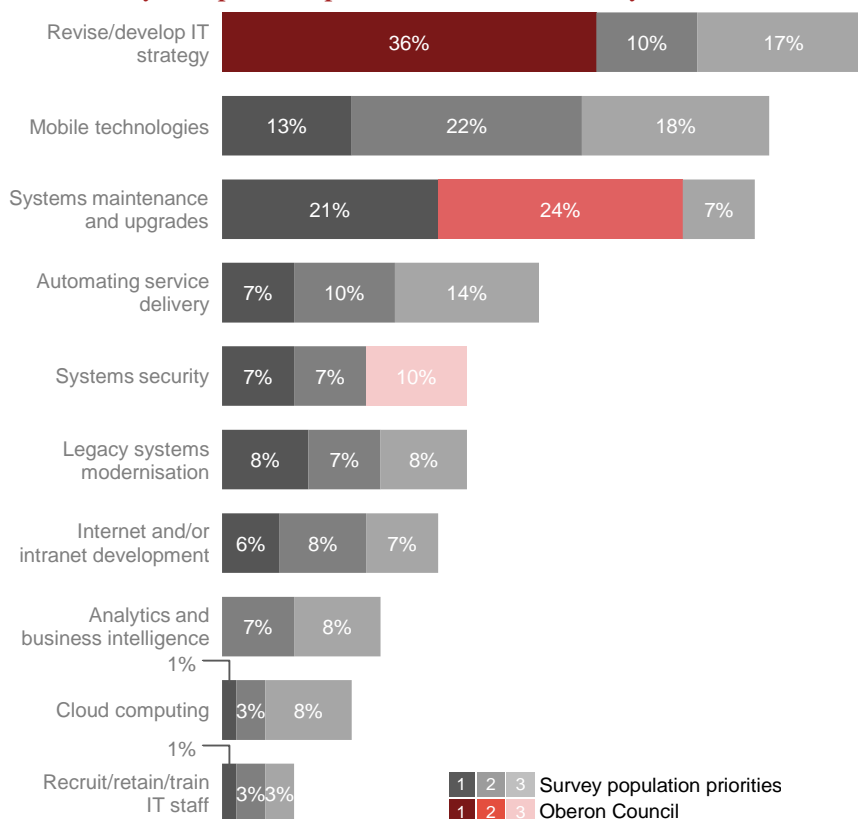
Nearly two-thirds (63%) of councils reported that revising or developing their IT strategy was a high priority. This is especially important for the 54% of councils that reported they do not currently have a formal IT strategy in place. However, the popularity of 'planning to have a plan' may reflect an overall uncertainty on how to respond to the rapidly changing IT environment. Councils are working to align their IT strategies with their business, but many are unclear as to how to do this in an environment of changing technology and business needs.

The second-highest priority for councils was mobile technologies at 53%, closely followed by IT systems maintenance and upgrades at 52% – these two items illustrate the genuine challenge faced by councils in balancing IT projects that extend capability with projects that keep their current systems working well.

When assessing our survey results on IT projects, we found that the majority of councils have the capability to formally track projects, but there was scope for improvement when it came to IT project management. While 68% of councils said that all or most IT projects were formally tracked by senior management, only 49% have a project management framework in place for all or most of their IT projects.

The majority of councils with a project framework in place for all or most IT projects also have senior management formally track all or most of their IT projects. This signals strong oversight management.

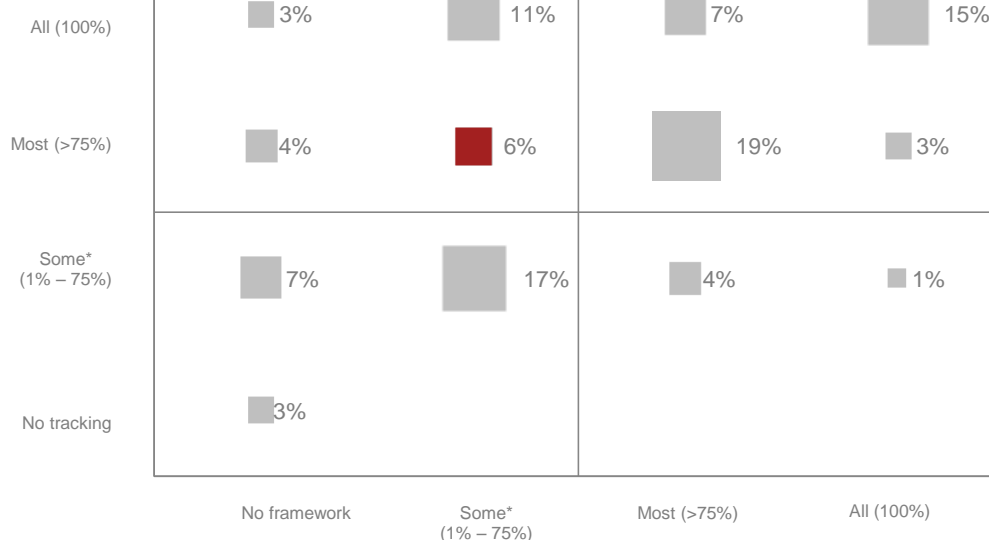
What are your top three IT priorities over the next three years?



IT project tracking

n = 72

▼ Percentage of projects tracked by senior management



* Please note that 'some' (1 – 75%) includes all responses of some, few and limited.

n = 72

Customer service scorecard

Servicing the community

Councils, along with all government organisations, are facing a necessary transformation to become more customer-centric, making it imperative for councils to provide a high level of customer service to residents and businesses.

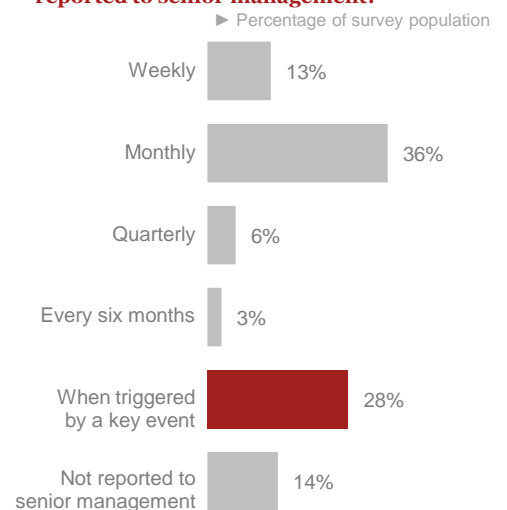
While having the right number of customer service resources is important, leveraging technology to assist in providing timely, effective and efficient support is also critical. Residents across age demographics are now willing and able to use council websites to find information, access forms and make requests. Our survey shows that all councils use email to handle requests, but only 63% use Facebook as a way to engage with residents. It is encouraging to see that 72% of councils offer residents the ability to speak to someone in person on weekdays either before 9am or after 5pm – a result that decreases to 51% of councils offering personal contact over the weekend. This trend is being driven by metro councils, with 65% of metro, 33% of regional and 20% of rural councils offering this level of service on weekends.

The median results of 1.3 and 2.6 customer service FTE per 10,000 residents, for large and medium-sized councils respectively, reveals the extent of economies of scale in delivering services to even these large populations. Small councils (which are in rural areas) have a substantially higher median of 9.4 customer service staff per 10,000 residents. With medium-sized councils investing double the relative resources of large councils, and small councils investing at just over seven times the rate of large councils, there seems to be strong incentive to explore whether there is an opportunity to 'share' at least some of this function with other nearby councils as a way to manage resourcing, reduce costs and improve service levels.

An effective customer service team should report unresolved general enquiries to senior management on a weekly basis. This enables senior management to keep abreast of resident issues and feedback while also demonstrating to residents that unresolved general enquiries are being actively managed and prioritised. Our survey showed that only 13% of councils are currently performing this practice, indicating there is an opportunity for councils to improve the way they manage unresolved general service enquiries.

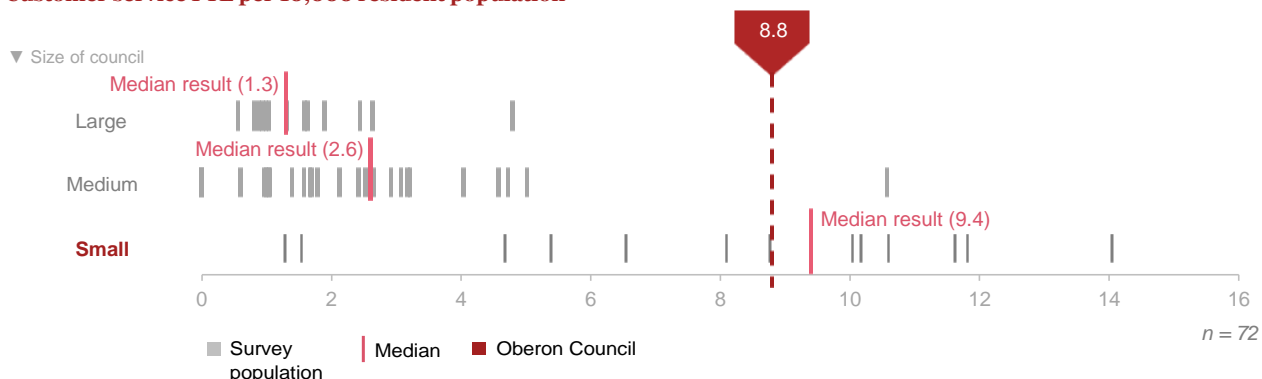
Unresolved service enquiries can be an essential source of information for management about community needs, and also demonstrate the effectiveness of council in handling service enquiries. These enquiries can highlight internal blockages or help identify complexity that needs further support from management to reach a resolution.

How frequently are your unresolved 'open' general service enquiries reported to senior management?



n = 72

Customer service FTE per 10,000 resident population



63%
of councils
use Facebook
to communicate
with residents



Digitally savvy customers

Sophisticated connectivity is no longer just the domain of younger generations, with smartphone usage reaching saturation levels across all age groups. Businesses will need to transition the full suite of their products, services and channel experiences to match the mindset of the digitally empowered, 'always on' customer. This will be critical as the digital native generation becomes the dominant demographic over the next decade.

PwC Australia, September 2014, 'Deciding with data: How data-driven innovation is fuelling Australia's economic growth'

The importance of a customer service charter

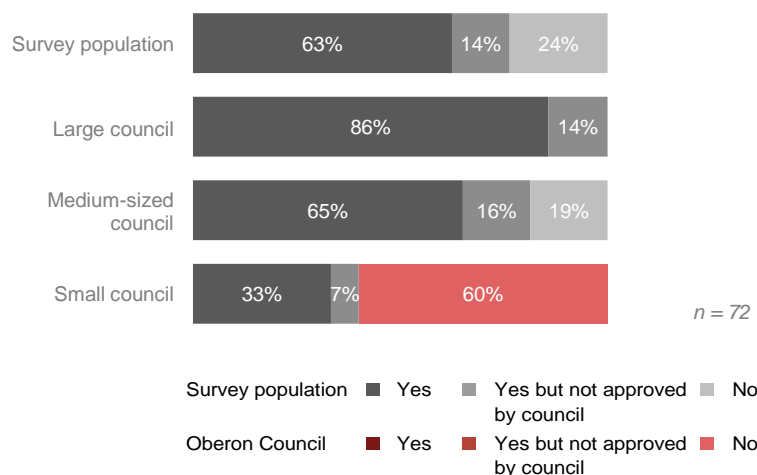
Tracking customer service levels

It is encouraging that 63% of councils have a customer service charter approved by council, while another 14% have a charter that is yet to be approved. Small councils are least likely to have such a customer service charter. Implementing a charter allows residents to better understand the level of service they can expect and provides customer service employees with direction. It also brings into focus the importance of customer service within the council, which should be a priority for a service-based organisation.

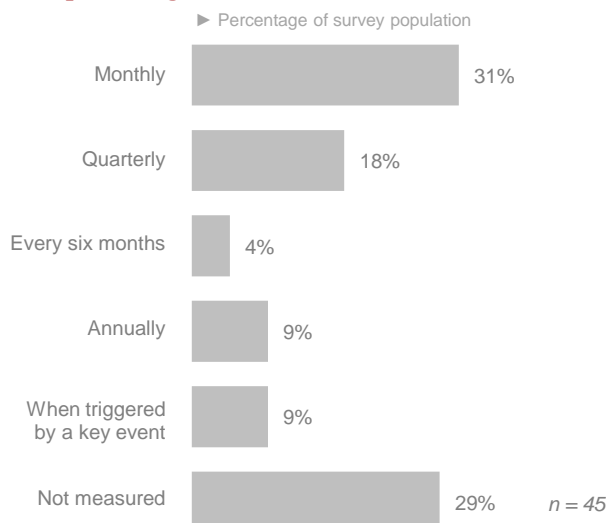
Businesses generally use a customer service charter as a gauge to measure and track customer service levels, and as a feedback tool for customer service staff. It provides a mechanism for senior management to take appropriate action. For those councils with a customer service charter, 31% are measuring the progress of core components against the charter monthly, with a further 18% measuring quarterly.

Our survey also explored the status of identified customer service measures within the charter. We found that 62% of measures stayed the same between the 2012 and 2013 financial years. Encouragingly, 26% of councils saw an improvement in their customer service measures. By establishing a mechanism to measure and track customer service against a charter, these councils now have the ability to constantly assess and improve their service levels. They can also recognise the value of their customer service teams as measures improve year on year.

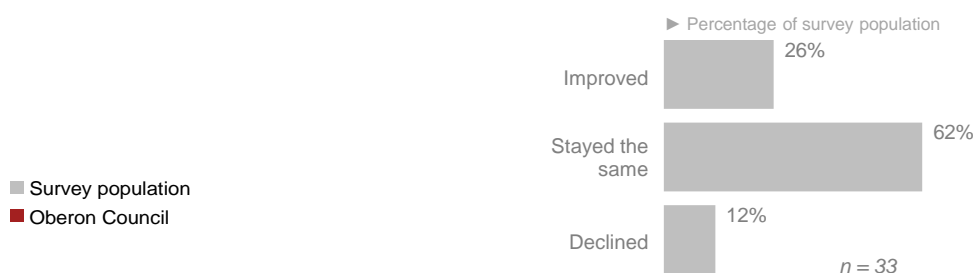
Do you have a council-approved customer service charter in place?



How frequently do you measure the progress of core components against the charter?



Status of customer service measures against the charter



Looking at different ways to deliver corporate services

Outsourcing and shared services

The way local government delivers its corporate services is an important area to understand when assessing efficiency and effectiveness.

In our survey, we selected eight key areas within corporate services and asked councils to tell us whether these services were outsourced or shared with other councils. We found that during the 2012–13 financial year, there was only one council that did not participate in any form of outsourcing or sharing of the selected services.

Which types of councils outsource or share these selected services? Rural councils have the highest uptake – 68% outsource or share between three and eight services, compared to 56% of regional and only 33% of metro councils.

The top three areas being outsourced or shared during the 2012–13 financial year were legal (94%), IT hosting and support of systems (61%) and procurement (50%). Legal is more likely to be outsourced, IT hosting is slightly more likely to be outsourced than form part of a shared service centre, while procurement is much more likely to be shared with another council.

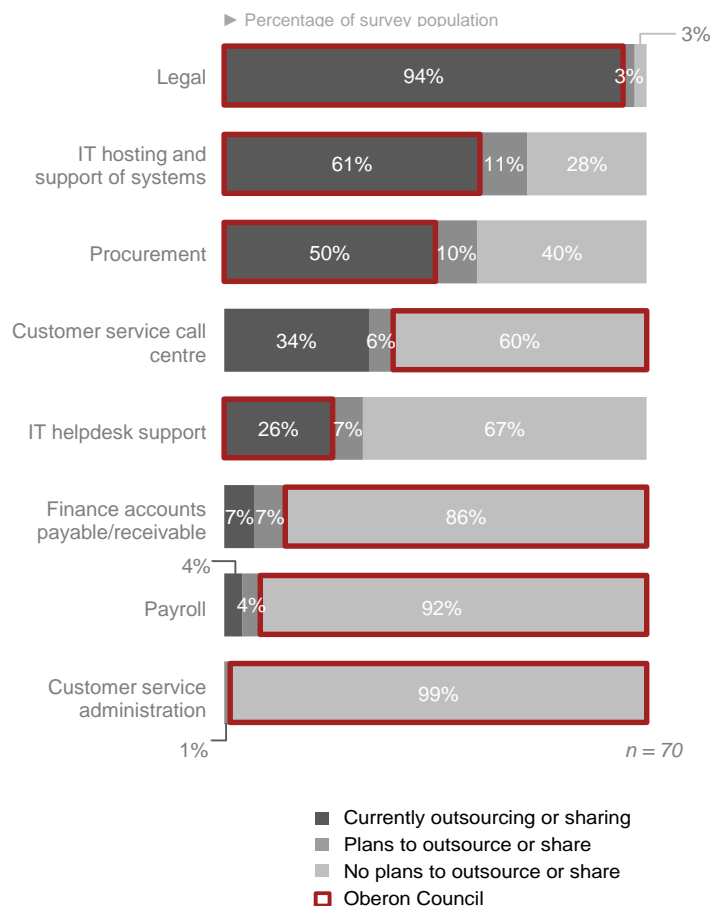
Overall, councils have limited plans to further outsource or share these eight services in the future. That said, 11% of councils plan to do some form of outsourcing or sharing in the IT hosting and support of systems area, and 10% of councils plan to outsource or share procurement.

Transactional processes like accounts payable/receivable and payroll have long been viable candidates for shared service or outsourced delivery in the corporate sector. In the PwC 2012 Benchmarking Insights Report, 38% of corporates surveyed operated a shared service function for accounts payable/receivable, with 11% choosing to outsource accounts payable only.¹⁸

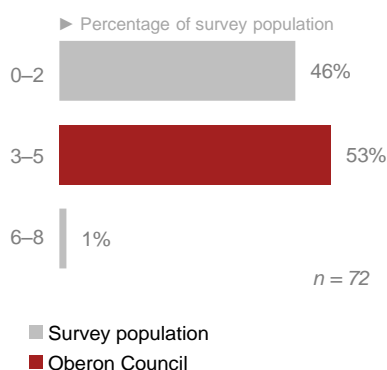
The corporate survey results for payroll were quite different, with only 14% operating shared services but 27% directing payroll to an outsourced provider. Payroll has long been perceived as an obvious choice for outsourcing globally and many organisations move straight to an outsourced solution rather than setting up a payroll shared service.

However, by comparison, very few councils we surveyed plan to outsource or share accounts payable/receivable and payroll in the future – 86% and 92% of councils respectively have no plans in these areas. See the case study on page 47 for an example of how two councils have approached sharing the majority of their corporate services.

Current and future outsourcing/sharing of corporate service areas



Number of selected corporate service areas that were outsourced or shared



¹⁸ PwC Australia, 2012, Benchmarking Insights Report, 'How do you know if you lead or follow?'

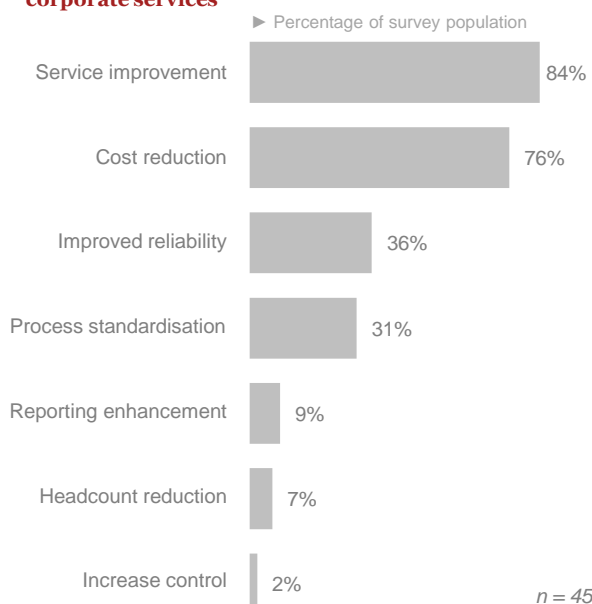
Recognising the key drivers and challenges of outsourcing and shared services

Key business drivers

It is possible to increase the efficiency and effectiveness of corporate service functions by standardising, simplifying and making effective use of technology and sourcing. Shared services and outsourcing arrangements have the potential to deliver significant cost reductions and service improvements for organisations.¹⁹

Our survey results support this line of thinking. For those councils that currently outsource or share corporate services, the top three business drivers for outsourcing or sharing a service are to improve services (84%), reduce costs (76%) and increase reliability (36%).

Key business drivers for outsourcing or sharing corporate services



Challenges

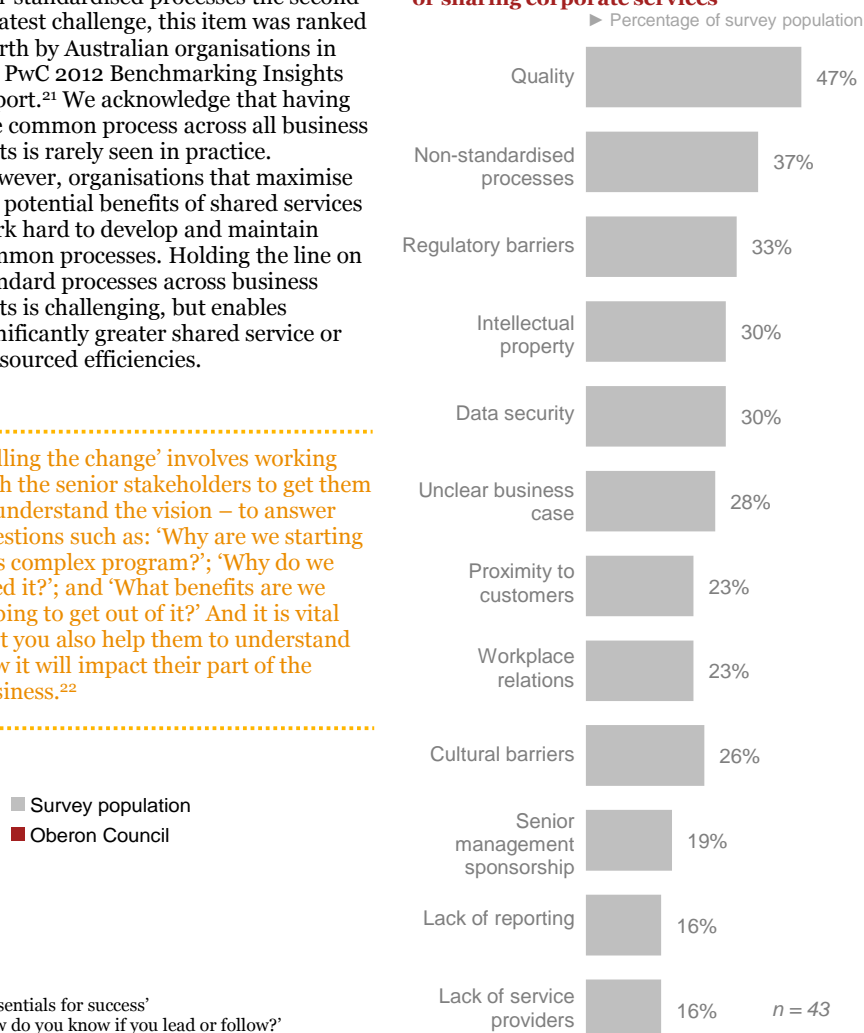
While there can be upside in sharing services or outsourcing, organisations can face many challenges during the implementation phase. The transition often presents a significant cultural change as well as physical and process changes. To mitigate these challenges, it is important to have a clear vision, secure active support from staff and users, conduct frequent performance assessments and ensure regular engagement between the provider and the council.

Councils that currently outsource or share services identify quality (47%), non-standardised processes (37%) and regulatory barriers (33%) as the top three challenges. In the PwC 2012 Benchmarking Insights Report, corporates surveyed also ranked quality as their number one challenge.²⁰ An effective transition approach and sound execution can minimise short-term quality impacts. To maintain quality in the longer term, it is vital to provide ongoing performance management, effective governance, targeted recruitment, retention measures and cross-skilling of shared service teams.

While councils in our survey ranked non-standardised processes the second greatest challenge, this item was ranked fourth by Australian organisations in the PwC 2012 Benchmarking Insights Report.²¹ We acknowledge that having one common process across all business units is rarely seen in practice. However, organisations that maximise the potential benefits of shared services work hard to develop and maintain common processes. Holding the line on standard processes across business units is challenging, but enables significantly greater shared service or outsourced efficiencies.

.....
 'Selling the change' involves working with the senior stakeholders to get them to understand the vision – to answer questions such as: 'Why are we starting this complex program?'; 'Why do we need it?'; and 'What benefits are we hoping to get out of it?' And it is vital that you also help them to understand how it will impact their part of the business.²²

Key challenges faced when outsourcing or sharing corporate services



¹⁹ PwC, 2013, 'Transforming business services: The seven essentials for success'

²⁰ PwC Australia, 2012, Benchmarking Insights Report, 'How do you know if you lead or follow?'

²¹ Ibid

²² PwC, 2013, 'Transforming business services: The seven essentials for success'

Case study: Armidale Dumaresq and Guyra Shire Councils

Shared services

When did Armidale and Guyra recognise a case for change?

We began our journey toward sharing services in 2006 when the NSW government nominated four councils in the New England region for amalgamation. As an alternative to full amalgamation, we proposed sharing services across all functions. Unfortunately, this system ultimately failed due to limitations in the governance structure and a lack of common objectives.

However, it was only when the shared services structure dissolved in 2009 that we fully recognised the potential benefits of operating in this way and decided to continue our partnership.

What approach did Armidale and Guyra take?

We now combine resources under a single team with one management structure. We have a formal service level agreement, and have created standardised policies and procedures. Our shared service centre covers finance, IT, human resources, stores, plant, fleet and payroll. The Head of Shared Services, Keith Lockyer, reports directly to the General Managers at Armidale and Guyra and is responsible for ensuring appropriate governance across the councils. He has eight direct reports who each run individual shared-service teams.

The shared-services team's resource costs are distributed between Armidale and Guyra based on employee timesheets. Indirect costs are also distributed based on activity. This ensures that an accurate measure of time is allocated to each council.

What results did the change achieve?

The objective of the shared-services model is to work together under one simple management structure, using economies of scale to create operational efficiencies. As a result, we have developed common processes and standardised reporting templates, with improved skill application and reduced work duplication. This has resulted in procurement savings of approximately 20% and, now that the processes have matured, a combined resourcing cost saving of 15%. These savings have been reinvested in the councils, enabling us to hire more experienced and skilled employees.

What challenges did Armidale and Guyra face and how were they overcome?

It is vital to maintain strong relationships between the teams and ensure clear communication. To enable this, the shared-services team works on-site with other employees at Armidale and Guyra two days a week. State-of-the-art video conferencing facilities have allowed flexible working arrangements for the team and allowed staff to have face-to-face conversations. The initial cultural change at the councils was relatively easy to manage once relationships were built and job security was established. However, parochialism still exists within management levels in each council outside of the shared-services team. Having a robust governance structure and shared-services-centre staff members who are prepared to navigate negotiated processes has helped to overcome any barriers to success.

A man in a blue jacket and light-colored trousers is riding a blue bicycle on a paved path. A young child in a brown jacket is sitting on the front of the bicycle. The path is surrounded by trees and their shadows are cast on the ground. The background shows more trees and a building.

How do Armidale and Guyra measure progress?

We annually review the shared-services team's performance and agree on the resource allocation for the upcoming budget. Performance is measured against budget targets, resource allocation and formal service level agreements.

What recommendations would Armidale and Guyra give councils looking to pursue a similar program?

It is important for the General Manager and leadership team to actively support any move to a shared-services model. This will help facilitate the cultural shift required, which took three years at Armidale and Guyra.

Attempts to move towards a shared-services model must be formally agreed between the councils and there must be a clearly defined implementation plan. The implementation plan should begin with the alignment and integration of business systems through the IT and finance functions. This will enable shared services to be implemented for stores, plant and fleet. We recommend implementing human resources and administration later in the process, given the challenge in defining measurable metrics for these non-transactional areas of the council.

What does the future look like?

The concept and deliverables work as intended. However, there is no doubt that the best way for shared-service structures to meet their full potential is to operate them under a separate entity that is owned by the councils but not managed by them. While we have combined resources there can be tension when it comes to prioritising workloads. This consumes management resources that would be better focused on outcomes. We believe this model could easily be adopted by a Regional Organisation of Councils as a single unit to offer better performance across member councils.

From Operational Plan to action

Operational Plan

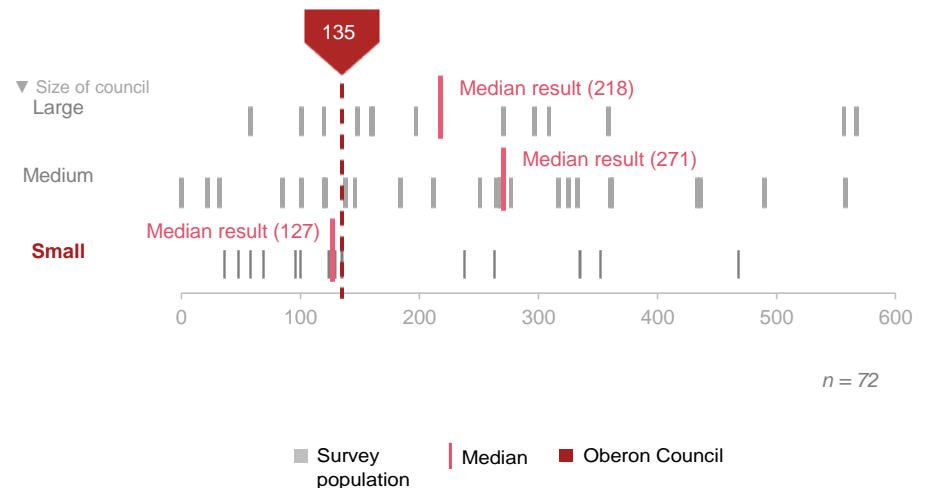
The annual Operational Plan is a critical document for each council. The plan should translate community strategic goals and commitments into individual projects, programs and activities. It is important that the actions identified within the Operational Plan are manageable and reflect the council's progress towards achieving its Delivery Program commitments.

Our survey results show how variable the number of reported actions can be in each council's Operational Plan. Small councils had a noticeably smaller median number of actions than medium-sized and large councils, but otherwise there was no clear pattern.

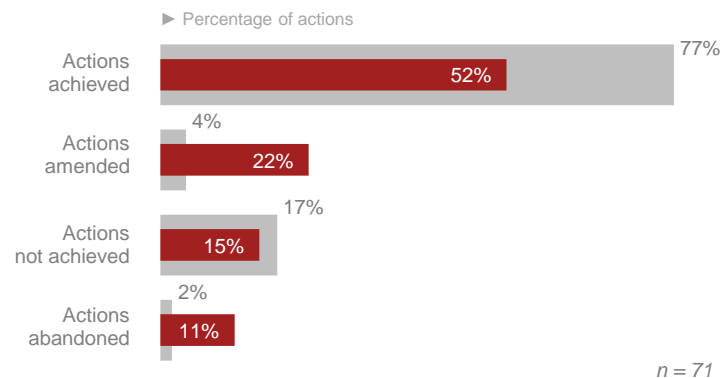
It is encouraging to see that in the 2012–13 financial year, 77% of the councils we surveyed achieved the actions in their Operational Plans and only 2% were abandoned. The 17% of 'actions not achieved' may be due to delays in grant funding or optimistic budgets. In some cases, these actions were formally postponed and reported back to council, with plans in place to complete them in the 2013–14 financial year. We encourage councils to evaluate the reasons for not delivering on their operational plan, and to identify any trends year on year.

We did not identify any correlation between the number of actions in the operational plan and the percentage of actions achieved. It appears that a council's ability to achieve its actions largely depends on its resource capability, capacity and commitment, rather than the number of actions identified.

Total number of actions in FY13 Operational Plan



FY13 Operational Plan status



Risk Management



Managing risk

Risk management policy

A risk management policy should clarify the council's objectives for and commitment to risk management. It is an effective way to promote and communicate an integrated, holistic approach to enterprise risk management across the council.

An effective enterprise risk management process will ensure that risk is defined broadly to include all relevant business risk categories, and that risk management is integrated with a council's strategy-setting and decision-making processes, governance arrangements, policies, plans and procedures.

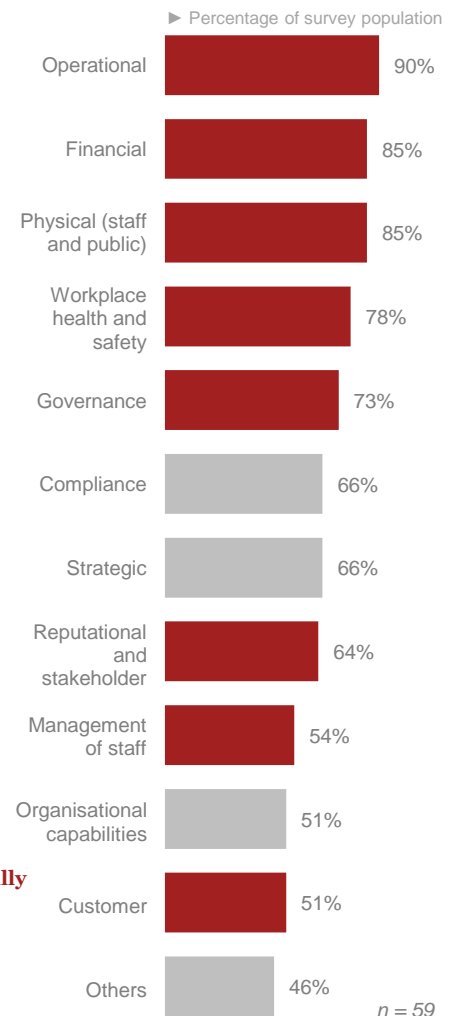
Risks that could affect the achievement of the council's strategy and objectives, and risks that impact core operations and key projects should be identified, assessed and managed in a systematic manner, using the principles set out in the Australian Standards for risk management AS/NZS ISO 31000.

The results from our survey show that 82% of councils have a risk management policy in place. We recommend that all councils have a risk management policy.

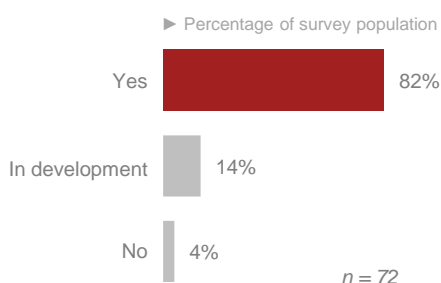
Our survey further reveals that management are not in the practice of formally reporting risks to council on a regular basis – over half the councils surveyed (52%) either report risks to council annually or as required, with a further 11% unable to say how often. The frequency and forum of reporting about risk to council on a formal basis will depend on the structure and effectiveness of other embedded risk reporting processes to management and the Audit and Risk Committee. While the Audit and Risk Committee is a sub-committee of the council, it remains prudent for the full council to be appropriately updated and assured as to the effectiveness of risk management on a consistent and regular basis.

When it comes to risk categories covered within a council's risk management policy, the top four are operational (90%), financial and physical (both 85%) and workplace, health and safety (78%). We recommend councils incorporate a balance of risk categories reflecting both internal risks (risks to a council's operational processes) and external risks (risk within the local government environment).

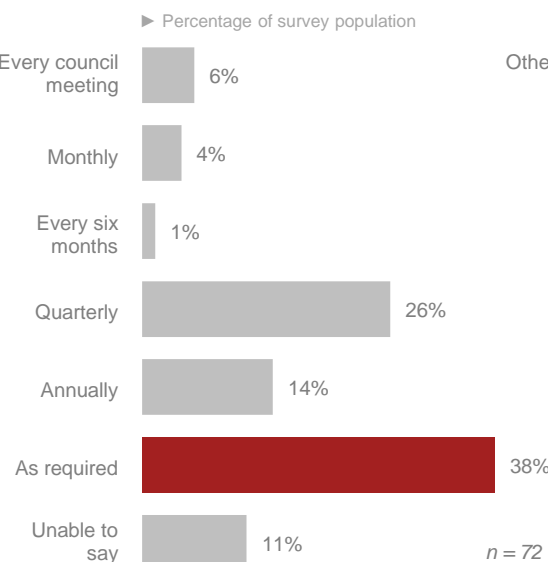
Which categories are covered in your risk management policy?



Does your council have an approved risk management policy in place?



How often are your council's risks formally reported to council?



■ Survey population
■ Oberon Council

Corporate governance

Audit and Risk Committee

The Audit and Risk Committee is an integral component of an organisation's corporate governance arrangements. Its responsibilities will generally cover, but are not limited to, the review and oversight of the following areas: internal control framework, risk management activities, financial statements, internal audit and external audit. The Audit and Risk Committee can also oversee and hold management accountable for its performance in managing these important areas.

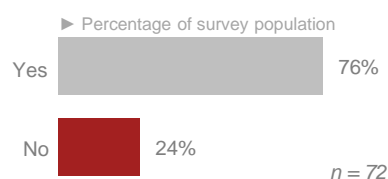
Our survey found that 76% of councils have an Audit and Risk Committee in place. In most instances the Audit and Risk Committees were combined into one oversight committee, which is common practice for organisations of this size and nature.

Examining the composition of the Audit and Risk Committee is also important. Assessing the level of independence, skill set and background of committee members to ensure alignment with the committee's goals and responsibilities is an effective way of allowing the committee to deal more comprehensively with risk management.²³ The appointment of independent members will strengthen the committee's actual and perceived independence. The Internal Audit and Risk Management Policy for the NSW Public Sector states that the majority of Audit and Risk Committee members must be independent.²⁴ While this policy is not mandatory for councils, it is considered best practice for the majority of Audit and Risk Committee members to be independent.

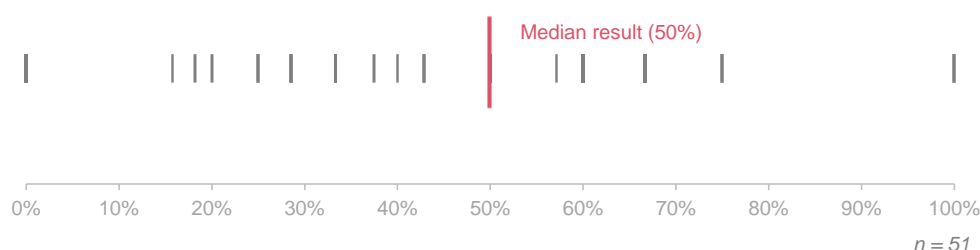
Our survey shows a median result of 50% of Audit and Risk Committee members being independent or external to council. Regional councils have a higher representation of independent or external members, with a median result of 60%. Those councils with no external representation on their Audit and Risk Committee are encouraged to review their composition and reconsider the need for additional independent representation. We also encourage the Audit and Risk Committees of each council to review their performance on an annual basis if they are not already doing so.

Each council needs to decide how to best achieve the right level of focus on risk management and this includes the level of investment in risk management resources. The number of risk-related FTE ranges from a median of 2.8 FTE in large councils to 1.0 FTE in small councils. The important point here is that at some level there is clear ownership and accountability for risk management within your council. Some councils may choose to have resources with risk management as a component of their role, while others will put in place dedicated risk resources.

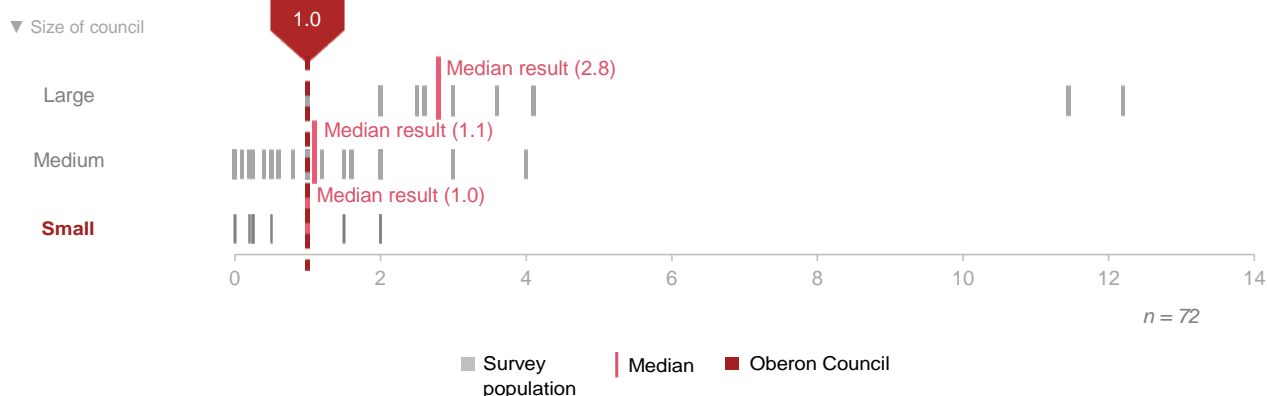
Does your council have an Audit and Risk Committee (or equivalent)?



Percentage of independent external members of the Audit and Risk Committee



Number of risk-related FTEs by council size



²³ PwC Australia, March 2012, Audit and Risk Committee Matters, 'Forward thinking for the audit and risk committee'

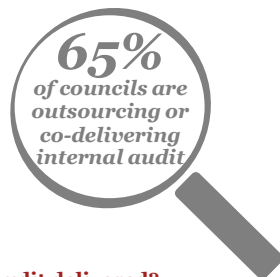
²⁴ NSW Treasury, August 2009, Treasury Policy Paper 09-05: 'Internal Audit and Risk Management Policy for the NSW Public Sector'

Delivery of internal audit

Internal audit

The Institute of Internal Auditors defines 'internal audit' as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Internal audit helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.²⁵

Our survey indicates that 34% of councils outsource internal audits, 31% opt for co-delivered internal audits and 17% deliver internal audits through an internal function. The remaining 18% of councils don't engage in any form of internal audit. We recommend these councils reconsider this approach and assess the benefits internal audit would have on enterprise risk management and broader council operations. It would strengthen the governance framework and provide a third line of defence.

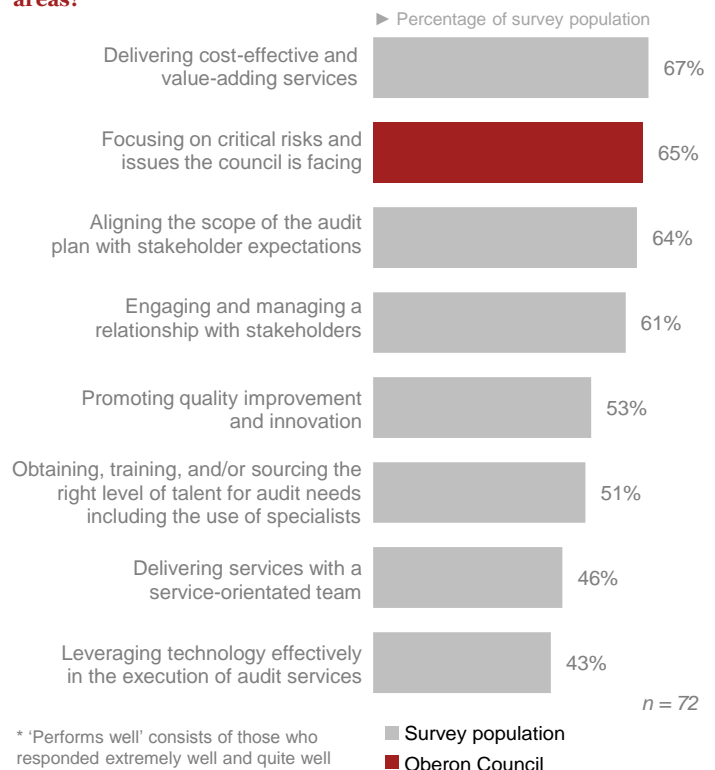


The results of our survey indicate that outsourced internal audits take the least amount of effort, with a median of four days per \$10 million in council revenue. Outsourced and co-delivered internal audits may reflect either lower levels of investment, higher efficiency of work programs, or a combination of both, in comparison to internal audits delivered by an internal function.

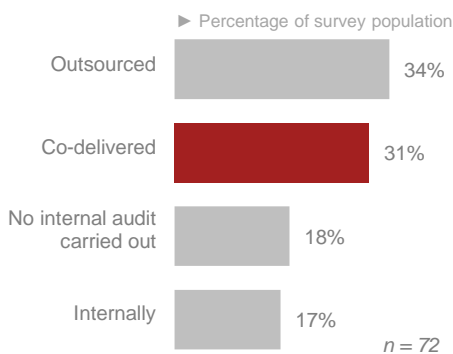
To assess the effectiveness of internal audit we asked councils to rate how well internal audit performs in a number of different areas. Delivering cost-effective and value-adding services (67%) was the best performing area, closely followed by focusing on critical risks and issues (65%).

The key area for local government to focus on is leveraging technology effectively, as only 43% of internal audit functions performed well in this area. This result is relatively consistent with PwC's recent global internal audit study, where only 40% of global internal audit functions performed well in this area.²⁶ However, when it comes to delivering services with a service-oriented team, only 46% of councils say they perform well, compared to the global result of 74%.

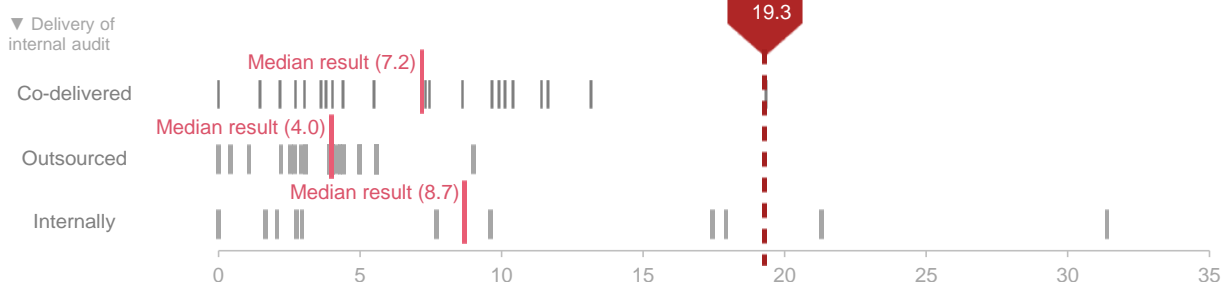
Does your internal audit function perform well* in the following areas?



How is internal audit delivered?



Days of internal audit effort per \$10 million in council revenue



²⁵ The Institute of Internal Auditors Research Foundation, January 2011, International Professional Practices Framework (IPPF), Florida, USA

²⁶ PwC, 2014, State of the Internal Audit Profession Study, 'Higher performance by design: a blueprint for change'

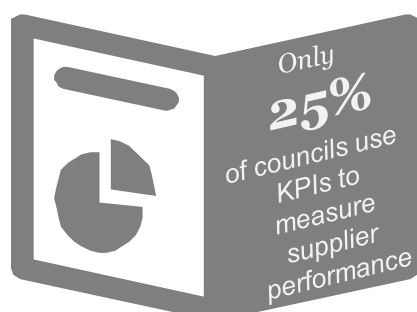
A new focus on supplier risk management

Supplier performance and relationships

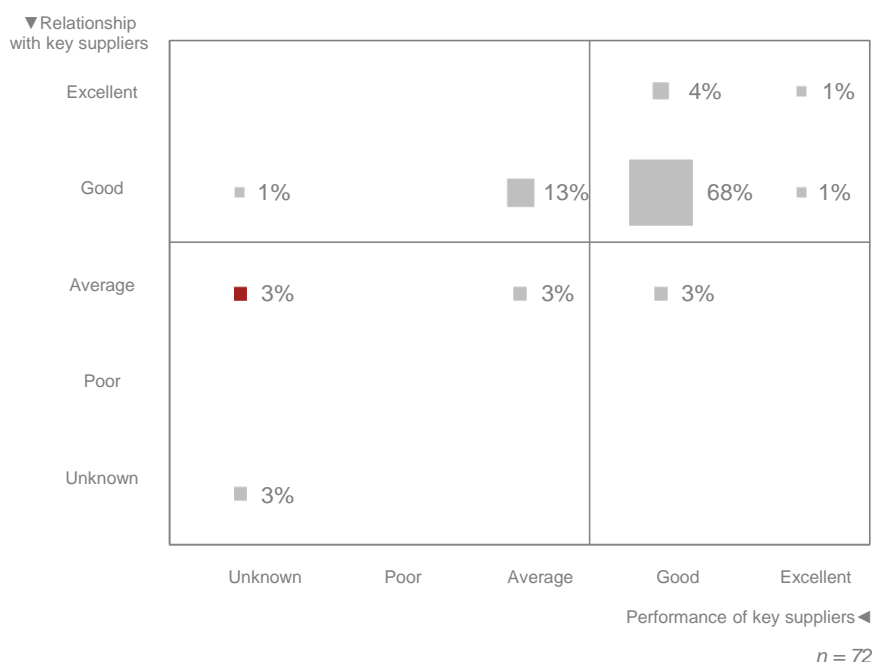
PwC Australia's recent Supplier Risk Management Study, shows that the reality for many Australian organisations is their supply chains are increasingly complex, encompassing multiple partners.²⁷ These multiple partners manage sourcing in a variety of ways across varied international jurisdictions. This increased complexity is creating a pressing need for organisations to get a better handle on their supplier arrangements.

In our survey we chose to explore key supplier performance and relationships, along with how councils measure performance of this group. Our results reveal that just over two-thirds (68%) of councils rate both the performance and relationship with their key suppliers as 'good'. This result is higher than the recent PwC study on supplier risk management, where only 59% of businesses rated performance and relationships as 'good'.²⁸ The Supplier Risk Management Study, which surveyed 68 organisations, found that relationships with key suppliers are stronger when clearly defined roles are established. Communicating the required controls and operating principles with key suppliers is also important.

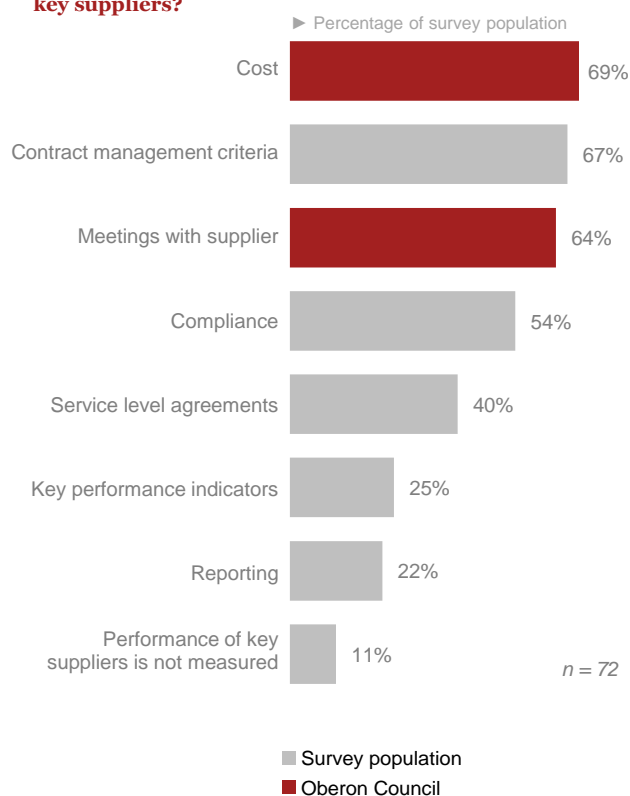
While 11% of councils are not measuring the performance of key suppliers, the remaining councils are using cost (69%), contract management (67%) and regular meetings (64%) to better understand supplier performance. A key point of difference when comparing councils to the organisations from the Supplier Risk Management Study is that the use of key performance indicators is low in NSW local government at 25%. In the Supplier Risk Management Study, 71% of organisations surveyed used KPIs to measure the performance of suppliers. This is an area of performance improvement for NSW councils.²⁹



Performance of and relationship with key suppliers



How does your council measure the performance of its key suppliers?



²⁷ PwC Australia, 2013, Supplier Risk Management Study, 'Time to take control'

²⁸ Ibid

²⁹ Ibid

Corporate Leadership



Ensuring efficient and consistent decision making

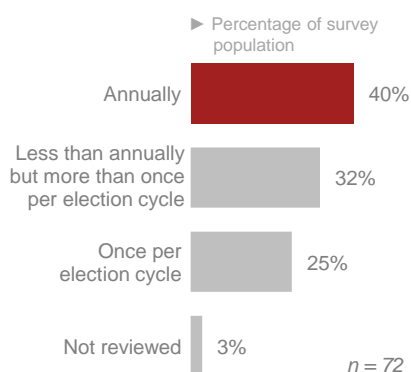
Delegations register

The delegations register is an integral part of a council's overall governance framework. It is encouraging to see that after the 2012 council election, the vast majority of councils reviewed their delegations register. Only two councils (3%) did not review their register.

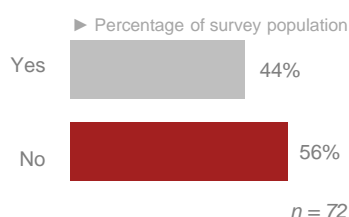
Reviewing the delegations register maintains a focus on efficient decision making within a council. It also helps manage risk by ensuring current delegations align with the capabilities, qualifications and needs of the positions to which they apply.

Equally important is that decisions comply with the delegations register, thereby protecting against misuse of delegated authority. We found that 56% of councils do not audit their decisions for compliance to the delegation register, leaving just 44% of councils that do perform this important step as part of their risk framework. We recommend that all councils implement a process to audit and review the performance of delegated functions and ensure compliance with operating procedures.

How frequently does your council review its delegations register?



Are your council's decisions audited for their compliance to the delegations register?

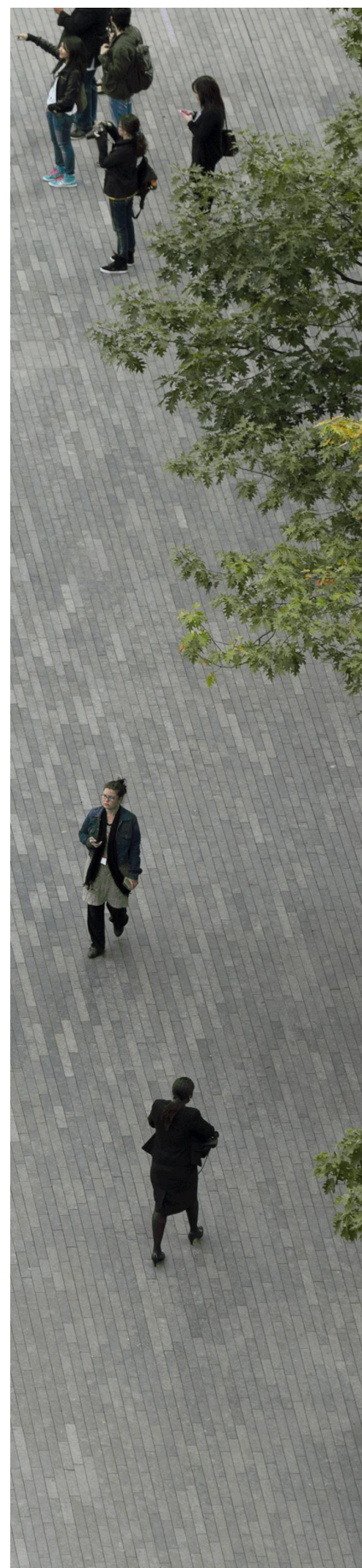
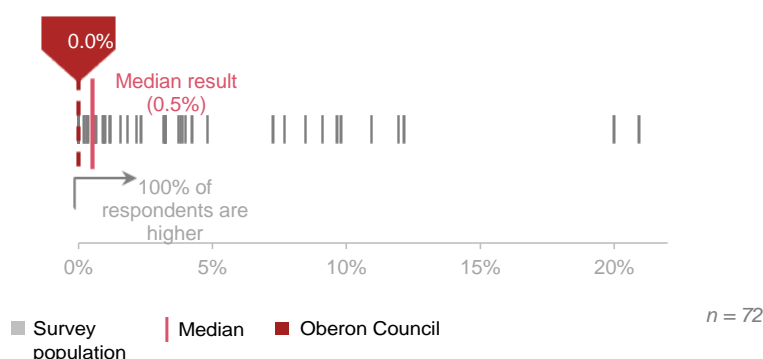


Development applications

Considering development applications (DAs) is an important part of a council's community responsibilities, and an efficient and uniform approach is vital. The efficient and consistent processing of DAs can be assisted by clear delegation of authority.

Our survey reveals that during the 2012–13 financial year, the delegations register was used efficiently when it came to actioning DAs. The median result shows that only 0.5% of DAs that were entitled to be dealt with under delegated authority were considered at a council meeting.

Percentage of DAs that went to council (when they could have been actioned by management under the delegations register)



Approach to decision making

Council decision making

The Office of Local Government describes a councillor's role as setting the council's strategic direction and making final policy decisions. The *Local Government Act 1993* requires that council meetings be held at least ten times a year, each time in a different month.

We gathered data on each council's last six meetings in the second half of the 2012–13 financial year. Our survey results show that two-thirds of councils held a council meeting on a monthly basis during this period. While we understand that newly elected councils may initially meet more frequently and that new councils' meetings may be longer initially, given the significance of these meetings and the extent of council resources that goes into preparing, documenting and supporting them, councils should carefully consider the effectiveness of each council meeting.

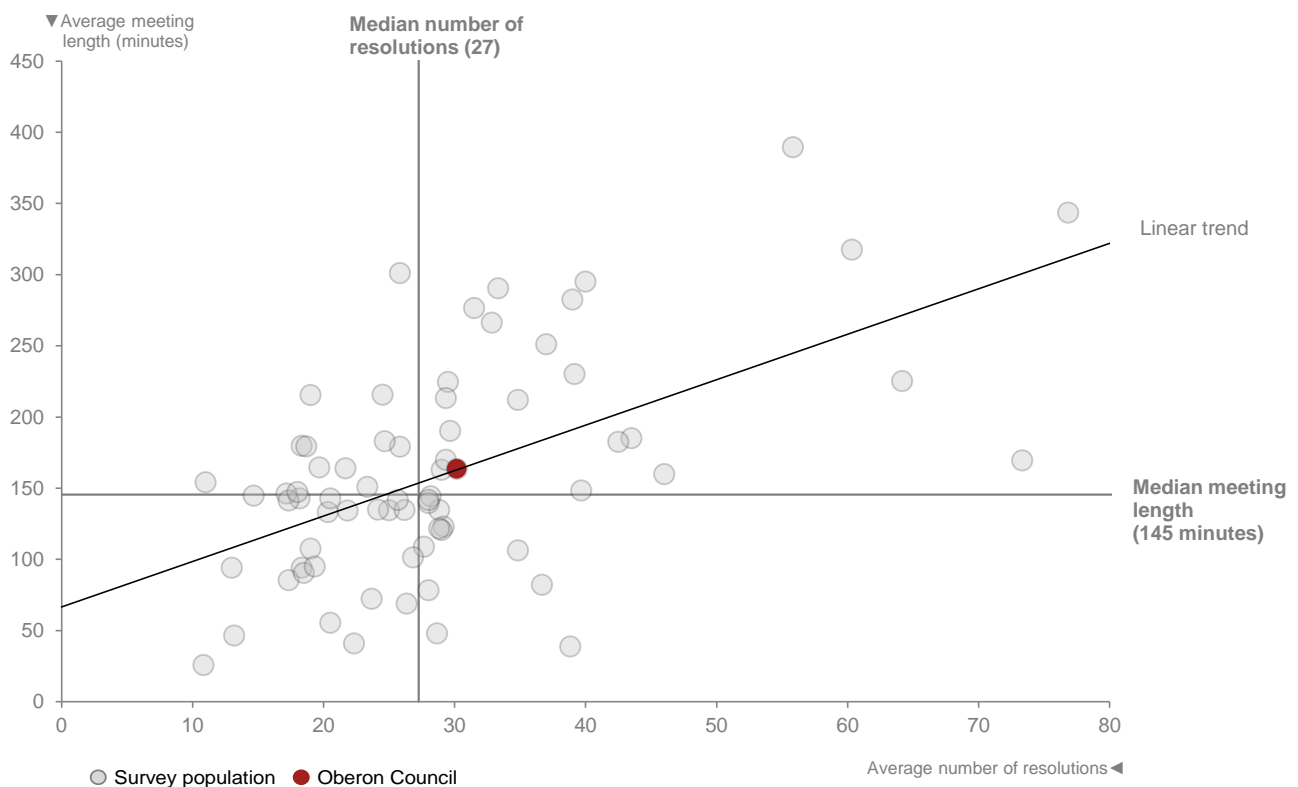
We have examined the correlation between meeting duration and resolutions passed. The survey results show that the median council meeting duration (of around 2.5 hours) produced around 27 resolutions.

For councillors to make effective decisions, they require timely information presented in a way that is easy to digest and clearly identifies options and potential issues. It is important that councillors can formulate a point of view while understanding related consequences, based on the information disseminated. The council's role is to make decisions efficiently and effectively to achieve the best outcome overall, and to engage and satisfy the community and workforce as part of the process.

Key considerations

- Do your council meetings regularly extend beyond three hours with limited resolutions?
- Are your councillors presented with clear and concise information on a timely basis that allows them to make informed decisions?
- Are meeting papers excessively long and complex, making a proper review onerous for councillors?
- Do you review the effectiveness of your council meetings?
- Are you using leading governance practices in your council meetings?

Relationship between council meeting duration and resolutions passed in the second half of FY13



Analysing council meetings and resolutions

Council meeting duration and number of resolutions

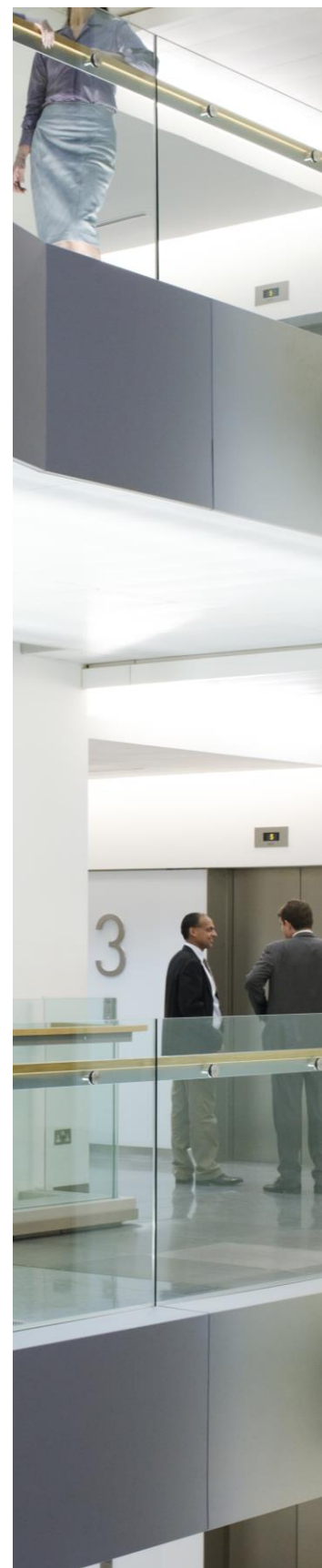
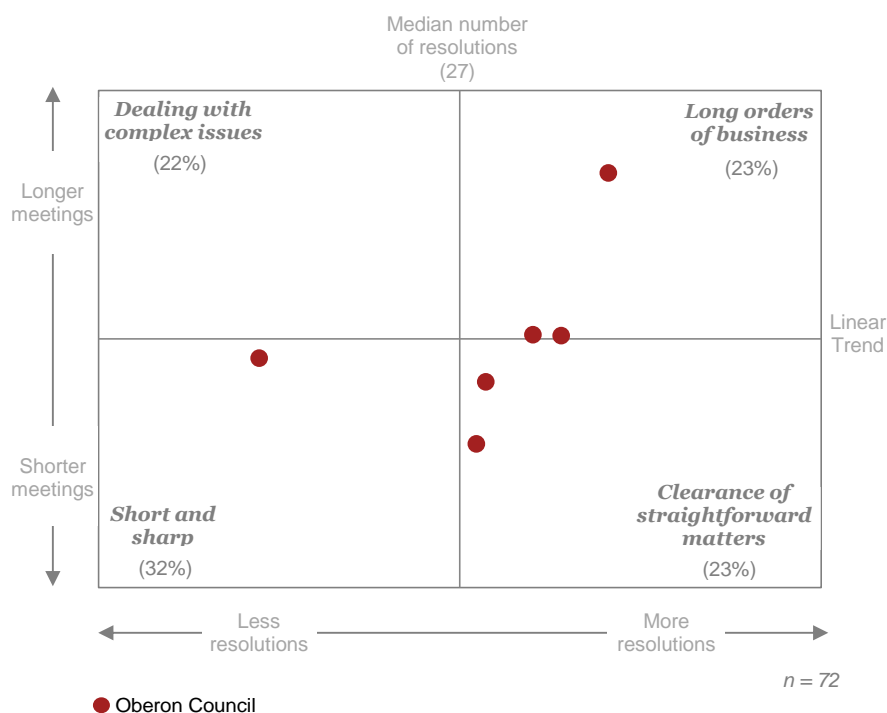
In the framework below, we have converted our survey data into a matrix to show possible reasons why council meetings may differ in duration and produce a different number of resolutions. This allows councils to further explore the correlation between meeting length and the number of resolutions passed at their council meetings in the second half of the 2012–13 financial year.

When reviewing your profile in the chart below, consider that councils may have meetings across all of the four quadrants if warranted by the nature of business to be discussed. In fact, it may enhance a council's productivity if a range of the identified meeting types exist across the year. Each council should assess its results against the complexity and the associated risk profile of the issues discussed in council meetings during the period January to June 2013.

Key considerations:

- Did the level of issue complexity match the time taken to resolve them?
- Could more meetings have been short and sharp?

Relationship between council meeting duration and resolutions passed in the second half of FY13



Maintaining high levels of staff engagement

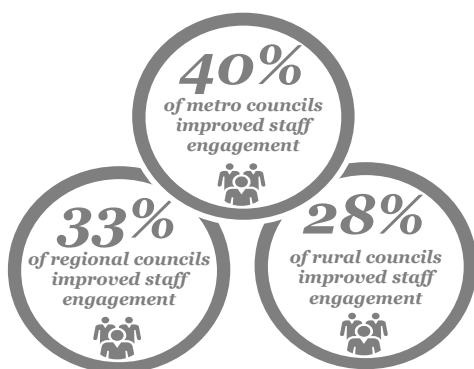
Staff engagement

Employees who feel valued are generally more productive and more motivated to give back to their colleagues, employer and community. Corporate Executive Board's Corporate Leadership Council conducted research in 2010 and found that the employees most committed to their organisations put in 57% more effort on the job and were 87% less likely to resign than employees who considered themselves disengaged.³⁰

Our survey shows that 33% of councils improved staff engagement in the 2012–13 financial year; however, this varied by type of council. A breakdown of that result shows 40% of metropolitan councils, 33% of regional councils and 28% of rural councils improved staff engagement.

A further 37% of councils said their staff engagement had remained the same. For councils where staff engagement had declined (6%), there is an opportunity to develop actions to improve their staff engagement levels, and for 24% of councils to start to measure and track this important facet of efficient council operation.

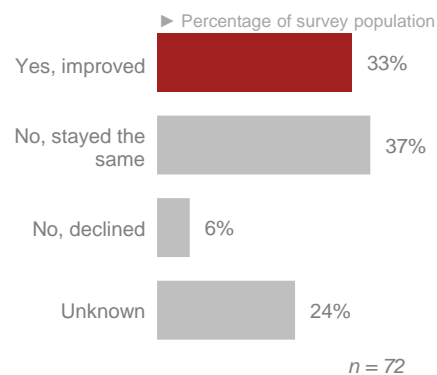
When it comes to the business planning process, 46% of councils have planning criteria in place to help employees develop their business plans, while 46% do not assist employees in this way. Interestingly, for councils with improved staff engagement, almost two-thirds provide this planning criteria to their employees to help them better develop their business plans.



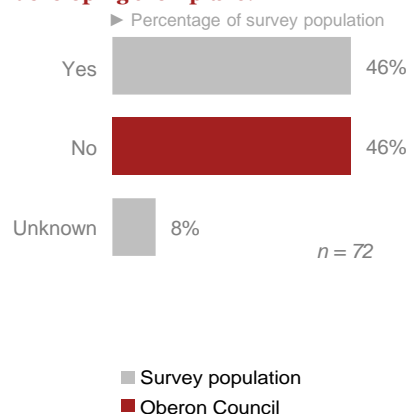
Key considerations

- Do you conduct a brief employee survey on a regular basis, at least once a year?
- Do you tie employee recognition to the achievement of council's values and goals?
- Have you considered peer-to-peer recognition rather than just a top-down approach?
- Do you make staff recognition a priority and share success stories?

Did your staff engagement levels improve during the year ending 30 June 2013?



As part of the business planning process, do your staff have planning criteria in place that assist them in developing their plans?



³⁰ Corporate Executive Board, August 2010, 'The Role of Employee Engagement in the Return to Growth', published in *Bloomberg Businessweek*

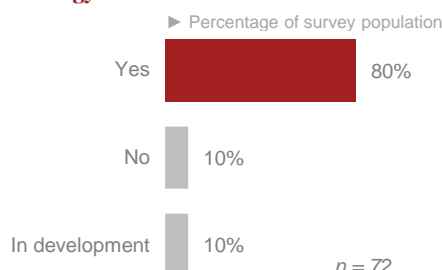
Consulting with the community

Community engagement

Councils that regularly engage with the community on a range of issues engender trust and understanding. Residents can contribute to decision making and influence outcomes in a way that directly impacts their local community. It is also legislated that, every four years, councils should engage the community under the Integrated Planning and Reporting framework. While there are numerous aspects to community engagement, we have chosen to focus on the community engagement strategy.

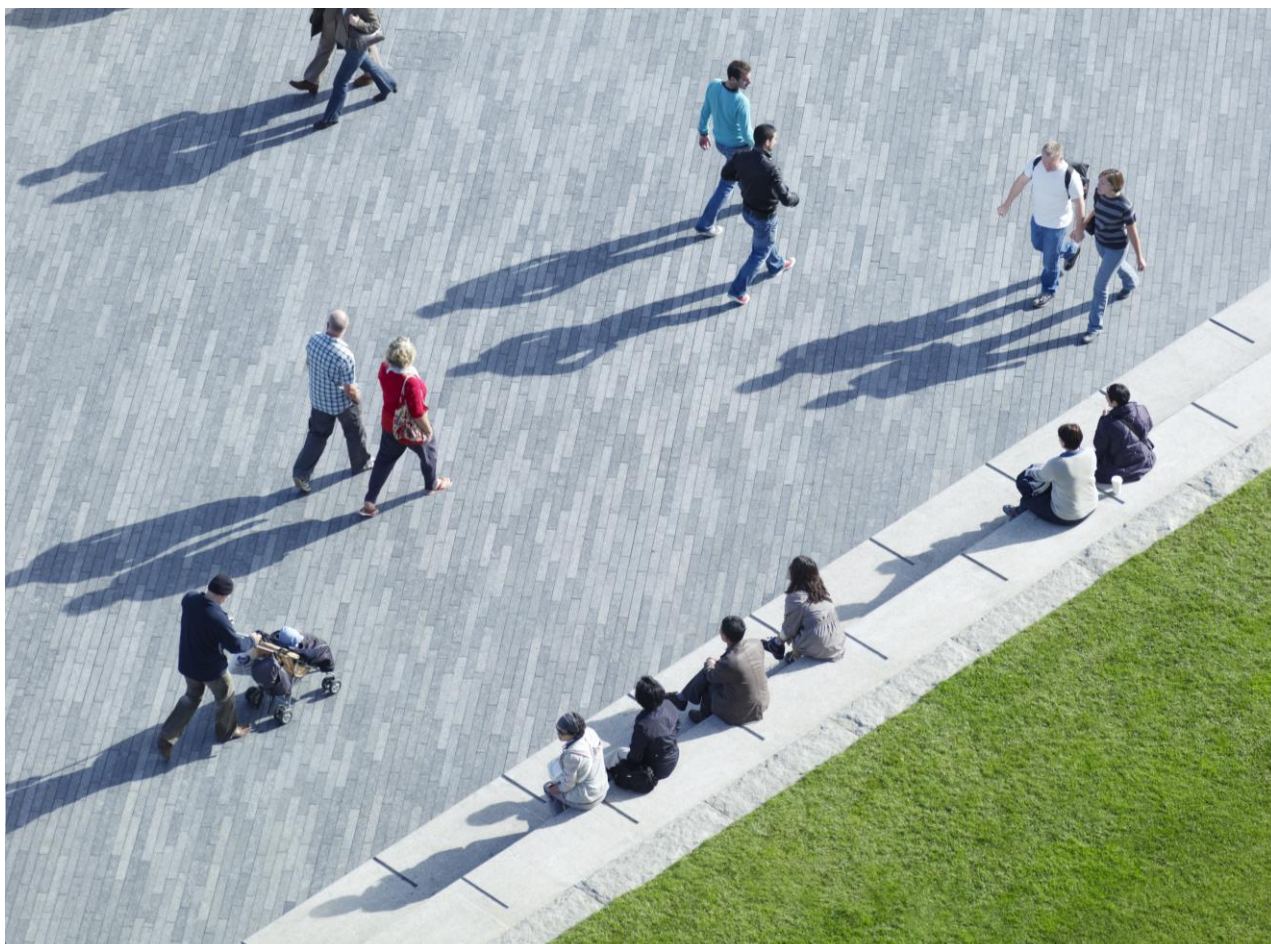
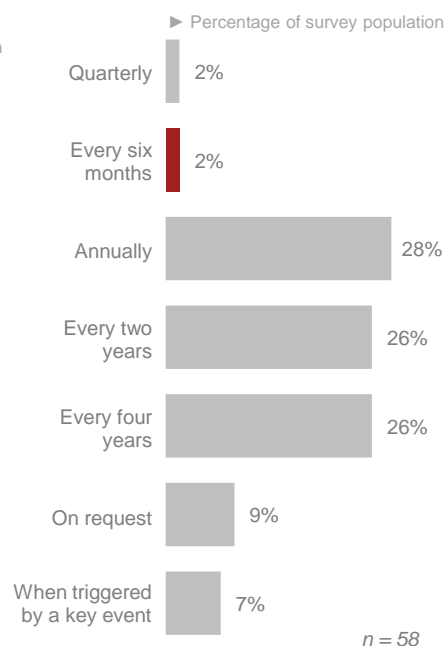
Our survey results show that 80% of councils have a community engagement strategy and a further 10% have one in development. Given this is a requirement of the Integrated Planning and Reporting legislation, we would expect to see all councils with a community engagement strategy in place. The frequency of review of this strategy varies for those councils with a strategy in place – 28% review annually, 26% review every two years and a further 26% review every four years.

Do you have a documented and approved community engagement strategy?



■ Survey population
■ Oberon Council

How frequently is your community engagement strategy reviewed?



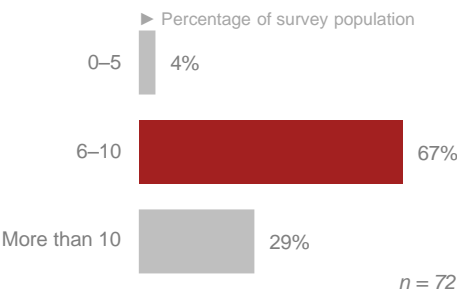
Consulting with the community (continued)

Community engagement

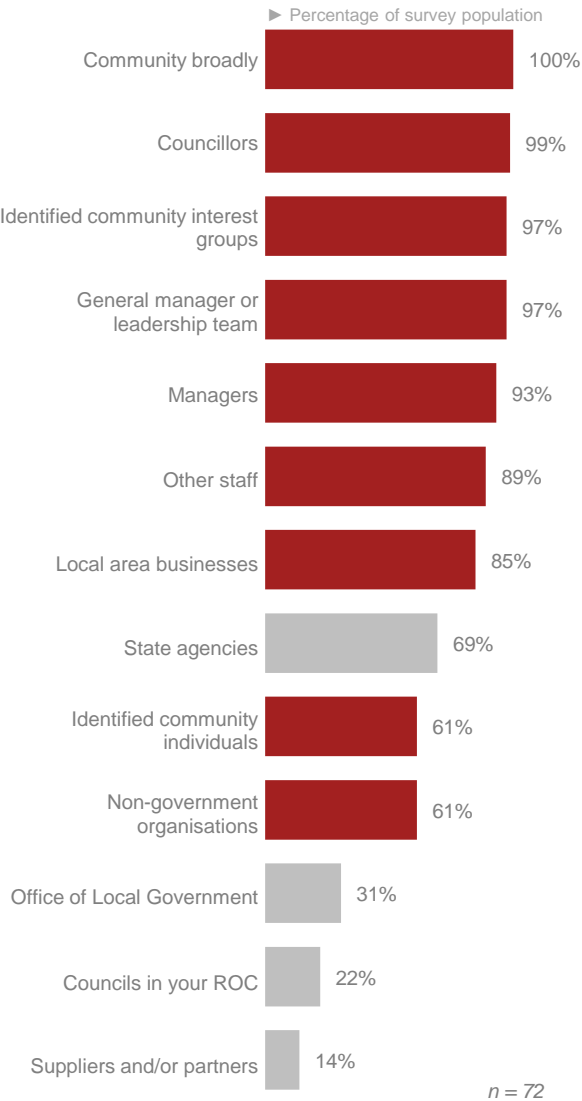
When it comes to consulting with stakeholders to assist in developing the council's community strategic plan, it is interesting to note that only one council consulted across all stakeholder groups. Of the remainder, 67% of councils consulted between six and ten stakeholder groups, and 29% consulted with more than ten.

So which stakeholders are being consulted? All councils consult the community broadly on strategy formation and the vast majority also consult councillors, identified community interest groups and the general manager and/or leadership team. Councils could improve their efforts in consulting much more widely to obtain a richer variety of inputs and issues to consider. Examples of stakeholders who can provide such inputs include suppliers, neighbouring councils in your Regional Organisation of Councils and the Office of Local Government.

How many different groups were consulted in developing your council's most recent community strategic plan?



Which of the following groups were consulted when developing the most recent council community strategic plan?



■ Survey population
■ Oberon Council

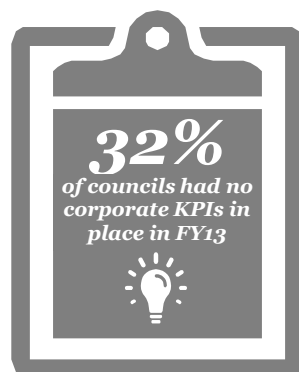
Understanding council performance

Corporate performance measures

Access to good-quality performance information is vital for creating, preserving and demonstrating effective achievements. Senior management require powerful and informative tools to help them translate the Delivery Program into financial and operational plans and then measure performance against those plans. This process allows for continuous improvement through periodic reviews and appropriate adjustments to financial and operational indicators. It also enables managers and employees to be recognised and rewarded for activities that help to achieve the council's strategic goals.

Managers all along the line have to become engaged in the process, they have to believe they can implement the strategy and must commit themselves to the goal. That is where strong leadership comes in, and that is why all companies (including councils) need good agents for change.³¹

When it comes to corporate performance measures that are tracked and formally reported to council, the top three areas where councils are focused are financial (94%), operational (83%) and governance (68%). Surprisingly, there appears to be a limited focus on measuring reputation and relationship with stakeholders (10%) and brand image (6%), which is at odds with the priorities of corporate Australia.



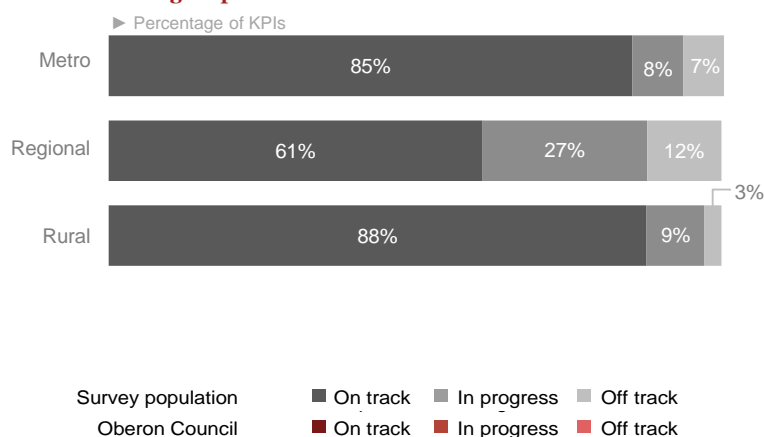
Key considerations

- Have you created a culture that focuses on measuring those things that are priorities for improvement?
- Are your corporate measures aligned to your strategy?
- Do you share the results of your council's KPIs with all employees?
- Are you focused on measuring and managing your reputation and interaction with the community?

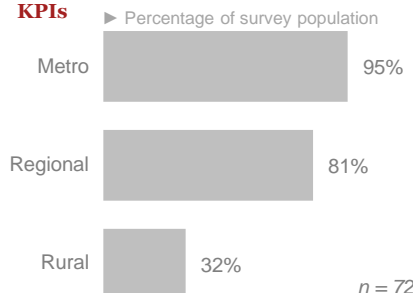
Our survey reveals that over two-thirds of councils had established corporate key performance indicators (KPIs) in the 2012–13 financial year.

Interestingly, although rural councils are least likely to have KPIs in place, where they are present 88% reported that they were on track. This compared to 85% of KPIs being reported as on track in metropolitan councils and 61% in regional councils. While this is encouraging to see, it is important to question whether your goals have sufficient 'stretch' for your council to progress at a faster rate.

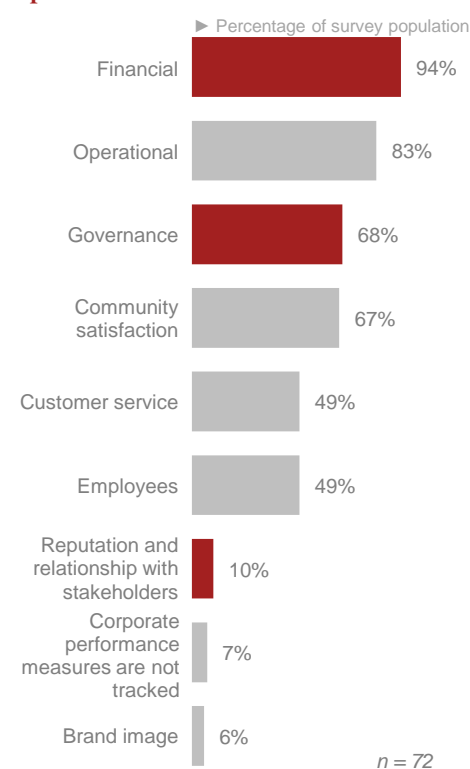
Results from tracking corporate KPIs



Percentage of councils with corporate KPIs



Which corporate performance measures are formally tracked and reported to council?



Legend: Survey population (grey), Oberon Council (dark red)

³¹ PwC, 2008, 'Managing business performance: The metrics that matter'

Case study: Randwick City Council

Corporate performance measures

When did Randwick City Council (Randwick) identify there was a case for change?

Ten years ago, Randwick City Council (Randwick) appointed its current General Manager, who brought his own approach to corporate leadership. He identified the need for a renewed focus on measuring corporate performance and encouraged the council's leadership team to adopt a new credo: "what you can measure you can improve".

In developing its first City Plan in 2006, Randwick identified six major themes and corresponding outcomes for the council to work towards, and measure performance against. Prior to the plan's implementation, the majority of performance reviews were predominantly based on output. The City Plan, however, initiated a shift towards the outcome-based model that is now known by all councils as 'Integrated Planning and Reporting'.

What approach did Randwick take?

A rigorous approach to front-end planning underpins corporate leadership at Randwick, as well as the confidence that any resources required for follow-through have been allocated. The council also employs 10-year financial strategies across all of its key operating areas, with Randwick's entire management team participating in deliberations in preparing the annual budget.

The council's meticulous planning is accompanied by a culture of continual monitoring that is driven by the Executive. Randwick's proactive approach means that it can respond promptly to any identified variances in performance before they are presented to the whole council each quarter. The suite of indicators (outcome and corporate/output) are facilitated by the Integrated Planning and Reporting function to ensure consistency.

What results did the change achieve?

Following amendments to the *Local Government Act* in 2010 and the implementation of the OLG's Integrated Planning and Reporting Framework, Randwick became a Group 1 council. This led to the 'Buildings for Our Community' program gaining approval for a special rate variation application of approximately \$35 million.

The decision to monitor outcome-based (as opposed to output-based) indicators has also increased inter-departmental integration, with the focus shifting towards outcomes that benefit the Council and the community as a whole.

What challenges did Randwick face?

The new approach to performance monitoring initially met with some resistance around the idea of reporting on outcomes that were beyond the council's direct control. This was overcome by clearly defining where our council had either 'control', 'influence' or 'concern'. The introduction of Integrated Planning and Reporting legislation and our council's important role as custodians of Randwick City were also significant considerations.

To ensure continual progress towards the council's vision, all new council members attend an induction session with the leadership team. This helps new members feel that they are involved in the council's pursuit of set goals, and emphasises its culture of open communication.

What recommendations would Randwick give to other councils?

Our experience has shown that it is much easier to set KPIs at an operational level than at the corporate level, but outcome measures provide greater clarity about the impact of our actions and our performance. In addition, it is imperative for a council's General Manager and leadership team to support any move towards an outcome-based model.

What does the future look like?

At Randwick, we are currently considering options to integrate data sources through various systems, to optimise information flow and corporate knowledge.



What types of corporate measures does Randwick use?

In 2012, Randwick developed a review model that emphasised outcome-based KPIs. We designed 70 KPIs to help monitor the council's progress towards City Theme outcomes. In this model, each indicator is assigned a level of management control: 'control', 'influence' or 'issue of concern'. Some examples of performance indicators are provided below:

Responsible management

KPI: Percentage of required annual maintenance expenditure on public works actually expended

Management level: Control

Insight: Tells us how effective we are in maintaining public assets to a satisfactory standard

KPI: Percentage of service requests completed within service level agreement targets

Management level: Control

Insight: Tells us how efficient we are when responding to community requests

A sense of community

KPI: Percentage of surveyed residents who stated that they feel part of their local community

Management level: Influence

Insight: Tells us how successful we are at creating inclusiveness and a sense of community

Places for people

KPI: Average development assessment processing time (days)

Management level: Control

Insight: Tells us how efficient we are at processing development applications

A prospering city

KPI: The difference between the unemployment rate in the Randwick LGA and that of the Sydney Statistical Division

Management level: Concern

Insight: Tells us how effective we might be in economic development

Moving around

KPI: Percentage of trips where mode of travel was not a vehicle driver

Management level: Concern

Insight: Tells us how effective we might be in encouraging greater use of sustainable transport

Looking after our environment

KPI: Mains water consumed by the council's operations per day on average

Management level: Control

Insight: Tells us how efficient we are at managing water usage and using alternative sustainable water sources

KPI: Amount of residential waste diverted from landfill

Management level: Influence

Insight: Tells us how effective we might be in influencing waste reduction

Contacts

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The NSW Local Government Operational and Management Effectiveness Report FY13 is produced in conjunction with Local Government Professionals Australia, NSW and the results are analysed by members of PwC's Analytics team.



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