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NSW local government operational and management effectiveness report – FY14

Oberon Council

PwC and Local Government Professionals, Australia NSW

29 April 2015

Foreword

Stuart Shinfield
Partner
PwC Analytics

This is the second year that PwC and Local Government Professionals Australia, NSW have collaborated to produce the Local Government Operational and Management Effectiveness Insights Survey for councils in NSW.

Based on the foundations of our first study, we have further developed the data we collected from 78 NSW councils, and the analysis generated. We are particularly alert to the timing of this report, with council Fit for the Future submissions due within the next two months, and we trust that this report serves as a useful tool for you to measure your progress against your goals while targeting areas for improvement.

In completing this process with councils, we have already seen a substantial improvement in councils' capacity to efficiently complete the data collection and verification process. We have observed that many councils now use repeatable processes that allow them to generate reliable, consistent data from core systems, and we congratulate the councils that have made this investment.

The report itself continues its focus on providing insight to local government professionals, senior managers and governors. We have addressed 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 analysis. We continue to incorporate the results of other PwC research into this project, to add local and international experience, and perspectives from across different sectors.

The entire PwC team is very grateful to the staff at each of our participating councils for their diligence and helpful feedback. As we now prepare for the Round 3 report, while also working on new innovations (described by Annalisa below), we continue to find new opportunities for providing insight to councils, and measuring their improvement. It remains a privilege to continue this work and support councils in their journey towards operational excellence.

[redacted]

Annalisa Haskell
CEO
LG Professionals Australia, NSW

Welcome to our second local government operational effectiveness report. We have worked hard to deliver this report in a timely manner, acknowledging that all councils' Fit for the Future submissions are due imminently to the NSW government.

We have spent significant time ensuring that this report allows you to easily see the key trends and changes for the sector as a whole, as well as for your own council. We want you to identify and take away the key points of relevance so that you can communicate these to the government or internally, but also to your key stakeholders who have an interest in your performance and who appreciate being brought along with you on this insightful journey.

Since the launch of the project and the delivery of Report 1, all councils (except one) have been able to maintain their full involvement in the project, and seven new councils have also joined in, so we now have 78 participating councils. I look forward to presenting the industry trends, changes and insights at the LGMA National Congress in Darwin at the end of April 2015. Mayors and General Managers/CEOs from around the country will be in attendance and will hear about the great work we have all done together to support councils in NSW. As this is the first real analysis of council performance, I am sure it will attract attention to and highlight the common issues concerning all Australian local government councils. It will also clearly outline the power of working collectively to deliver many incremental benefits that would not have been possible individually.

Our planned new development of the Council Regional Analysis and Comparative Tool to accompany this industry resource is also evidence that by working together we can deliver above and beyond, with high quality outcomes for councils. We intend to maintain this program of work (both the survey and the tool) beyond Survey 3, and develop the resource in collaboration with you.

There is no doubt we must continue to do things differently to shape our progress. As with all good challenges, this requires a lot of work as well as courage. It is clear that the best decisions are only possible with the best information, and I am proud to say that perhaps a little uniquely, NSW councils have embraced the opportunity to achieve this.

"Change is the law of life. And those who look only to the past or present are certain to miss the future."

– John F. Kennedy (1917–63), 35th President of the United States of America

[redacted]

NSW local government highlights

Span of control
The median span of control of 3.5 employees per manager remains unchanged. This indicates the sector is over managed when compared to the global PwC benchmark, which suggests that 6 employees per manager is achievable.

Turnover rate in the first year
The median turnover rate of employees in their first year is significantly higher, at 17.9% compared to the overall equivalent turnover rate of 10%, and for first year Gen Y employees the turnover rate is 22%.

Gender turnover rate in the first year
Female employees are 1.4 times more likely than males to leave local government in their first year of employment.

Pipeline of female employees
Women face more challenges progressing to senior levels in large councils. The overall median proportion of female managers and above is 31% but in large councils it is 28%.

Promotions within the director level
Councils are making progress to address the gender imbalance at the director level. Female directors were 1.3 times more likely to be promoted compared to males.

Retirement and succession planning
60% of general managers and 39% of directors will have the option to retire in ten years, yet only 19% of councils have a succession planning program in place.

NSW local government highlights

17%

Finance - business insight activities

We continue to see a concentration of finance effort on transactional tasks (67%), with less effort allocated to business insight activities (17%).

Tracking and managing capital projects

63% of councils now formally track and have a project management framework in place for all or most of their capital projects, compared to 54% in the prior year.

63%

Service reviews

96% of metro councils conducted at least one service review in the 2013–14 financial year, compared to 69% of regional and 42% of rural councils.

Effective IT systems

Councils that rate their IT systems as effective are more than twice as likely to have a formal IT strategy in place, compared to councils without an IT strategy or with only a draft IT strategy in place.

34%

Reporting risks to council

Management is still not in the practice of formally reporting risks to council on a regular basis – only 34% of councils report risks to council at least quarterly.

Internal audit performance

Councils with an Audit and Risk Committee perform better in more areas of the internal audit – 66% of councils with a Committee performed well in six of the eight surveyed areas of the internal audit.

66%

Contents

Methodology

PwC and LG Professionals, NSW are pleased to release the second round of the NSW Local Government Operational and Management Effectiveness Report. The results of the survey predominantly focus on the 2013–14 financial year. This report is the second of three annual reports in a three-year research plan, throughout which participating councils complete annual surveys and receive findings and meaningful comparisons that focus on operational and management excellence.

In providing the current comparative insights, PwC is drawing on its extensive experience with local government and in developing, delivering and analysing 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:

Survey	• 78 NSW councils participated in the second round of this local government survey. • The survey comprised quantitative and qualitative data elements. • Throughout the process, each council's identity and information was kept confidential via PwC's secure web-based platform.
Data collection and submission feedback	• The survey for the 2013–14 financial year was launched in mid-November 2014, and data was collected and amended over a three-month period using PwC's secure online data collection tool. • Individual council results were known only to the members of the PwC analytics team working on this engagement. • After initial data submission, councils received a data submission feedpack pack highlighting their key metrics in chart format so they could check and verify the data. • Councils had an opportunity to amend their data before the General Manager or Director Delegate approved the final submission.
Analysis	• Once the data collection period finished, the PwC analytics team began its extensive analysis of the data set. • Subject-matter experts from PwC and LG Professionals, NSW guided the interpretive analysis and provided commentary on the spread of the survey results, as well as insights from the local market and the global PwC network.
Reporting	• The survey results reflect the 2013–14 financial year, based on data collected from all 78 councils. • Each participating council has received a customised insights report that compares its business performance to that of the sample population across a range of areas. • The reports are presented in a non-identifiable way; councils only see their results in relation to the sample population. • These insights reports represent a starting point for further discussions, rather than a conclusive assessment in any particular area.

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.

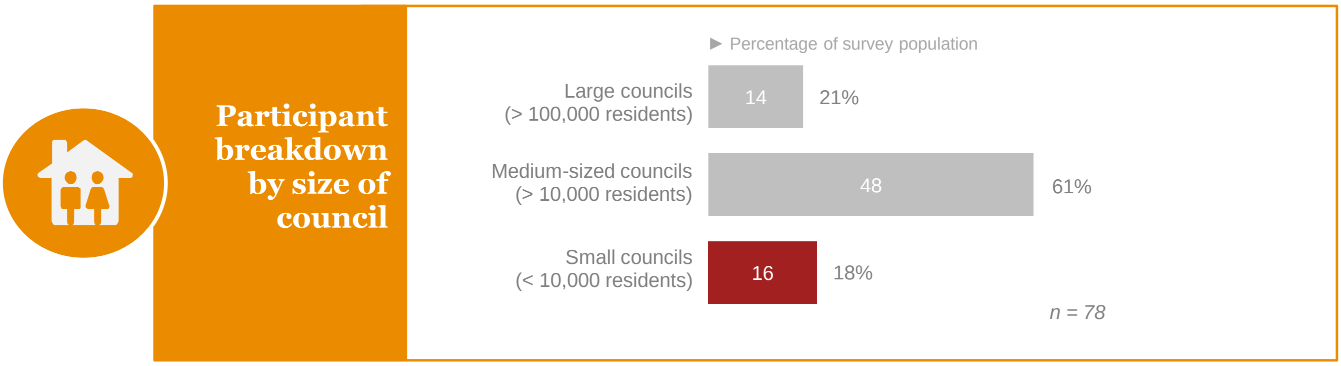
Survey population

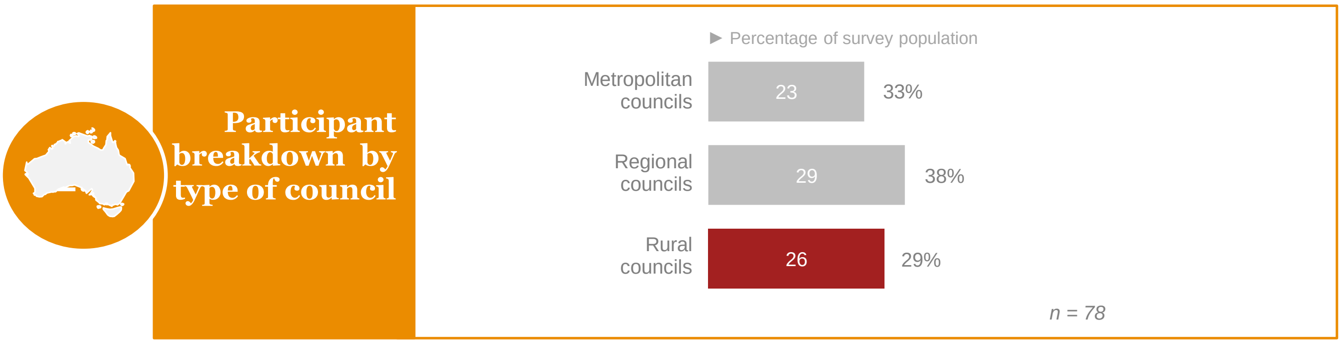
This insights report contains data contributed by 78 NSW councils. The average annual revenue of participating councils was $83.5 million. The average number of full-time equivalent (FTE) employees across the councils was 345.8.

Throughout this report, participating councils have been identified by the size of the resident population (small, medium or large) and the type of council (metro, regional or rural).

To group councils by size, we used the Australian Bureau of Statistics 2013 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 this report's 'metropolitan' and 'metropolitan fringe' categories as 'metro', and 'large rural' and 'rural' are represented in this report as 'rural'.





Understanding this report

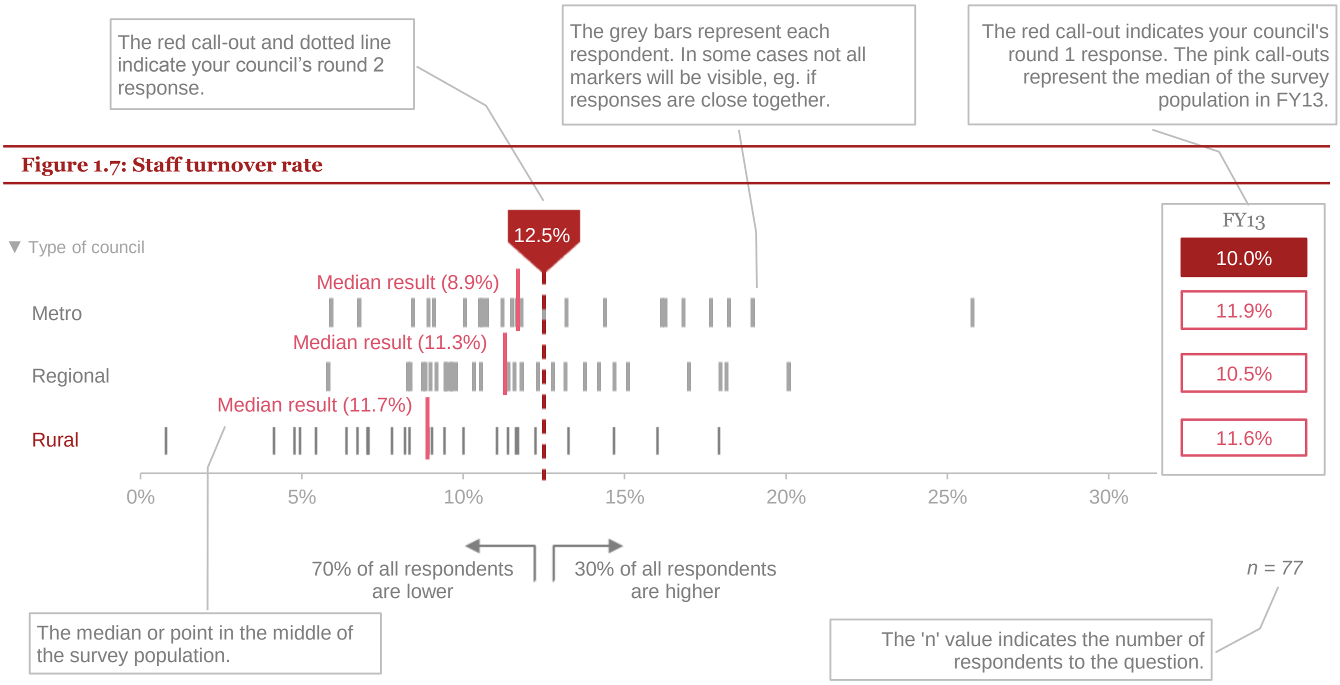
PwC and LG Professionals, NSW's Operational and Management Effectiveness Report FY14 is customised for individual survey participants. All charts within the report represent the individual council's results relative to the sample population that responded to that particular question.

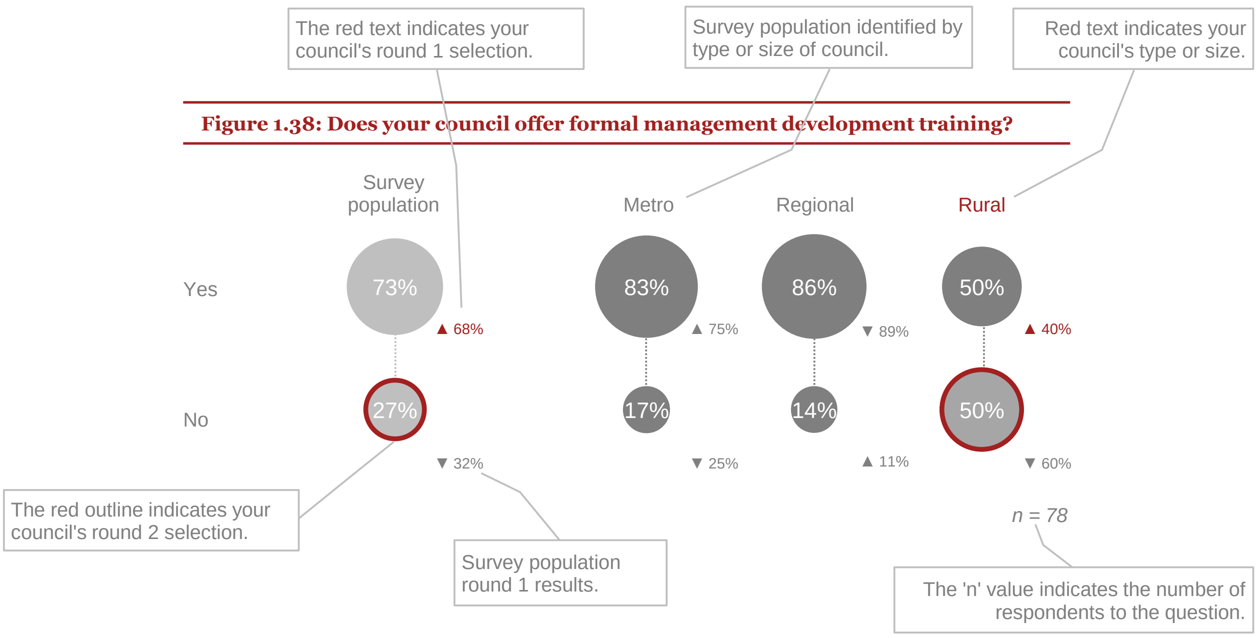
The commentary provided in the report has been prepared for the overall study and while it does not change for each council, it should provide relevant information to help each council understand the context of its own results.

For each response to a question, your council's input is displayed in **red** (indicated by the legend). To help you understand changes from the previous report, the majority of charts within this report also show the results from the 2012–13 financial year (Round 1) for your council and the survey population.

If no input was recorded by your council for this year and/or last, the **red** indicator will be missing from the charts and the result for the overall population will be displayed.

As the charts now convey a great deal of information, we have provided further explanation below on how to interpret distribution and bubble charts throughout the report.





Understanding this report

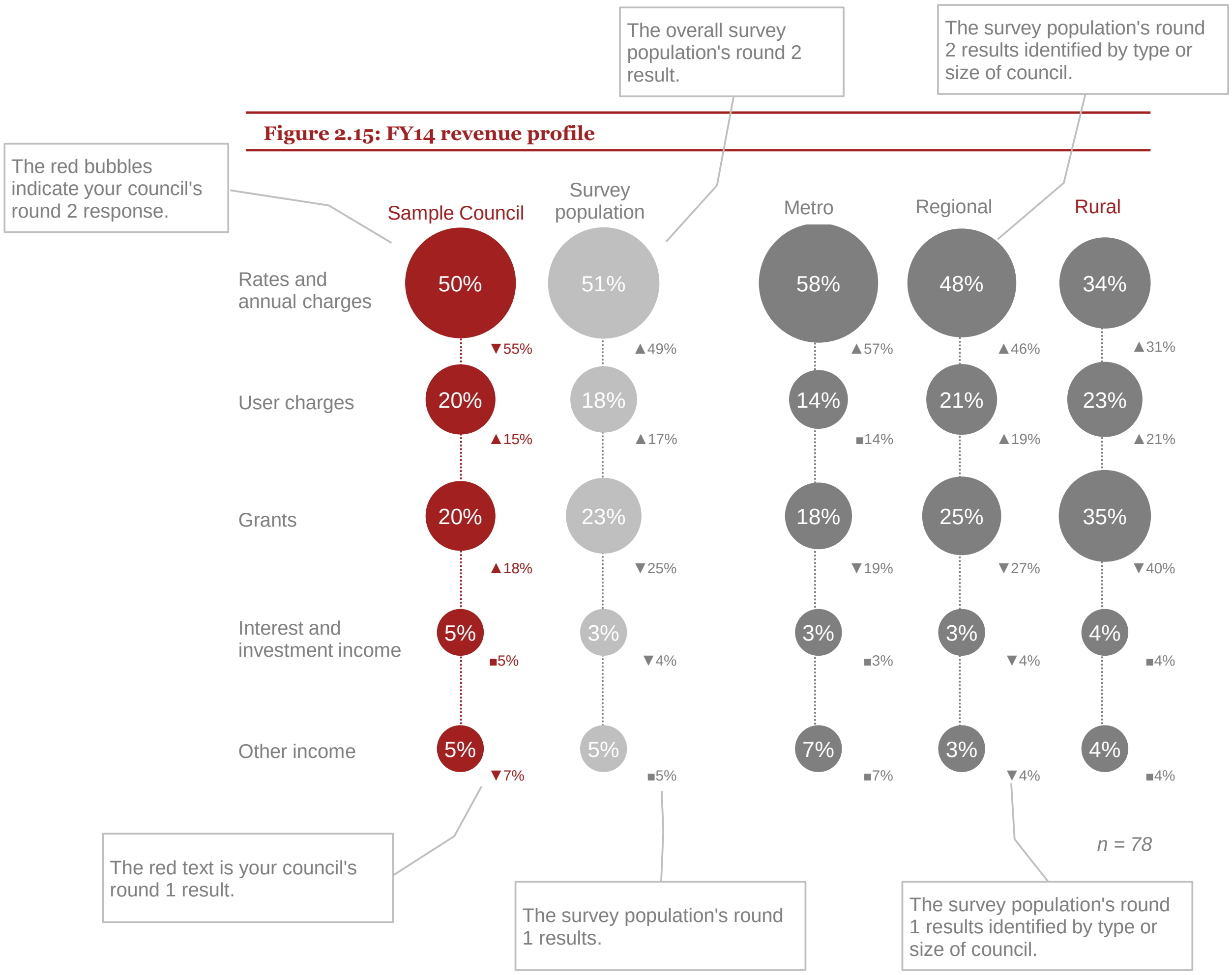


Figure 2.15: FY14 revenue profile

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 your council's survey results in relation to the total sample.

Participating in this type of survey should allow councils to:

- evaluate their own practices to better 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 terms 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

5,327 population in 2014

Rural council

How did your headcount and employee costs change from FY13 to FY14?

1.2% Decline in headcount

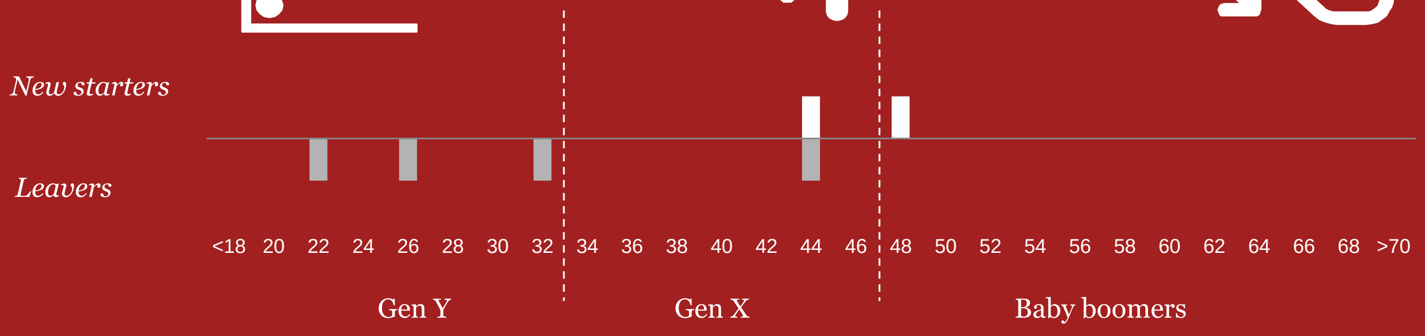
6.1% Growth in employee costs

Who joined and who left your council during FY14?

5% Staff turnover rate

2 New starters

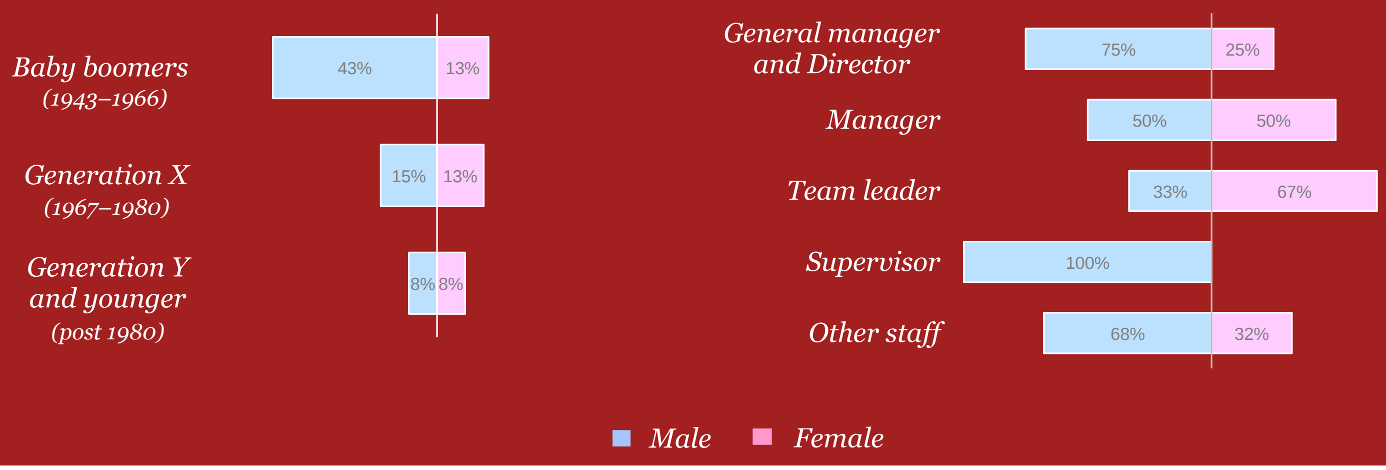
4 Leavers



Does your council have a gender-diverse workforce?

34% of your employee headcount is female

33% of your employees at manager level and above are female



Workforce trend summary

Oberon Council

Metric	Council	Round 1	Round 2	Change from round 1 to round 2
1. Remuneration as a percentage of expenses	Oberon Council	39%	38%	▼-1%
	Survey Population	37%	36%	▼-1%
2. Overtime as a percentage of salary and wages	Oberon Council	5.1%	5.7%	▲+0.6%
	Survey Population	4.0%	4.1%	▲+0.1%
3. Span of control (employees per manager)	Oberon Council	4.8	4.3	▼-0.5
	Survey Population	3.5	3.5	■ -
4. Rookie rate (percentage of new employees in past 2 years)	Oberon Council	14%	9%	▼-5%
	Survey Population	19%	17%	▼-2%
5. Staff turnover rate	Oberon Council	8.5%	4.9%	▼-3.6%
	Survey Population	11.4%	10.7%	▼-0.7%
6. Turnover rate in first year of employment (exc casuals and fixed term contract employees)	Oberon Council		17%	
	Survey Population		17.9%	
7. Gen Y turnover rate	Oberon Council	7%	20%	▲+13%
	Survey Population	21%	20%	▼-1%
8. Female turnover rate	Oberon Council	17%	4%	▼-13%
	Survey Population	13%	13%	■ -
9. Female managers and above	Oberon Council	17%	33%	▲+16%
	Survey Population	29%	31%	▲+2%
10. Female promotion into supervisor and above levels	Oberon Council	10.3%	0.0%	▼-10.3%
	Survey Population	0.8%	0.7%	▼-0.1%

Workforce trend summary (continued)

Oberon Council

Metric	Council	Round 1	Round 2	Change from round 1 to round 2
11. Baby boomer employees	Oberon Council	56%	58%	▲+2%
	Survey Population	51%	49%	▼-2%
12. Gen X employees	Oberon Council	26%	28%	▲+2%
	Survey Population	32%	33%	▲+1%
13. Gen Y employees	Oberon Council	19%	15%	▼-4%
	Survey Population	17%	18%	▲+1%
14. Workforce with more than 8 weeks of accrued annual leave	Oberon Council	5%	8%	▲+3%
	Survey Population	12%	12%	■ -
15. Workforce with more than 12 weeks of accrued long service leave	Oberon Council	10%	11%	▲+1%
	Survey Population	28%	28%	■ -
16. Workforce with sick leave taken higher than the median	Oberon Council	53%	54%	▲+1%
	Survey Population	50%	50%	■ 0%
17. Actual training spend per FTE	Oberon Council		$1,543	
	Survey Population		$935	
18. Supervisors and above with a formal annual performance appraisal	Oberon Council	21%	27%	▲+6%
	Survey Population	86%	86%	■ -
19. Productivity quadrant	Oberon Council	Aggressive growth	Prudent growth	Changed to prudent growth
	Survey Population	17% (Aggressive Growth)	37% (Prudent Growth)	
20. Lost time injury days per 100 employees	Oberon Council	38	10	▼-27
	Survey Population	51	45	▼-6

Workforce structure and cost impact

Remuneration

Remuneration – comprising employee pay and benefits – continues to be a dominant cost, which is not surprising given the service-based nature of local government. When analysing the change between the 2013–14 and 2012–13 financial year, our survey results show a slight decline in our 'share of total expenses' measure. The median council employee remuneration now comprises 37% of total expenses from continuing operations, compared to 36% in the prior year. This slight decline is evident in the regional and rural councils, while metro councils have remained static. Despite the slight decline, people costs remain a major component of expenditure, highlighting the importance of having the right talent in place to deliver effective results for councils.

Overtime

As a proportion of total salaries and wages, the median council spend on overtime for permanent and fixed-term contract employees, continues to be around the 4% mark. If we use overtime expenditure as an important indicator of efficient resourcing, then metro councils have the lowest percentage, hovering around 3%. However, this may be partly due to the fact that metro councils typically have a larger resource pool to draw on when workloads increase.

It is interesting to note that over the past three financial years, rural councils' overtime percentage has been trending downwards, from 4.6% (in the 2011–12 financial year) to 4.2% in the 2013–14 financial year. There are circumstances where overtime can represent an efficient allocation of resources – especially when dealing with seasonal fluctuations in workloads. We encourage all councils to remain vigilant when it comes to council overtime expenditure, as it can become a drain on council funds if not managed carefully.

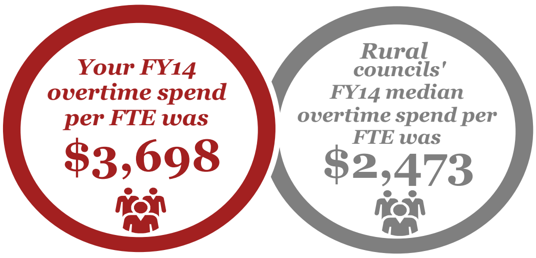


Figure 1.1: Remuneration as a percentage of total expenses from continuing operations

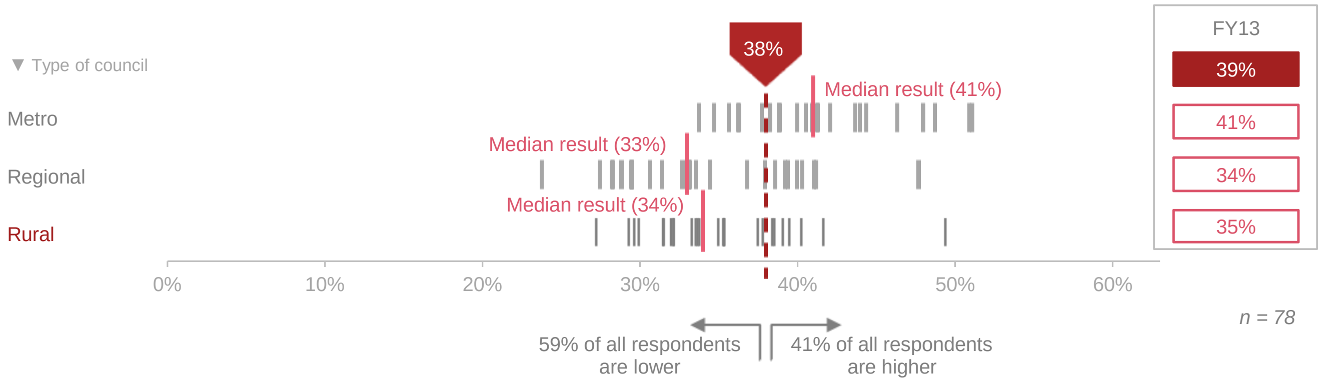
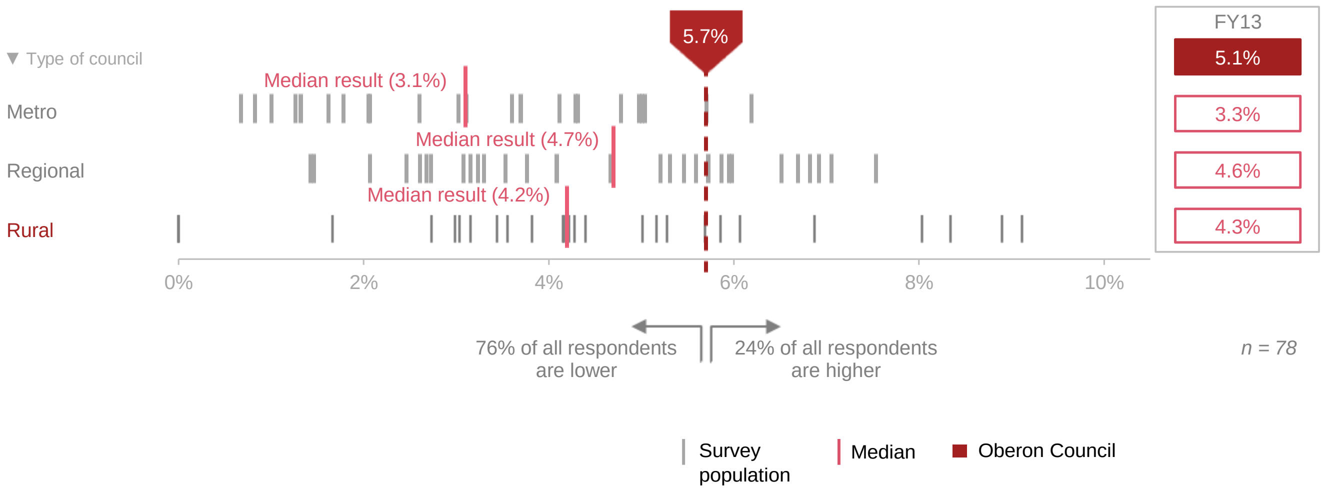


Figure 1.2: Paid overtime as a percentage of total salary and wages



Workforce structure and cost impact (continued)

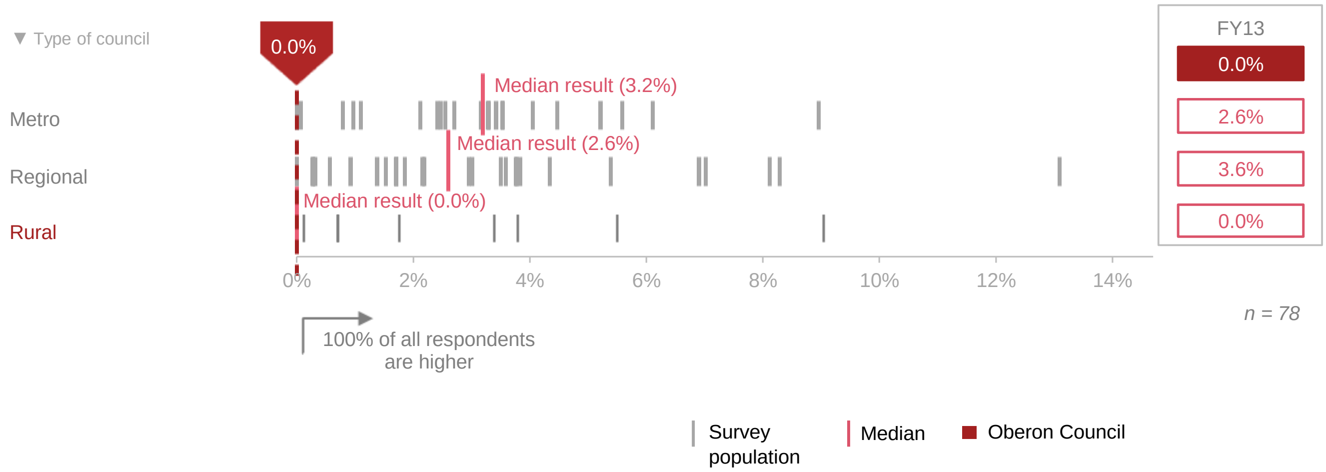
Agency staff

The use of agency staff can significantly impact workforce-related costs if not managed carefully. It is important for councils to monitor this cost and update policies and procedures, regarding the use of agency staff to meet current and future business requirements. Regional councils appear to have applied this mindset; their median spend on agency staff as a percentage of total employee costs has fallen to 2.6% (down from 3.6% in the prior year). However, metro councils are moving in the opposite direction, trending upwards with a median of 3.2% (up from 2.6% in the prior year).

Key considerations

- Are market forces putting pressure on your workforce model?
- Does your council correctly balance the investment in its own workforce versus flexible resourcing options?
- Do you regularly monitor overtime and agency staff expenditure?

Figure 1.3: Agency staff spend as a percentage of total expenditure on employees and agency staff



Organisational design

Span of control

Structuring resourcing requirements with a focus on maintaining the optimal size of management will continue to play a key role in the future. Local government will be looking to reduce any excessive costs, improve the speed of decision making, support staff development and, importantly, enhance responsiveness to market changes. 'Span of control' can be used to monitor management overhead, as it measures the number of employees as a ratio to the management population. When calculating this metric, we include supervisors and above within the management population.

Our survey reveals there has been little movement across the survey population in the past year; the median of 3.5 employees per manager remains unchanged. This is low compared to the global PwC benchmark[1], which suggests that 6 employees per manager is achievable, even in the most specialised technical industries.

Looking across the local government sector, there is inconsistency in the 'span of control' metric. Large councils have the most employees per manager, with a median of 4.6 employees per manager (up from 4.5 in the prior year). While geographic location and scale of operations may allow large councils to lead the way, it is still encouraging to see these councils moving in the right direction towards more direct reports per manager.

Narrower spans of control are still prevalent in medium-sized and small councils, although medium-sized councils are starting to make slight improvements, having increased the median of 3.4 to 3.5 employees per manager during the 2013–14 financial year. Small councils have the most room for improvement, with a median of 2.4 employees per manager (down from 2.9 in the prior year). The divergent trend means that managers in small councils now have 2.2 fewer employees to manage compared to large councils – or to put it another way, there are just over 50% more managers in small councils, given the same size of the overall workforce.

In stable workforces, avoiding 'grade inflation' requires constant vigilance. Councils that have narrowed their span of control metric or moved further below the median in the past year should examine their current workforce structure and consider whether the extra layers of management are an essential requirement for their future business model, especially considering the drive for increased efficiencies in the sector.

Key considerations

- What is the right organisation design for your current and future business model, and how does this translate to an optimal span of control?
- Does your council have adequate specialist staff members to deliver the services it has committed to?
- Are there opportunities to broaden the roles of managers so they can operate at a high capacity across a range of areas, while strengthening career paths and skills?

Definition

Span of control: Total number of employees (defined as other staff) per manager (defined as supervisors and above).

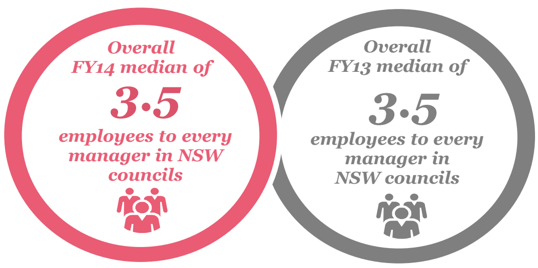
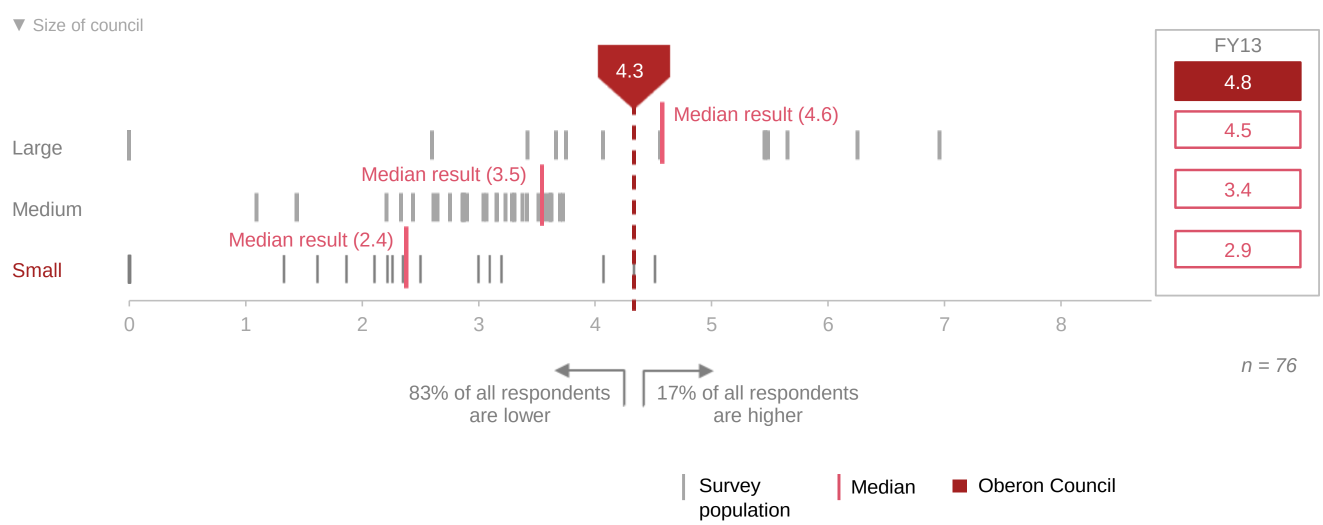


Figure 1.4: Span of control (number of employees per manager)



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

Don't fall short on new talent

Rookie rate

The proportion of employees who are new to councils (and possibly local government) has declined between the 2012–13 and 2013–14 financial years. The 'rookie rate' continues to be relatively low, at 17% (down from 19%). This also links to the lower turnover rate in local government, and suggests that vacated roles are being filled internally rather than externally, or in some cases are not being filled at all.

The median rookie rate for 'other staff' now shows 18% of people in these levels having two years or less experience in a council, compared to 21% in the prior year. This indicates that there were fewer new hires within this level in the 2013–14 financial year, compared to the prior year. The median management rookie rate has slightly dropped from 12% to 11% of council employees at supervisor level or above have two years or less experience in a council. While it is desirable to have a stable workforce, especially when it comes to retaining organisational knowledge and experience, now is the time for local government to embrace new ways of working, by fostering fresh, innovative ideas and introducing new capabilities.

Attracting and developing the right mix of talent is critical as local government responds to market changes, emerging customer needs and digital transformation. The talent management strategy needs to reflect a good mix of talent which means employing people who can think and work in different ways. Creating a workforce with people who can imagine, as well as execute or implement; are all-rounders or deep specialists; and can lead cross-functional teams and initiatives will set councils apart in the future. The 2015 PwC Global CEO Survey, which surveyed 1,322 global CEOs, highlights that skills are at the top of CEO's talent agenda, with 81% of CEOs now seeking a much broader range of skills than in the past.[2]

Key considerations

- Is your council brand attracting the right mix of talent?
- Are you developing a talent management strategy that responds to market changes, emerging customer needs and digital transformation?
- Are you carefully considering appropriate recruitment strategies to attract new talent?

Corporate Services

Our survey shows a similar trend for the corporate services functions, which have a lower proportion of employees who are new to councils. The exception is customer service, with slightly more new employees: 21% in the 2013–14 financial year, compared to 20% in the prior year. Areas such as finance have remained flat, with 16% of employees having less than two years' service, whereas HR has dropped significantly from 25% to 20% and IT is down, now at 17% compared to 19% last year.

We acknowledge that the impact of the reform agenda may be affecting the way potential new recruits view local government. However, there is clearly an increasing need for talented people with skills across finance, HR and IT to join the sector, which is why councils should be assessing their current talent management strategies for these corporate service areas. Establishing a structured plan on how best to attract employees with these vital skills into local government should be front of mind for every council if they are going to be successful in this new environment.

Figure 1.5: Rookie rate by staff level (proportion of staff who commenced in the past two years)

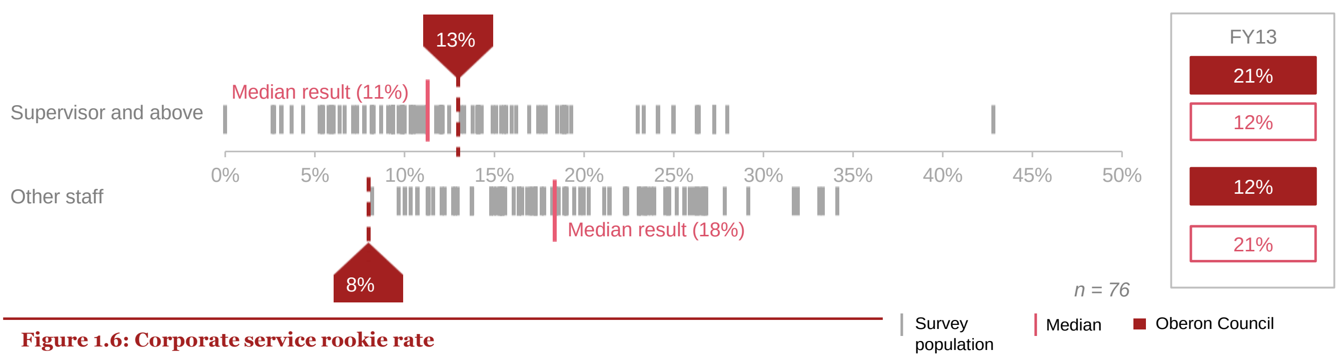
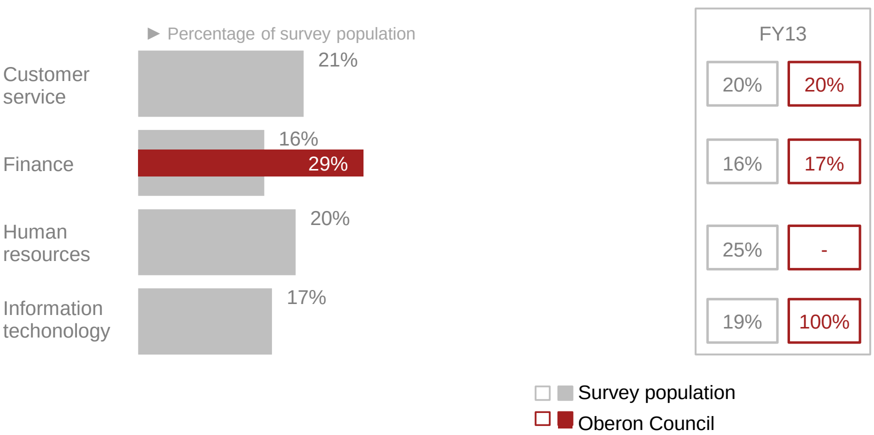
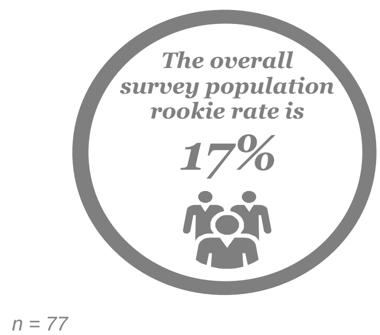


Figure 1.6: Corporate service rookie rate





2 PwC, 2015, 18th Annual Global CEO Survey, 'A marketplace without boundaries? Responding to disruption'.

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

Staff turnover

Our survey shows that the overall median for staff turnover in the 2013–14 financial year is trending downwards from 11.4% to 10.7%. Our concern is that while most organisations aspire to achieve a downward trend in the turnover rate year on year, councils with a turnover rate on or around such a low median can find it to be counterproductive. A low turnover rate can limit opportunities to promote key internal talent or hire employees with new and diverse skills.

Our analysis by type of council highlights that the median turnover rate in metro councils continues to hover just below 12%. The turnover rate for rural councils has plummeted to a median of 8.9% (down from 11.6%), suggesting limited movement in the past year. Regional councils are the exception, with a higher median turnover rate compared to last year, moving from 10.5% to 11.3%.

Excluding fixed-term contract employees from the turnover rate, the overall median for the survey population drops slightly to 10.0%.

A moderate level of 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.

Definition

Turnover rate: Total number of leavers divided by the headcount at the start of the year (excluding casuals).

Key considerations

- Are you reviewing your induction program on an annual basis ensuring it meets the needs of new starters?
- Have you developed an employee value proposition and shared it with existing employees and future recruits?
- Do you conduct exit interviews to better understand why your staff are leaving?

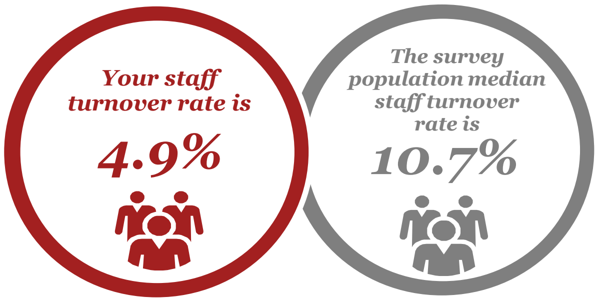


Figure 1.7: Staff turnover rate

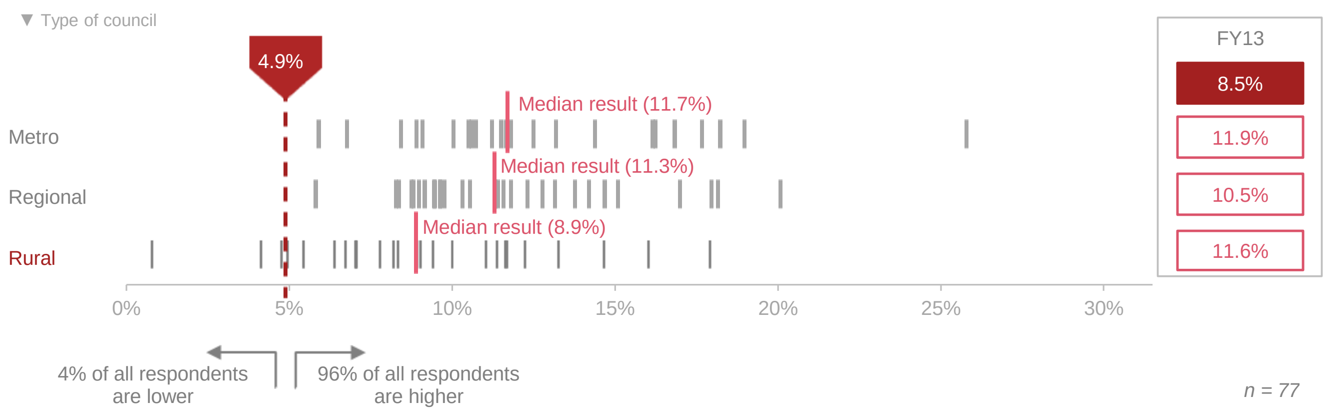
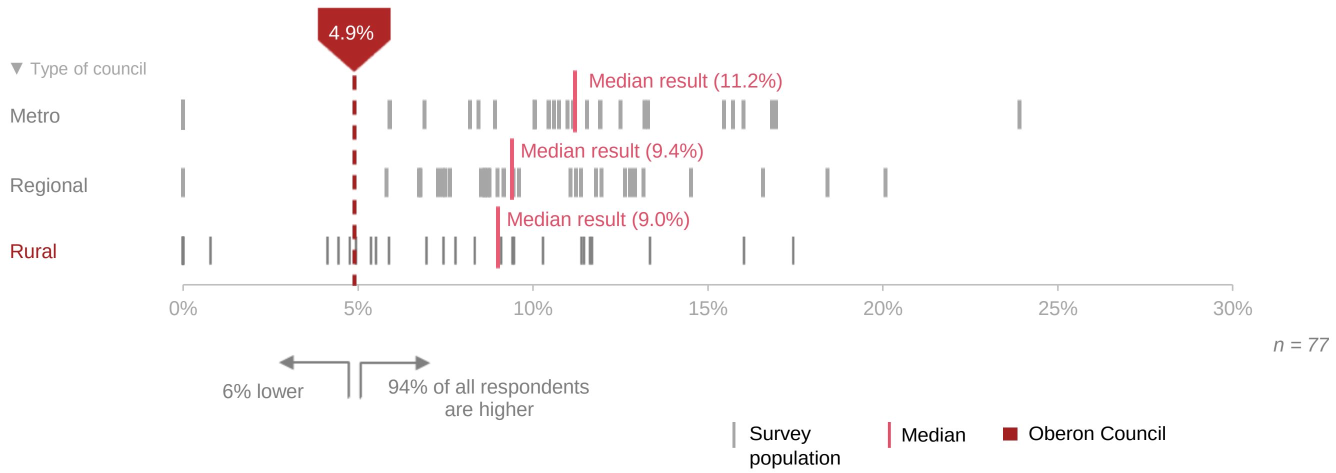


Figure 1.8: Staff turnover rate (excluding fixed-term contract employees)



Turnover rate for employees in their first year of employment

Staff turnover in the first year

An indicator of the quality of hire is the turnover rate in the first year of employment. An employee leaving within the first year of employment, either voluntarily or involuntarily, signifies a poor fit.[3] When assessing the turnover rate in year one, we have excluded fixed-term contract employees from the calculation. Within local government, the median turnover rate of employees in their first year (excluding fixed-term employees) is significantly higher, at 17.9% compared to the overall equivalent turnover rate of 10.0%.

This indicates that retaining new recruits is a serious issue for local government. Councils may be facing a mismatch in their external and internal employer brand, especially when it comes to attracting and retaining female and Gen Y employees.

Metro councils are almost twice as likely to lose employees in their first year of employment compared to rural councils, with a median first-year turnover rate of 24.0%, compared to 12.5% in rural councils.

Any council with a high turnover rate for employees in their first year of service should be looking deeper into employee engagement levels. This should allow councils to better understand the possible shortfall in the employee value proposition and why they may be struggling to retain new recruits.

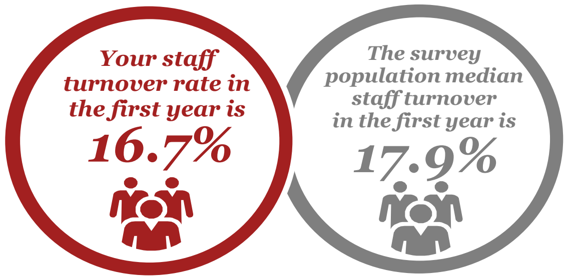
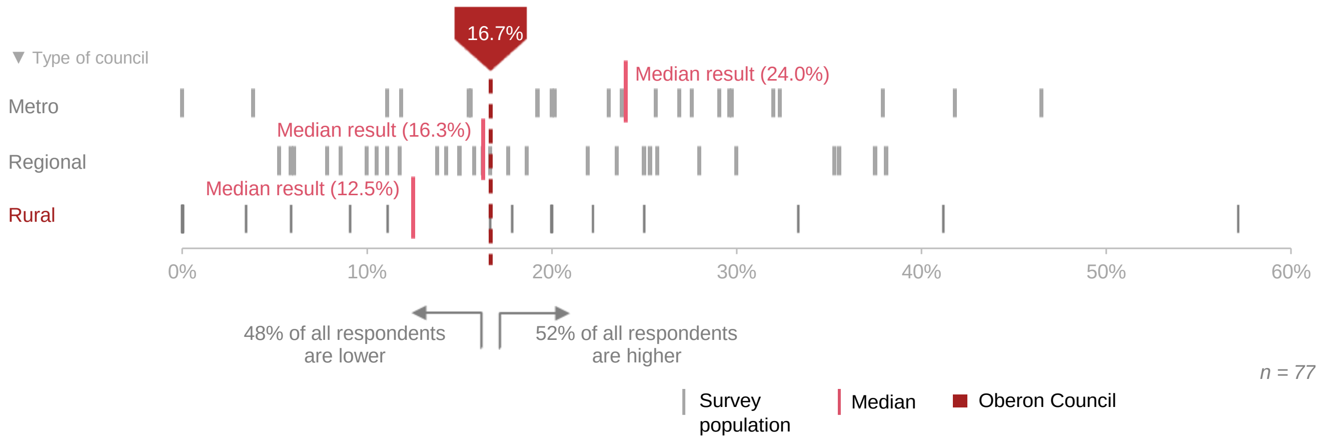


Figure 1.9: Staff turnover rate in the first year (excluding fixed-term contract employees)

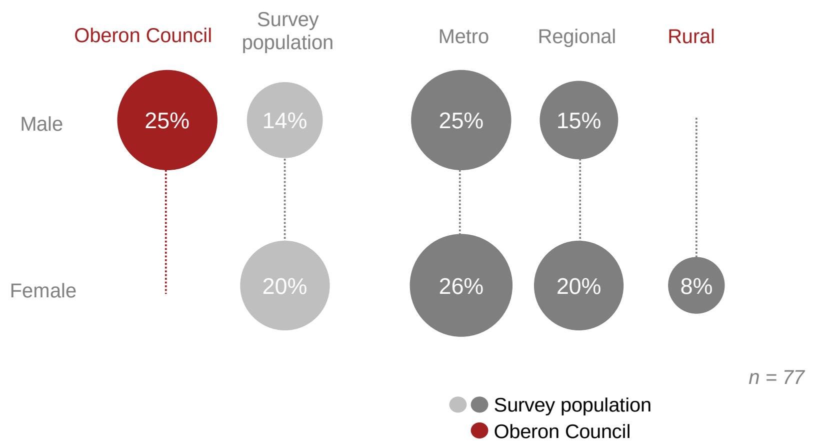


Female turnover in the first year

The median turnover rate for female staff members in their first year of service (20%), compared to male equivalents (14%), indicates that female employees are 1.4 times more likely to leave local government in their first year of employment. This is more pronounced in regional and rural councils. While metro councils lose only slightly more females (26%) compared to males (25%) in the first year, they have a far higher turnover rate in the first year, compared to regional and rural councils.

These results indicate the challenges in retaining female talent in the first year, and with the focus on improving gender diversity in local government, further action may be required when it comes to offering more flexible career options and mentoring programs.

Figure 1.10: Median gender turnover rate in the first year (excluding fixed-term contract employees)



3 PwC Saratoga 2013–14 State of the Workforce Report, 'Results from PwC Saratoga's 2013–14 US human capital effectiveness report'.

Turnover rate for employees in their first year of employment (continued)

Gen Y turnover rate in the first year

Figure 1.11 shows further analysis of leavers in their first year of employment by generation. The results are stark and reveal that all types of councils have trouble retaining Gen Y employees in their first year of employment.

The median turnover rate for Gen Y employees in their first year of employment is 22%, compared to 14% for Gen X and 12% for baby boomer employee equivalents. This indicates that Gen Y employees are 1.6 times more likely to leave in their first year of employment, compared to Gen X and 1.8 times more likely than baby boomer employees.

In 2013, PwC, the University of Southern California and the London Business School announced the results of a unique and unprecedented two-year global generational study, which included more than 40,000 responses.[4] The survey observed the various forces influencing Gen Y employees in the workforce.

The following are some of the key considerations identified when looking at the retention of Gen Y employees:

- **Flexible work culture**: Consider adopting policies that promote more flexible work locations and schedules.
- **Fully leverage technology**: Accelerate the integration of technology to create more flexibility and efficiency. Gen Y employees expect to have access to the best tools for collaboration and execution.
- **Build a sense of community**: Emphasise teamwork, appreciation and support from supervisors and managers, ensuring they provide honest, real-time feedback.
- **Engaging work**: Offer work that is interesting and meaningful, and provide support for development.

Figure 1.11: Median generation turnover rate in the first year (excluding fixed-term contract employees)

4 PwC, 2013, PwC's Next Gen: A global generational study, 'Evolving talent strategy to match the new workforce reality'.

Who is leaving your council?

Staff turnover in detail

We have further analysed the type of employees that are leaving local government to pursue other opportunities. These turnover calculations include all employees.

We have demonstrated that the churn in Gen Y leavers in their first year of employment is significantly higher than Gen X and baby boomer employees. We continue to witness this trend when comparing the overall churn in Gen Y compared to other generations; the Gen Y median turnover rate is 20%, down from 21% in the prior year. By comparison, councils only lost 8% of baby boomers (down from 9% in the prior year) and 10% of Gen X employees (unchanged).

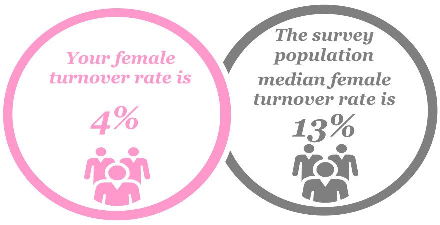
This trend continues to indicate that Gen Y employees are twice as likely to leave a council, compared to Gen X employees and 2.5 times more likely than baby boomer employees.

Interestingly, our survey reveals that in the 2013–14 financial year, senior management churn (general managers, directors and managers) spiked, increasing from a median of 8% to 11%. Team leader median turnover slightly increased from 5% to 7%, while the turnover rate for supervisors and other staff remained broadly consistent compared to the prior year.

The overall churn in female employees remains higher compared to males – a median of 13% compared to only 10% for male employees, both of which remain unchanged. Considering that women attain higher levels of education, a higher female turnover rate is concerning.

Based on data from the Australian Bureau of Statistics, 39.2% of women aged 25 to 29 have achieved a bachelor degree or above, compared to 31.8% of men of the same age.[5] This is consistent with the most recent ACELG report[6], where local government female employees were also found to be more highly educated than their male counterparts.

Councils should seek out opportunities to enhance career development prospects for current and future female managers. Councils are encouraged to recognise the pool of talent in this existing group of employees and develop strategies to support female managers applying for future leadership roles, many of which will become vacant over the next five to 10 years due to impending retirements within senior positions.



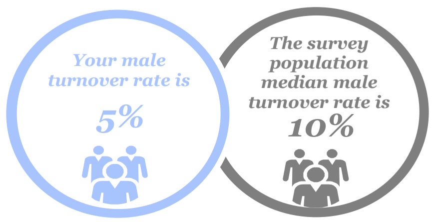


Figure 1.12: Turnover rate by generation

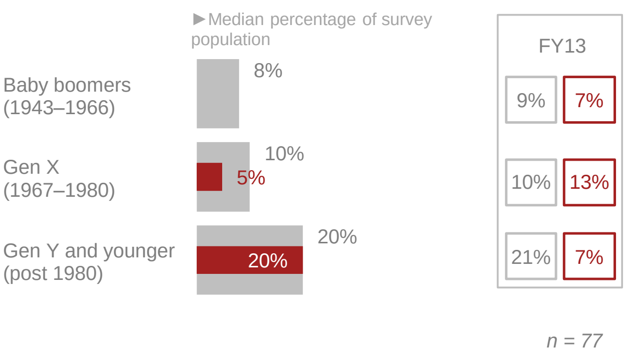


Figure 1.13: Turnover rate by tenure

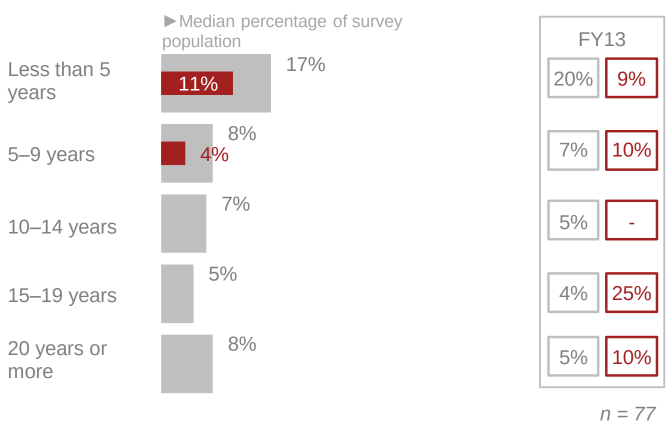


Figure 1.14: Turnover rate by staff level

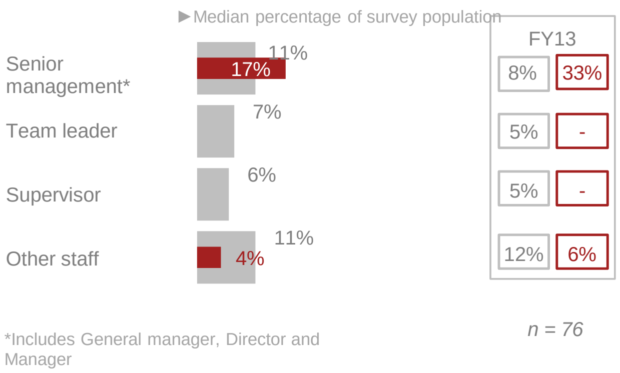
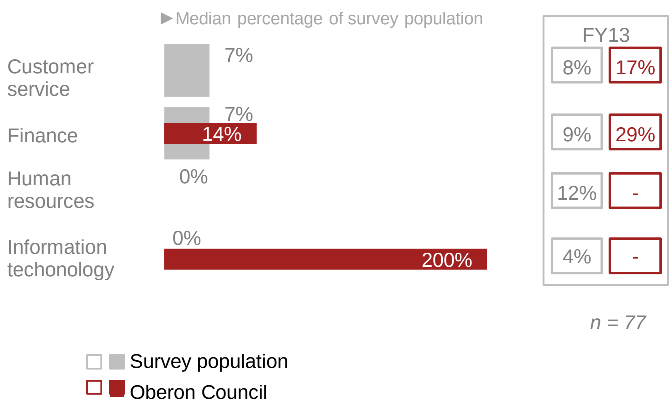


Figure 1.15: Turnover rate by corporate service area



5 Workplace Gender Equality Agency WGEA), February 2014, 'Gender workplace statistics at a glance'.
6 Australian Centre of Excellence for Local Government (ACELG), February 2015, 'Profile of local government workforce'.

Talent diversity

Gender diversity

According to PwC's most recent global CEO survey, about three-quarters (77%) of surveyed CEOs have or plan to adopt a diversity and inclusiveness strategy, and many see a clear link between diversity and the bottom line. Investing in these formal strategies helps to broaden the mix of talent by creating an environment that allows diverse talent to succeed. A formal diversity strategy ultimately develops leaders from various backgrounds, who can think and work in different ways.[7]

This key finding highlights the importance of talent diversity and the role it plays in many global and national businesses. Local government is no exception, especially as a diverse workforce is more likely to reflect broader community views, allowing councils to better understand community needs and deliver anticipated outcomes. We encourage councils to consider adopting a diversity and inclusiveness strategy that encompasses gender, ethnicity, nationality, race, disability and age.

It is encouraging to see that the local government sector continues to be an inclusive workplace for women, who now represent 41% of the workforce, up from 40% the previous year. Metro councils continue to have the highest rate of women in their workforces, at 45% (unchanged from the prior year). This is followed by rural councils at 38% (up from 35%), and regional councils at 37% (unchanged).

The challenge many organisations face is how to ensure female employees have the opportunity to progress into senior management roles. Based on the data collected by the Workplace Gender Equality Agency, from Australian companies that form the S&P and ASX 100, we know that it is very difficult for women seeking promotion from management to key management personnel levels[8], where only 26.1% of employees are women.[9]

In local government, we can see that the proportion of female staff members at the more junior levels is reasonable, at 43%. However, by the time female employees reach key management personnel and CEO-equivalent levels (such as general manager and director level) this almost halves, with only 23% female representation.

The representation of women steadily declines when moving up the management levels; women comprise only 26.1% of key management personnel (KMP) positions, and 17.3% of CEO positions.[10]

Key results from Workplace Gender Equality Agency, November 2014

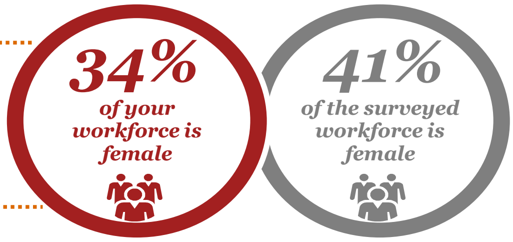
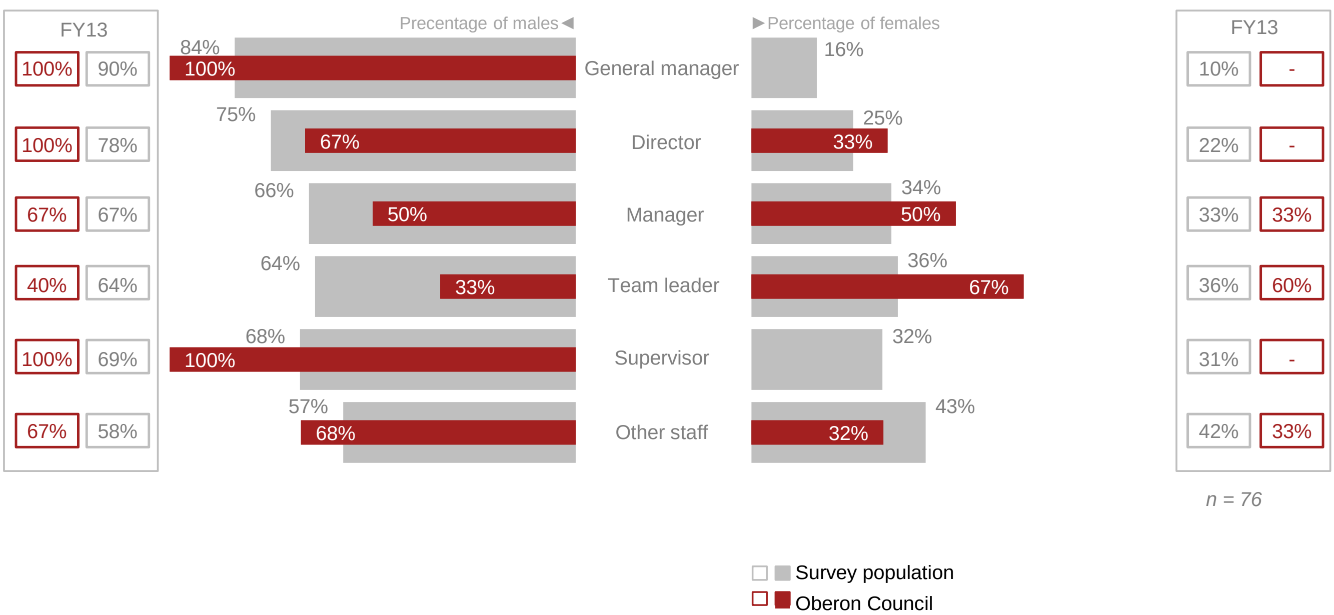


Figure 1.16: Staff-level gender split at 30 June 2014



7 PwC, 2015, 18th Annual Global CEO Survey, 'A marketplace without boundaries? Responding to disruption'.
8 KMP is a manager who represents at least one of the major functions of the organisation and participates in organisation-wide decisions with the CEO.
9 Workplace Gender Equality Agency (WGEA), November 2014, 'Australia's gender equality scorecard. Key results from the WGEA's 2013–14 reporting data'.
10 Ibid.

Talent diversity (continued)

Gender diversity in senior levels

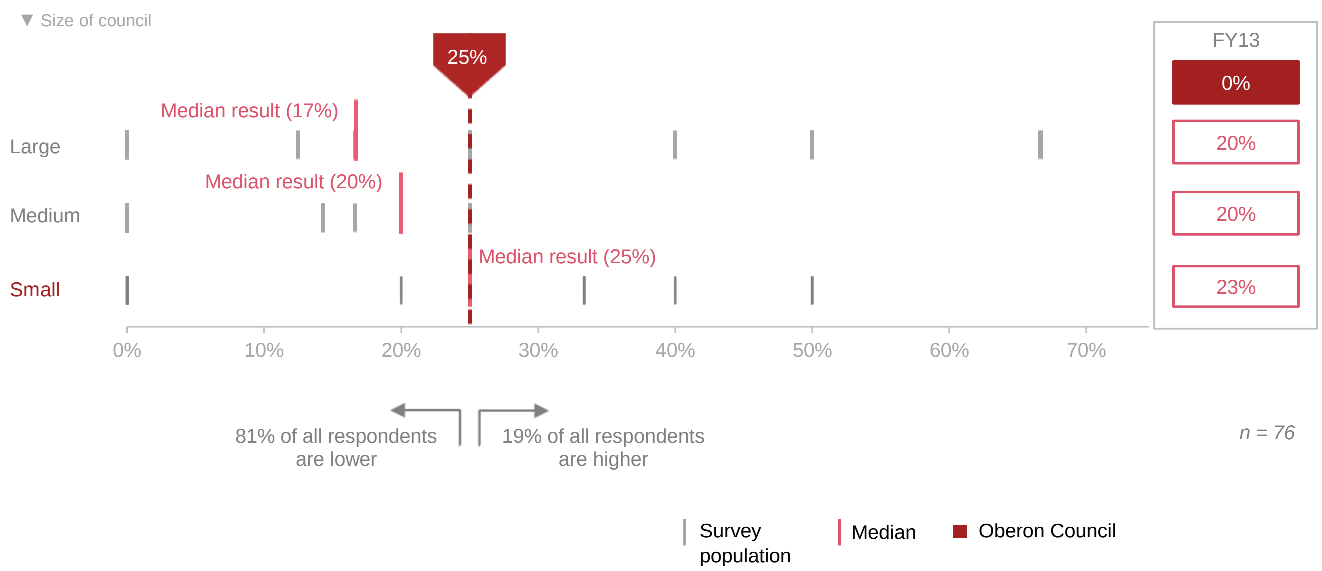
Looking more closely at female representation at the general manager and director levels, we see that small councils now have a median of 25% women (up from 23%), and medium-sized councils have retained a median of 20% female general managers and directors. By comparison, large councils have the most opportunity to improve in the years to come, especially considering the potentially higher volume of senior roles becoming available. Large councils continue to have lower gender equality, with a median result of only 17% female representation at the general manager and director levels (down from 20% in the prior year).

How should councils, especially large councils, continue to address the gender imbalance at the senior level? One way is to develop recruitment strategies that require equal representation for senior roles, both for candidates and the selection panel. In addition, it is vital to examine the existing pipeline of female employees in the levels below, and develop strategies to implement or enhance flexible working practices and mentoring and training programs. These strategies should create a cultural shift in potentially antiquated promotion and recruitment processes.

Key considerations

- Do you have a strategy for optimising your council's mix of talent using diversity as a key lever?
- How are you developing your approach to diversity and inclusiveness?
- How is your senior management team ensuring that your council has access to the skills it needs now and into the future?
- Does your system of measuring talent include a focus on gender diversity?

Figure 1.17: Proportion of female employees at general manager and director levels



Talent diversity (continued)

Pipeline of female employees

So what is the pipeline of female staff members in local government? Across the survey population, we can see slight growth in the proportion of female managers and above, with a median of 31%, up from 29% in the prior year. Small councils are leading the way with a median of 33% female managers and above, compared to 28% in large councils.

Figure 1.18 highlights the fact that women face more challenges transitioning from the team leader to manager level in large and medium-sized councils, compared to small councils. The proportion of females in large councils range from 34% team leaders down to 29% of managers, and in medium-sized councils females comprise 38% of team leaders but this drops to 34% of managers. In contrast, small councils are close to achieving gender equality at the manager level, with 48% female managers, although it is important they remain focused on the next level down, where only 26% of team leaders are women.

All this suggests there is ample opportunity for councils to take on the gender imbalance challenge. We encourage general managers and directors, in conjunction with HR, to develop action plans that support this group of female managers and team leaders so they have the opportunity and confidence to transition to the next level.

Equally important is for councils to consider whether their pipeline of female employees is expanding or contracting. Across the survey population, female representation at the manager, team leader and supervisor level has stagnated, with little or no growth during the 2013–14 financial year.

Later in the report, we go on to explore recruitment and promotion within the local government sector, and to examine other challenges in attracting and promoting key talent. This highlights the importance of providing enhanced career opportunities and flexible working practices to retain women who wish to pursue future leadership roles.

Figure 1.18: Percentage of female employees by staff level

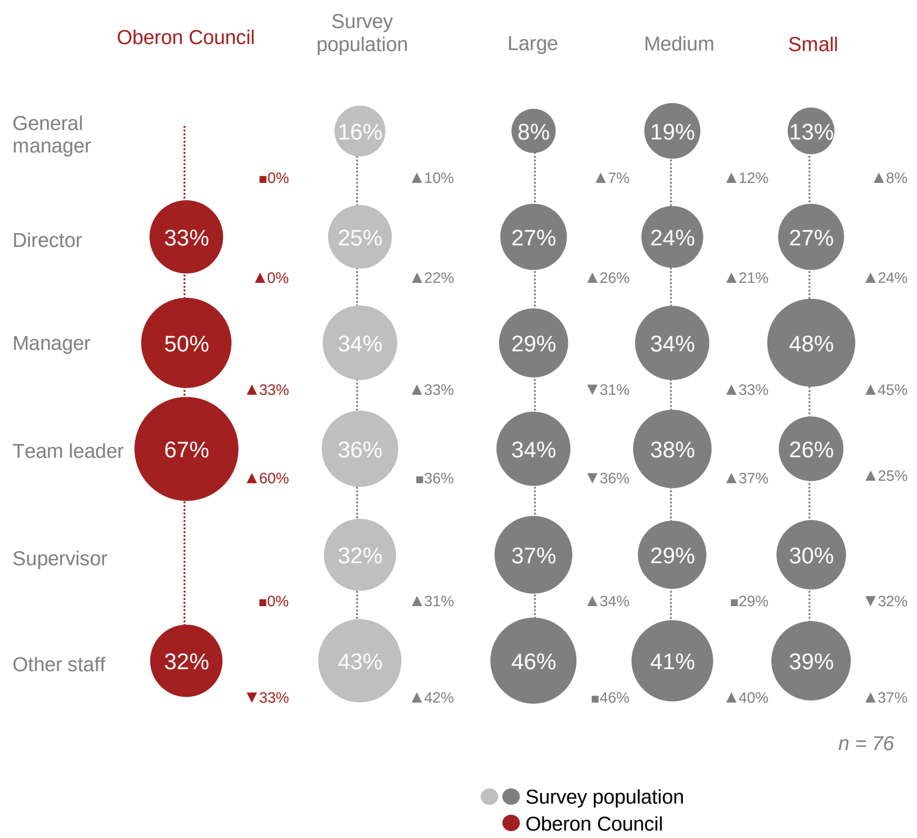


Figure 1.19: Proportion of female employees at manager level and above

Talent diversity (continued)

Corporate service areas

Women continue to be over-represented within customer service, finance and HR, and under-represented in IT. They account for more than three-quarters of total employees in customer service and HR, while in finance two-thirds of employees are women. IT continues to have a gender bias towards male employees; only 38% of IT employees are women.

Of your council's corporate service areas, females account for the following proportions

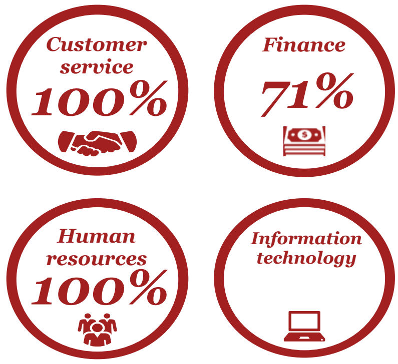
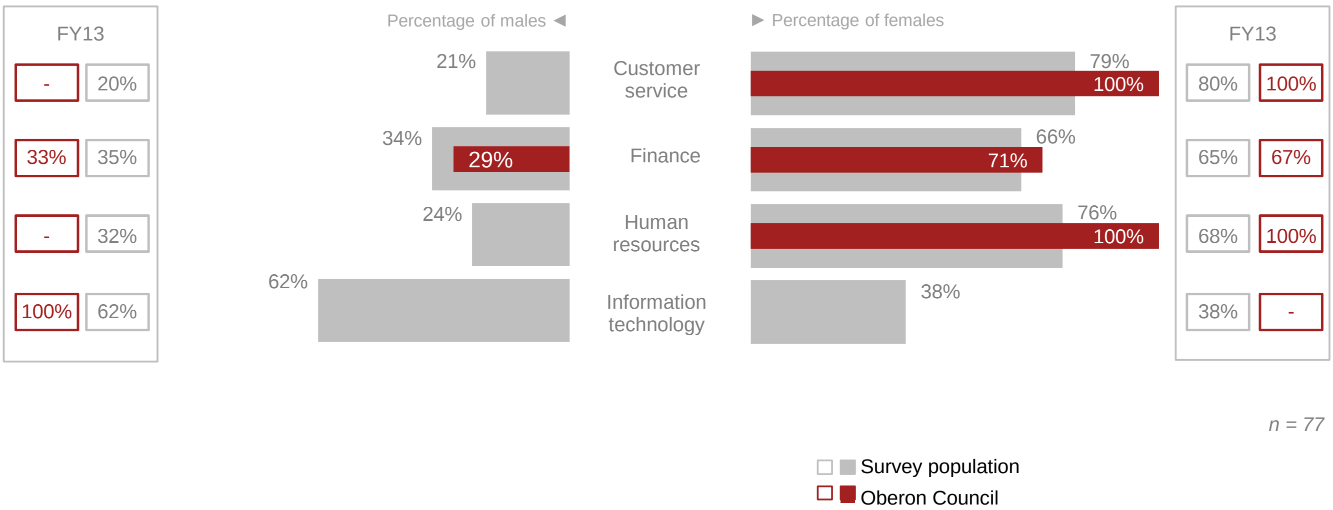


Figure 1.20: Corporate service area gender diversity



Why you need a recruitment strategy

Recruitment

Councils need to build an overall employment brand that showcases the benefits of working for local government. Councils need to attract key talent with a mix of skills – at both the entry and leadership levels – using a variety of successful recruitment methods, to ensure they deliver future strategic objectives within their communities.

CEOs who participated in the recent global PwC survey are using a diverse range of strategies to recruit a good mix of talent – 78% use multiple channels to find talent for their business, including online platforms and social networks, and 71% said their business actively searches for talent in different geographies, industries and demographic segments.[11]

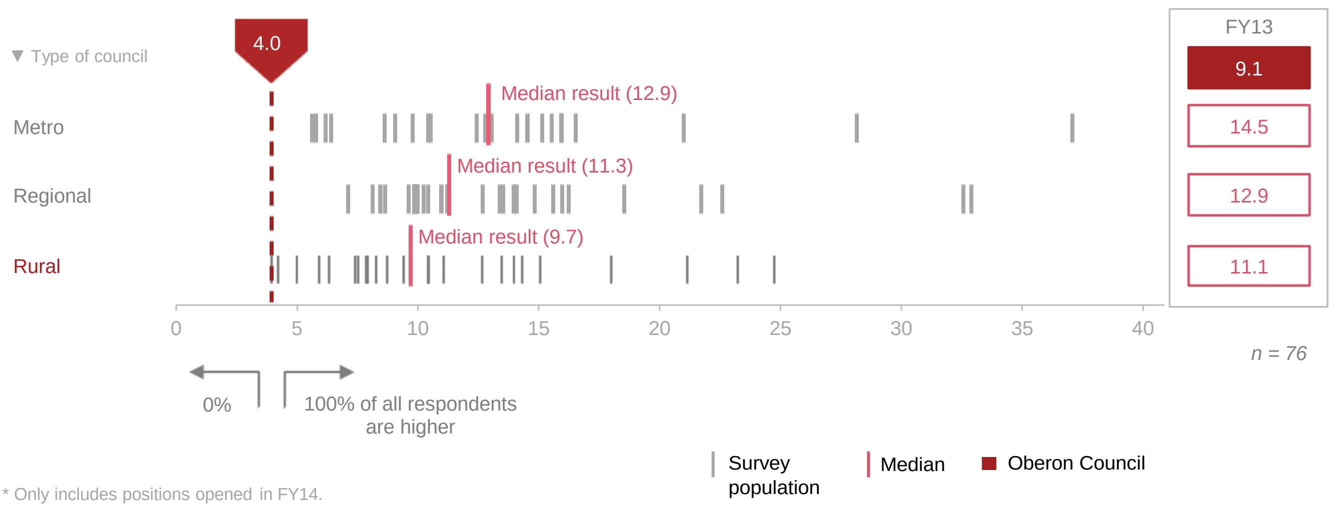
Our survey results continue to suggest that attracting the right talent into the sector remains challenging, with a median of 11.2 weeks elapsing before an open position is filled. However, across all types of councils, we can see a lower median 'elapsed weeks to fill open positions' between 1 July 2013 and 30 June 2014, compared to the prior year.

It is interesting to observe the way organisations approach recruitment for new or vacated positions. Councils need to assess whether they are able to promote from within by transferring talent across business units, or whether they need to compete for talent in the external marketplace.

Our survey shows that overall 60% of open positions were filled from outside the organisation in the 2013–14 financial year, compared to 65% in the prior year. This suggests councils have been in a better position to promote or transfer internally for open positions. However, the reliance on recruiting externally remains strong.

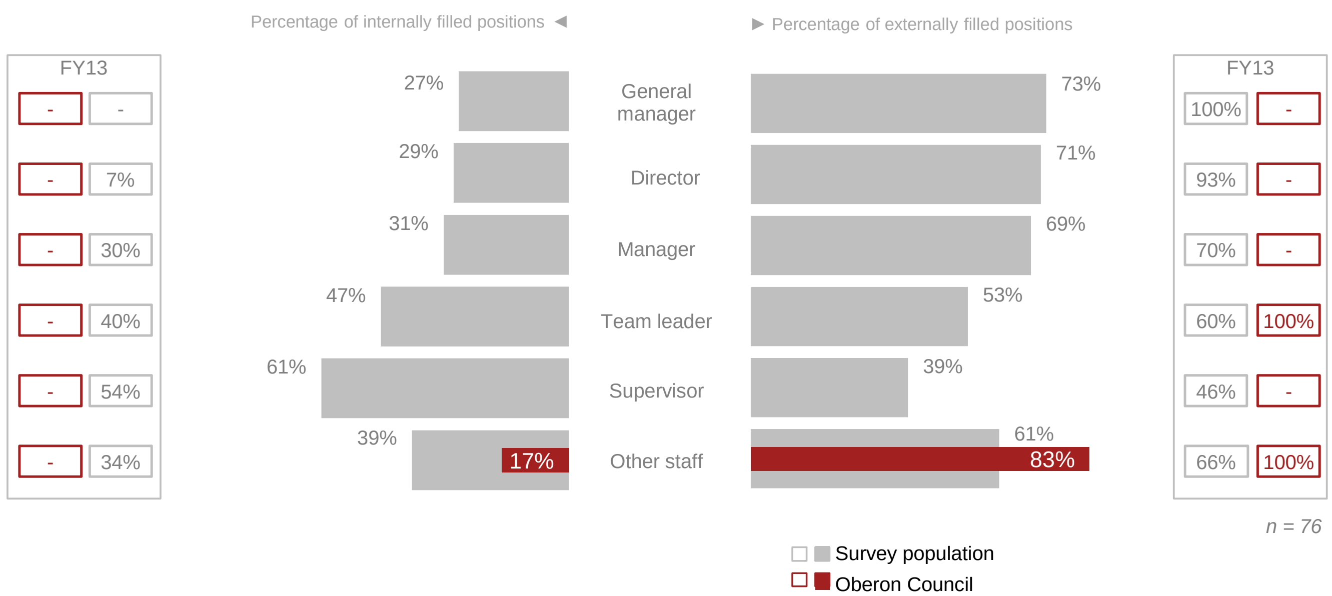
If this trend continues then the presence of a strong employment brand will be even more vital in enabling councils to compete for talent in the external marketplace.

Figure 1.21: Elapsed weeks to fill open positions at 30 June 2014*



* Only includes positions opened in FY14.

Figure 1.22: Internal and external recruitment by staff level



11 PwC, 2015, 18th Annual Global CEO Survey, 'A marketplace without boundaries? Responding to disruption'.

Why you need a recruitment strategy (continued)

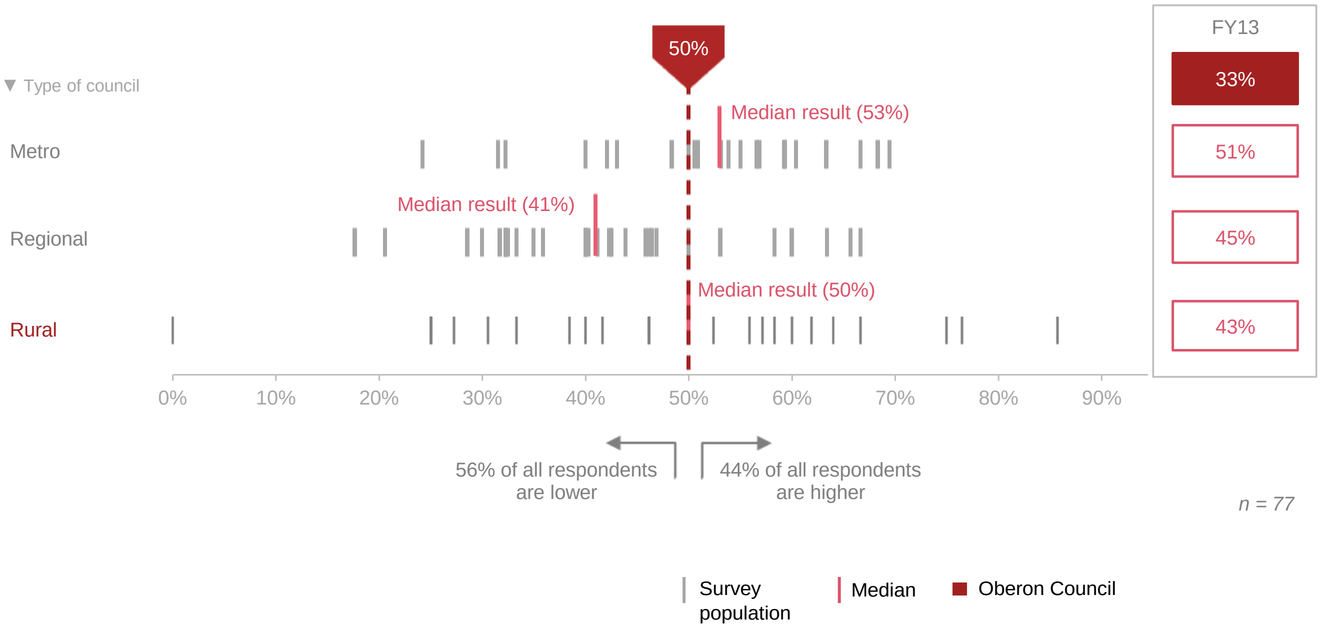
Recruitment diversity

When analysing gender diversity as part of the recruitment strategy over the past year, we see that metro councils have a higher median percentage of female new starters, at 53% (compared to 51% last year). Rural councils are exhibiting strong signs of approaching gender equality, where women make up 50% of new recruits (a significant increase from 43% last year). Regional councils may need to re-examine their recruitment strategies having recorded a decline in the number of female new starters, falling from 45% to 41% in the 2013–14 financial year.

Key considerations

- Do you have an up-to-date recruitment strategy outlining your organisational approach to finding and recruiting new staff members?
- Do you use multiple channels to find talent?
- Have you been measuring your results and do you know the most successful method for recruiting staff in your region?
- Do you have a refreshed employer brand to present to prospective employees?

Figure 1.23: Proportion of female new starters



Removing the glass ceiling

Promotions

By measuring the rate at which women are promoted into senior roles and observing these trends, councils can begin to determine the extent of change required to grow careers for women in management and leadership positions.

We acknowledge that it takes time for a diversity and inclusiveness strategy to really impact employee resourcing and promotion outcomes. Identifying any barriers to equal opportunity – such as workplace culture, lack of female leaders and managers, and gender stereotypes – and responding to these barriers with change programs are two critical first steps.

To better understand the extent of promotion equality in the 2013–14 financial year, we looked at the pool of resources at the beginning of the year and, presented in Figure 1.24, the proportion of men and women who were promoted into the supervisor level or above. The 45 degree line represents equal promotion rates for men and women.

The results for large councils indicate an equal proportion of male and female employees (0.5%) being promoted to supervisor or above, and medium-sized councils were close to equality with 0.9% of women and 1% of men being promoted to supervisor or above. However, small councils were 3.2 times more likely to promote men rather than women to the level of supervisor and above. Each council should assess whether it is actively focused on the progression of female workers within the organisation.

We have also examined the rate of promotion for female employees within different staff levels, as shown in Figure 1.25. Since our Round 1 survey in the 2012–13 financial year, councils seem to be taking a more serious approach to developing a strong leadership pipeline for female staff members.

During the 2013–14 financial year, females were promoted at a faster rate compared to males within the senior management levels of director and manager. Female directors were 1.3 times more likely to be promoted compared to males, with a promotion rate of 3.2% among female directors, compared to 2.5% for male directors. At the team leader level, promotion equality was achieved, however male supervisors were 1.2 times more likely to be promoted, compared to their female counterparts.

Key considerations

- Have you started to tackle the issue of unconscious bias, especially in regard to existing promotion processes for senior executive positions?
- How do you demonstrate to staff that diversity and promotion equality is on your senior management agenda?
- Are you developing strategies that encourage looking as widely as possible for talent?

Survey population
Oberon Council round 2 result
Oberon Council round 1 result

Figure 1.24: Likelihood of promotion by gender into supervisor and above levels

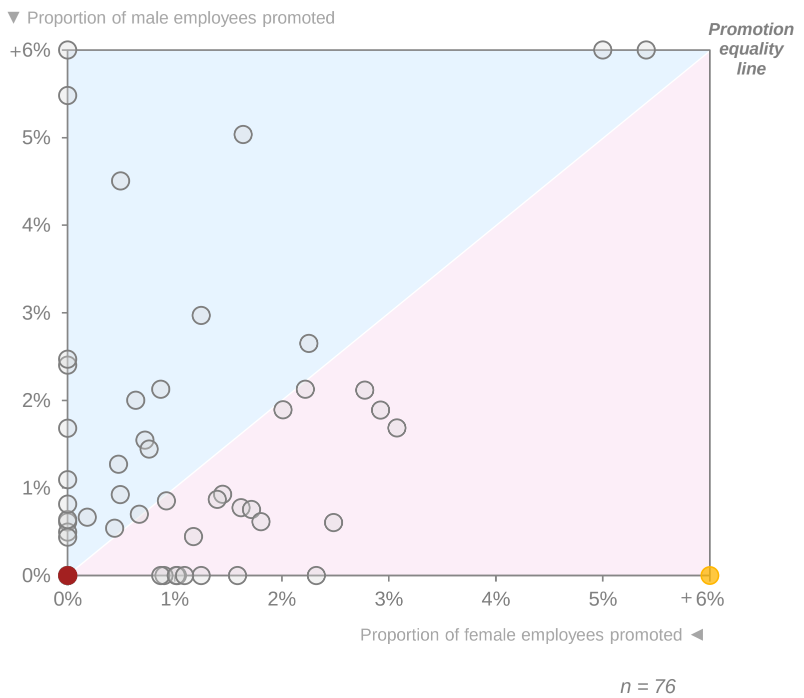
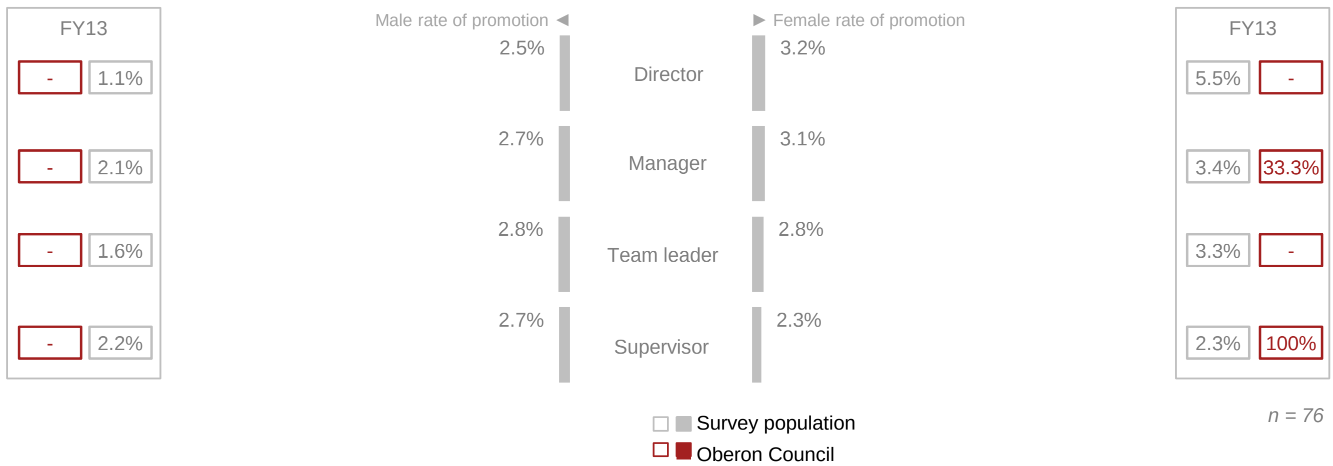


Figure 1.25: Rate of promotion – gender split by staff level



Are you leaving succession planning too late?

Generational diversity

While our survey shows that baby boomers continue to dominate the workforce, the generational shift appears to have begun; this group of employees now comprises 49% of the workforce, compared to 51% in the prior year. The shift has been shared between Gen X and Gen Y employees, with each increasing by one percentage point, now comprising 33% and 18% respectively.

There has been minimal change in the gender balance across the generations. However, given the retirements or exits among the baby boomer generation in the 2013–14 financial year, male baby boomers now comprise 32% of the overall workforce, compared to 33% in the prior year.

Figure 1.26: Generational headcount mix

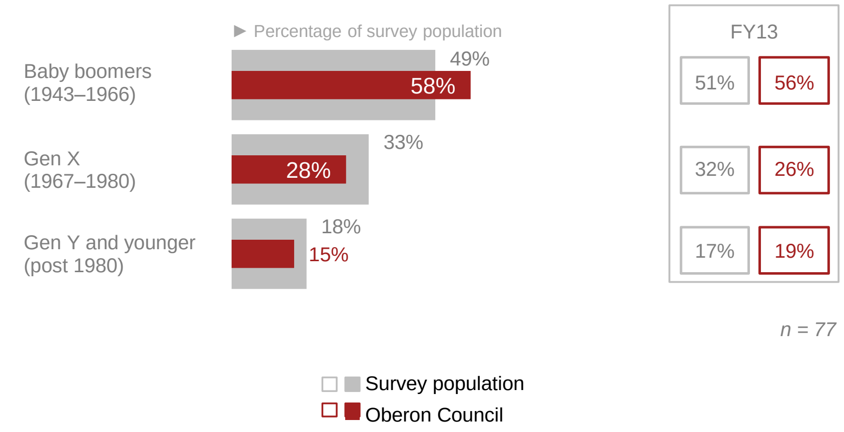


Figure 1.27: Workforce profile (closing headcount breakdown by generation and gender)

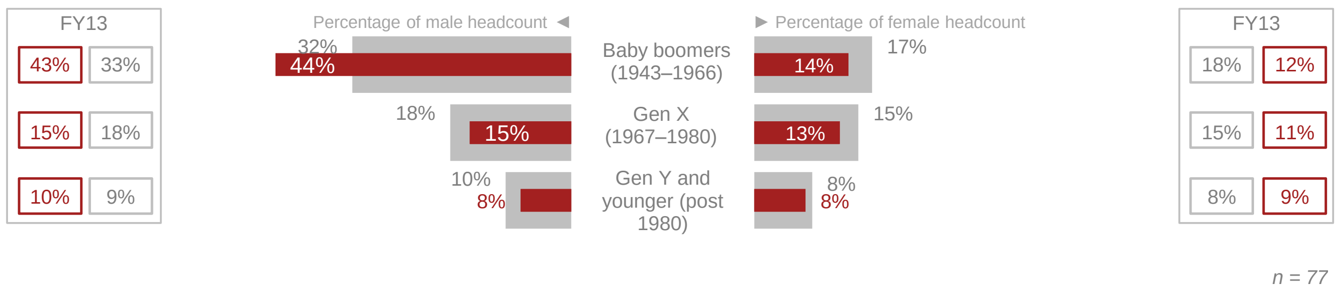
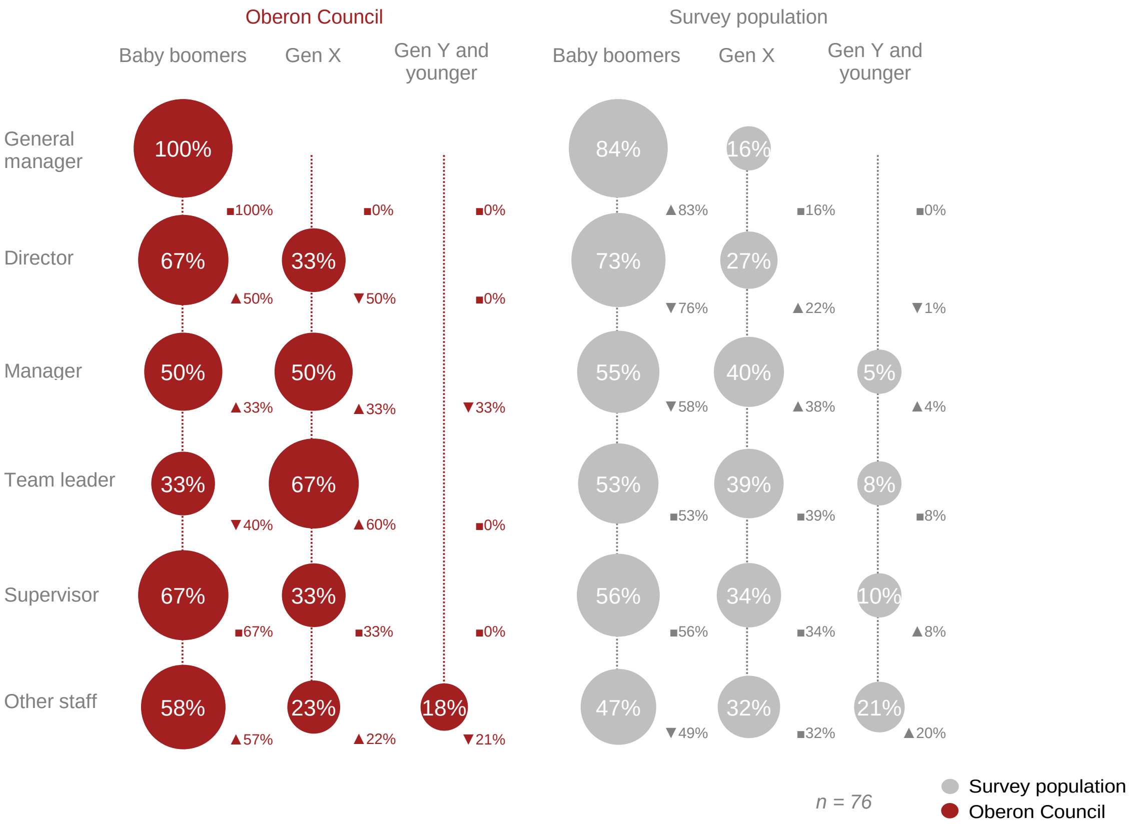


Figure 1.28: Generational staff level mix



Are you leaving succession planning too late? (continued)

Potential retirements

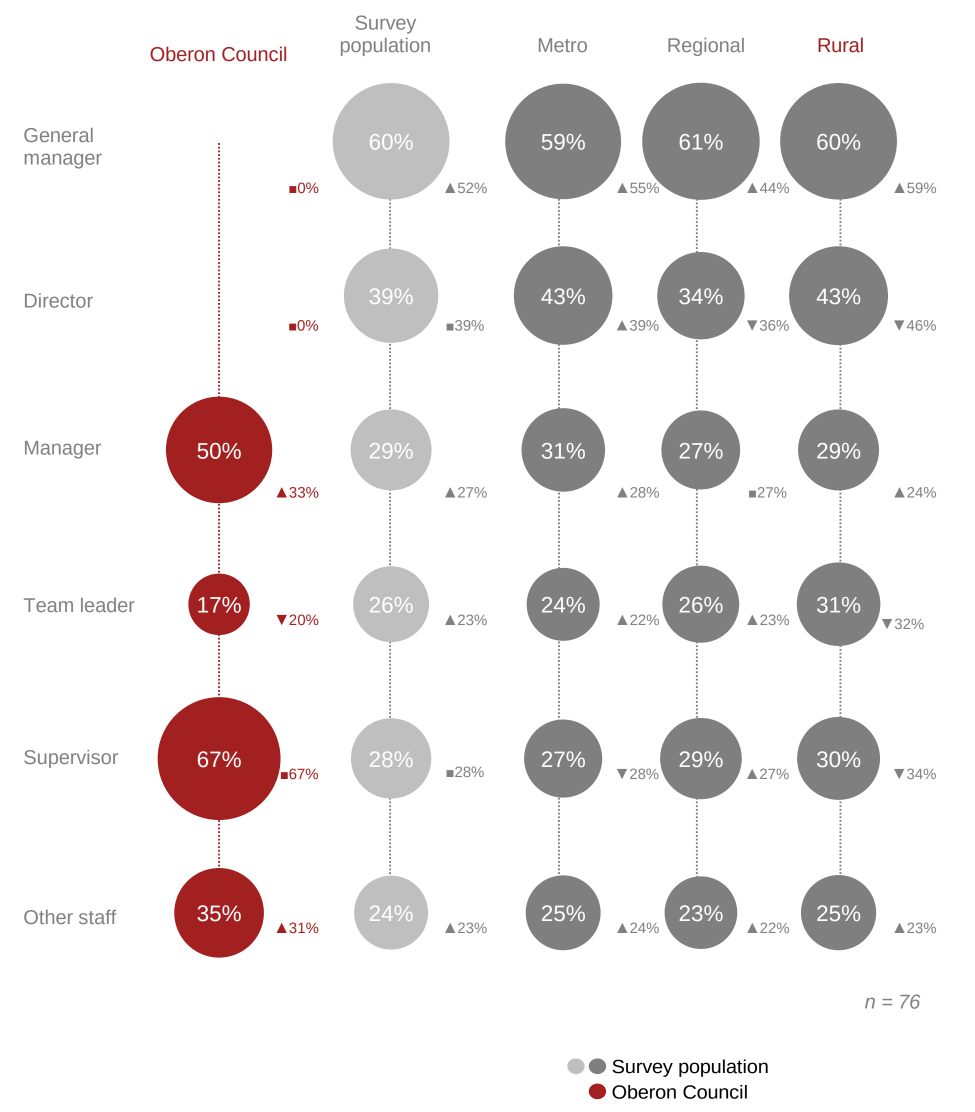
The local government workforce is ageing. Around four out of five General Managers (84%) and 73% of directors are baby boomers. Even the manager level is populated predominantly baby boomers at 55% (see Figure 1.29).

This current generational workforce trend at the very senior levels will have a significant effect on future resourcing requirements. In less than 10 years (by June 2024), we can predict that 25% of workers who were employed by councils as at 30 June 2014 will reach the retirement age of 65 years and have the option to retire.

This becomes a critical issue at the C-suite level. Our findings show that around 60% of General Managers will have the option to retire in 10 years, irrespective of the location of the council. More than a third of directors (39%) will also have the option to retire. This is even more prevalent in metro and rural councils, with 43% of directors potentially retiring in ten years.

It is evident that the large number of employees reaching retirement age remains a key concern for NSW local government. Councils need to examine whether they have adequate HR strategies for dealing with impending retirements.

Figure 1.29: Potential retirements by June 2024



Are you leaving succession planning too late? (continued)

Succession planning

Given the high proportion of potential retirements in local government, we believe it is essential for councils to establish a succession planning program to help them identify and develop emerging talent as potential successors for key leadership roles.

We revealed in our Round 1 survey that only 14% of councils had a formal succession planning program in place during the 2012—13 financial year. While this has now risen to 19% of councils, four out of five councils still do not have a succession planning program in place. Rural councils are leading the way (23% have a succession planning program in place), although metro and regional councils are beginning to see the importance of investing in succession planning. There are now 17% of metro and regional councils with a succession planning program, compared to only 10% and 7% respectively in the prior year.

Given the high volume of general managers and directors potentially retiring in the next 10 years, it is a concern that only 11% of General Managers and 12% of Directors have identified successors for these key leadership roles. This suggests hesitancy perhaps influenced by the current reform climate, with senior leaders possibly adopting a ‘wait and see’ approach.

A good succession planning program is about retaining high-performing employees and building capability resilience into the senior leadership team. If councils invest in identifying, rewarding, challenging and developing the skills of their key talent, the pool of potential successors remains strong within the council, as there is a reduced need for these employees to further their careers elsewhere.

Figure 1.30: Did your council have a formal succession planning program in FY14?

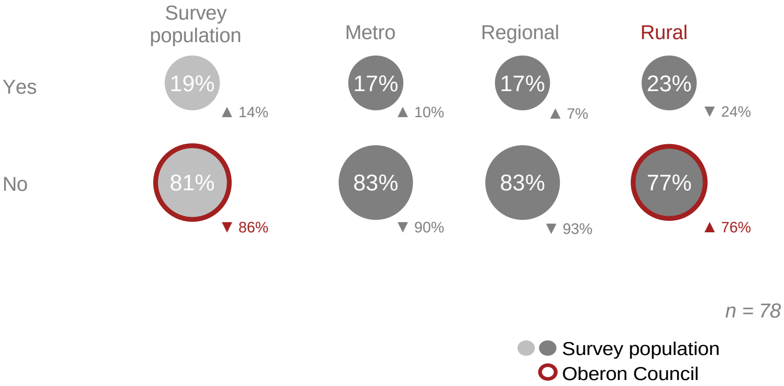
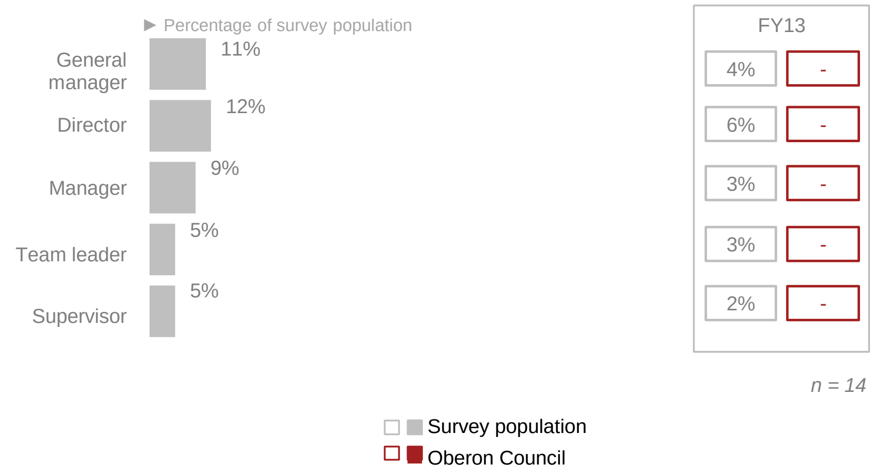


Figure 1.31: Percentage of staff with a succession plan in place



Case study: Coolamon Shire Council Workforce: Succession planning

When did Coolamon Shire Council (Coolamon) identify there was a case for change?

Around 20 years ago, Coolamon's senior management positions were held by staff members who had been with the Council for a number of years and were likely to remain until they retired. We recognised that these senior staff members held valuable intellectual property, which needed to remain within the organisation.

What approach did Coolamon take?

The first step was to implement a succession planning program that we called 'Train our Own'. This involved identifying emerging talent within the Council and assessing development needs so younger staff members could be groomed for future leadership roles.

Our General Manager had always believed that staff should be given the opportunity to develop their skills and progress within the organisation. Employees who are happy in their job and willing to invest in their community – for example through home ownership, starting a family, and living and working in the area – benefit the organisation as well as the community.

What resources were required to deliver change?

The first step was to identify potential future leaders. The General Manager and senior leadership team allocated funds to a training budget. This meant that nominated staff could undertake defined training programs.

While on-the-job training and mentoring are an important part of succession planning, we found that structured training programs provided immense benefits to individuals and the organisation. This approach has been less costly than expected and has improved staff engagement, which in turn helps retain valuable individuals.

What results did the change achieve?

We have gained continuity in the workforce, a stable management team, streamlined handover processes, enhanced transfer of intellectual property and more skilled staff. The new approach to succession planning has had the most impact in the governance, administration and technical departments.

There are various individual examples of training opportunities provided to employees to facilitate succession planning.

- The current General Manager has been employed at Coolamon since 2001 and was appointed as General Manager in 2014. During this time he has undertaken a Masters in Planning to help him promote the change in culture for succession planning.
- Two executive managers have been employed at the Council since 1996 and 1999 respectively. To enable their growth into larger roles at the Council, they have undertaken a Bachelor of Business (Accounting) and an Associate Degree in Civil Engineering respectively.

- The current manager of Planning and Environmental Services was initially engaged as a trainee Building Inspector in 2002, and undertook a Bachelor in Applied Science (Environmental Health) and a Masters in Planning to help his development.
- The current Finance Manager has been employed at Coolamon since 2005, and since then has completed a Bachelor of Business (Accounting) and a Bachelor of Legal and Justice Studies (Local Government/Conveyancing).
- Other employees that have undertaken training programs include a trainee Health and Building Officer employed since 2012 studying building surveying; a Works Engineer employed since 2011 studying a Diploma in Civil Construction and Design; a Design Engineer employed since 2004 studying Spatial Science; and an Asset Manager employed since 2015 studying a Graduate Certificate in Infrastructure Asset Management.

How does Coolamon measure and review progress?

The Council reviews its organisational structure and training requirements annually.

What challenges did Coolamon face?

While succession planning has been in place for a number of years, it has not always worked for all positions. There has to be clear communication and buy-in from the employer and employees to achieve the right results – for example, some employees do not wish to undertake further studies.

Furthermore, being a small council means that employees must be passionate about the community, otherwise they are likely to leave. Coolamon trialled an Engineering cadetship program for people outside the community, but this was not successful as the individuals involved decided against settling in the area.

What recommendations would Coolamon give to other councils?

It is important for councils to have senior management's support in changing the organisations' culture and implementing succession planning. It takes a commitment of time and financial resources towards targeted training programs so that employees across the council can take advantage of the opportunities that become available.

What does the future look like?

Succession planning is cyclical, based on when senior managers are likely to reach retirement age. Coolamon experienced the largest staff turnover in 2014; however, because we had a clearly defined succession planning program, we were able to reduce the impact of losing senior and experienced talent.

Do you have an active leave management strategy in place?

Annual leave

The evidence suggests that while some councils are noticing a decline in the percentage of employees with four weeks or more of accrued annual leave (compared to the previous year) a significant portion are yet to introduce active leave management strategies to deal with the issue of very high employee leave balances. As at 30 June 2014, 42% of employees carried more than four weeks of annual leave (up from 41% in the prior year) and 12% had more than eight weeks accrued (no change). Few councils have mad positive progress in reducing the number of employees with more than eight weeks of accrued leave.

What does this mean? From a financial viewpoint, annual leave balances within NSW local government are continuing to increase in value the longer they remain unused. It is concerning that close to half of the surveyed workforce rolls over effectively one month of salary each year. Just as concerning, if not more important, is the wellbeing factor. Failure to rest and recuperate may result in health problems and stress-related productivity issues.

Metro councils are the only group to have increased the percentage of employees with more than four weeks accrued when compared to the prior year – this jumped from 35% to 41% of employees in the 2013–14 financial year. While regional and rural councils have experienced modest decreases in this metric compared to the prior year, they continue to have a higher proportion of employees with more than four weeks of annual leave accrued: 43% and 44% respectively in the 2013–14 financial year.

Key considerations

- Have you introduced an active leave management strategy?
- Are your senior managers with high leave balances modelling the desired leave behaviour?
- Do you encourage a culture where leave is used as a way to maintain good health and wellbeing?

4.4
Average weeks accrued leave per FTE

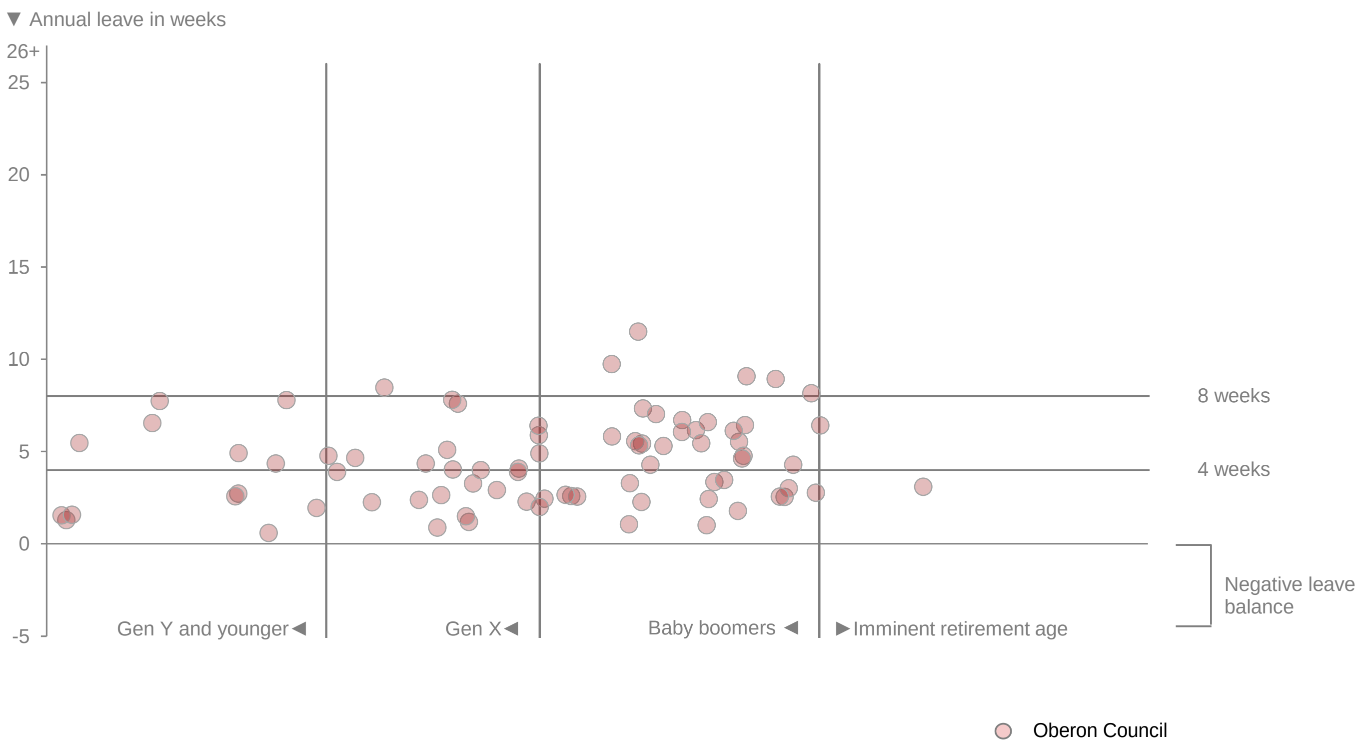
54% *of your workforce has* ***4*** *weeks leave accrued*

8% *of your workforce has* ***8*** *weeks leave accrued*

42% *of the surveyed workforce has more than* ***4*** *weeks leave accrued*

12% *of the surveyed workforce has more than* ***8*** *weeks leave accrued*

Figure 1.32: Employee annual leave balance in weeks by year of birth



The importance of managing long service leave and retirement

Long service leave

The area of managing long service leave remains a key priority for local government, given the high proportion of baby boomers and impending retirements. The location or size of a council has little impact on whether a council has employees with high long service balances. A quarter or more of the workforce in metro, regional and rural councils have over 12 weeks of long service leave accrued.

Benefits that stem from implementing an active long service leave management program include:

- 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 shift in the workplace culture, where senior management models the desired behavior by using accrued leave
- a smoother transition from work to retirement, leading to better employee welfare, and better knowledge retention and transfer within the council
- the ability to establish a long-term plan in the event of a skills shortage
- a refreshed workforce, possibly leading to less sick leave and lost time from injuries.

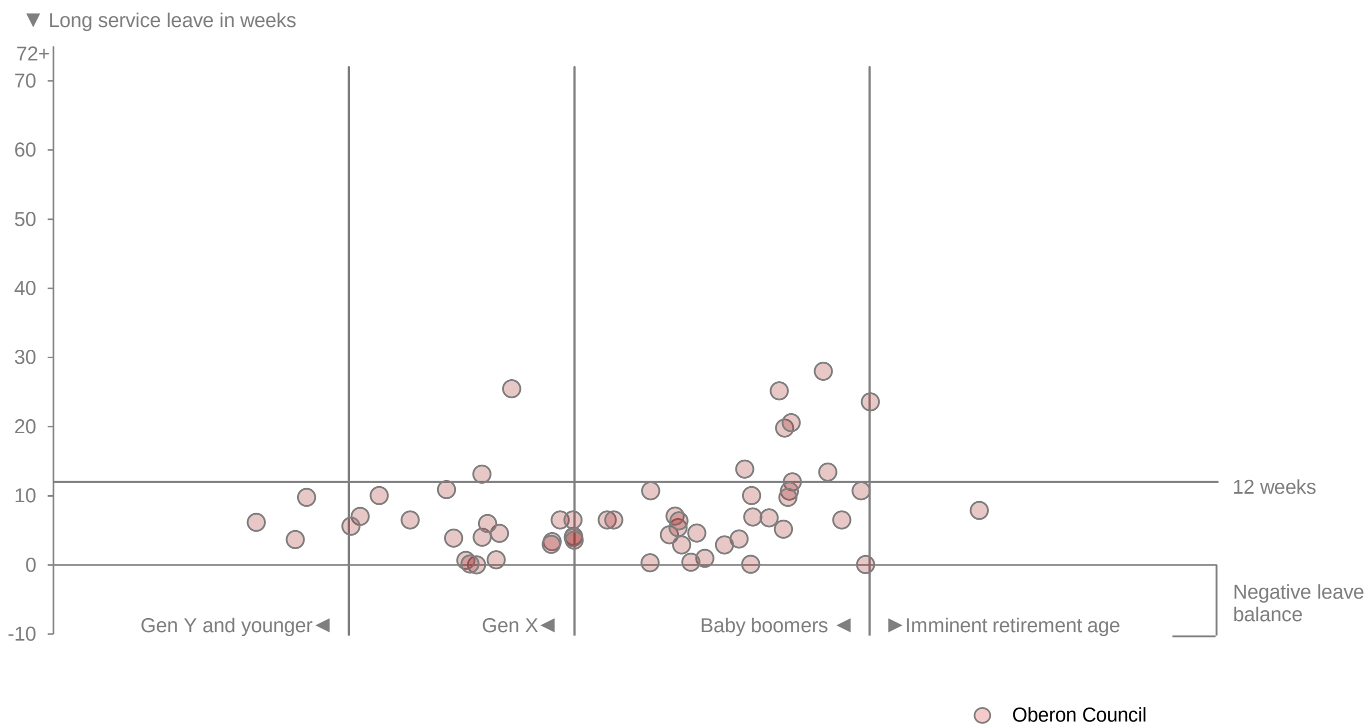
11%

*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*

Figure 1.33: Employee long service leave balance in weeks by year of birth



Learning from sick leave and absenteeism

Absence

High levels of absenteeism can have a stifling effect on productivity, as well as adding to costs through lost time and the need to employ 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 can be attributed to low employee engagement.

Across the survey population in the 2013–14 financial year, the 25% of employees who used a small amount of sick leave took 2.2 days or less (down from 2.7 days or less in the prior year), and on the other end of the spectrum 25% of employees took 11.1 days or more (down from 11.5 days or less). The remaining 50% of staff took between 2.2 days and 11.1 days of sick leave – this is the 'normal' range.

While this slight decline in sick leave taken indicates a healthier workforce, we advise each council to examine their own sick leave profile. What percentage of your employees fall within the 'normal' range? If you have more than 25% of employees in the higher range (taking more than 11.1 days), do you understand why certain employees are reporting high levels of absenteeism?

Examining the difference in the volume of sick leave taken between staff who manage and staff who do not is also important. We have provided each council with a quartile breakdown on sick leave taken, by supervisors and above compared to other staff. A high level of absenteeism among employees at the supervisor level can have a demotivating effect on the lower levels of staff, which may lead to higher absenteeism in the team overall.

Key considerations

- What percentage of your employees fall within the 'normal' range for sick leave taken?
- What employee groups are reporting high levels of absenteeism?

Figure 1.34: Percentage of employees taking sick leave by quartile

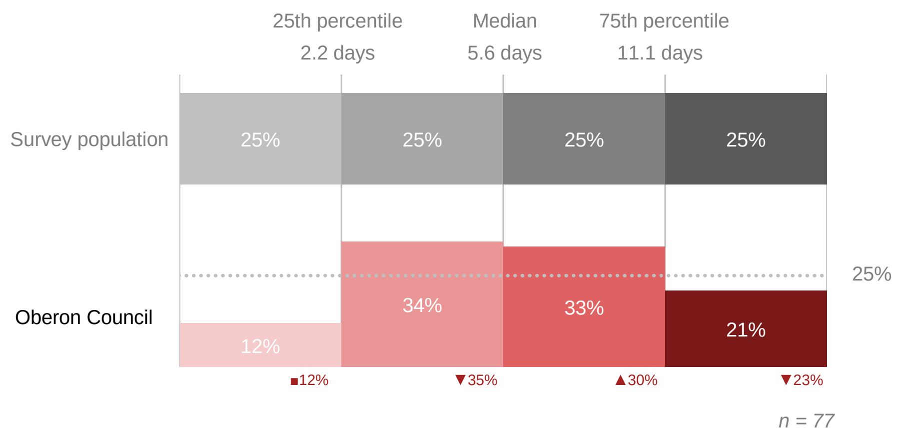
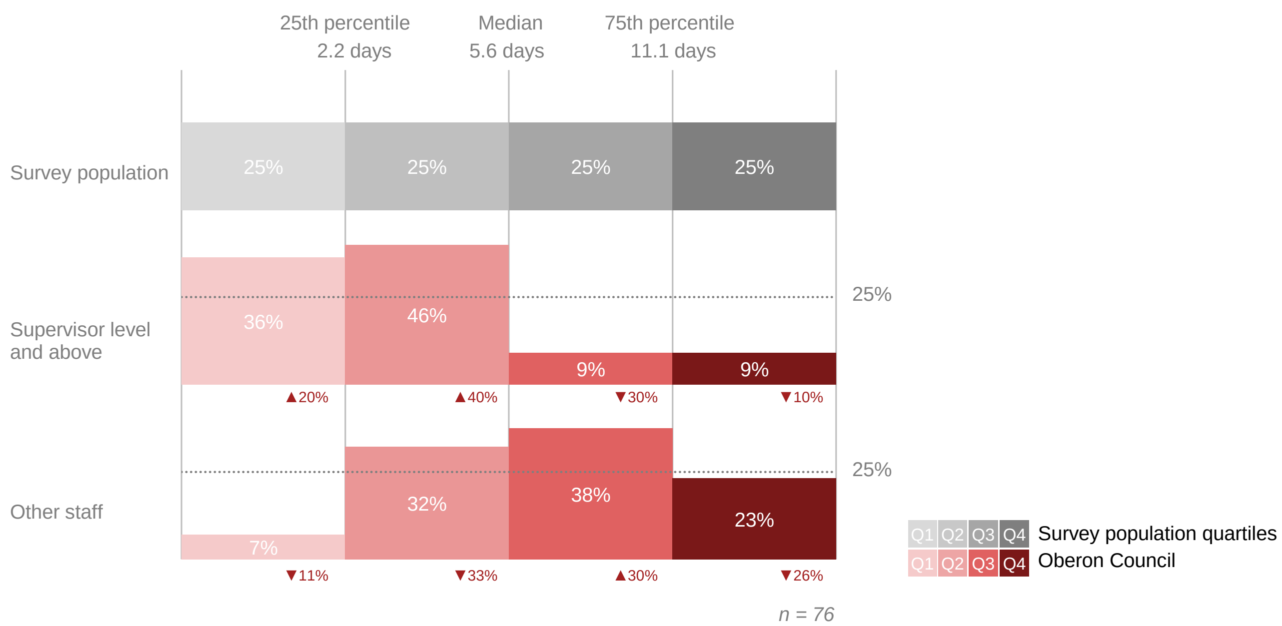


Figure 1.35: Breakdown of percentage of employees taking sick leave by quartile



Are you equipping staff with new skills?

Staff training

The findings of the recent ACELG survey[12], regarding the biggest challenge faced by local government in workforce development over the next 12 months, show that for regional and rural councils, the cost of accessing training is a significant issue – travel and accommodation costs consume a significant amount of an already limited training budget.

In our Round 2 FY14 survey, we investigated, for the first time, the budget and actual spend on training offered to all employees. It is encouraging to see that 97% of councils have a formal training budget in place. However, we found that 72% of councils with a training budget for the 2013–14 financial year did not spend the full amount.

The overall median annual training spend per FTE is $935. Metro councils spend a median of $639 per FTE, which increases for regional councils to $1,035 per FTE and $1,164 per FTE for rural councils. This increase is likely related to the travel costs involved when providing training to employees outside metro areas.

Those councils that are spending less per FTE on training compared to the full training budget should be examining the reasons behind this decision and the possible ramifications on the workforce. If council lacks commitment when it comes to creating opportunities for learning, this may lead to reduced productivity and low staff engagement, as well as an inability to innovate and quickly respond to changing circumstances.

If training budgets are limited, there are many ways to offer cost-effective training opportunities to support employee development. Holding on-site training in co-ordination with nearby councils is one way to reduce costs and offer training opportunities. Providing junior staff the chance to 'shadow' more senior members of staff is a cost-effective way to leverage existing skills in the workplace.

Offering short- or long-term secondments to other areas of the business or to other councils is another way to improve the skills within the workforce and provide employees with a variety of work options. There are also many online industry training resources and courses that are inexpensive and do not require travel.

Figure 1.36: Does your council have a formal training budget?

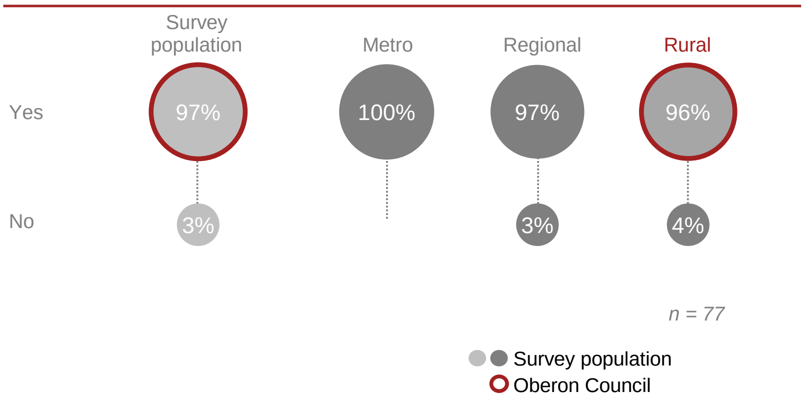


Figure 1.37: Actual training spend against training budget per FTE

12 Australian Centre of Excellence for Local Government, ACELG, February 2015, 'Profile of Local Government Workforce'.

Access to management development training

Management development training

A formal management development training program is any specific training that will support the professional development of management or leadership skills. It is good to see more councils (73%) have a formal program in place, compared to only 68% in the prior year. Rural councils continue to lack a more formalised approach to training; only 50% of councils have a formal management development program in place, although this too has increased from 40% in the prior year.

A key highlight is the increased participation in management development training over the past year. All levels from supervisor to General Manager have higher participation levels in the 2013–14 financial year. Investing in the supervisor level has really taken off, with almost half of all supervisors (46%) now participating in management development training, compared to only 36% in the prior year.

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

Figure 1.38: Does your council offer formal management development training?

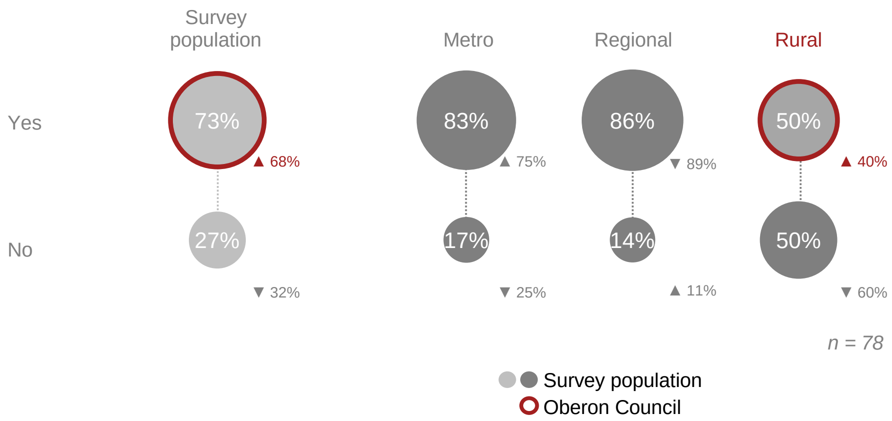
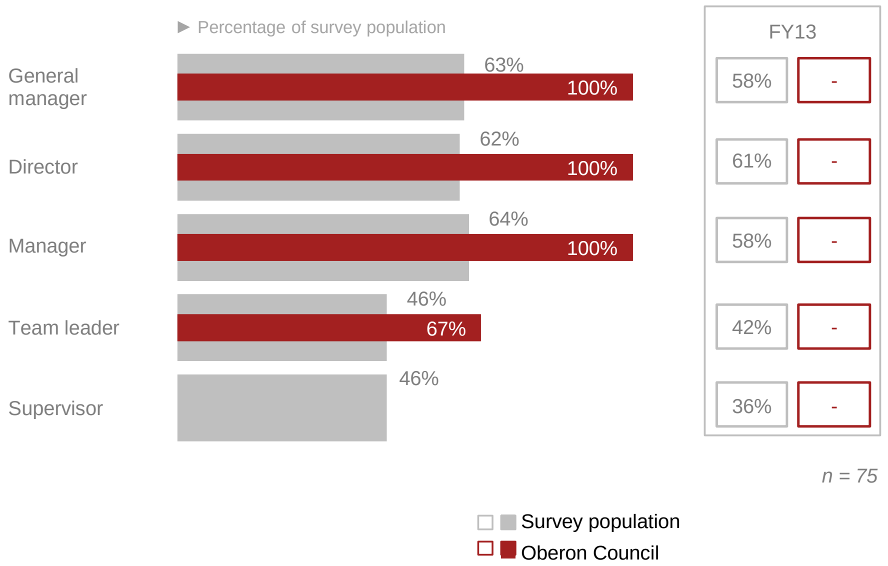


Figure 1.39: Percentage of staff who participated in management development training



Access to management development training (continued)

Management development training programs

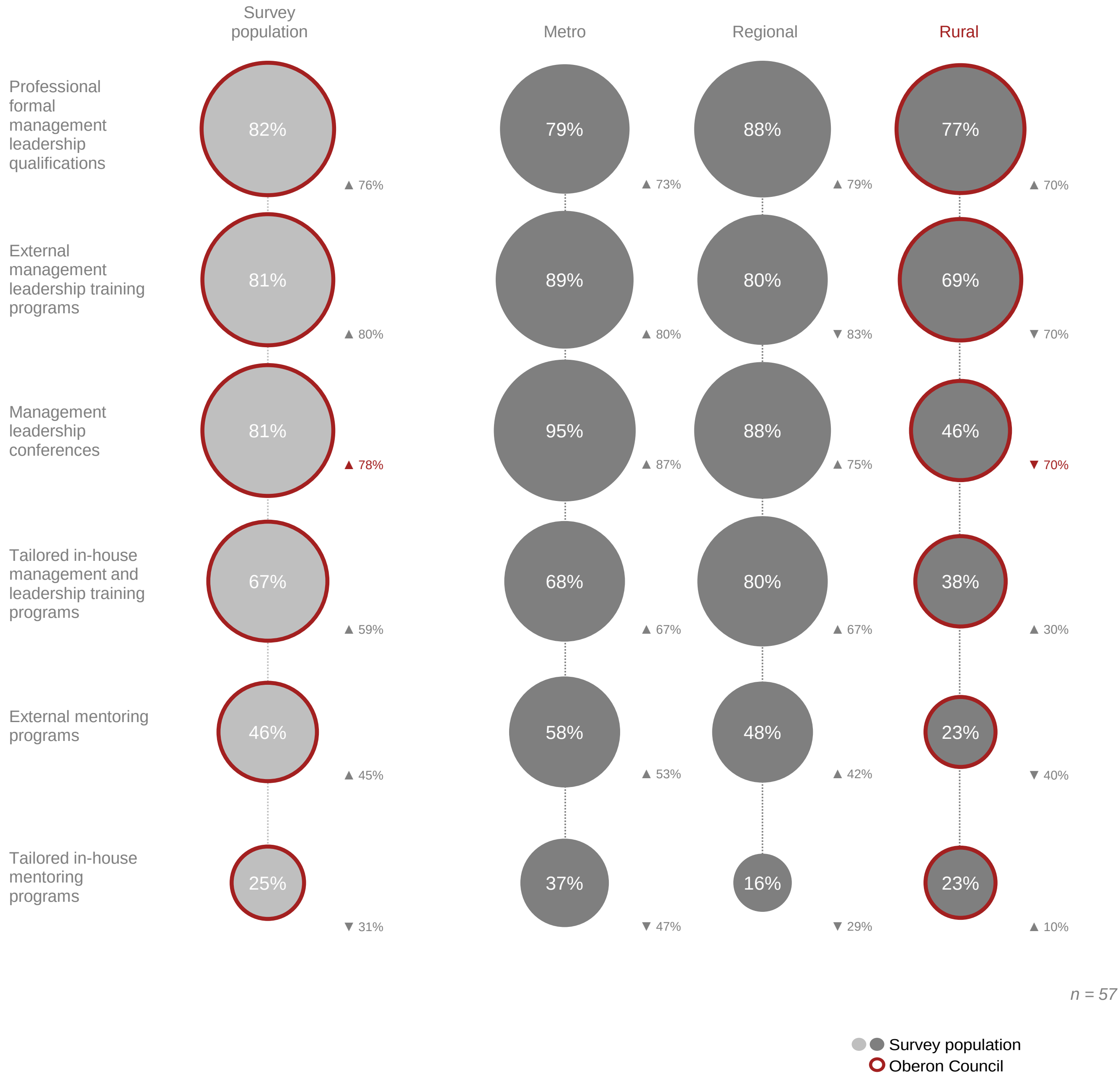
Interestingly, while participation levels have increased in management development training, it appears to be funded in an informal way. There are 55% of councils without a dedicated budget set aside for this type of training.

Budgeting for management training allows a council to prioritise it over other ad-hoc spending and ensures some form of governance and accountability exists, with the aim of upholding the agreed council strategy around skills development.

Our survey reveals that professional courses that lead to formal qualifications are the most popular form of management training, with 82% of councils reporting that their executive staff members undertake this type of training (up from 76% in the prior year). Coming in a close second at 81% are external management leadership training programs (up from 80%) and management leadership conferences (up from 78%).

External mentoring programs continue to be less prevalent; only 46% of councils offer such programs. This is an area where managers and directors approaching C-suite levels can really benefit from the experience of more senior people.

Figure 1.40: What type of management development programs were offered in FY14?



Strategy and performance are intrinsically linked

Performance appraisal

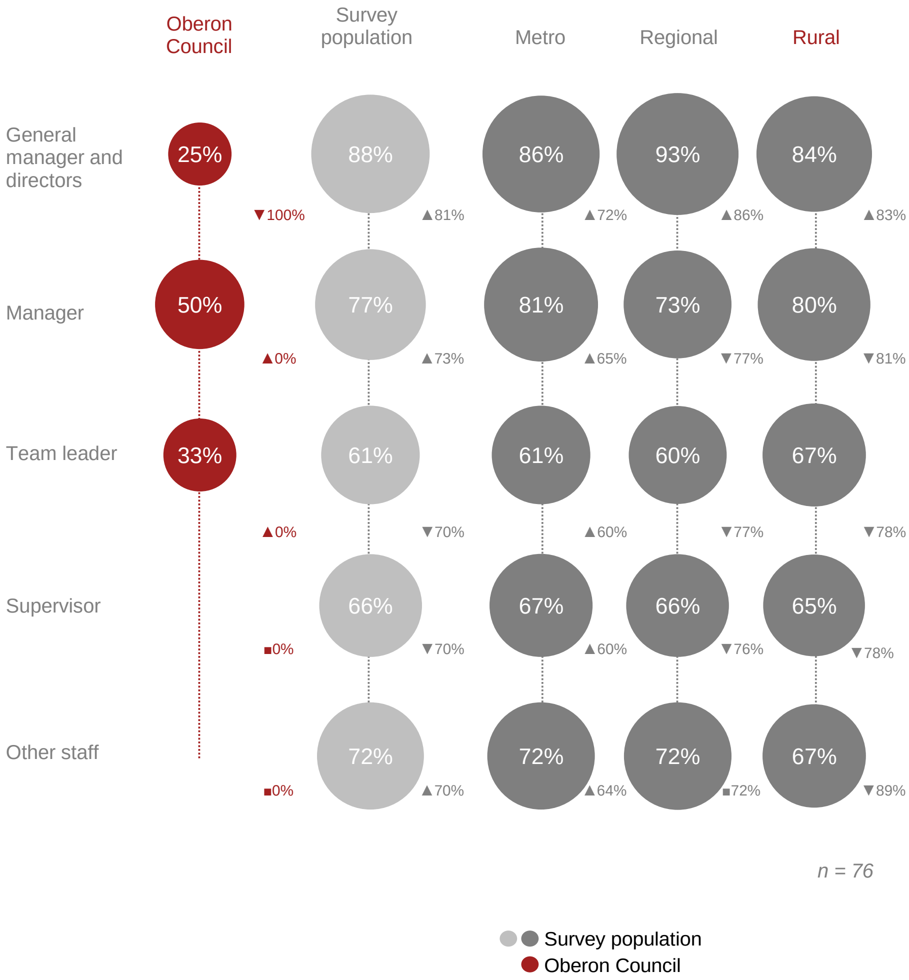
Our survey shows that General Managers and directors are far more likely to receive a formal performance appraisal compared to staff members at any other level. We highlighted in our Round 1 report the importance of managers receiving feedback during the year, given this function is the 'glue' between senior management and staff. Although this is improving – 77% of managers (up from 73%) had a formal performance appraisal in the 2013–14 financial year – only metro councils have significantly pushed forward, with 81% of their management receiving a performance appraisal (up from 65%).

Regional councils especially need to investigate why there has been a decline in the proportion of managers receiving feedback in the past year – the number dropped from 77% to 73%.

Councils need to focus on their people strategies and the role of recognition and feedback on the influential levels of team leaders and supervisors. Less than two-thirds of team leaders are receiving timely feedback (61%, down from 70% in the prior year) and only 66% of supervisors are receiving performance appraisals (compared to 70% in the prior year).

Regular informal feedback and recognition is just as important as annual or half-yearly formal appraisals. It is important to recognise achievements, identify performance issues and plan for further development needs. Formal performance appraisals not only benefit individuals; they allow an organisation to identify skill shortages and then plan accordingly.

Figure 1.41: How many of your employees had a formal annual performance appraisal in FY14?



Strategy and performance are intrinsically linked (continued)

Linking performance outcomes to the Delivery Program

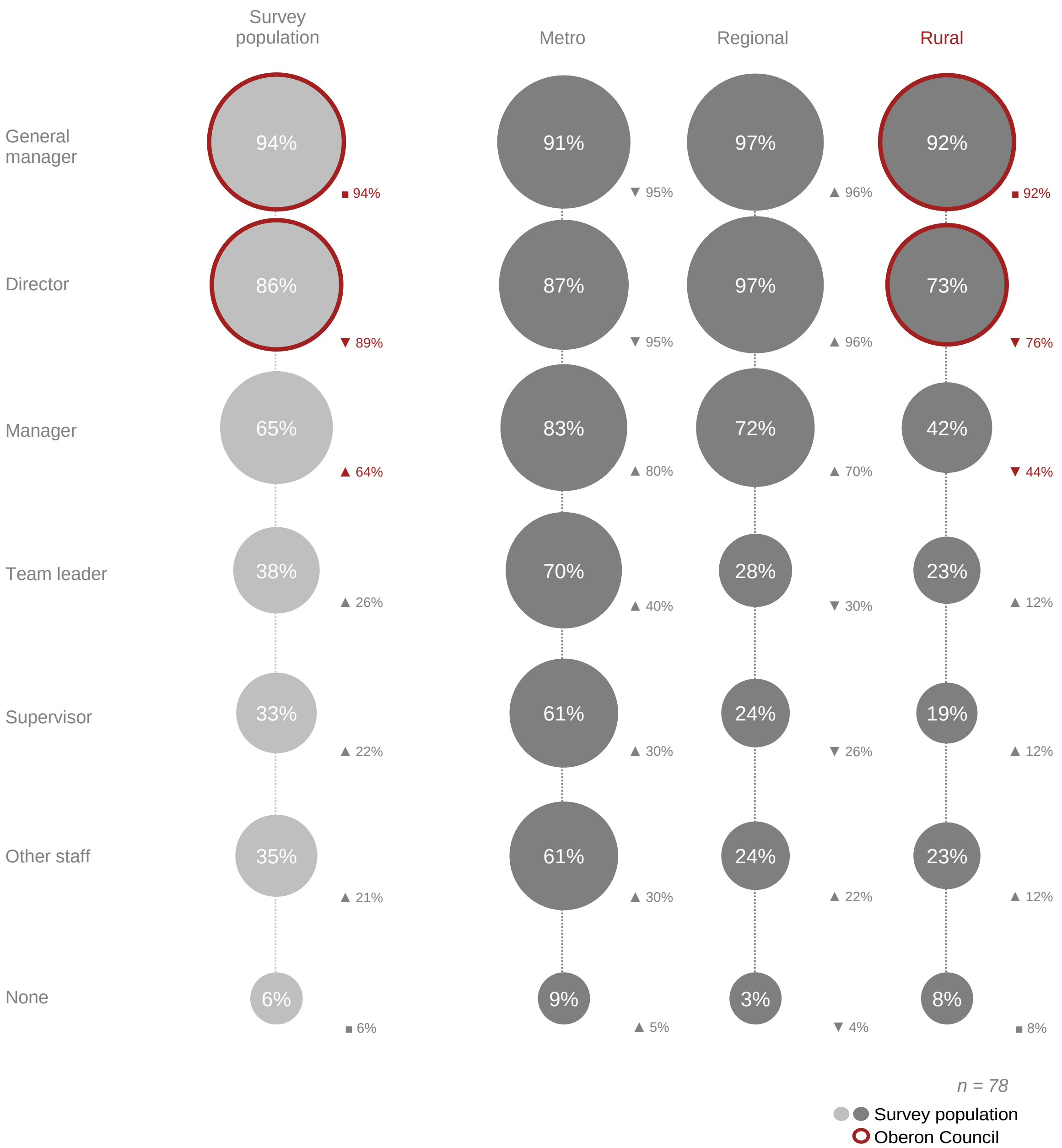
An organisation's success relies heavily on its people. That is why it is best practice to establish clear organisational goals and objectives, and link these to an employee's performance appraisal.

Bearing this in mind, as all councils are in the process of examining their future sustainability and how this may affect the delivery of the community strategic objectives, a shift is taking place.

Team leaders, supervisors and other staff are now more engaged when it comes to connecting the council's goals and objectives to their performance outcomes.

One-third or more of the employees within each of these levels now have their performance outcomes linked to their council's Delivery Program, compared to one-quarter or less in the prior year.

Figure 1.42: Which staff levels have their performance appraisal outcomes linked directly to the Delivery Program?



Are your workforce costs growing faster than your revenue?

Productivity

Local government sustainability is a current focal point for NSW councils, as they prepare their Fit for the Future submissions. Our productivity measure aims to assess whether councils are improving the balance between the level of their controllable outputs (measured by controllable revenue) compared to the increasing costs of their workforce.

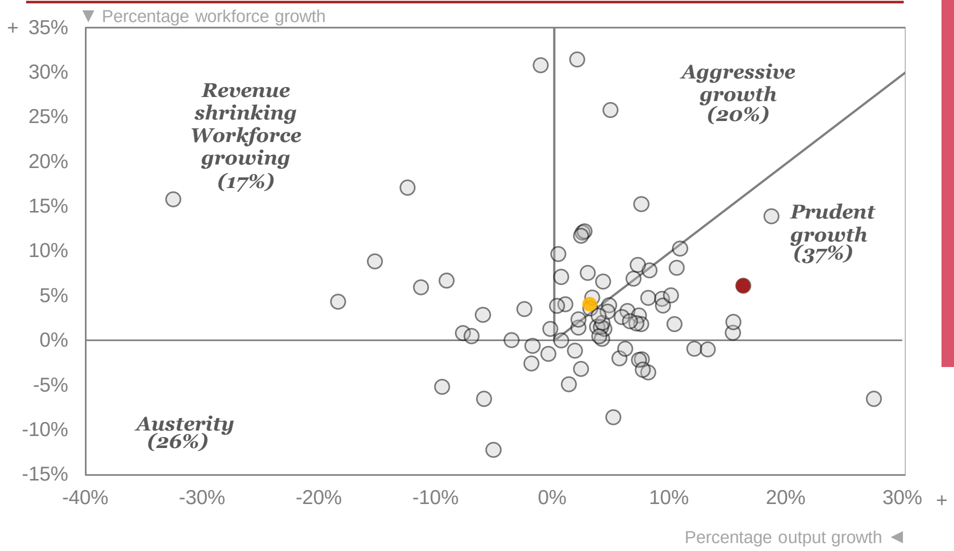
We understand that productivity is not easy to measure due to the many variables that can influence costs and outputs. As a result, we present a directional view only, looking at councils' overall relative performance in this area and identifying performance segments on the charts below, as a guide to help councils plan for the future.

There continues to be a clustering of councils (37%) within the 'prudent growth' area of the chart. This suggests councils are increasing their controllable revenues at a faster rate than their workforce costs are growing. However, as a result of fluctuations in controllable revenue, along with what appears to be steadily increasing workforce costs, we are now seeing 17% of councils (up from 7%) in the 'revenue shrinking, workforce growing' area.

We are starting to see some very different patterns across metro, regional and rural councils. Rural councils continue to have the most variation in their results, with councils situated across all four quadrants. They appear to have experienced higher workforce costs relative to income between the 2012–13 and 2013–14 financial years..

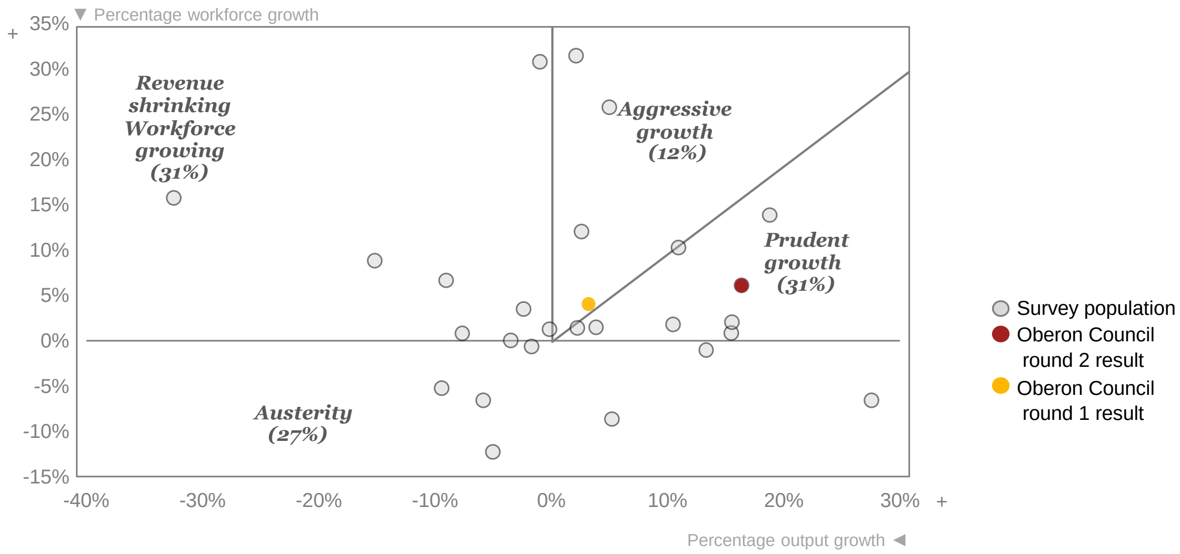
For the first time, 10% of regional councils are now in the 'revenue shrinking, workforce growing' area. While 22% (up from 10%) of metro councils are now in the 'aggressive growth' quadrant, overall it appears that these councils are experiencing reasonable output growth. The factors that might affect the variation in these results are successful Special Rate Variations; workforce cost increases due to the Local Government (State) Award 2014; and/or increased fees and charges.

Figure 1.43: Productivity - Survey population



n = 78

Figure 1.44: Productivity - Rural councils



Definition

Output growth is year-on-year controllable revenue growth that excludes revenue from providing outsourced services, all types of grants and domestic waste management revenue.

Workforce growth is year-on-year growth in total employee costs.

Managing lost-time injury incidents

Lost-time injury incidents

Reducing the number and severity of workplace injuries remains high on the agenda, and our survey reveals a lower number of lost days per 100 employees compared to the prior year. In the 2013–14 financial year, there were 45 lost days per 100 employees, compared to 51 days in the prior year. Rural councils continue to have a much higher proportion of lost days per 100 employees, with 77 lost days per 100 employees, compared to 37 in regional and 47 in metro councils. While there has been a sharp decline over the past year for rural councils, reducing from 89 to 77 lost days per 100 employees, this indicates a need for further investigation into the reasons for such incidents, in an effort to reduce significant associated costs and lost productivity.

In Figure 1.45, we have plotted each council's rate of incidents (measured as the number of incidents per 100 employees) against the average claim cost. The bubble size represents the average lost days per incident. We acknowledge that councils with a higher percentage of outdoor workers may have a higher rate of incidents.

Our evidence goes onto show that during the 2013–14 financial year, incidents were far more likely for workers aged 46 to 60 and over 60 years, and that these injuries increased compared to the prior year. Those aged over 60 had the highest average rate of incidents, with 5.1 incidents per 100 employees (up from 4.5), followed by those aged 45 to 60, with 4.1 incidents (up from 3.8). Councils should further explore the nature of these incidents so they can implement awareness and wellbeing programs that target these two age groups.

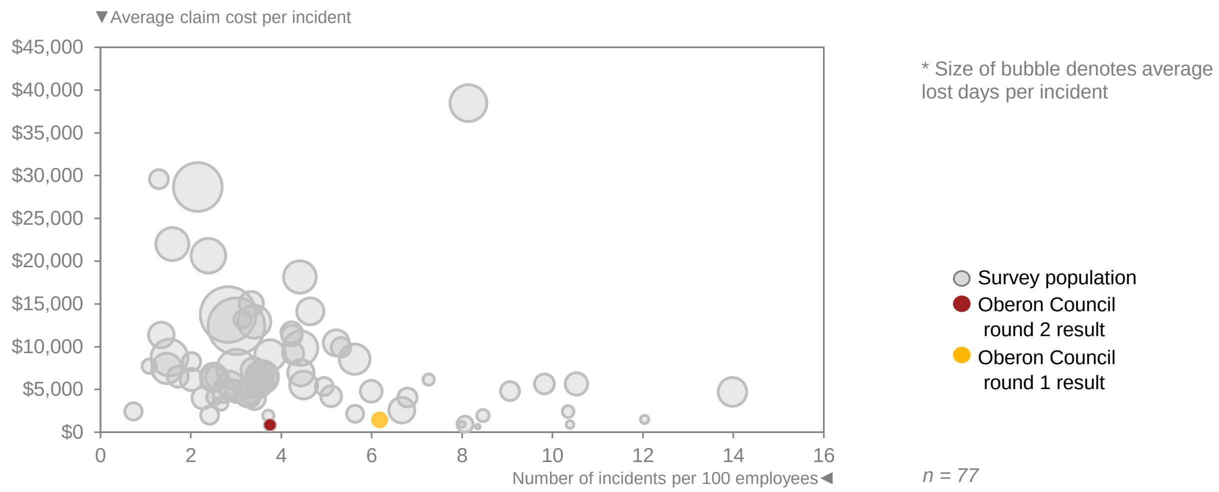
Key considerations

- Is your number of incidents per 100 employees trending downwards?
- Do you have a prevention program in place to minimise incidents?
- What was the nature of the incidents that did occur? How do they rate on a scale of very

Your council lost ***10 days*** *per 100 employees in FY14*

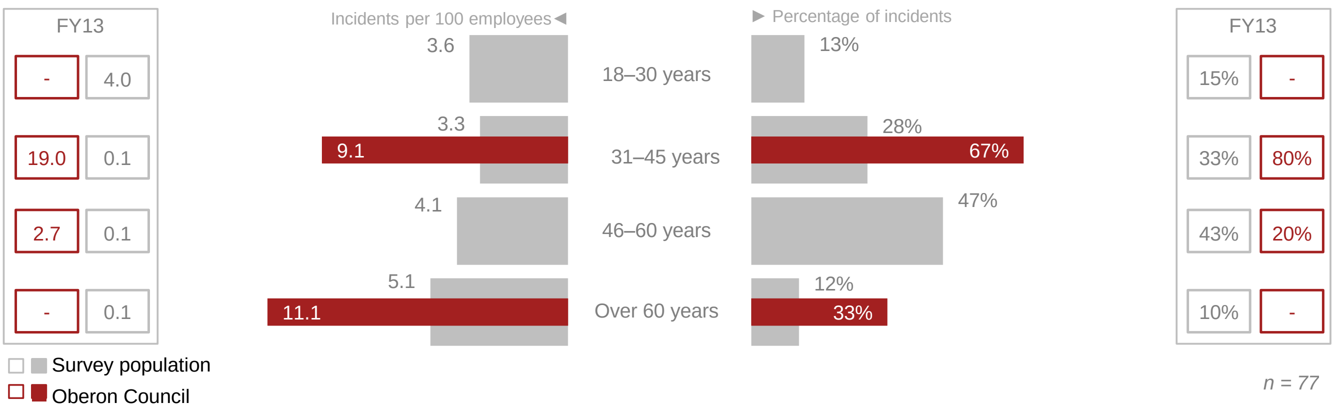
Rural councils lost ***31 days*** *per 100 employees in FY14*

Figure 1.45: Lost-time injury incidents



n = 77

Figure 1.46: Incidents per 100 employees by age bracket



n = 77

Finance

Finance trend summary

Oberon Council

Metric	Council	Round 1	Round 2	Change from round 1 to round 2
1. CFO works closely with general manager and leadership team	Oberon Council	Yes	No	Changed to no
	Survey Population	43% (Yes)	47% (No)	
2. Finance employees with at least a bachelor degree	Oberon Council	40%	43%	▲+3%
	Survey Population	33%	34%	▲+1%
3. Finance function effort - transactional tasks	Oberon Council	67%	58%	▼-9%
	Survey Population	68%	67%	▼-1%
4. Finance function effort - business insight activities	Oberon Council	22%	17%	▼-5%
	Survey Population	16%	17%	▲+1%
5. Cost of finance as percentage of revenue	Oberon Council	5.5%	4.9%	▼-0.6%
	Survey Population	1.8%	1.8%	■ -
6. Frequency of reporting financials to senior management team	Oberon Council	Quarterly	Quarterly	No change
	Survey Population	44% (Quarterly)	40% (Quarterly)	▼-4%
7. Total elapsed days for the budgeting process	Oberon Council	176	67	▼-109
	Survey Population	150	141	▼-9
8. Revenue profile - rates and annual charges	Oberon Council	25%	28%	▲+3%
	Survey Population	49%	51%	▲+2%
9. Rates and annual charges collected by end of quarter 2	Oberon Council	60%	61%	▲+1%
	Survey Population	59%	57%	▼-2%
10. Capital expenditure per resident	Oberon Council	$985	$890	▼-$95
	Survey Population	$520	$510	▼-$10

Finance partnering with the business

The role of finance

The spotlight is on financial sustainability in local government. Councils operating a finance function with an experienced Chief Financial Officer (CFO) or senior finance professional will be in a better position to adapt and respond to changing environments. More than ever, local government requires its CFO to be true partners of the business, using their financial acumen to deliver insights to senior management that will lead to enhanced decision making and improved performance.

The Fit for the Future process is requiring CFOs to think more strategically. A number of new sustainability criteria are being introduced that will require strategies to be developed as councils work towards achieving the seven benchmarks. Fit for the Future submissions should include long-term financial modelling of the criteria as a core element.

We are starting to see a shift in the role of the CFO in local government. More than half of the councils surveyed (53%) have their CFO working closely with the general manager to define the business strategy (up from 43% in the prior year). Large councils are leading the way, with 86% having a CFO who plays a key role in shaping the business strategy. Medium-sized councils are transitioning with 48% of CFOs (up from 37%) playing a greater role, while CFOs in small councils have a less influential role, sitting at 44% (down from 53%).

As finance in local government evolves from being a support service into one that promotes strategic transformation, further investment is required. According to the recent PwC Australian federal and state government corporate services benchmarking report[13], which surveyed 20 Australian government organisations, 75% of CFOs or senior finance professionals work closely with the CEO in developing the business strategy.

Finance functions are transitioning from a focus on accounting to a focus on advanced budgeting and planning. By successfully mastering the necessary closing tasks, and increasing both speed and accuracy, finance have been invited to address broader questions, such as 'what are the best organisational key performance indicators for measuring success?'[14]

Local government requires finance professionals who are experienced, creative and highly skilled. Our overall survey findings show minimal change in the qualifications of the finance team, with around one-third of finance employees with at least a bachelor degree and 16% who have attained a postgraduate qualification. While only 44% of CFOs in small councils play a strategic role, they are starting to invest in the skills within the finance team, that now have a higher proportion of finance professionals holding a postgraduate qualification (11% up from 7%) and bachelor degree (32% up from 25%). These changes in team make-up take time but can yield big benefits in the long term.

Figure 2.1: What role does the CFO play in the development of the council's business strategy?

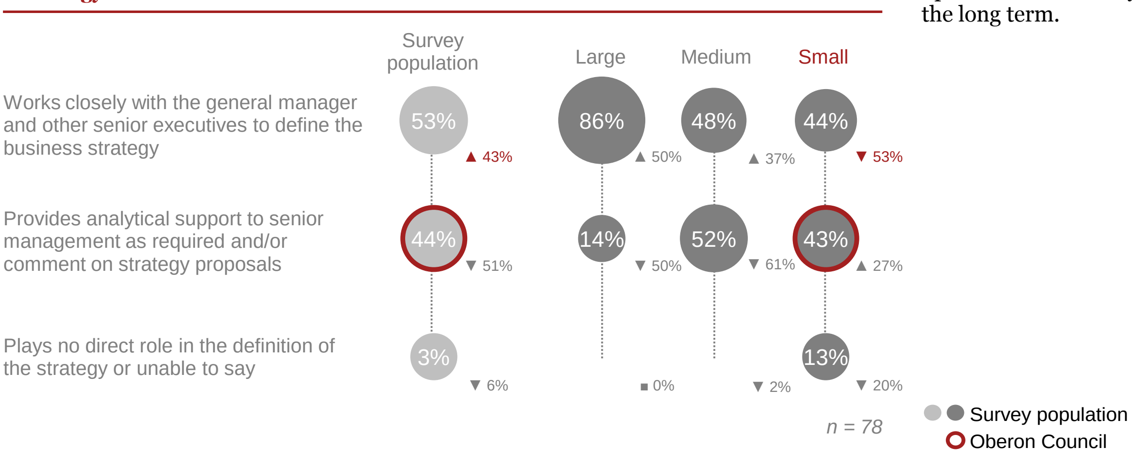
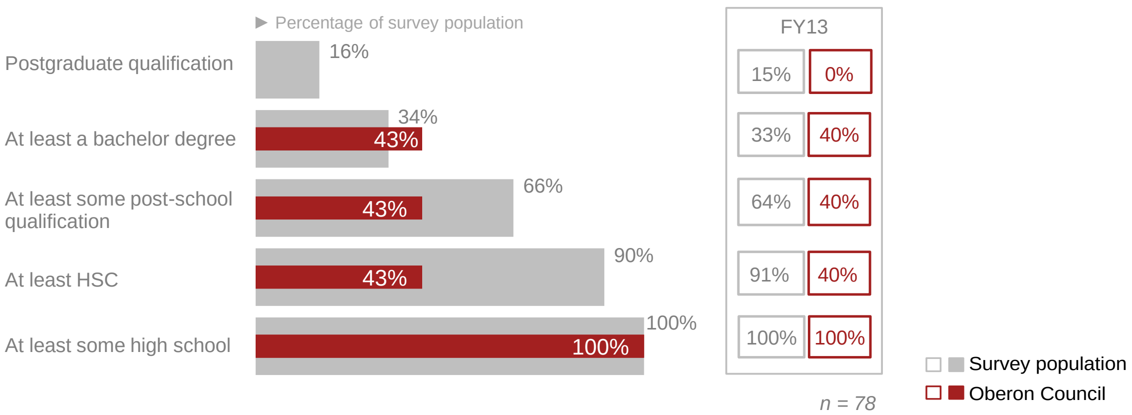


Figure 2.2: Finance employee qualifications (cumulative)



[13] PwC Australia 2014, Benchmarking of Commonwealth and State Government Corporate Services, 'Sustainable productivity'.
[14] PwC UK 2013, 'Unlocking potential: finance effectiveness benchmark study'.

What is your finance function really costing you?

Finance function activities

The key elements of a high performing finance function[15] include:

Efficiency in finance means performing tasks in a timely and cost-effective manner. This is usually achieved through simplified and standardised processes that use technology, shared services or outsourcing to make transactions more efficient.

Compliance and control relates to the need to optimise financial risk management, compliance and control to establish a sustainable cost-effective control environment that meets today's requirements, while being flexible enough to accommodate future changes.

Insight is increasingly important in effective finance function delivery. This is when finance adds value to the organisation and supports the strategic and operational decision making process.

During the 2013–14 financial year, we continued to see a concentration of finance effort on transactional efficiency tasks (67%), with less effort allocated to business insight activities (17%). All other things being equal, councils that have payroll operating within the finance function should expect to see more effort in improving transactional efficiency.

Some councils have the finance function devoting close to 25% of finance effort on business insight activities, which is in line with the most recent global PwC finance effectiveness findings.[16] The global findings highlight how these corporations are slowly changing finance from a budgeting and control function into a driver of business transformation and performance, in an effort to deliver strategic insights to key stakeholders.

Understanding the cost of the finance function is important when assessing the current value derived and changes that may be required. In large and medium-sized councils, the median cost of finance as a percentage of revenue, remains consistent, at 1.6% and 1.8% respectively.

However, small councils continue to operate a more expensive finance function, at a median cost of 3.1% of revenue (up from 2.7% in the prior year). This indicates that relatively more expensive and skilled resources are spending time on transactional tasks, rather than on business insights activities (that occupy only 15% of time). There may be potential to reallocate resources and streamline back-office roles by co-ordinating with other nearby councils.

Key considerations

- Have you invested in technology to support better analysis and reduce the amount of time spent gathering and manipulating data?
- Have you explored the option of outsourcing or sharing transactional activities with other nearby councils?

Figure 2.3: Finance function effort by process

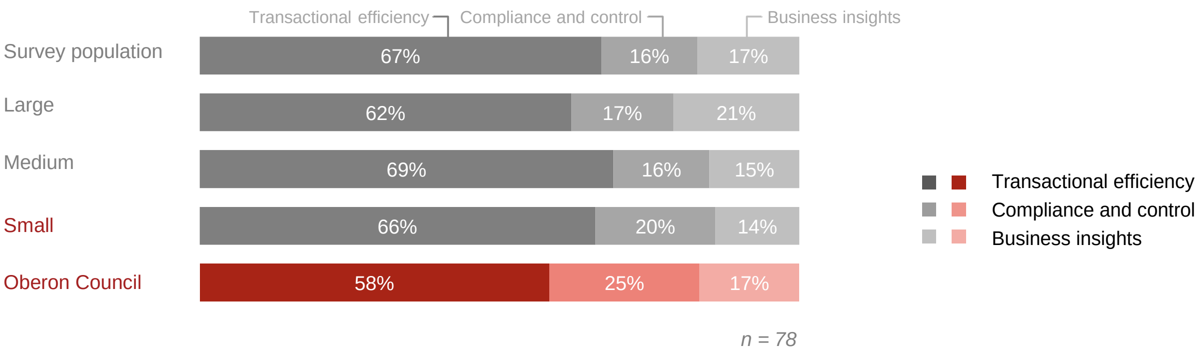
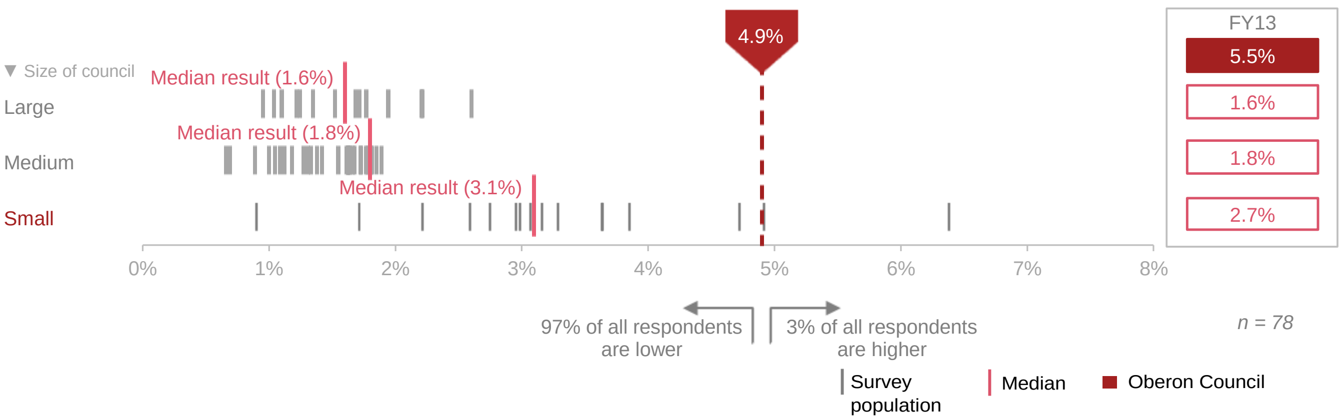


Figure 2.4: Cost of finance as a percentage of revenue



[15] PwC 2014, Government & the 18th Annual Global CEO Survey, 'Government and the Global CEO: Delivering outcomes, creating value'.
[16] PwC UK 2013, 'Unlocking potential: finance effectiveness benchmark study'.

Case study: Wollongong City Council
Emphasis on business insight

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

More than 10 years ago, Wollongong recognised the need for its finance team to deliver business insights in addition to its traditional reporting and clerical responsibilities. The journey has been gradual, with a number of significant change points and continual incremental improvements over that period.

The goal was not merely to improve service delivery but rather to change the nature of the roles finance – as a team and as a business function – could play. The future was to be typified by our ability to provide independent professional services and information to help our decision makers.[1]

What approach did Wollongong take?

While the vision for change was clear, it was our implementation of a new Finance system in 2003 that offered the functionality, flexibility and automation we needed. It allowed us to spend more time generating insights to help improve the business, and less time on operational functions like transaction processing, and statutory and technical accounting

This has been an ongoing process of incremental improvements, which has meant the team has decreased slightly in numbers. However, within the team, there are now higher levels of qualification, skills and changing roles.

What results did the change achieve?

We have undergone continual change and even now we're always learning, developing systems and building relationships. Each phase of development has built on what has come before. We had a major change in 2003 when we implemented a new Finance system, which gave us internal reporting and analysis capabilities.

Another time of accelerated change was when we operated under administrators between 2008 and 2011. This saw the introduction of clear, concise and more efficient monthly reporting to the council, administrators, community and internal stakeholders. We introduced an integrated planning and reporting framework that helped different parts of the organisation to understand each other better – and so to work together better.

Wollongong's Securing our Future Program, which was the outcome of a review of Council's financial sustainability, helped us to more clearly understand and share the council's long-term financial position. The finance team's role was critical, in providing more detailed information, both financial and metric about the resources that are used in providing the Services, and the outputs and outcomes shown in planning documents used by a broad range of both internal and external users.

What challenges did Wollongong face?

Wollongong faced and continues to face a range of challenges. These include:

1. Changing the culture within Finance

The nature of the Finance Division has changed over the past 10 years, as our role changes from transactional to business support. Our team has also evolved, and the roles we play have also changed. We're now more skilled, and our understanding of the organisation's processes and interdependencies has deepened.

[1] Debrecery R, Nugent M & Gray G. 'New Research Maps – The Changing Landscape', Australian Accountant, Australian Society of CPAs, Melbourne, June 1997.

2. Reshaping structures, resources and skill sets to match the vision and new expectations of the Finance role

This has included the introduction of an Undergraduate Development Program within the Finance Division. This allows finance professionals to enter the organisation at the ground level. We allocated four clerical positions to the program, and undergraduates work a normal 35 hour week.

Undergraduates are rotated annually so they get experience across a range of finance functions and gain new perspectives on business operations. These undergraduates perform tasks previously completed by non-professional staff, with about 25 percent of their time allocated to experiential learning. This is usually done through project work, often related to business insight. The program provides a clear career path and opportunities for undergraduates to progress through the organisation and industry at the end of their degrees.

3. Continually improving financial systems and information to meet the demands of varied users and reduce the manual effort required

Our management accounting staff have developed a strong ‘partnership’ approach in supporting their allocated directorates. This has increased their knowledge and promoted mutual understanding of business processes and requirements.

What recommendations would Wollongong give to other councils?

Our experience has shown that it is vital for the entire council to be engaged with the change process. Having a clearly understood, shared vision – both within the finance team and the council as a whole – is critical. This vision needs to demonstrate how implementing change will improve operations or add value in other ways. In Wollongong’s case, the changes we experienced bolstered the quality and context of information used to make key decisions.

What does the future look like?

Wollongong is strongly committed to the Finance Division’s role as a business partner, rather than a policing and historical reporting unit. This is evidenced by its recent adoption and implementation of a Senior Management Accountability framework. Under this framework, Senior Managers operate with higher levels of autonomy and can now rely on timely financial support, as well as clear and concise information and tools. This helps staff members to better understand, and to take responsibility for, financial decisions.

Our finance function will continue to develop partnerships across Wollongong and will be more involved in strategic planning and growth. We will focus on providing business analysis and in-depth operational understanding, and will better manage Finance’s dual role as a business partner as well as fulfilling its compliance and performance reporting function.

How efficient is your finance function?

Days to close and manual journals

It is crucial for senior management to receive timely and accurate information to support efficient decision making. An extended monthly close-to-report cycle time can indicate a disproportionate amount of effort being spent on data-gathering and production, rather than on value-driven analysis and business insights.

Our survey shows that councils in the top quartile are successfully completing the close-to-report cycle in six days, compared to the median of 14 days. This suggests that while some councils are working to improve the close-to-report process and provide management with financial results in a timely manner, a large portion of councils still have an opportunity to improve in this aspect of their finance function.

An indicator of an efficient finance function can be the amount of manual journals processed in any given year. We continue to see almost one-third of councils processing more than 1,500 manual journals annually. If we assume that each manual journal takes approximately five minutes to process, then this equates to one person spending over one whole day per month manually processing journals.

The size of the council and the number of manual journals are closely correlated: 50% of large councils process 1,500 or more manual journals, compared to only 6% of small councils. Strategies to reduce manual journals include automating all recurring journals and setting materiality thresholds for reclassification entries. This would allow councils to redeploy finance resources to more value-adding tasks, while also creating a more robust control environment.

Councils that focus on streamlining the close-to-report process strive to shorten the reporting timeframe by sequencing work steps and eliminating bottlenecks and duplication of effort. This in turn can reduce finance costs, while the timely availability of information can support better business decision making.

Key considerations

- Do you have a smart and efficient close-to-report cycle and does it support decision making and performance evaluation?
- Does senior management receive accurate, reliable and timely information so it can respond quickly to changes?

Figure 2.5: Days to close and report for September 2014 month end

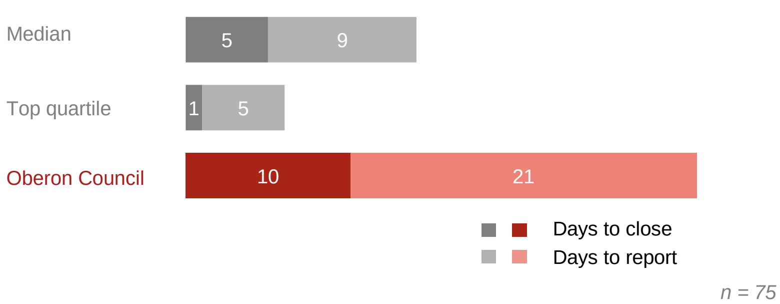
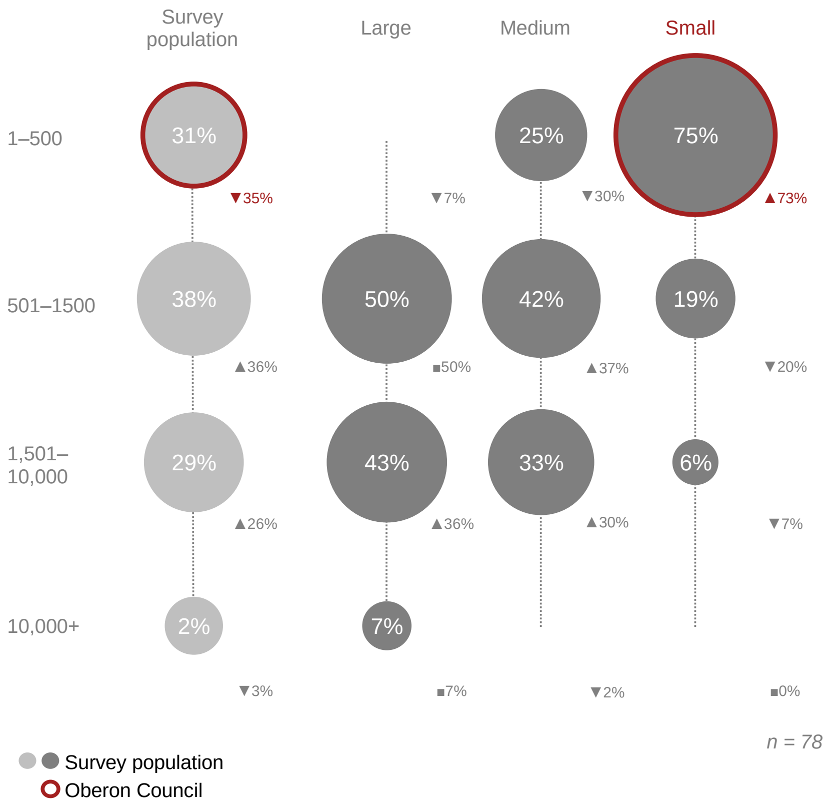


Figure 2.6: What was the total number of manual journals processed in the year ending 30 June 2014?



Delivering insights to senior management

Finance policy

Just over half of the surveyed councils are reviewing their finance policy on an annual basis. This group is predominantly made up of large and medium councils. It is a concern to see that over a third of smaller councils (38%) either do not have a finance policy or were unable to say how often they reviewed it and almost another third are only reviewing their finance policy every four years.

Establishing a documented finance policy is a crucial step in setting agreed risk parameters for a council. One relevant resource is Long Term Financial Planning, an eConnect module from Local Government Professionals Australia NSW. It covers the elements of a finance policy and how councils can construct one.

Reporting to senior management

An important role of the finance function is to provide timely insights to the senior management team. We continue to see that in around 50% of councils, the finance team shares approved monthly financial information with senior management. Large councils are almost 1.5 times more likely to receive this financial information on a monthly basis (64%) compared to smaller councils (44%).

Figure 2.7: How often is your Finance policy reviewed and approved by council?

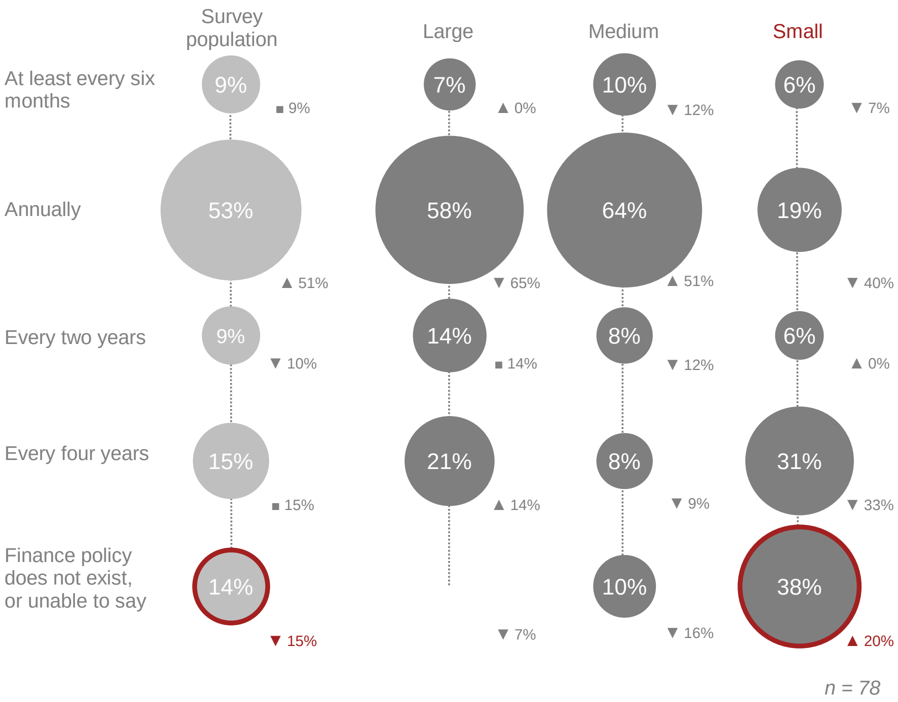
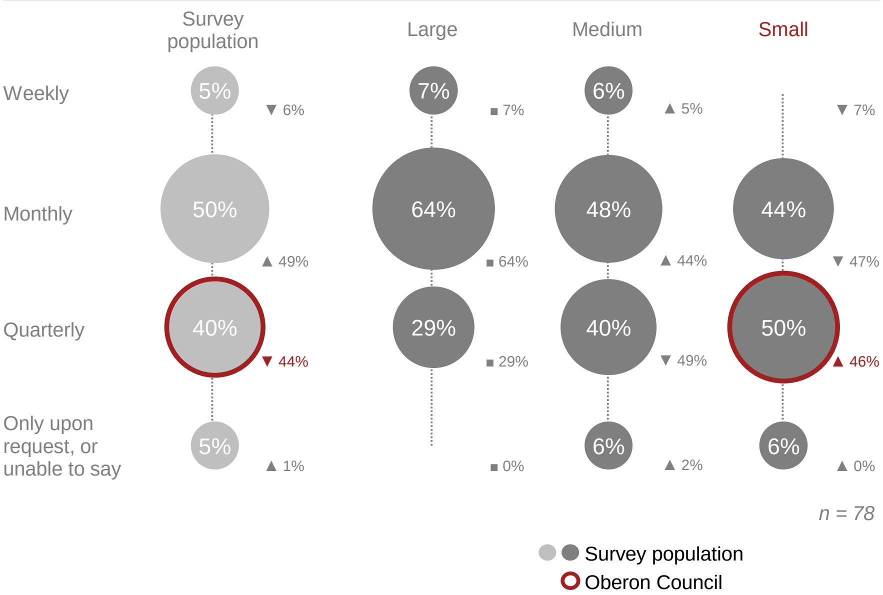


Figure 2.8: How often do you report approved financial information to senior management?



Delivering insights to senior management (continued)

Sharing financial results

Sharing financial results and business insights with various levels across a council creates a culture where employees are more engaged with the council's key performance drivers. Exposing team leaders and supervisors to a variety of financial metrics allows them to absorb and understand these key business drivers – and consider what it means to their business unit and team – before they move into the more senior levels of management.

This is evident in large councils, where 79% and 64% of finance teams share financial updates with team leaders and supervisors respectively. However, as council sizes reduce, there is less sharing of financial updates with lower levels of management – 50% of finance teams in medium-sized councils share financial information with team leaders and 38% with supervisors, compared to finance teams in small councils, where 25% share with both team leaders and supervisors.

Key considerations

- Is finance delivering the robust management information and insight needed to enable good decision making?
- How can you speed up regulatory compliance reporting so that finance can deliver valuable business insights?
- Do you share financial updates with all levels of management?

Figure 2.9: Who receives financial updates about council's performance from the finance department?

Balancing insight and efficiency

Budgeting

To streamline the budget process a council needs to assess the time it takes to deliver the budget, and identify the cause of any bottlenecks in the process.

When assessing the time councils spend on the budgeting process, we measured from the date the process officially began to the date the budget was finalised and loaded into the accounting system. The median results for the 2014–15 financial year budget process remain relatively high across councils of all sizes, ranging from 115 business days in small councils to 170 business days in large councils.

Looking deeper into the budget process, we see that finance teams spend most of their time preparing and refining the budget to obtain general manager approval, with a median of 82 elapsed business days, representing 65% of the total budget time. The next stage takes half that time, with a median of 39 business days for council to review and approve the budget, representing 31% of the total budget time. The final stage of finalising and loading the budget represents 4% of the total budget time.

Finance teams often wish they had more time to develop insights during the budget process, as opposed to just gathering information. They continue to spend an overwhelming amount of time and effort collecting, consolidating and reconciling data, undertaking analysis, and finalising budget review and approval.

Figure 2.10: Total elapsed business days for the budgeting process

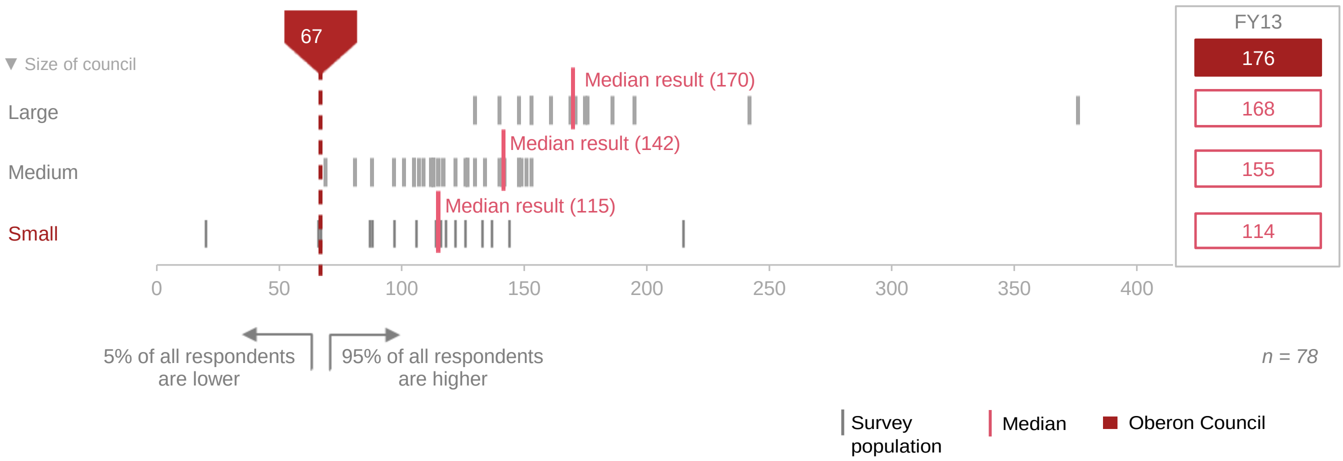
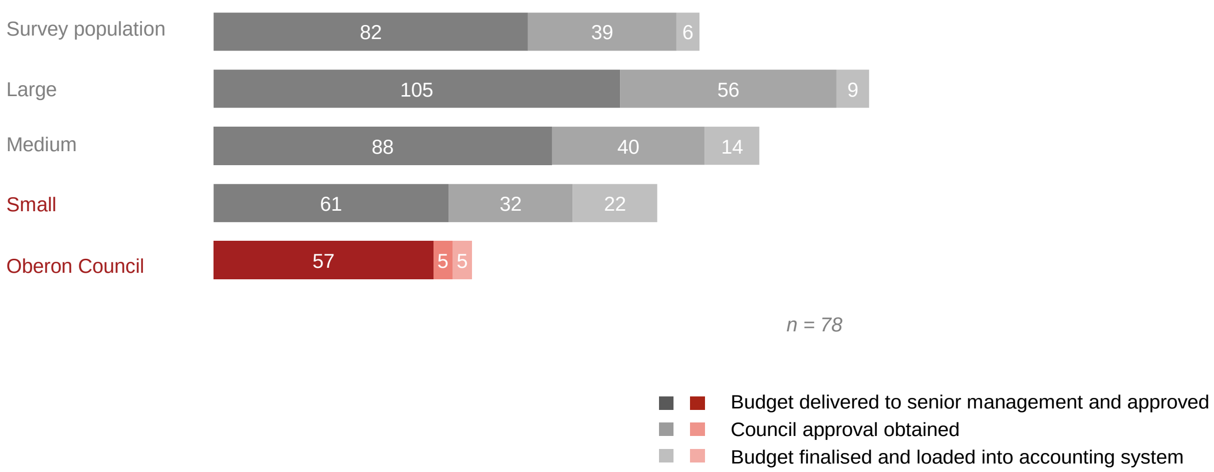


Figure 2.11: Breakdown of budget stages – elapsed median business days



Balancing insight and efficiency (continued)

Forecasting

Senior management teams rely on the finance function to do more than review historical financial data and prepare budgets and month-end reports. A rigorous forecasting process should also identify emerging trends, highlight business issues and deliver actionable insights.

As such, it is encouraging to see that 91% of councils (up from 86% in the prior year) are investing in a formal forecasting process. However, these forecasts could be prepared more frequently; only around one-quarter of councils prepare a monthly forecast.

This proportion is very low, considering 65% of our surveyed Australian Government organisations[17] prepare forecasts on a monthly basis. Could the time taken to prepare budgets be encroaching on what may be a more valuable use of time by senior finance staff?

Key considerations

- In which areas of the planning, budgeting and forecasting process can you realise benefits by increasing automation?
- Would a more regular forecasting process reduce the time it takes to prepare budgets?

Figure 2.12: Do you formally forecast your performance to budget throughout the year?

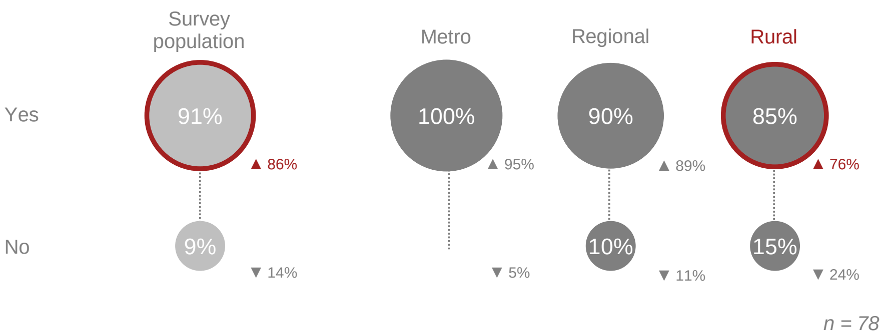
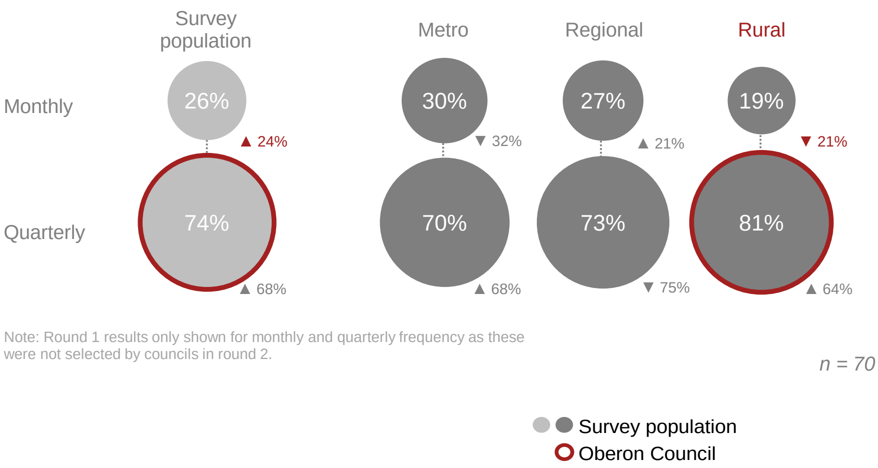


Figure 2.13: How frequently are forecasts prepared?



[17] PwC Australia 2014, Benchmarking of Commonwealth and State government corporate services, 'Sustainable Productivity'

Are you leveraging technology to create real time insights?

Finance processes

Finance teams that invest in technology and automation generally ease the month- and year-end pressures by removing manual processes. This allows for better use of time, as finance professionals can analyse data and provide insights to senior management, rather than spend time gathering and manipulating data.

Our survey shows that 41% of councils are still manually loading information into spreadsheets to produce financial reports, which is slightly higher than the 37% of Australian Government organisations[18] doing the same. At the other end of the spectrum, 22% of councils are tackling these challenges by increasing their use of business intelligence (BI) tools. This shows a higher uptake compared to Australian Government organisations, where only 11% are using BI tools.

It is encouraging to see that more than a third of large councils (37%) have moved to a BI solution (up from 29% in the prior year), while 23% of medium-sized councils and only 6% of small councils use the same approach when producing key financial reports.

It is important to instil a level of governance, especially in small councils (69%), where financial reports are being produced using spreadsheets and manual manipulation of data. If the option to invest in BI tools is limited, it is essential to create a spreadsheet inventory and establish appropriate training, controls and review procedures for all finance team members. This should include an initial baseline integrity check of existing key spreadsheets. Focusing on end-to-end information management, where all inputs are complete and accurate, will also ensure the integrity of the outputs.

Key considerations

- Is your finance team frustrated by their lack of time to add business insight?
- Are you effectively leveraging technology in your reporting process?
- Does your management team feel it has the information it needs to proactively make decisions about the council?
- Would investing in business intelligence tools help your council focus on the right performance measures?

Figure 2.14: For the majority of key financial reports, what option is most aligned with the state of your council?

[18] PwC Australia 2014, Benchmarking of Commonwealth and State Government Corporate Services, 'Sustainable productivity'.

Source of income

Revenue profile

Our survey continues to show that in the 2013–14 financial year, rates and annual charges comprised the largest portion of revenue for metro (58%) and regional (48%) councils. While the mix of income for metro councils has not varied over the past year, regional councils have seen a marginal shift, with a slightly higher proportion of revenue derived from user charges (21% up from 19%), and slightly reduced reliance on grants (25% down from 27%).

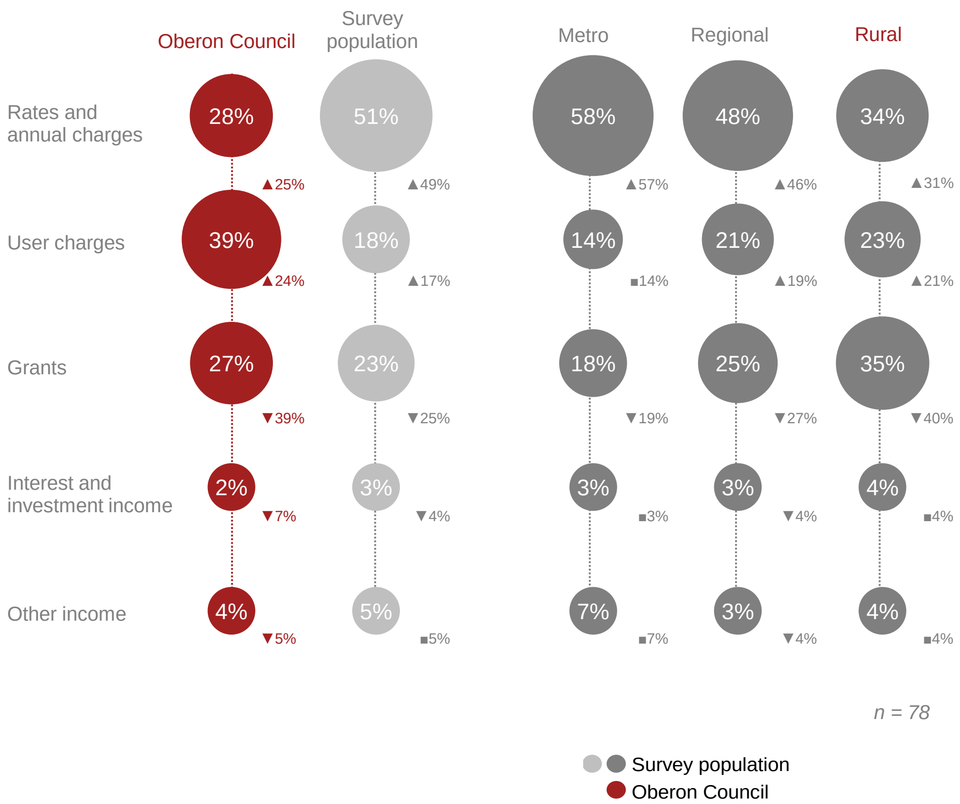
Interestingly, rural councils measured a shift towards rates and annual charges revenue (34%) compared to grants revenue (35%) in the 2013–14 financial year. In the prior year, rural councils only derived 31% of revenue from rates and annual charges, and 40% from grants. While the indexation of financial assistance grants to councils was only frozen in the 2014–15 financial year, it may be that councils were already preparing for and experiencing this change

We expect a shift in councils deriving the majority of their revenue from areas other than grants and contributions, as the Fit for the Future sustainability criteria set the own-sourced revenue benchmark at 60% (averaged over three years). Councils are being encouraged to increase rates, user charges and fees, and to look for alternative income streams to reduce their reliance on grants and contributions.

Key considerations

- Do you have the skills, resources and ability to identify additional income opportunities?
- What latent opportunities lie in your income streams, and fees and services?

Figure 2.15: FY14 revenue profile



Rates revenue

Category of rates

Rates are the principle form of own-sourced income and the most efficient means available of raising funds to cover essential services and infrastructure. As such, it is important for each council to understand the extent of its access to different categories of rates and rate payer.

Our survey indicates a very high reliance on residents and businesses in terms of efficient cash collection; residents comprise 75% and businesses 19% of all invoiced rates.

When calculating cash collected as a percentage of rates invoiced, resident and business ratepayers tend to pay their rates promptly; councils collected around 95% of invoiced rates during the 2013–14 financial year.

While farming only comprises 4% and mining 1% of rates invoiced, councils that derive a significant portion of their revenue from these rates may find their rate collections could be more volatile.

Our survey shows that the percentage of invoiced rates collected in the 2013–14 financial year was lower for these groups, with 90% cash collected for farming rates and 93% for mining rates. Councils with ratepayers in these categories may need to decide how slower cash collections may impact service delivery, and whether priorities need to shift should rate revenue decrease or take longer to collect.

Figure 2.16: FY14 category of invoiced rates

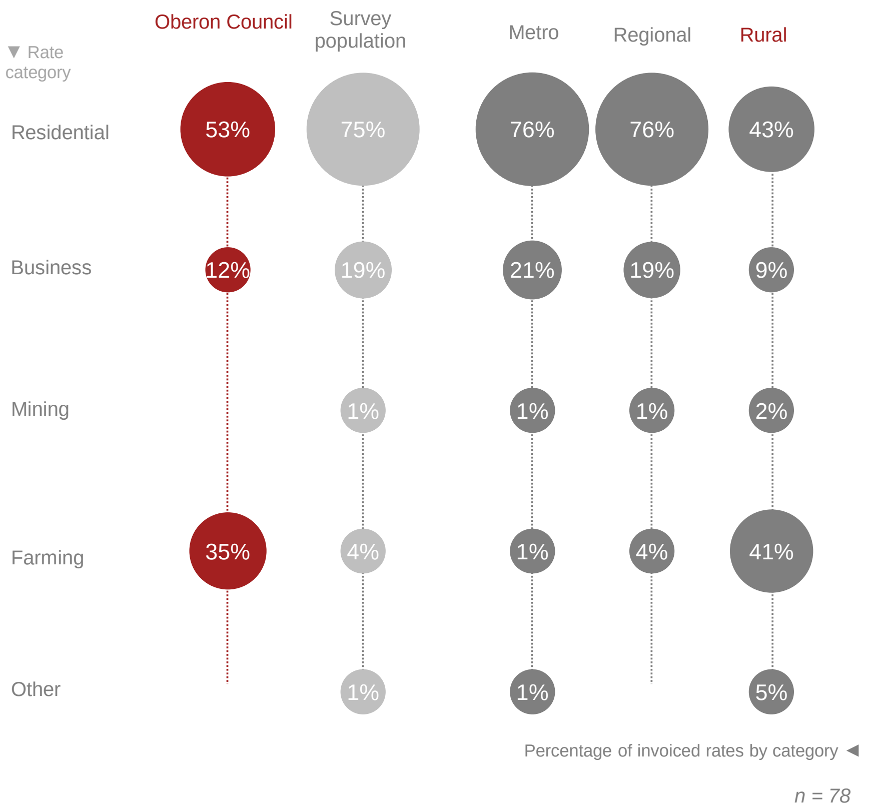
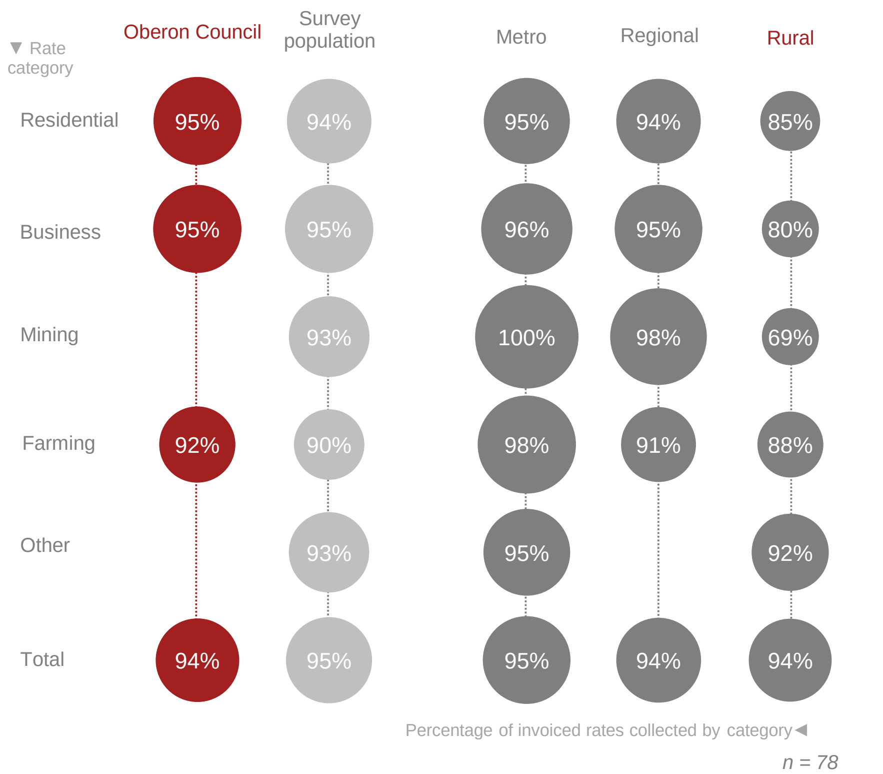


Figure 2.17: FY14 collection of rates



Survey population
Oberon Council

Optimising working capital

Collection of rates and annual charges

Assessing the speed at which a council collects rates and annual charges is an important indicator of whether working capital is being managed effectively. The charts below show the cumulative collection of rates and annual charges compared to the survey population – as well as quarterly cash collections – during the 2013–14 financial year.

Cash collections in rural councils have slowed in the past year; 58% of total rates and annual charges were collected by the end of the second quarter, down from 64%. This now places rural councils on par with metro councils, also at 58% collected by the end of the second quarter, with regional councils dropping by one percentage point to 57%.

Although a minor change such as this may seem insignificant, the infographic below shows the dollar-value equivalent of 1% of rates and annual charges collected. Based on this, councils can calculate how far ahead or behind they may be, quarter by quarter.

Figure 2.18: FY14 cumulative collection of rates and annual charges

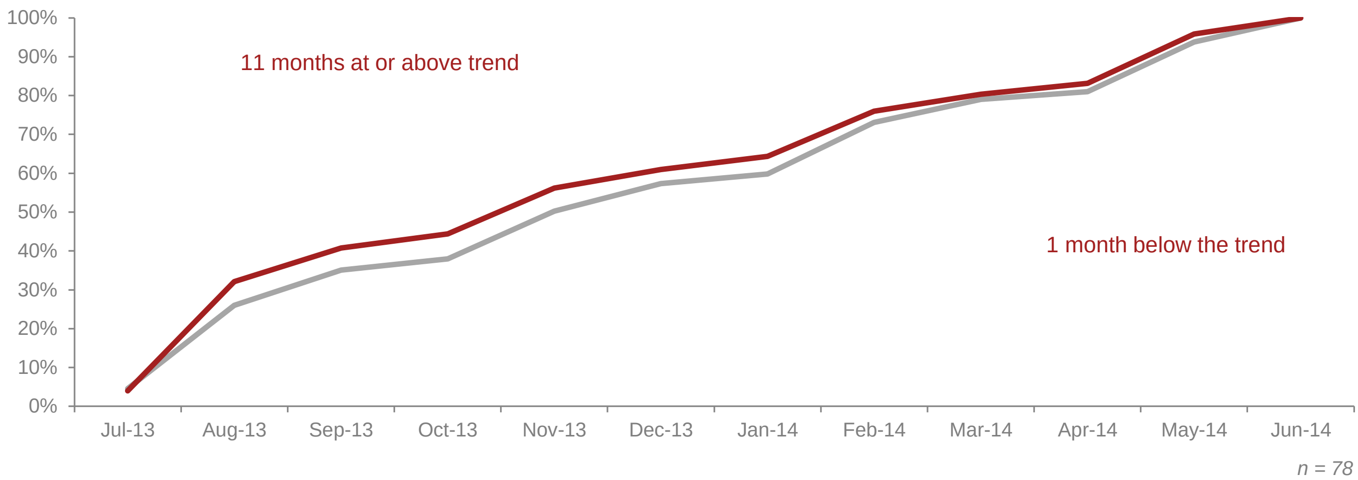
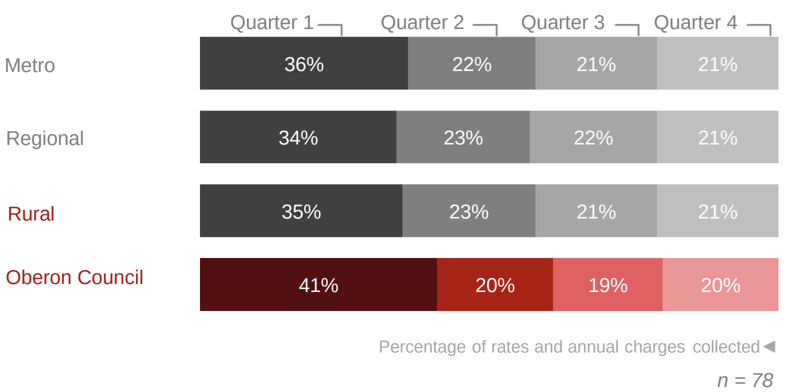


Figure 2.19: FY14 quarterly collection of rates and annual charges



Optimising working capital (continued)

Electronic delivery of rates notices

An interesting insight is the rise in the number of councils offering or developing a service that allows residents and businesses to receive their council rates notice electronically – 45% of councils compared to only 33% in the prior year. Rural councils have a way to go in this area; 88% did not offer or develop this service during the 2013–14 financial year, compared to 39% of metro and 38% of regional councils.

Electronic billing allows councils to reduce paper and postal costs, and improve cash collections. Rates notices are one of the few personally addressed notices some residents may receive from their council, and shifting to electronic delivery signals to the community that the council has a progressive attitude towards adopting new technology.

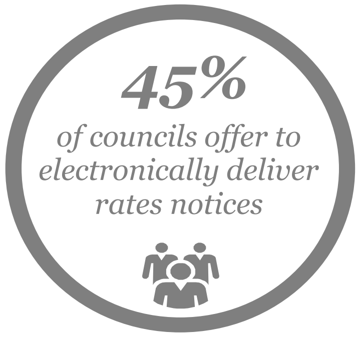
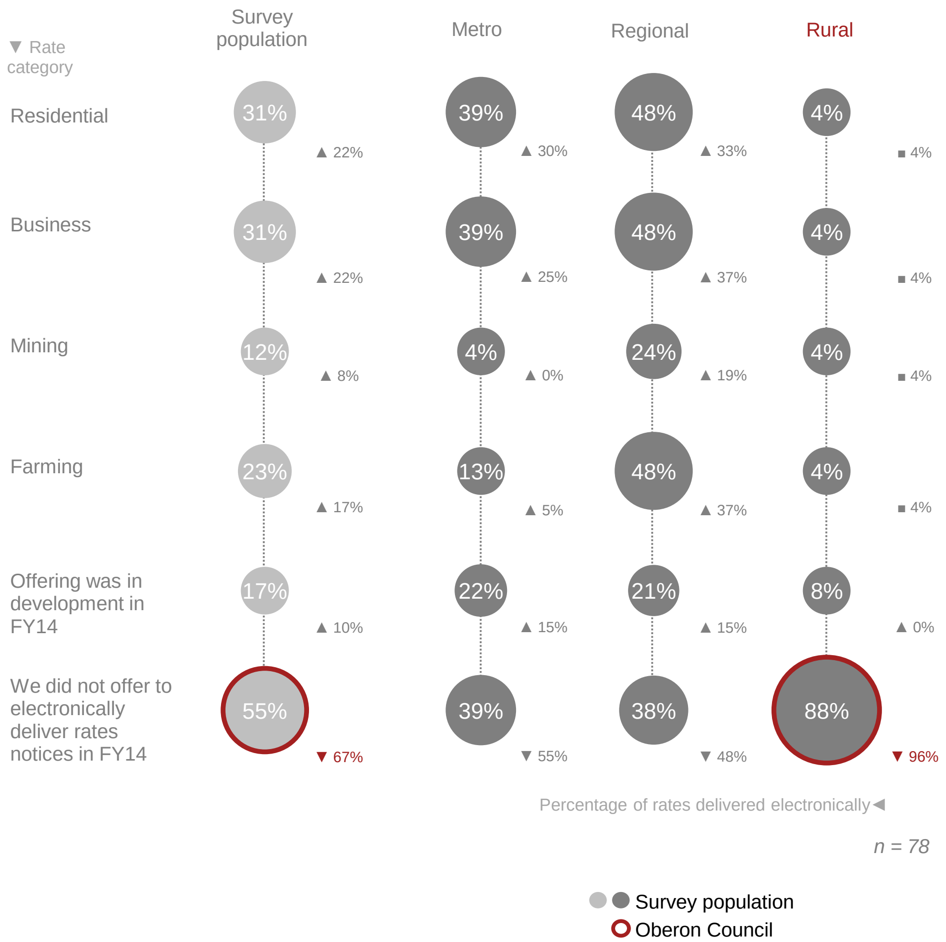


Figure 2.20: During FY14, which ratepayers could elect to receive their rates notice electronically?



Tracking and managing capital projects

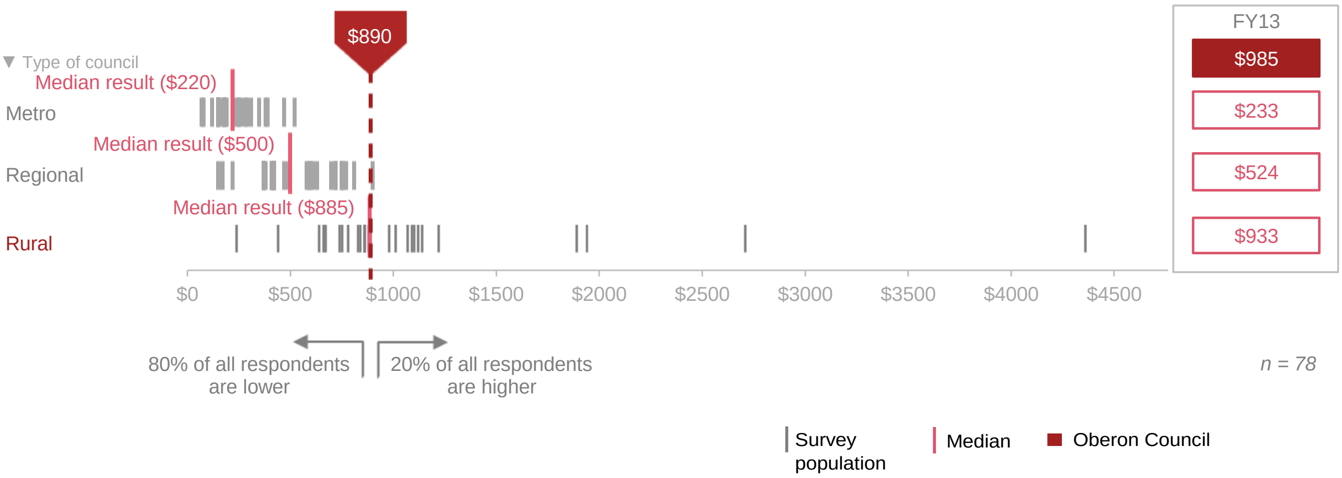
Capital project expenditure

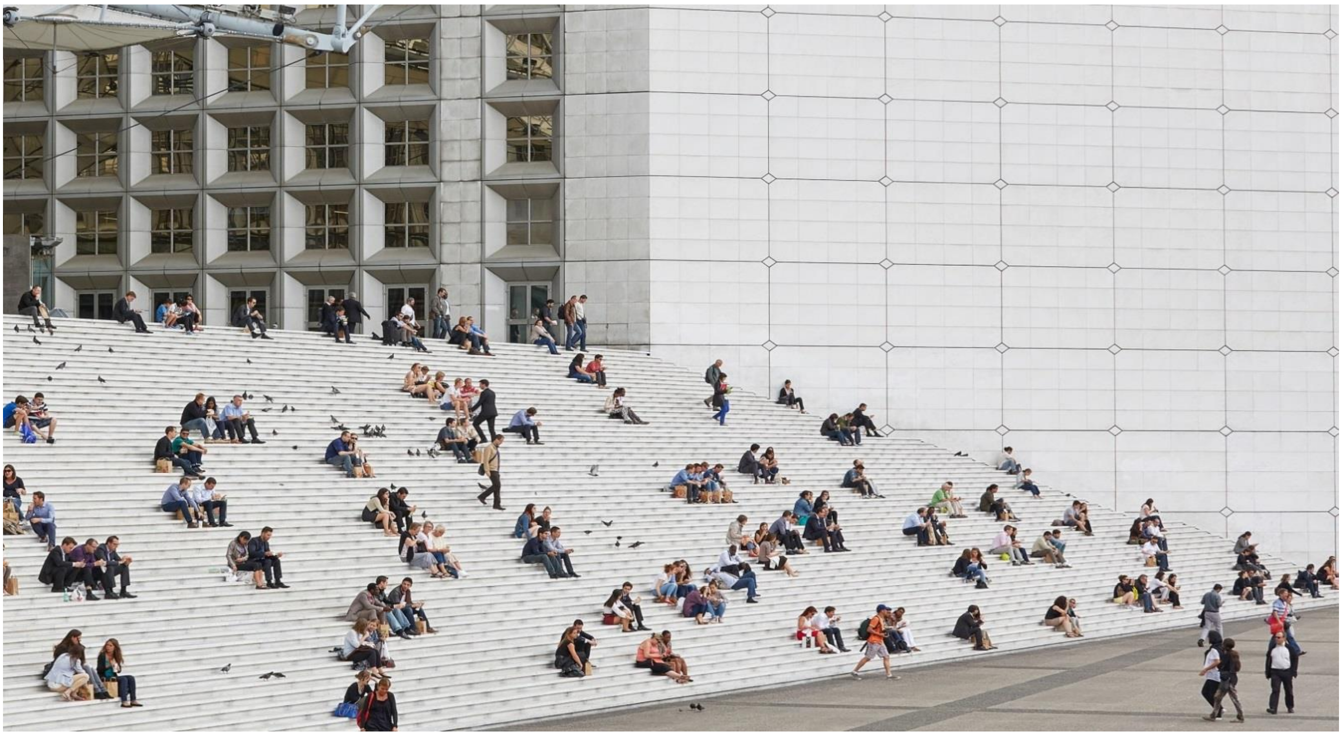
The effective management of capital expenditure is particularly important due to local government's asset-intensive nature. We continue to see a spread in capital project expenditure, ranging from a median of $220 per resident in metro councils to $885 per resident in rural councils. A key component of this higher spend per resident in rural councils is the maintenance required for large-scale regional infrastructure such as, but not limited to, roads and bridges.

The median capital expenditure per resident, decreased in the 2013–14 financial year, across metro, regional and rural councils. The sharpest decrease per resident is in regional and rural councils, which may be linked to the decline in the proportion of revenue these councils derive from grants.

The Fit for the Future process is highlighting the need for councils to increase their spending on asset renewal and new capital projects. Debt service benchmarks have doubled and councils are being encouraged to borrow on the basis of inter-generational equity, even if they do not need to. There is an expectation that the infrastructure backlog will be addressed through increased borrowings, and that repayments will be funded through special rating variations and new income streams.

Figure 2.21: Total capital expenditure per resident





Tracking and managing capital projects (continued)

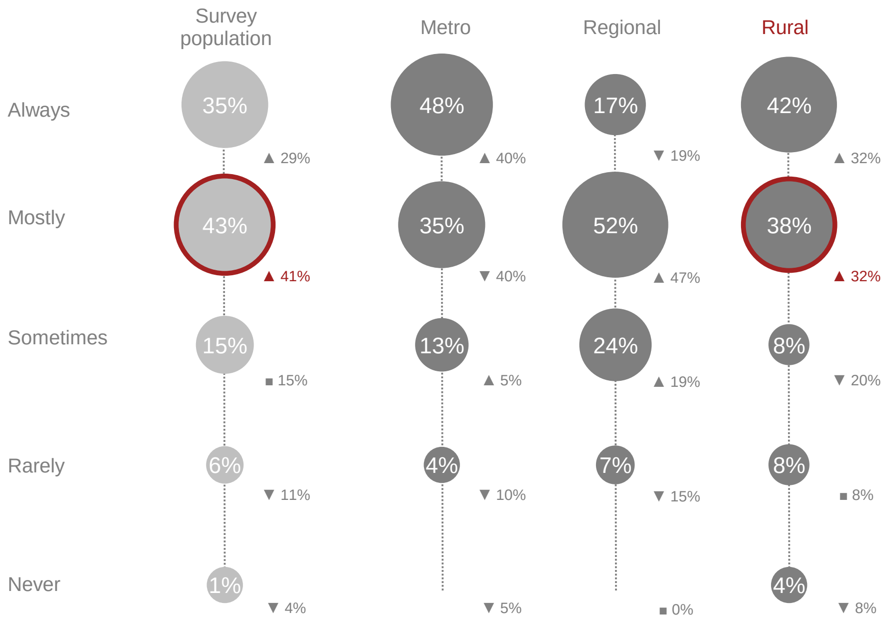
Project management

Council operating budgets generally have a limited capacity to absorb variations in the financial outcomes of capital projects. As such, it is good practice to have business cases approved before appropriating budget allocation and to have senior management formally track approved projects using an established project management framework.

We found that metro and rural councils are far more likely than regional councils to have a business case signed off prior to budget appropriation; a minimum of 80% of metro and rural projects were always or mostly approved, compared to only 69% in regional councils.

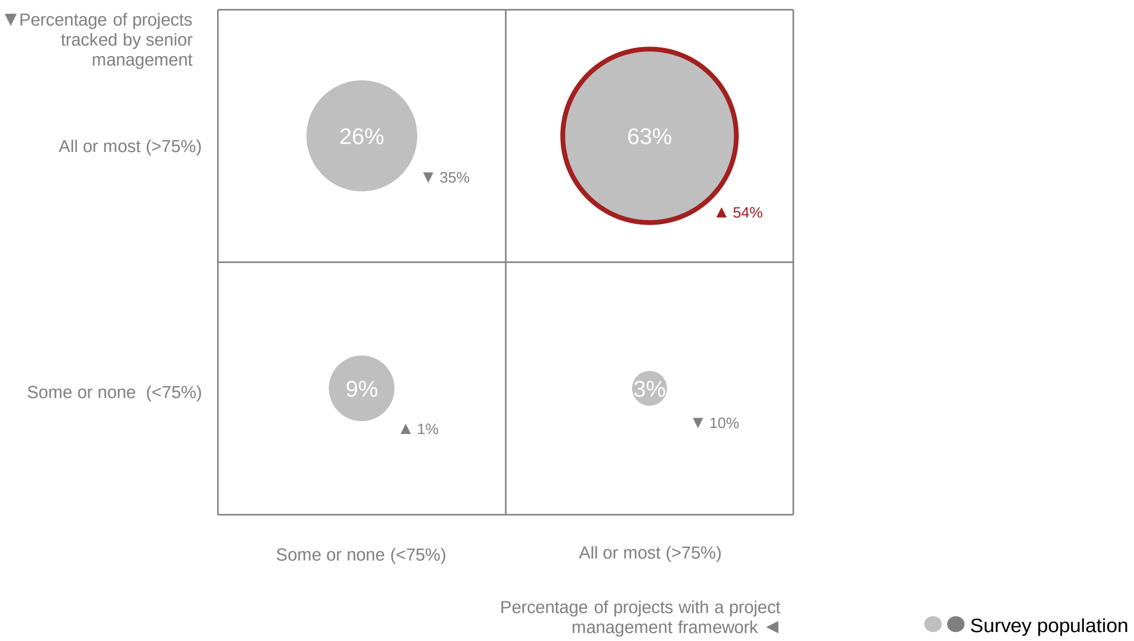
When it comes to the overall management of capital projects, it is encouraging to see more councils shift into the top right-hand quadrant of the chart in Figure 2.23; 63% of councils now formally track and project-manage all or most of their capital projects (up from 54% in the prior year). Given the high volume of spending in this area, this type of rigour around project management is recommended, and ideally all councils would be in the top right-hand quadrant.

Figure 2.22: Are all business cases requiring capital expenditure approved before budget appropriation?



n = 78

Figure 2.23: Tracking and managing capital projects



n = 78

Operations

Operations trend summary

Oberon Council

Metric	Council	Round 1	Round 2	Change from round 1 to round 2
1. Corporate service staff per 100 employees	Oberon Council	18.5	17.5	▼-1
	Survey Population	13.2	13.1	■ -
2. Formal IT strategy in place	Oberon Council	Draft	Draft	No change
	Survey Population	24% (Draft)	23% (Draft)	▼-1%
3. IT spend per employee	Oberon Council	$3,681	$2,587	▼-$1,094
	Survey Population	$4,642	$4,899	▲+$257
4. Effectiveness of IT systems	Oberon Council	Inadequate	Adequate	Changed to adequate
	Survey Population	13% (Inadequate)	61% (Adequate)	
5. Customer service FTE per 10,000 residents	Oberon Council	8.8	6.9	▼-1.9
	Survey Population	2.6	2.6	■ -
6. Frequency in reporting unresolved 'open' general enquiries to senior management	Oberon Council	When triggered by a key event	When triggered by a key event	No change
	Survey Population	28% (When Triggered By A Key Event)	19% (When Triggered By A Key Event)	▼-9%
7. Percentage of **improved** customer service measures against the charter	Oberon Council			
	Survey Population	26%	25%	▼-1%
8. Percentage of Operational Plan actions **achieved**	Oberon Council	52%	74%	▲+22%
	Survey Population	77%	83%	▲+6%

Fostering productive corporate services functions

Corporate services

While corporate service functions generally perform within tight constraints, if resourced effectively by experienced and highly skilled employees – and supported by appropriate systems – they can improve business processes and provide insights that help the business make critical decisions for the future.

Our study focuses on four key areas within corporate services: customer service, finance, human resources and IT. Our survey results show that finance and customer service comprise the largest portion of total corporate service full-time equivalents (FTEs) across all councils (33% and 31% respectively). Interestingly, finance and customer service grouped together, in large councils, represent 57% of corporate service FTEs compared to 73% for small councils, indicating that for large councils, scale and/or a greater degree of automation may ease the FTE demand in these areas.

Councils of all sizes have invested in IT resources over the past year. This is reflected in the rising number of councils with a formal IT strategy, as well as the increase in IT spend per employee. We discuss the importance of digital transformation further in this section of the report.

While small councils have seen the largest growth in IT FTEs, moving from 8% to 12% of total corporate service FTEs, they still have a long way to go compared to large councils. Large councils have a significantly higher workforce investment in IT corporate service areas, where IT represents 25% of corporate services. We urge all councils to consider the impact of the digital age and whether they are investing appropriately in the IT department to streamline manual processes, enhance reporting and reduce duplication of effort.

Our survey continues to reveal the economies of scale that operate in some corporate service functions. In the 2013–14 financial year, the difference between the resources large and small councils allocated to corporate services widened. The median result of 12.2 staff members for every 100 employees in large councils compared to 17.2 staff per 100 employees in small councils, now represents a 41% difference in resources employed – significantly higher than the 10% difference in the prior year.

Figure 3.1: Breakdown of corporate service FTEs

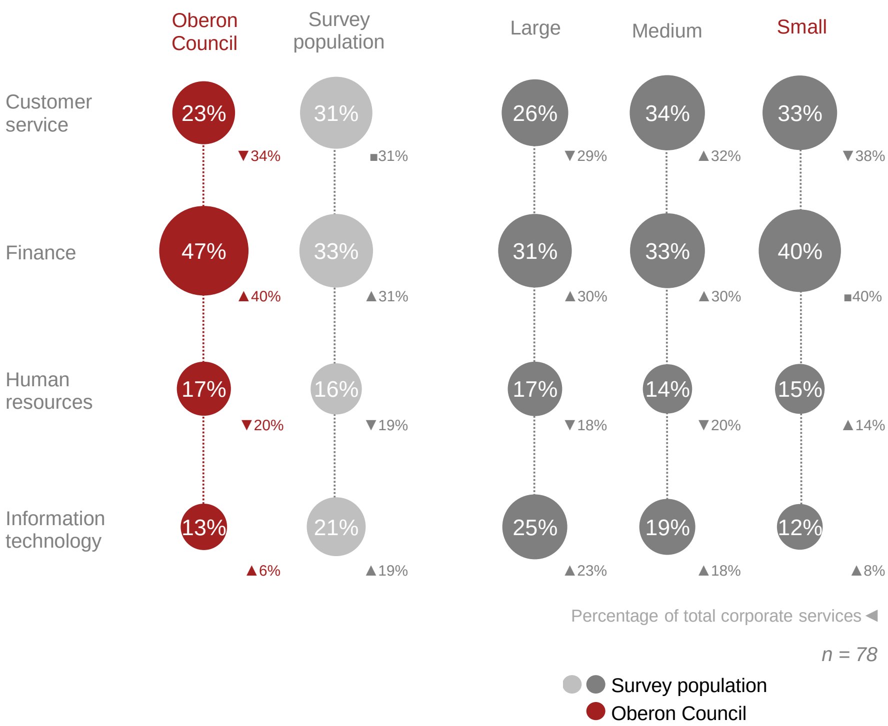
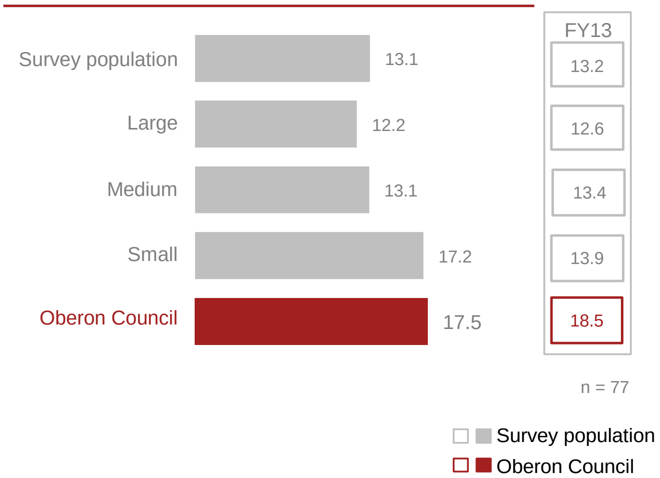
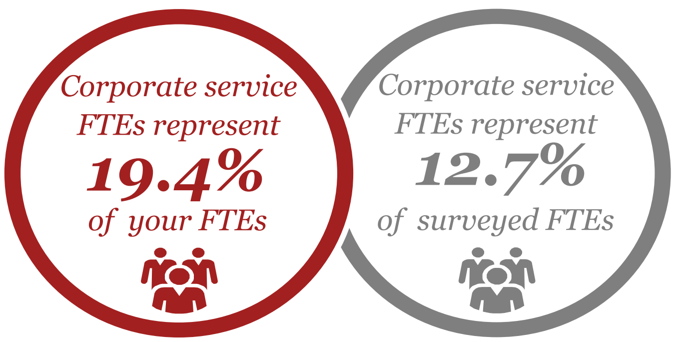


Figure 3.2: Median corporate service staff per 100 employees





Conducting service reviews

Service reviews

The 2013–14 financial year saw an escalation in councils systematically and formally reviewing their services (either internally or externally) to identify potential service delivery improvements. We found that just over two-thirds of councils (68%) conducted at least one service review in the 2013–14 financial year, compared to only 52% of councils in the prior year. This indicates that councils are placing greater emphasis on improving efficiency in corporate services.

There is a remarkable difference in the level of formality and governance when it comes to advising senior management of the outcomes of these service reviews. Only 15% of rural councils that performed service reviews then reported the outcomes to senior management. This is in stark contrast to metro and regional councils, where 57% and 41% respectively reported the outcomes to senior management.

While the percentage of regional and rural councils performing service reviews has increased – 69% and 42% now conduct reviews (up from 55% and 32% respectively) – 96% of metro councils conducted a review in the 2013–14 financial year. This indicates that reviews have become a normal part of how metro councils improve their service delivery.

Taking into account service reviews conducted across all councils during the 2013–14 financial year, the top three areas vary slightly. IT (43%) is the top area reviewed and requiring the most change, and has shifted up from the number two position compared to the prior year. This supports the increased IT FTE effort and spend per employee revealed in other areas of our survey. Procurement (33%) makes it into the top three across all councils and sits at second place (down from first place in the prior year), closely followed by human resources (32%) shifting up from fourth to third place compared to the prior year.

Figure 3.3: During FY14, did your council complete service reviews?

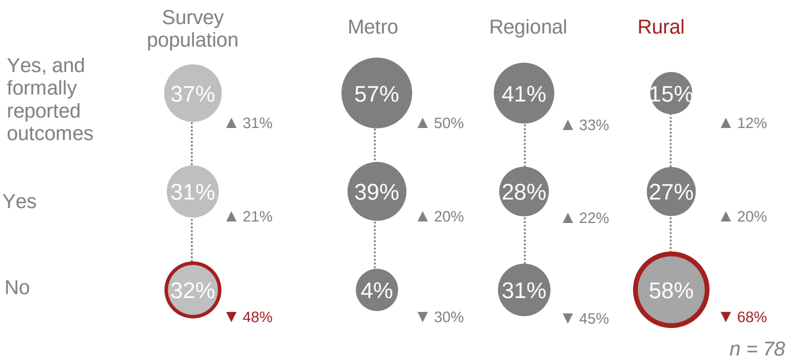
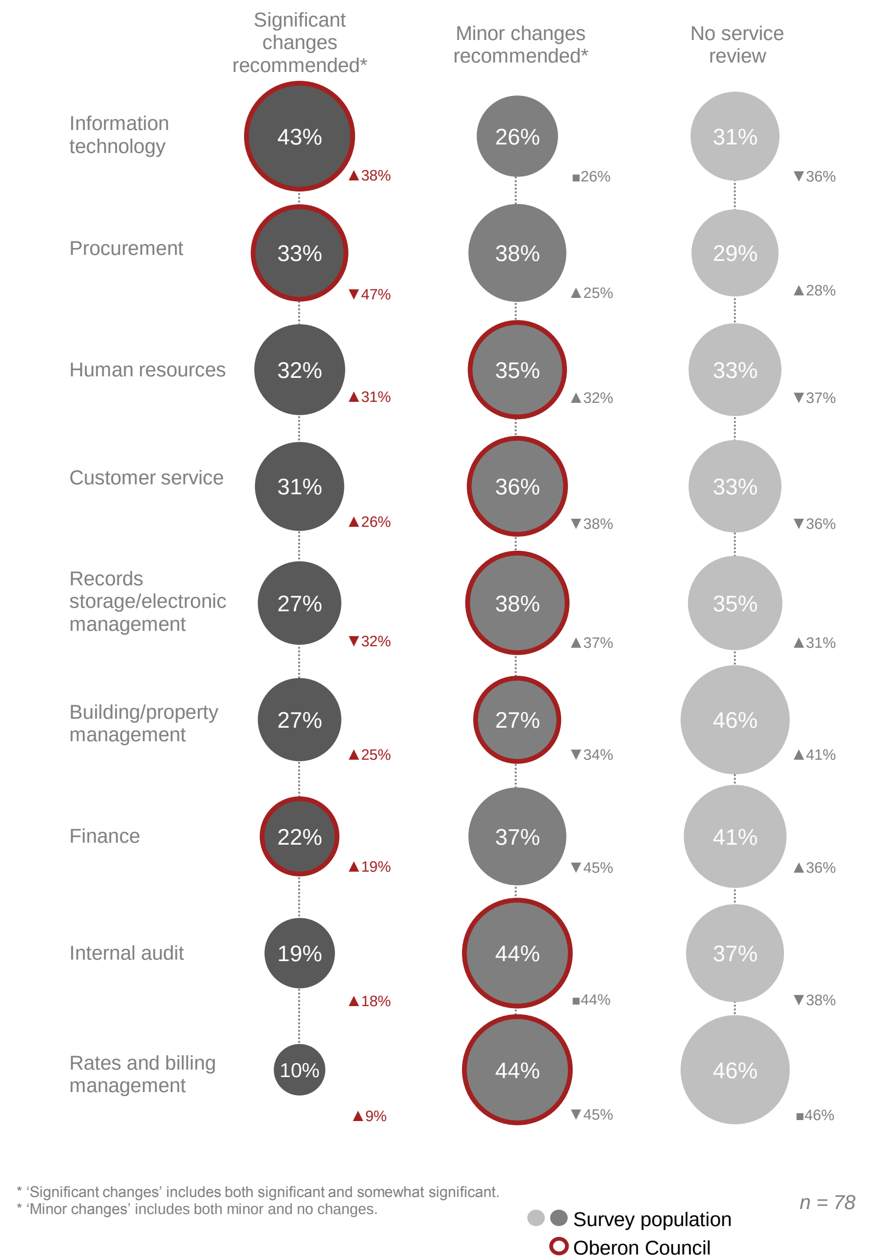


Figure 3.4: Extent of recommended changes from corporate service reviews



Leading councils have an IT strategy

Importance of an IT strategy

Digital transformation is positively influencing the way organisations do business and interact with their customers. The 2015 PwC Global CEO survey[19] found that nine out of 10 of Australian CEOs believe that the number one disruptive trend they face is digital innovation and its impact on customer behaviours. Furthermore, 88% of global CEOs see digital technology as creating the most value in terms of improved operational efficiency.

To remain at the forefront of growing digital trends, councils must implement effective IT strategies and systems. IT departments have the potential to harness these opportunities and work with senior management to create a clear vision, strategy and comprehensive plan to support the organisation's digital transformation. It is crucial that the leadership team actively supports the IT department, given the new skills, capabilities and experience required for this department to transition into the digital age.

Our survey reveals an improvement across councils when it comes to establishing a formal IT strategy that aligns with the business strategy. There are now 53% of councils with a formal IT strategy in place, up from 43% in the prior year. This increase is being driven by metro and regional councils, with the largest growth coming from regional councils (up from 48% to 66%), followed by metro councils (up from 50% to 65%). A significant number of rural councils (42%) still do not have an IT strategy, down from 44% the previous year.

There are minor improvements in the effectiveness of IT systems supporting the business overall; 26% of councils regard their IT systems as effective compared to 24% in the prior year. However, further examination of this result shows metro councils are driving this increase; 39% rate their IT systems as effective compared to 25% in the prior year.

It is a concern that regional and rural councils regard their IT systems as less effective compared to the prior year. Only 17% of regional councils (down from 19%) and 24% of rural councils (down from 28%) regard their IT systems as effective. Now is the time for regional and rural councils to reconsider their vision and action plan for future digital investment.

Figure 3.5: Does your council have a formal or draft IT strategy that aligns with the business strategy?

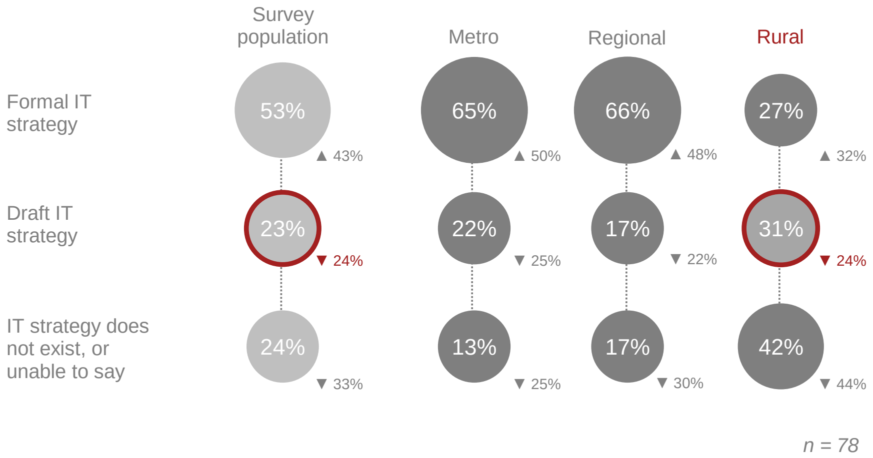
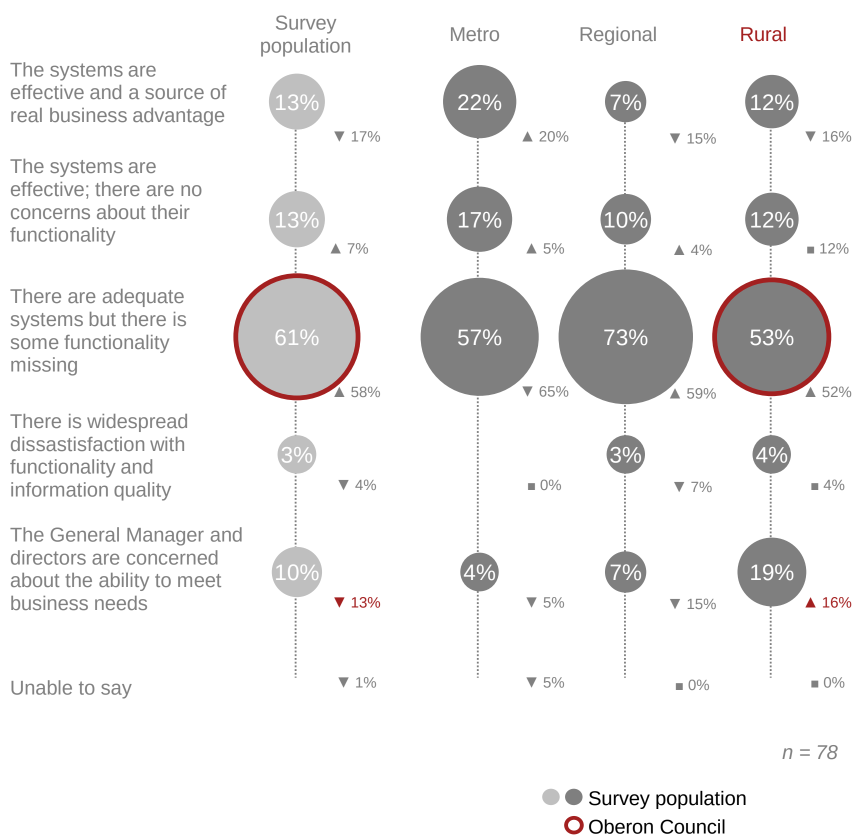


Figure 3.6: How effective are IT systems at supporting your business?



[19] PwC 2015, *18th Annual Global CEO Survey*, 'A marketplace without boundaries? Responding to disruption'.

Leading councils have an IT strategy (continued)

IT spend

Our survey shows a correlation between councils that rate their IT systems as effective and those that have a formal IT strategy. Councils that rated their systems as effective were more than twice as likely to have a formal IT strategy in place (34%), compared to councils without an IT strategy (16%) or with only a draft IT strategy in place (17%). Additionally, only a small minority of councils with a formal IT strategy rated their systems as inadequate (5%), compared to councils without an IT strategy (32%). Councils without a clear and formalised IT strategy should question how this affects the effectiveness of their IT systems.

Our findings on IT spend per employee continue to vary significantly across all councils. Large councils are making a higher relative investment in IT infrastructure, with a median spend of over $6,500 per employee, while that figure drops to just over $3,000 per employee for small councils. Although councils of all sizes have seen an increased median spend per employee compared to the prior year, indicating increased investment in IT, large councils have rapidly increased their investment by 25% over the past year.

We understand that while local government reforms may place a dampener on longer-term IT investment, it is important to identify business areas that can benefit from integrated IT systems. Senior management teams need to carefully consider this factor, to ensure continued progress even in uncertain times.

According to *Implementing a World Class IT Strategy*[20], "IT should have its own plan that is a complement to the strategies of the other divisions." With this in mind, councils should consider the following when developing their IT strategies:

- Do you have a clear vision on how digital technologies can help deliver outcomes while also reduce cost?
- Does your leadership team actively sponsor the IT department and champion the use of digital technologies?
- How will you acquire and develop the digital skills and capabilities you need in the future?
- Are members of the IT team aligned with clear points of contact within the business units?
- Does your IT strategy align with the council's overall organisational objectives?
- How will you continue to improve your IT approach regardless of potential structural changes?

Figure 3.7: Correlation between effective IT systems and having a formal IT strategy

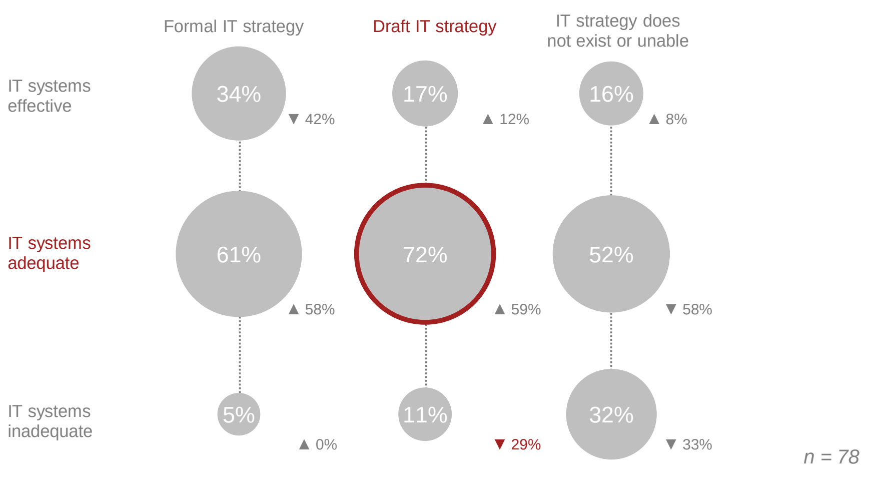
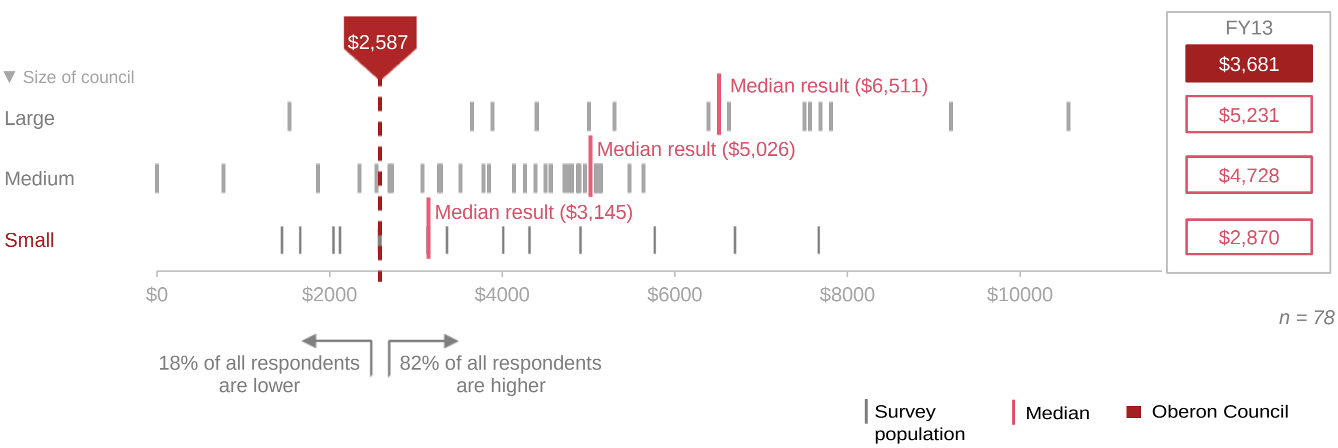


Figure 3.8: IT spend ($) per employee



[20] Peter A. High, 2014, *Implementing World Class IT Strategy: How IT can drive organisational innovation*. Synopsis available at www.forbes.com/sites/peterhigh/2014/09/22/does-it-strategy-matter. Viewed 25 March 2015.

Managing your IT projects

IT priorities

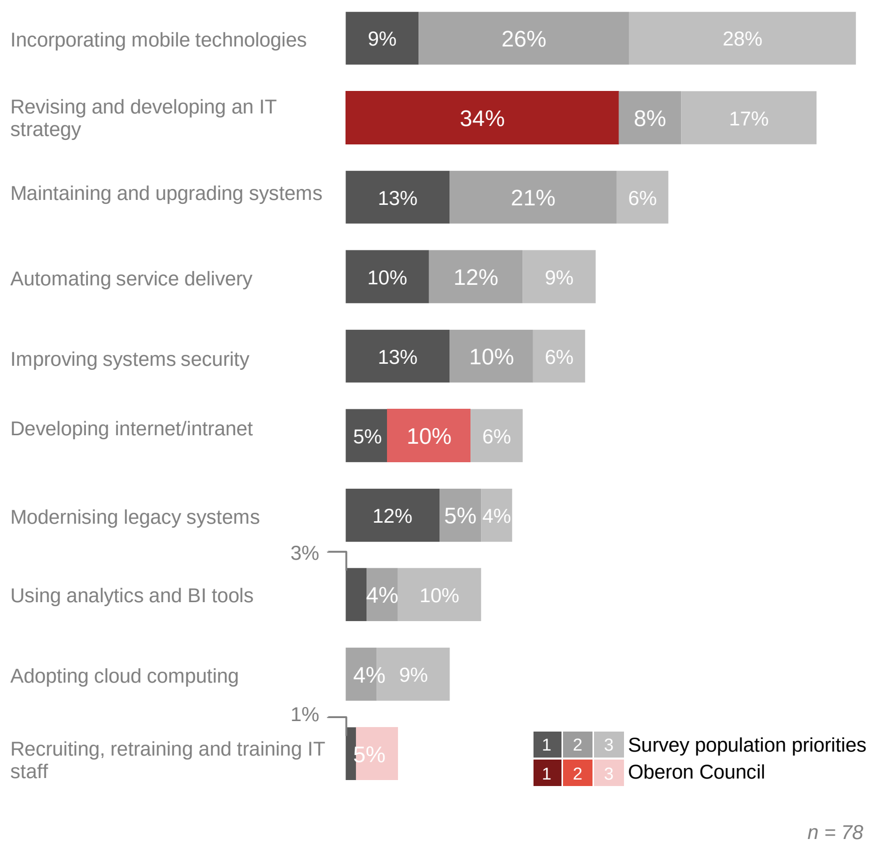
Councils' top three IT priorities over the next three years have shifted slightly. Incorporating mobile technologies (63%) is now in the number one position; revising or developing an IT strategy (59%) shifted from the top to the second priority; and IT systems maintenance and upgrades (40%) remained the third priority.

It is very encouraging to see that the councils surveyed now place greater emphasis on incorporating mobile technologies, with 63% of councils regarding this as a top priority, compared to 53% of councils in the prior year. This mirrors Gartner's top 10 trends for technology in 2015.[21] Gartner identifies 'computing everywhere' as the biggest trend for 2015. The use of every objects – such as phones, watches, bracelets and clothes – as wearable devices is a real case of how 'computing everywhere' is driving new approaches to the way people and computers interact. Councils should consider how technological innovations are impacting the lives of their residents, businesses and employees, and assess the options for better interaction and engagement with these groups.

Although revising or developing an IT strategy is now the second priority overall (59%), it is not far behind incorporating mobile technologies. This is again particularly important for the 47% of councils without a formal IT strategy, and indicates that the popularity of just 'planning to have a plan' may reflect an overall uncertainty on how to respond to the rapidly changing IT environment.

Revising or developing an IT strategy as a second priority is also reflected in PwC's most recent survey of Australian federal and state government agencies[22], with almost 60% of participants reporting it as a top priority. However, 72% of surveyed Australian government agencies report maintaining and upgrading systems as their top priority, compared to 40% of councils that report this as a third priority. While this indicates that local government prefers to develop mobile technologies, it is important that each council assesses its ability to keep up with advanced technologies while resolving the sustainability of its legacy systems.

Figure 3.9: What are your top three IT priorities over the next three years?



[21] Gartner 2015, 'The top 10 strategic technology trends for 2015', viewed 25 March 2015, <www.gartner.com/smarterwithgartner/gartners-top-10-strategic-technology-trends-for-2015/>.
[22] PwC Australia 2014, Benchmarking of Commonwealth and State government corporate services, 'Sustainable Productivity'

Managing your IT projects (continued)

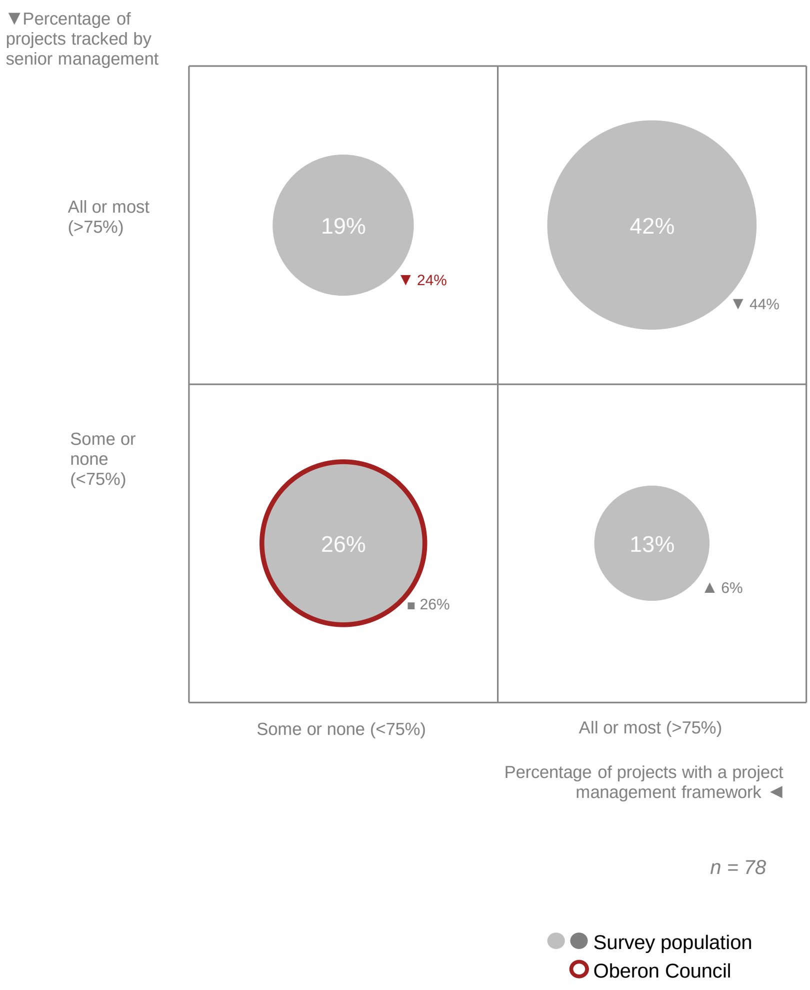
Project management and governance

Effective project governance and management are essential to running successful IT projects. Organisations that have a project management framework – and that facilitate accountability, by having senior management track the development of IT projects – indicate that they are committed to successfully delivering projects.

Our survey found that 42% of councils have a project management framework in place and have senior management track all or most IT projects; that is, management has a strong role in overseeing projects. While this is encouraging, the percentage of councils managing projects in this way did decrease slightly from 44% in the prior year.

Given the potential significance of IT projects – let alone the size of these projects and the related costs – it is concerning that just over a quarter of councils (26%) continue to have limited governance and rigid project management systems. Councils where 'some or no' projects have a project management framework and are tracked by senior management should look to improve their governance protocols and project management style for existing and upcoming IT projects.

Figure 3.10: Tracking and managing IT projects



Case study: Penrith City Council
Operations: IT change management

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

The results of our employee opinion survey, conducted in 2012 and 2013, highlighted the need for changes to Penrith's information technology (IT) systems and processes. The survey showed that council employees were significantly dissatisfied with IT and thought it impeded productivity.

What approach did Penrith take?

In 2013 and 2014, we conducted a series of internal consultations and problem-solving forums with all the council's managers. One of the problem solving forums was focused specifically on IT with the objective to identify the aspects of IT impeding productivity and innovation, and to identify potential solutions. As a result, in 2014 and 2015 we:

- established a new department responsible for business improvement, called 'Organisational Performance and Development',
- created a high level information and communications technology (ICT) steering committee, responsible for overseeing IT
- commissioned an external review of IT
- developed a new, clear ICT strategy to modernise systems, infrastructure and skills
- completely restructured the ICT department to facilitate change
- created 16 IT system risk and remediation projects, which are now underway, while negotiating new service contracts.

What resource effort was required to deliver change?

We identified the resources required and established an ICT steering committee. This committee is responsible for driving the change program and commissioning and overseeing the external review of IT. It also identifies opportunities for external consultants to provide expert advice.

We envisage that the future IT budget will be between $1.5 and $2 million over a fixed term.

What results did the change achieve?

The ICT steering committee targeted a selection of 'quick wins' within the first two months, to engage staff and demonstrate the benefits of the change management program. These quick wins included faster printing, faster resolution of IT problems and providing the customer service team with better tools. As a result, the IT department felt re-energised and innovation became a key item on its agenda.

Given the program is in its early stages we are yet to realise its long-term benefits, but the creation of 16 IT system risk and remediation projects is expected to deliver substantial benefits to Penrith and its staff members.

How does Penrith measure and review progress?

Regular structured reviews are a key part of the IT change management process. The ICT steering committee reviews all change projects and reports to the corporate leadership team on progress. We will implement a full review of the change program in November/December 2015.

What challenges did Penrith face?

The culture surrounding IT needed to change. IT needed to become agile, innovative and proactive, with high expectations and high standards set within the team. It was vital to overcome these challenges to deliver a leading IT solution for Penrith.

Establishing a steering committee with responsibility for driving change was critical, as was the appointment of an experienced change management expert. Regular communication with staff members was also key to overcoming challenges and obstacles.

The new vision for IT was shared with the IT team from the outset. Every member was invited to embark on the journey, with targeted training programs in place to provide new skills where needed, or a transition to other opportunities if preferred. The result has been a more motivated IT department.

What recommendations would Penrith give to other councils?

When embarking on a change management program, it's critical for the General Manager and senior leadership team to drive and sponsor the change. Personnel with relevant skills need to be appropriately allocated, and their roles clearly communicated across the council. Staff resources should be allocated ahead of time to allow projects to begin on schedule, with the right support.

What does the future look like?

The ICT change program has seven guiding principles to steer the future of IT at Penrith. These include:

1. integrated systems
2. cloud first
3. mobility
4. simple and easy application delivery
5. responsive and appropriate design
6. self-service
7. keeping software up to date.

Customer service scorecard

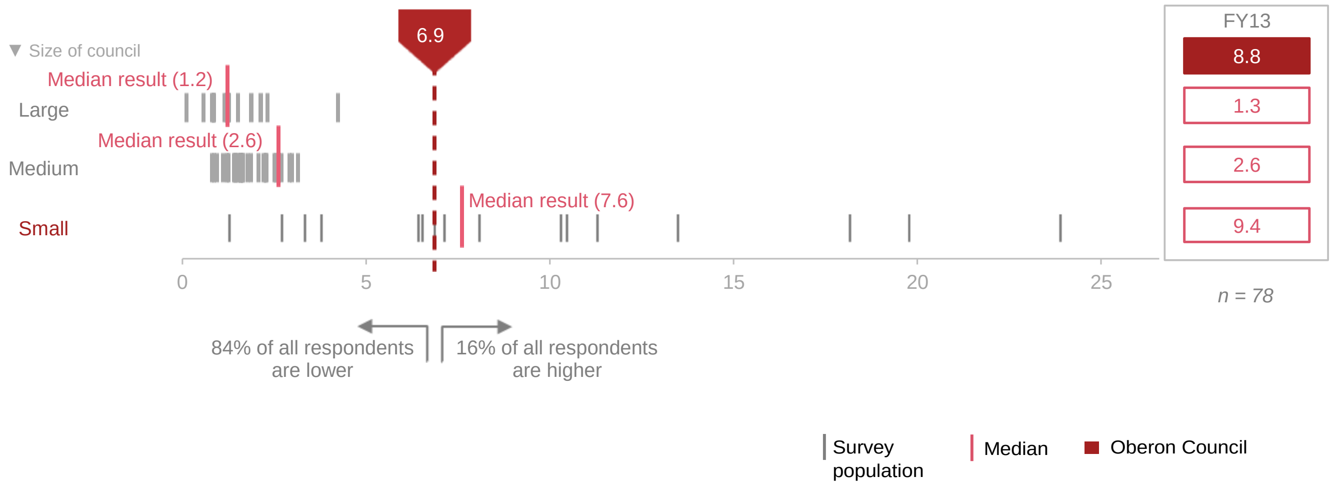
Servicing the community

Businesses are starting to realise the importance of embracing technology to create value for customers. Councils also have much to gain by using technology to drive innovation and transform the way they engage with residents and businesses. They are dealing with a new generation of consumers who want more accessible, portable, flexible and customised products, services and experiences.[23]

It is clear that technology allows councils to deal with customer service enquiries more quickly and smoothly. It can also improve service levels within a council's customer service department, and alleviate resourcing pressures and costs. Large and medium-sized councils continue to operate customer service functions with a median of 1.2 and 2.6 customer service FTEs per 10,000 residents respectively. Small councils (primarily driven by rural councils) have a substantially higher median of 7.6 customer service FTEs per 10,000 residents, although this is a 19% reduction from the prior year.

Given it is clear that small and medium-sized councils continue to operate with significantly higher ratios of customer service staff per 10,000 residents, there are probably opportunities to achieve economies of scale by working with neighbouring councils and sharing resources. It is critical for councils to investigate how they can use technology to support this co-ordination.

Figure 3.11: Customer service FTE per 10,000 residents



The art of understanding

CEOs are in no doubt about the role information can play in gaining insights about their customers and how to engage with them. Mobile technologies have been around for decades, but the sheer ubiquity of mobile devices today has revolutionised customers' ability to obtain information. The number of mobile phone users globally was expected to reach 4.55 billion in 2014 – nearly 70% of the world's population – with 1.75 billion smartphone users.[24] The volume of mobile traffic generated by smartphones is now about twice that of PCs, tablets and routers combined – despite having only surpassed them in 2013[25] – and is predicted to grow tenfold by 2019[26].

[23] PwC 2015, *18th Annual Global CEO Survey*, 'A marketplace without boundaries? Responding to disruption'.
[24] eMarketer, Smartphone Users Worldwide Will Total 1.75 billion in 2014, 6 January 2014
[25] 2013 Ericsson Mobility report
[26] Ibid.

Customer service scorecard (continued)

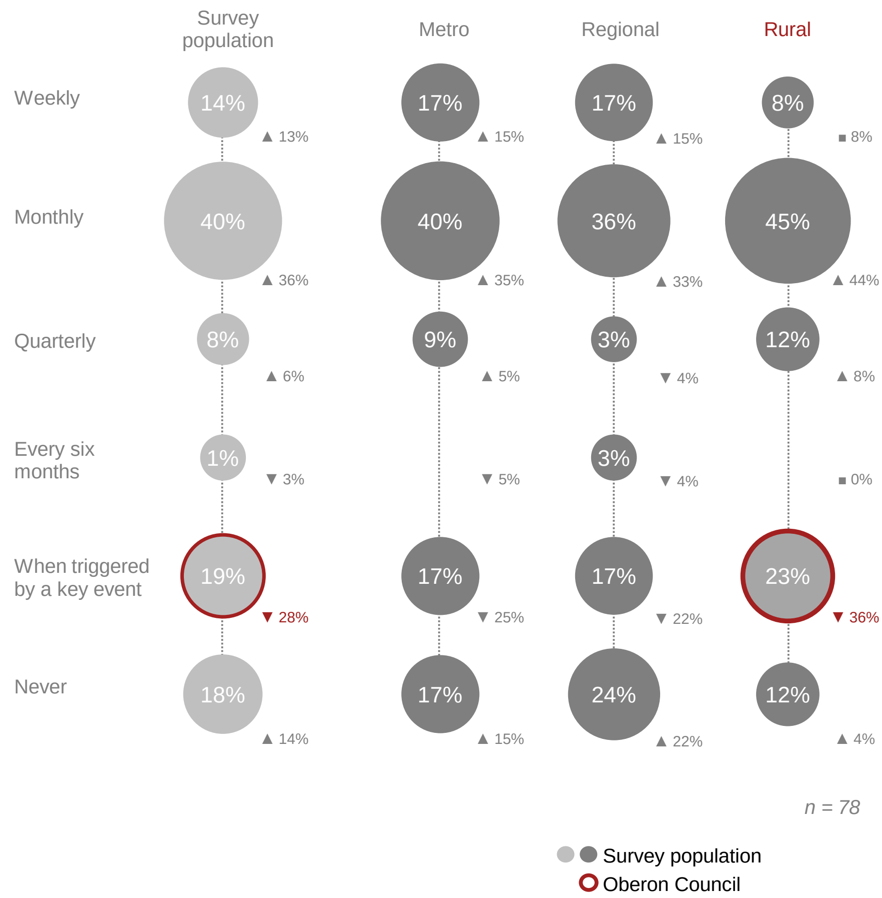
Effective customer service

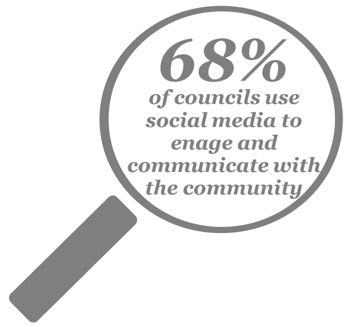
An effective customer service team should report unresolved general enquiries to senior management on a weekly basis. This keeps senior management properly informed of issues facing the community and demonstrates to the community that the council responds to enquiries promptly. Our survey continues to show overall low results; few councils (14% up from 13% in the prior year) currently have a weekly reporting schedule. Metro and regional councils are twice as likely to report weekly (17% each), compared to rural councils (8%), which should consider reporting unresolved general enquiries more frequently.

We also found that 68% of councils use social media to engage with residents and businesses, and 86% of councils have a website that allows residents and businesses to lodge online enquiries. A far greater percentage of metro councils (87%) are using social media to engage and communicate with residents and businesses, compared to 62% of regional and 58% of rural councils.

We have previously discussed the importance councils place on developing mobile technologies over the next three years. This aligns well with the 81% of global CEOs who see mobile technologies as a strategically important tool to engage customers – more than any other digital tool.[28] However, our survey shows that currently only 21% of councils use text message notification to respond to general service enquiries. Yet providing this service may assist councils to more efficiently engage with the community.

Figure 3.12: How frequently are your unresolved 'open' general service enquiries reported to senior management?





[28] PwC 2015, *18th Annual Global CEO Survey*, 'A marketplace without boundaries? Responding to disruption'.

The importance of a customer service charter

Tracking customer service levels

While only 4% of large-sized and 15% of medium councils are without a customer service charter, it is apparent that this is an area of focus for small councils as 56% are without a charter. Some progress has been made in small councils as there are now 38% with a charter, up from 33% in the prior year.

Councils can use their customer service charter as a way to measure and track customer service levels, and as a feedback tool for members of the customer service team.

It highlights the importance of striving to deliver high levels of service to the community, which should be a priority for any service-based organisation.

Councils should use the commitments and standards defined in their customer service charter to inform the delivery and measurement of exceptional customer service.

For councils with a customer service charter, there is a correlation between the size of the organisation and how often it measures customer service against its charter.

There are 64% of large councils measuring customer service against a charter each month, compared to 34% of medium-sized councils and 14% of small councils. However, small councils are transitioning – in the past year they have moved from no councils measuring progress on a monthly basis to 14%.

Figure 3.13: Do you have a council-approved customer service charter in place?

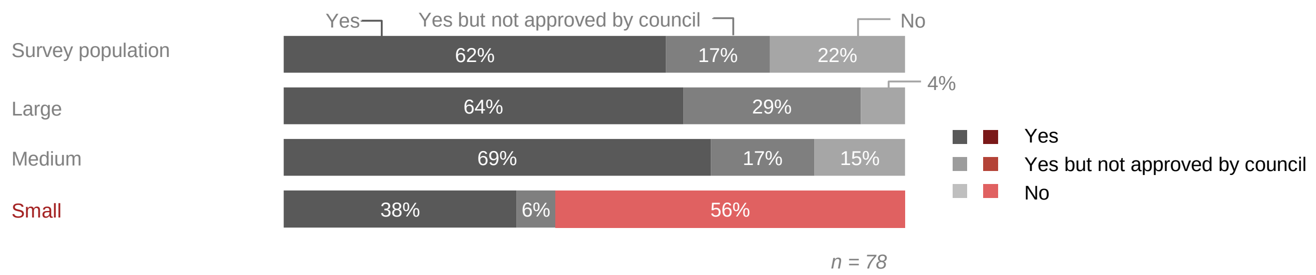
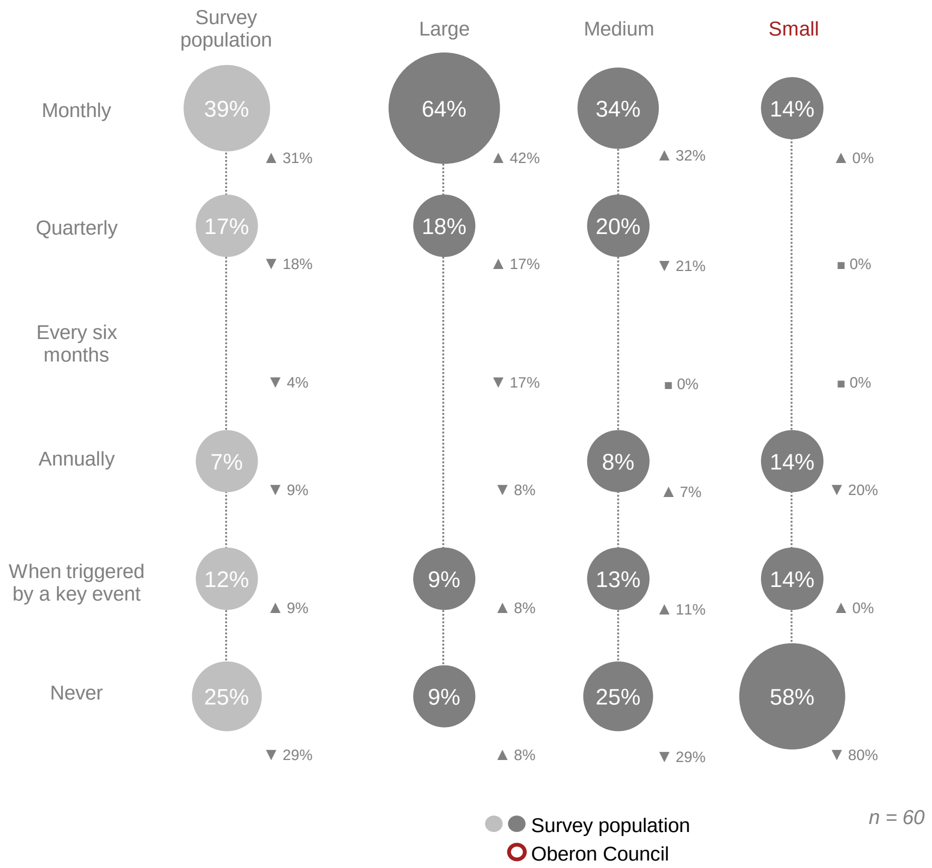


Figure 3.14: How frequently do you measure the progress of core components against the charter?



The importance of a customer service charter (continued)

Performance against customer service metrics

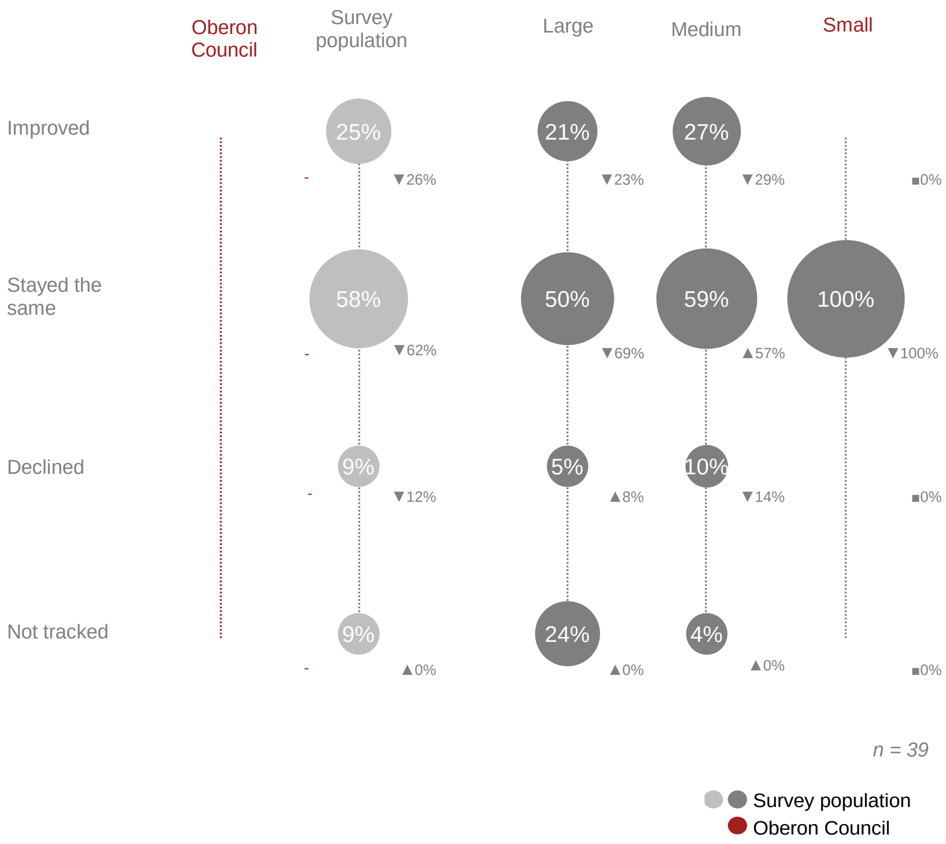
Our survey also shows that of the councils already using a customer service charter, 25% of performance metrics measured against the charter improved in the 2013–14 financial year while 58% stayed the same.

Establishing a mechanism for measuring and tracking customer service is a way councils can formally recognise and encourage the efforts of their customer service staff. Councils can also assess service levels against the charter year-on-year, adjusting them as needed, while staff get a better understanding of what is being measured.

Key considerations

- Do you regularly update your customer service charter with new requirements or areas to cover?
- Do you focus on the quality of service, as well as the quantity or services provided? Do you actively measure both?
- Have you set stretch targets to improve performance above and beyond the minimum standards set in the charter?
- Are you able to measure and monitor customer service results and use these to identify opportunities for improvement and more challenging commitments?
- Are you using your charter as a communication tool with staff, council and community? Are these groups aware of its existence?

Figure 3.15: Performance against customer service metrics in the charter during FY14



Looking at different ways to deliver corporate services

Outsourcing and shared services

Shared services and outsourcing have the potential to support councils in achieving high-quality service levels, increasing efficiencies, delivering greater value for users and generating cost savings. The potential to collaborate with nearby councils – either by sharing corporate services or outsourcing areas requiring specific expertise – should be high on the agenda for councils looking to improve productivity.

It is interesting to note that during the 2013–14 financial year, only two of the surveyed councils (2.6%) did not outsource or share corporate services in any way. The most common corporate services being shared with other councils, assigned to a third-party provider or outsourced remain unchanged from the prior year. The top three services managed in this way were legal (92%), IT hosting and support (63%), and procurement (57%).

Legal services continue to be predominantly outsourced; 83% of councils choose this option, while 9% of councils share legal services. IT hosting and support is almost twice as likely to be outsourced (41%) than operated as a shared service (22%), while procurement is 1.3 times more likely to be a shared service (32%) compared to being outsourced (24%).

We continue to see limited plans for councils to further outsource or share corporate services in the next two years. Surprisingly, the outsourcing or sharing of payroll (4%) and accounts payable and receivable (12%) departments in local government is not prominent. These areas have long been considered an obvious choice for outsourcing or sharing by organisations due to their transactional nature. However, it is encouraging to see 9% of councils (up from 4% in the prior year) plan to outsource or share payroll functions in the next two years. The percentage of councils planning to alter the way accounts payable and receivable are managed remains broadly consistent with the prior year, at 8%.

Key considerations

- Have you critically evaluated your current model for delivering transaction-based services?
- Have you explored the possibility of sharing services with nearby councils?
- Are you getting the most from your resources or could you vary the way services are delivered to create time for more value-adding activities?

Figure 3.16: Current and future outsourcing or sharing of corporate service areas

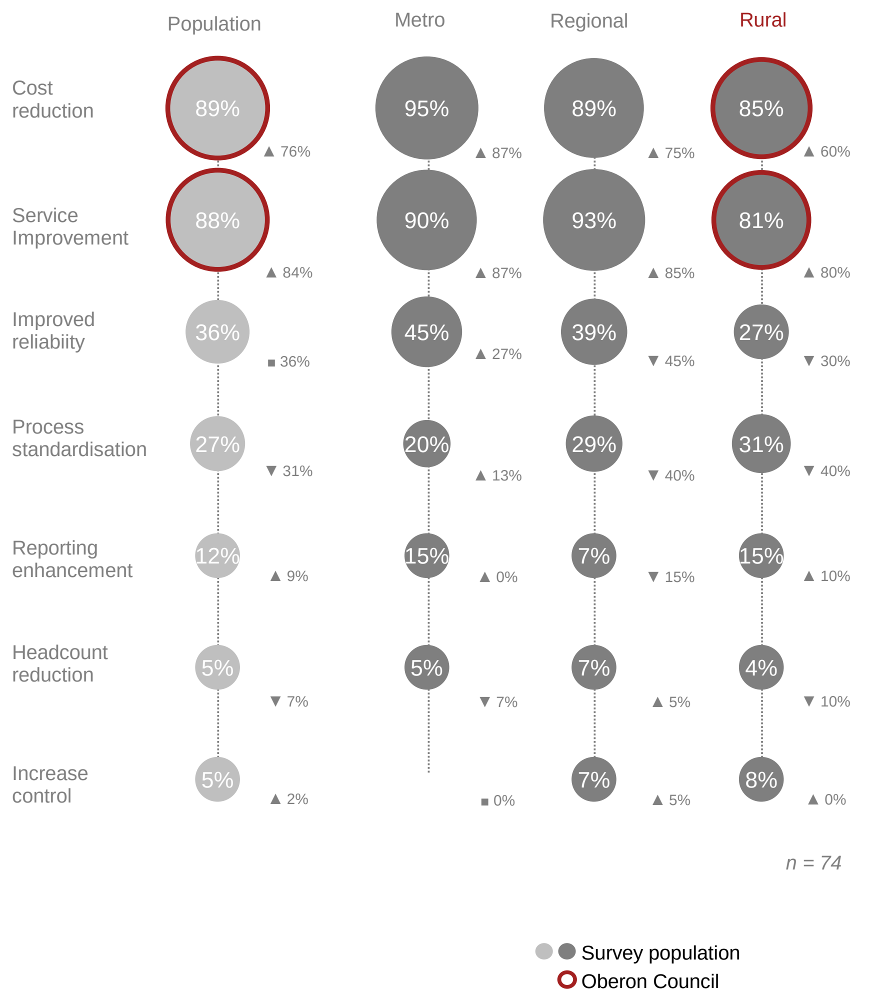
Recognising the key drivers and challenges of outsourcing and shared services

Key business drivers

Shared service and outsourcing arrangements eliminate repetitive, common transaction processing from existing business units, and consolidate them into a single processing centre that is run in-house or by an external provider. If this approach is implemented in a strategic manner, councils can reduce costs significantly while improving the quality of services.

Our survey shows the potential of this strategy. Of councils that already share or outsource services, 89% cite reduced costs (up from 76% in the prior year) as the top reason they do so. Improving service delivery is the second key driver at 88%, up frm 84% in the prior year. The third driver continues to be improved reliability, at 36%.

Figure 3.17: Key business drivers for outsourcing or sharing corporate services



Recognising the key drivers and challenges of outsourcing and shared services (continued)

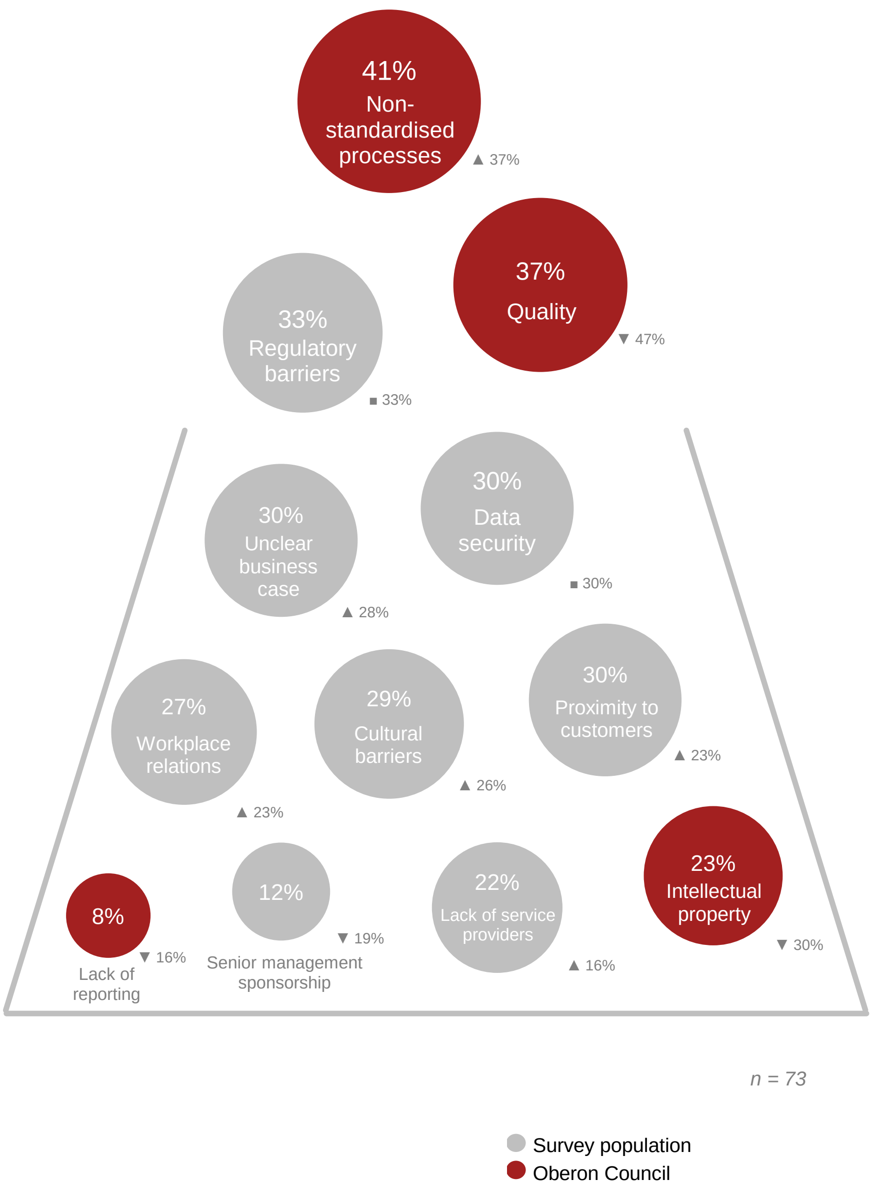
Challenges

The key objective of sharing services and outsourcing is to obtain economies of scale and centres of excellence by standardising, re-engineering and consolidating processes. This allows councils to use information more effectively and focus on their core business. However, to be successful, councils need to identify and address cultural barriers that may impede the success of these strategies. It is also crucial to establish a clear vision and formal service-level agreements between internal customers and service providers.

Councils that currently outsource or share services identify non-standardised processes (41%), quality (37%) and regulatory barriers (33%) as their top three challenges. Unsurprisingly, (typically large) metro councils are twice as likely to report non-standardised processes a key challenge (50%), compared to rural councils (25%).

In reality, 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. Working to achieve standard processes across business units is challenging, but enables councils to achieve greater efficiencies when they do share or outsource services.

Figure 3.18: Key challenges faced when outsourcing or sharing corporate services



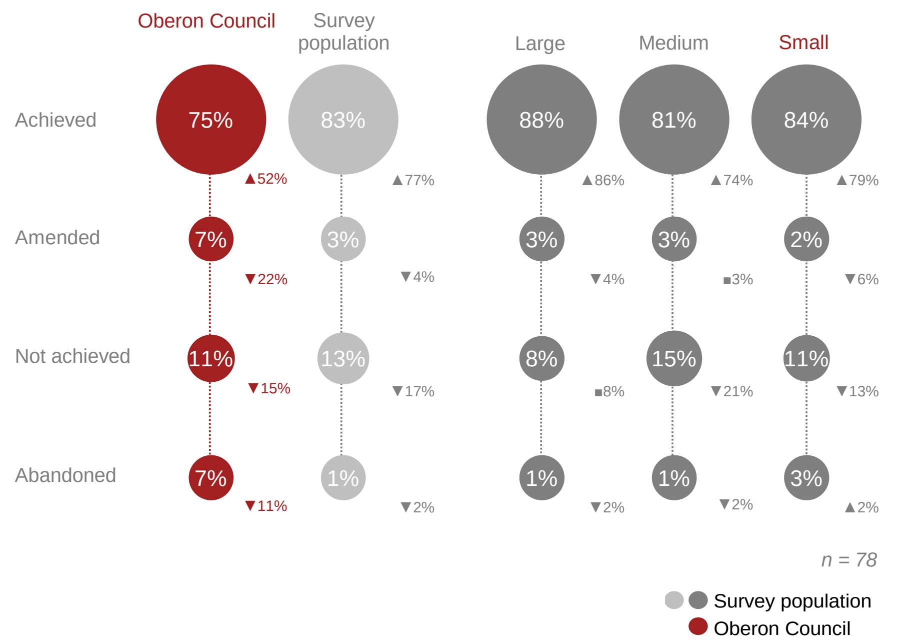
From Operational Plan to action

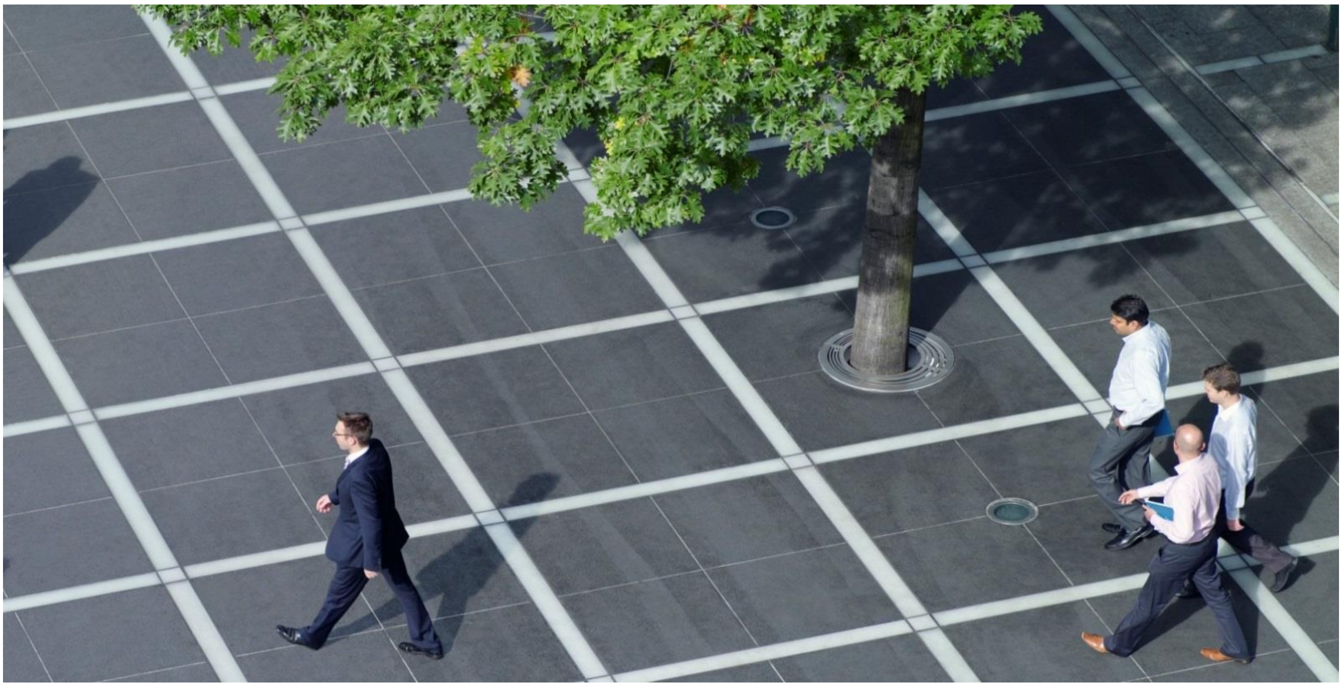
Operational Plan

A council's annual Operational Plan is critical to the way it integrates planning and reporting. The plan lays out the actions a council intends to undertake to achieve its community's strategic goals, and reflects the council's progress towards achieving the goals set out in its Delivery Program.

It is encouraging to see a rise in councils achieving the actions in their Operational Plan in the 2013–14 financial year. Currently, 83% of councils achieved all actions, compared to 77% in the prior year. This coincides with a decrease in the number of actions not achieved. Medium-sized councils showed the most improvement, where only 15% did not achieve planned actions (down from 21% the previous year).

Figure 3.19: FY14 Operational Plan status





Risk Management

Risk Management trend summary

Oberon Council

Metric	Council	Round 1	Round 2	Change from round 1 to round 2
1. Risk management policy in place	Oberon Council	Yes	Yes	No change
	Survey population	82% (Yes)	87% (Yes)	▲+5%
2. Frequency in formally reporting risks to council	Oberon Council	As required	Unable to say	Changed to unable to say
	Survey population	38% (As required)	3% (Unable to say)	
3. Audit and risk committee in place	Oberon Council	No	Yes	Changed to yes
	Survey population	24% (No)	79% (Yes)	
4. Independent external members on Audit and Risk Committee	Oberon Council	50%	50%	
	Survey population		20%	■ -
5. Number of risk-related FTEs	Oberon Council	1.1	1.0	■ -
	Survey population	1.0	1.0	▼-0.1
6. Delivery of internal audit	Oberon Council	Co-delivered	Co-delivered	No change
	Survey population	31% (Co-delivered)	21% (Co-delivered)	▼-10%
7. Days of internal audit effort per $10 million in council revenue	Oberon Council		66.2	▲+46.9
	Survey population	19.3 3.9	3.8	▼-0.1

Managing risk

Risk management policy

Progress is being made with establishing a risk management policy, with 87% of councils now having an approved policy in place (up from 82% in the prior year). While rural councils continue to evolve in this area, with 81% (up from 76%) now having an approved risk management policy and a further 15% with a policy in development, they still have a way to go, when compared to metro and regional councils.

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.

Our survey reveals that management still doesn't formally report risks to council on a regular basis – more than half the councils surveyed (55% up from 52%) either report risks to council annually or as required, with a further 11% either not reporting risks at all or unable to say how often.

The frequency and forum of formal reporting of risks to council 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 is prudent for the full council to be appropriately updated and assured as to the effectiveness of risk management on a consistent and regular basis.

Figure 4.1: Does your council have an approved risk management policy?

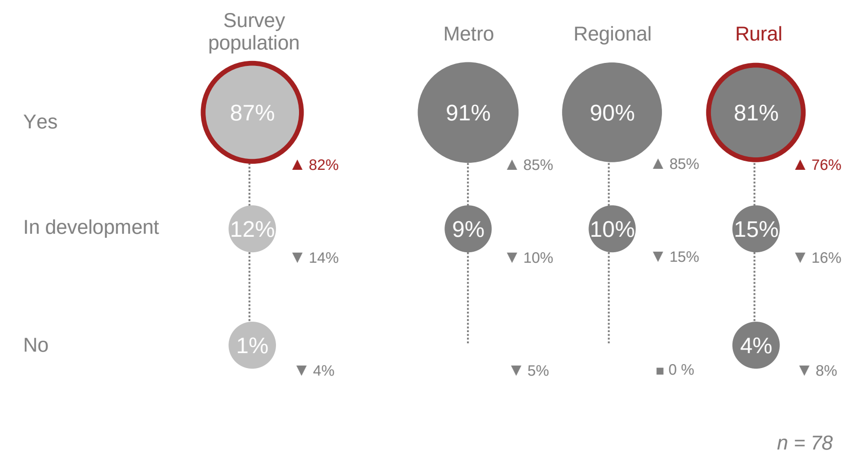
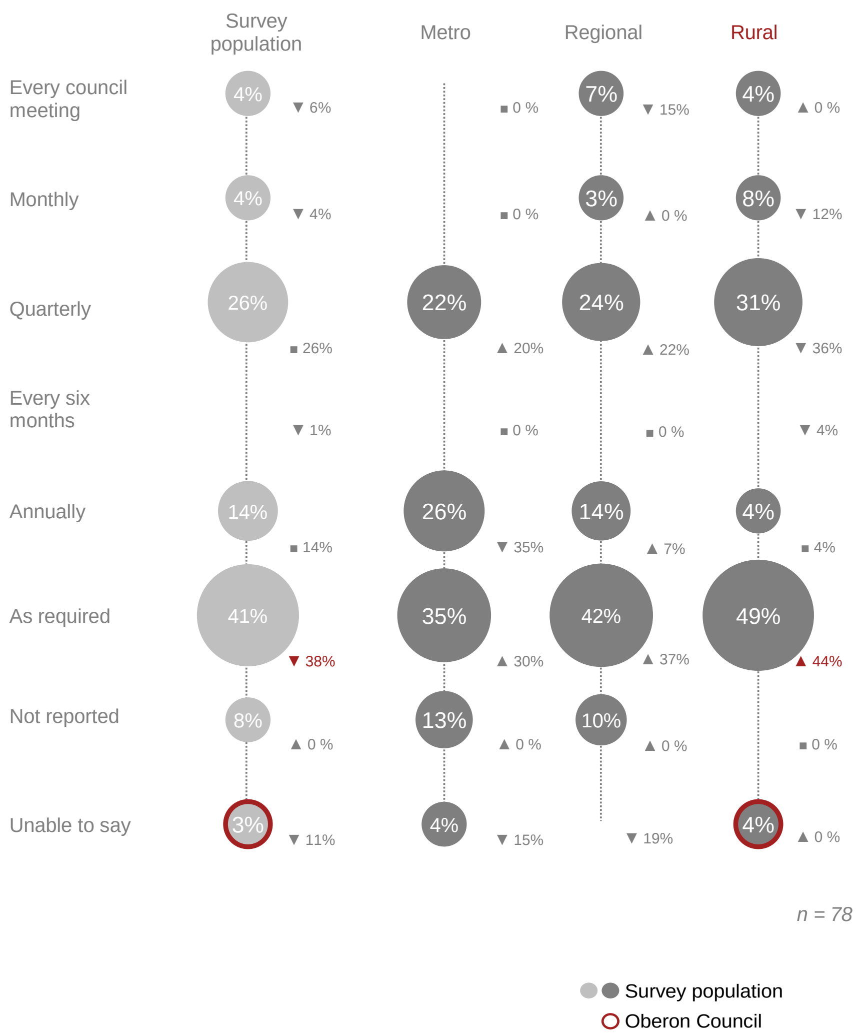


Figure 4.2: How often does management formally report risks to council?

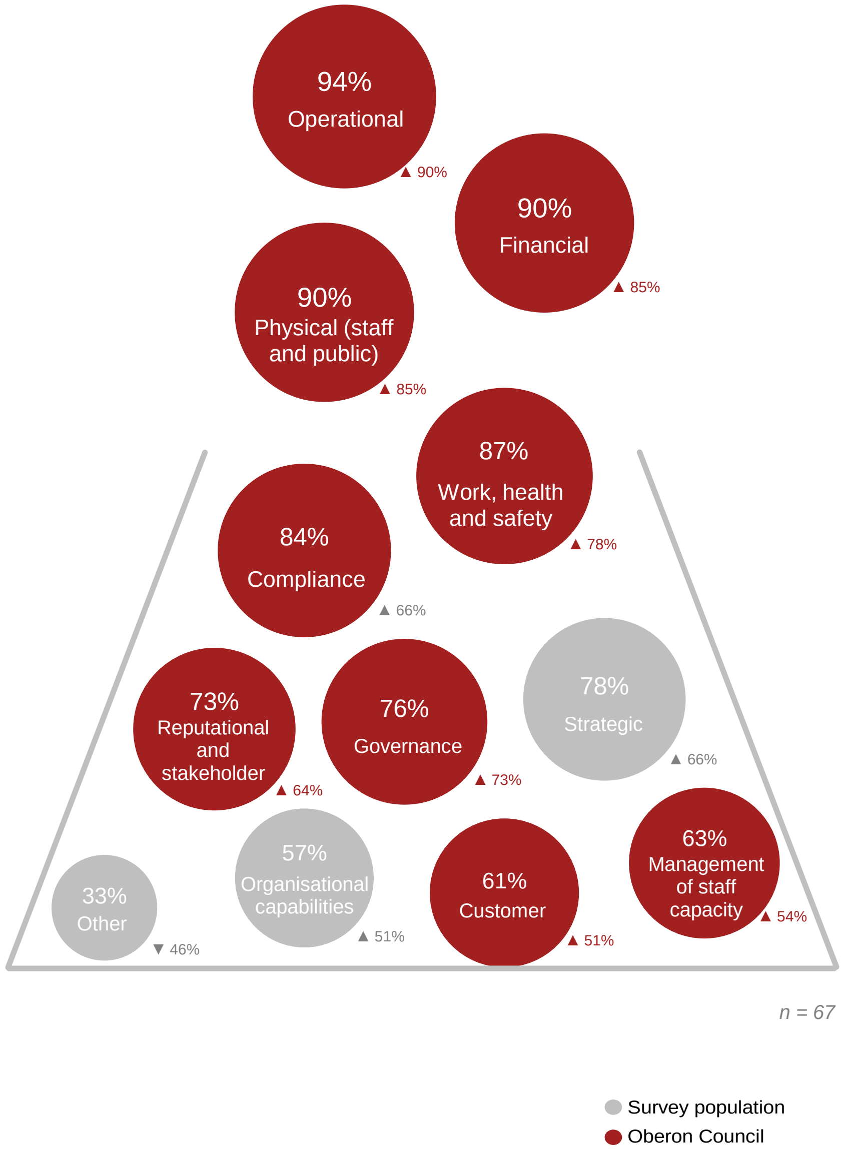


Managing risk (continued)

Risk management categories

When it comes to risk categories covered in a council's risk management policy, the top three remain consistent with the round one FY13 survey and are: operational (94%), financial and physical (both 90%) and workplace, health and safety (87%). We recommend councils incorporate a balance of risk categories reflecting both internal risks (risks to a council's operational processes) and external risks (risks within the local government environment).

Figure 4.3: Which categories are covered in your risk management policy?



Corporate governance

Audit and Risk Committee

The responsibilities of the Audit and Risk Committee will generally cover, but are not limited to, the review and oversight of the following areas: internal control framework, risk management activities, financial statements, and internal audit and external audit. Our survey shows that there has been a minor increase in the corporate governance arrangements of councils, with almost four in five councils (79% up from 76%) now having an Audit and Risk Committee in place.

The level of independence, skill set and background of committee members remains important. Within local government, we continue to see a reasonable balance of independence among Audit and Risk Committee members, with an overall median result of 50% being independent or external to council. This is important to strengthen the committee's actual and perceived independence. Regional councils continue to 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.

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.

Figure 4.4: Does your council have an Audit and Risk Committee (or equivalent)?

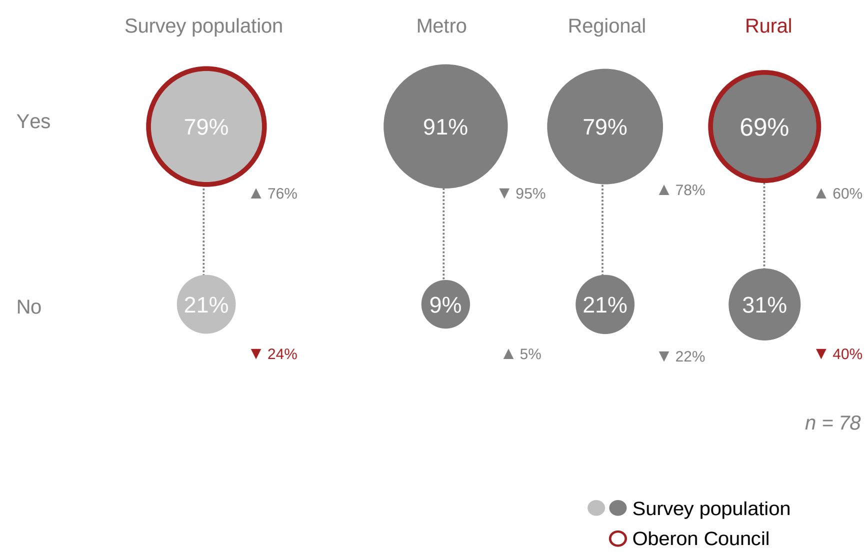
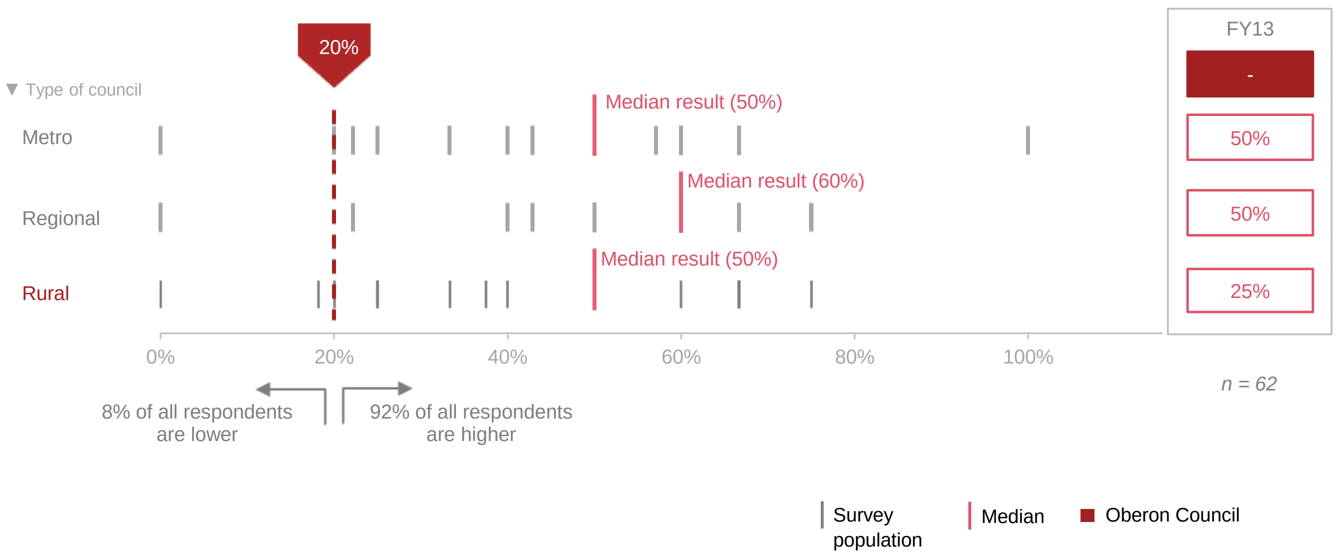


Figure 4.5: Percentage of independent external members of the Audit and Risk Committee

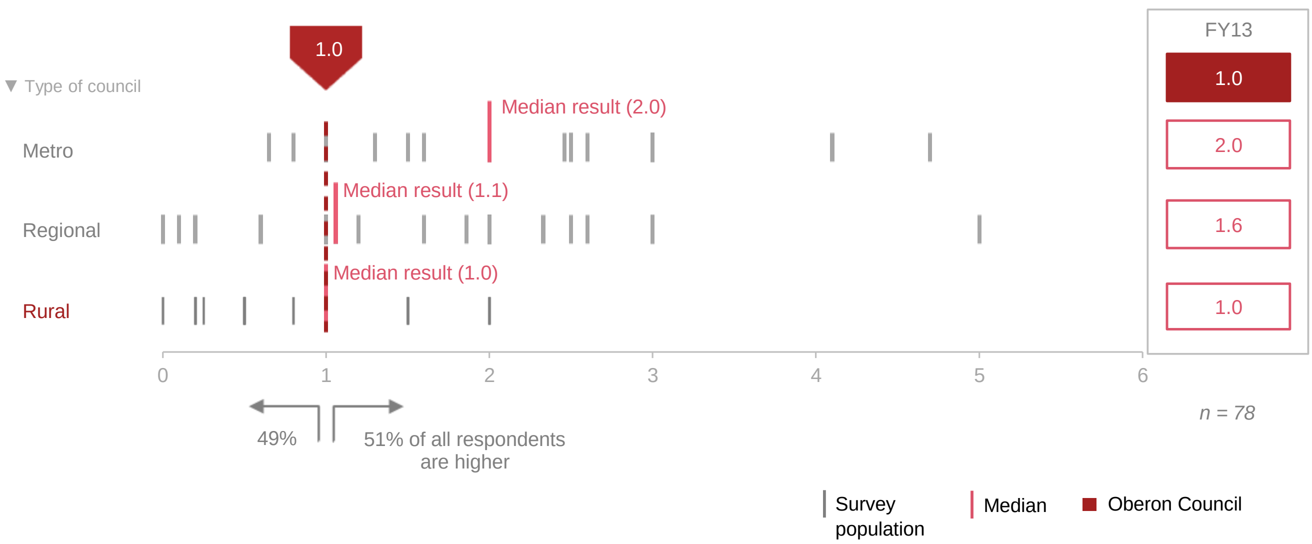


Corporate governance (continued)

Risk management resources

Councils vary when it comes to the level of investment in risk management resources. The number of risk-related full-time equivalents (FTEs) continues to range from a median of 1.0 FTE in rural councils to 2.0 FTEs in metro councils. The important factor for councils to consider is that at some level there is clear ownership and accountability for risk management. Some councils may choose to have staff with risk management as a component of their role, while others will have dedicated risk management staff.

Figure 4.6: Number of risk-related full-time equivalents (FTEs)



Delivery of internal audit

Internal audit delivery and effort

There has been a recent shift in local government in the way councils elect to deliver the internal audit function. Councils are now almost twice as likely to outsource the delivery of internal audit, compared to a co-delivered approach. This indicates that councils are seeing the benefit of bringing in specialists to perform this important governance function. Overall 19% of councils (up from 18% in the prior year) did not perform an internal audit during the 2013–14 financial year. This is especially evident in rural councils where 42% did not carry out an internal audit. We recommend these councils seriously consider how internal audit strengthens the governance framework and provides a third line of defence.

Our survey continues to indicate that outsourced internal audits take the least amount of effort, with a median of 3.6 days per $10 million in council revenue. At the other end of the spectrum, internally delivered audits have a median of 9.5 days per $10 million in council revenue. Outsourced internal audits may reflect either lower levels of investment, higher efficiency of work programs, or a combination of both, in comparison to internally delivered audits. Each council should consider the positives and negatives of all options to determine the best fit.

Figure 4.7: How is internal audit delivered?

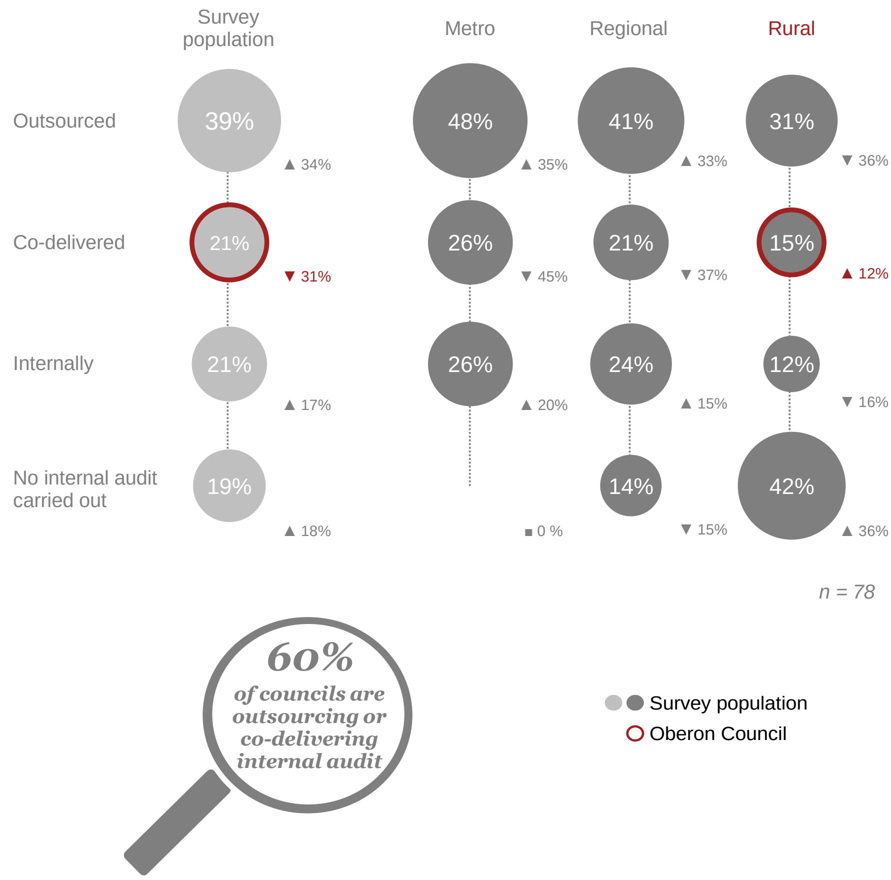
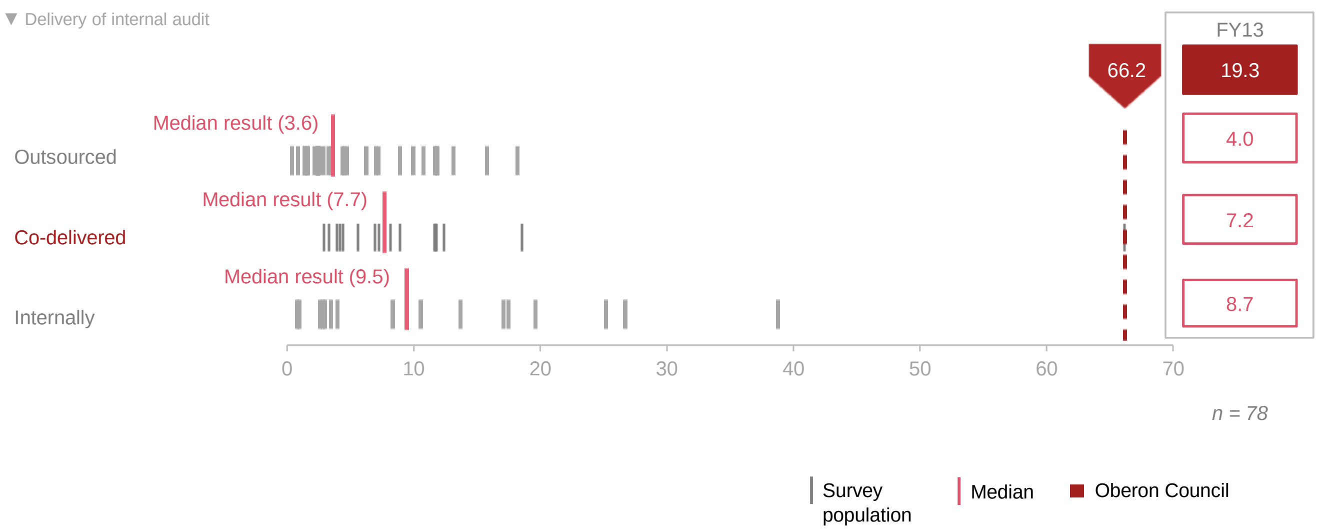


Figure 4.8: Days of internal audit effort per $10 million in council revenue



Delivery of internal audit (continued)

Internal audit effectiveness

To assess the effectiveness of internal audit we asked councils to rate how well internal audit performs in a number of different areas. The best performing area is now 'aligning the scope of the audit plan with stakeholder expectations' (72% up from 64%). 'Focusing on critical risks and issues' (68% up from 65%) continues to be the next best performing area.

The key area of focus for local government remains 'leveraging technology effectively', as only 45% of internal audit functions performed well in this area (up from 43%). This result is relatively consistent with PwC's recent global internal audit study[28], where only 40% of global internal audit functions performed well in this area.

However, when it comes to 'delivering services with a service-oriented team' there continues to be a large disparity, with only 49% of councils saying they perform well, compared to the global result of 74%. This indicates an opportunity for internal audit teams to broaden their range of non-technical skills in areas such as relationship building, teamwork, partnering and communications.

In Figure 4.10, it is clear that councils with an Audit and Risk Committee perform better in more areas of the internal audit – 66% of councils with a committee in place performed well in six to eight areas of the internal audit, and 81% of councils without a committee in place performed well in zero to two areas of the internal audit.

Figure 4.9: Does your internal audit function perform well* in the following areas?

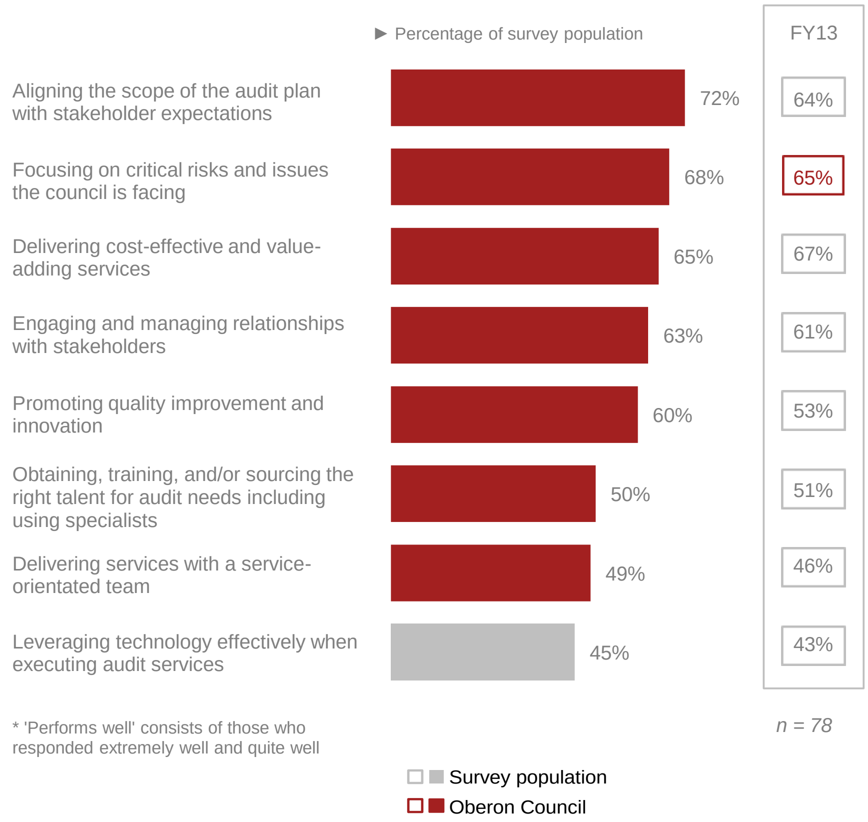
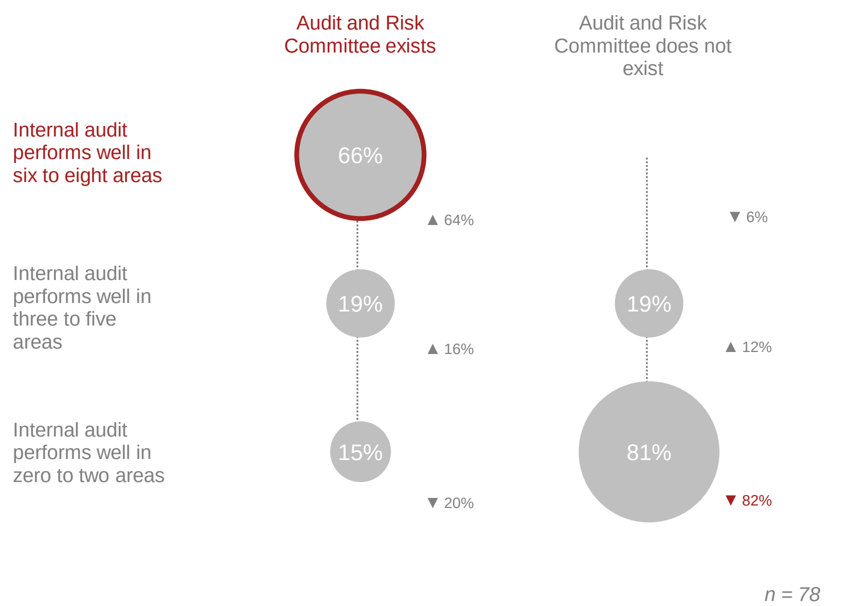


Figure 4.10: Correlation between having an Audit and Risk Committee and internal audit performance



28 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

In our survey we explore key supplier performance and relationships, along with how councils measure performance of this group. Local government have increased the ratings in both the performance and relationship with their key suppliers over the past year, with 83% of councils (up from 75%) falling into the top right-hand quadrant, thereby rating both of these factors as 'good or excellent'. Important influencing factors in building strong relationships with key suppliers include having clearly defined roles and establishing open communication lines regarding required controls and operating principles.

While we are seeing a reduction in the percentage of councils that are not measuring the performance of key suppliers, in Figure 4.12 (8% down from 11%), the remaining councils are increasing their use of contract management (69%) and regular meetings (65%) to better understand supplier performance. A key point of difference for rural councils is the heavy reliance upon cost as a measure of supplier performance which is 73%, compared to only 52% in regional and 61% in metro councils.

Also metro councils are far more likely to use regular meetings as a measure of supplier performance (87%), compared to regional (59%) and rural (54%) councils. This indicates the high level of importance given to regular forms of communication with key suppliers in avoiding potential supply chain risks.

Overall there is an opportunity for improved supplier management through the use of key performance indicators (KPIs). Currently, 26% of councils use KPIs, increasing marginally from 25% in the prior year. By comparison, the PwC supplier risk management study, which surveyed 68 organisations, found that 71% of surveyed organisations use KPIs to measure the performance of suppliers. The use of KPIs creates clear service level expectations, increasing the visibility and accountability among key suppliers.

Key considerations:

- Are you getting the most from your key suppliers?
- How can you improve interactions with your key suppliers to avoid supply chain risks?

Figure 4.11: Performance and relationship with key suppliers

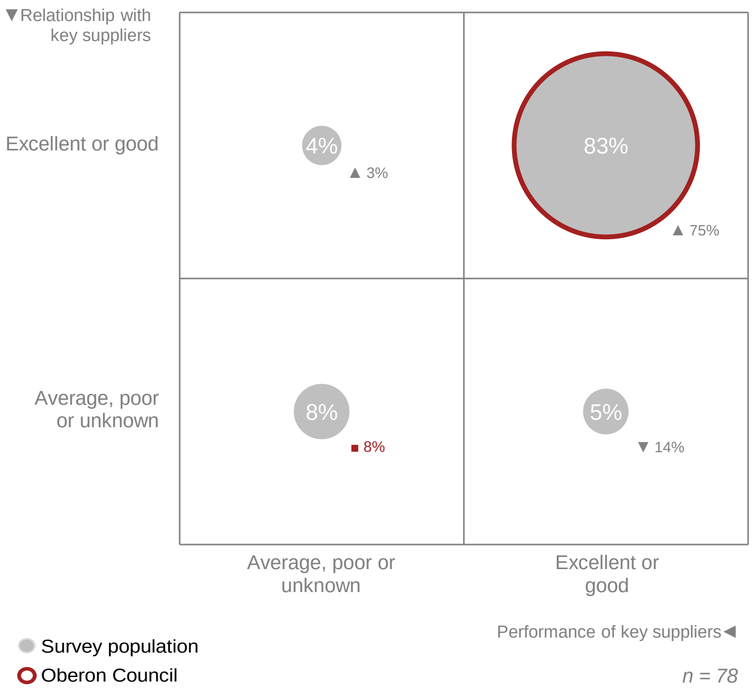
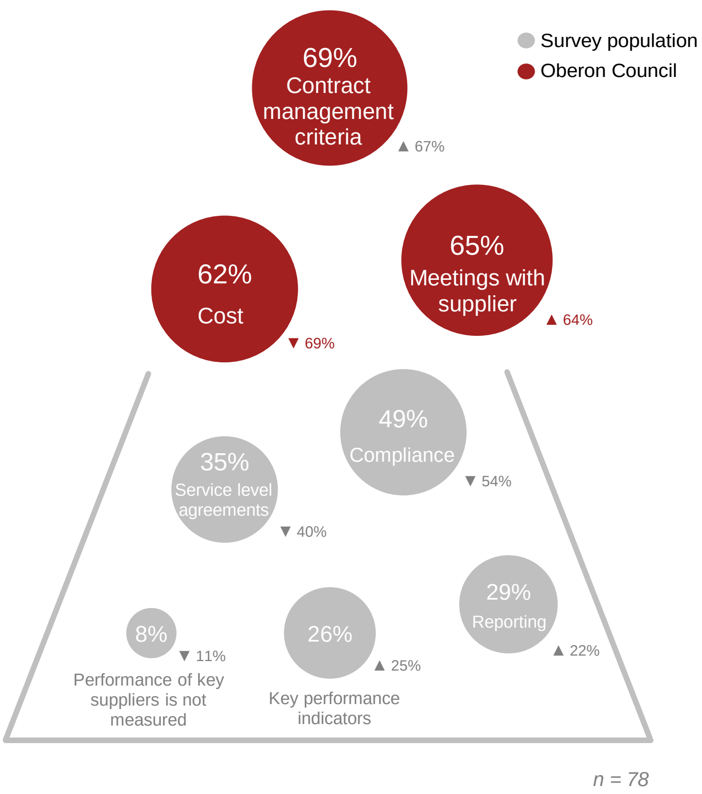


Figure 4.12: How does your council measure the performance of its key suppliers?



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

Corporate Leadership

Corporate Leadership trend summary

Oberon Council

Metric	Council	Round 1	Round 2	Change from round 1 to round 2
1. Frequency of review of delegations register	Oberon Council	Annually	Annually	No change
	Survey population	40% (Annually)	44% (Annually)	▲+4%
2. Council decisions audited for compliance to delegations register	Oberon Council	No	No	No change
	Survey population	56% (No)	51% (No)	▼-5%
3. Average council meeting duration	Oberon Council	164	123	▼-41
	Survey population	145	146	▲+1
4. Average council resolutions passed	Oberon Council	30	16	▼-14
	Survey population	27	25	▼-2
5. Improved staff engagement	Oberon Council	Yes, improved	Yes, improved	No change
	Survey population	33% (Yes, improved)	39% (Yes, improved)	▲+6%
6. Frequency of review of community engagement strategy	Oberon Council	Every six months	Annually	Changed to annually
	Survey population	(Every six months)	36% (Annually)	
7. Corporate KPIs in place	Oberon Council	No	No	No change
	Survey population	32% (No)	27% (No)	▼-5%
8. Percentage of corporate KPIs on track	Oberon Council	73%	70%	
	Survey population			▼-3%

Ensuring efficient and consistent decision making

Delegations register

Our survey shows an increase from 40% to 44% in the number of councils reviewing the delegations register on an annual basis. This indicates a more diligent approach to governance and aids efficient decision making. It is important that delegations are reviewed annually to ensure they align with the capabilities, qualifications and needs of the positions to which they apply.

It is also essential to monitor compliance with the delegations register to protect against misuse of delegated authority. Although the proportion of councils that audit their decisions for compliance has increased from 44% to 49%, just over half are still not performing this important step as part of their risk framework. This is particularly prevalent in regional (59%) and rural (65%) councils, indicating the need for change to guarantee compliance with operating procedures.

Figure 5.1: How frequently does your council review its delegations register?

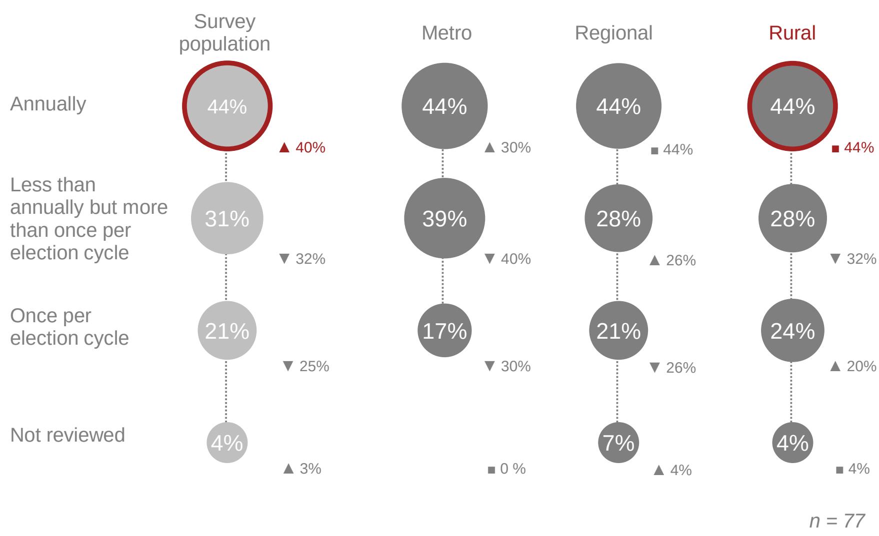
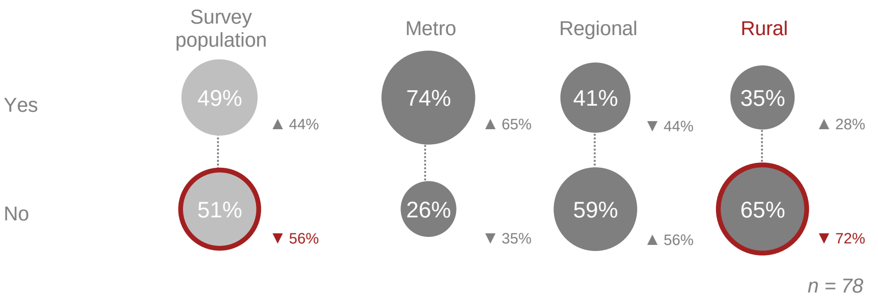


Figure 5.2: Are your council's decisions audited for their compliance with the delegations register?



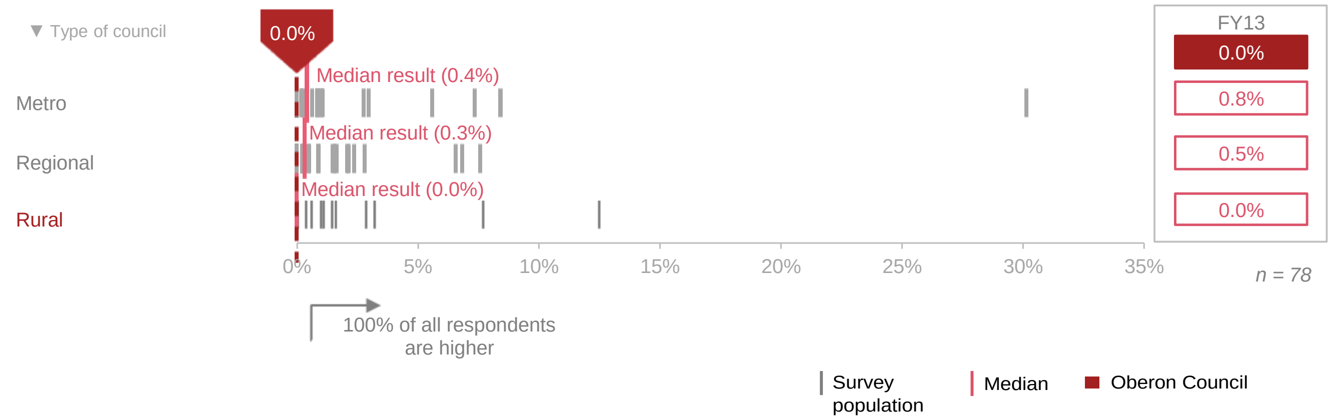
Survey population
Oberon Council

Development applications

Because residents and businesses sometimes deal directly with the council for the first time when they need a development application (DA) processed, an efficient and uniform approach is vital. Clear delegation of authority can aid the efficient and consistent handling of DAs.

Evidence shows that councils continue to use the delegation of authority to action DAs in an adept manner. Metro councils only had a median of 0.4% of DAs that were entitled to be dealt with under delegated authority but instead were considered at a council meeting (down from 0.8% in the prior year), and regional councils moved from a median of 0.5% to 0.3%. Rural councils have remained unchanged from the prior year, with all DAs being actioned using the delegations register.

Figure 5.3: 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 capacity of councillors to make informed decisions about policy settings, as well as a council's strategy and vision, partly rely on succinct and timely information. It is important that councillors have a broad picture available when forming a point of view .

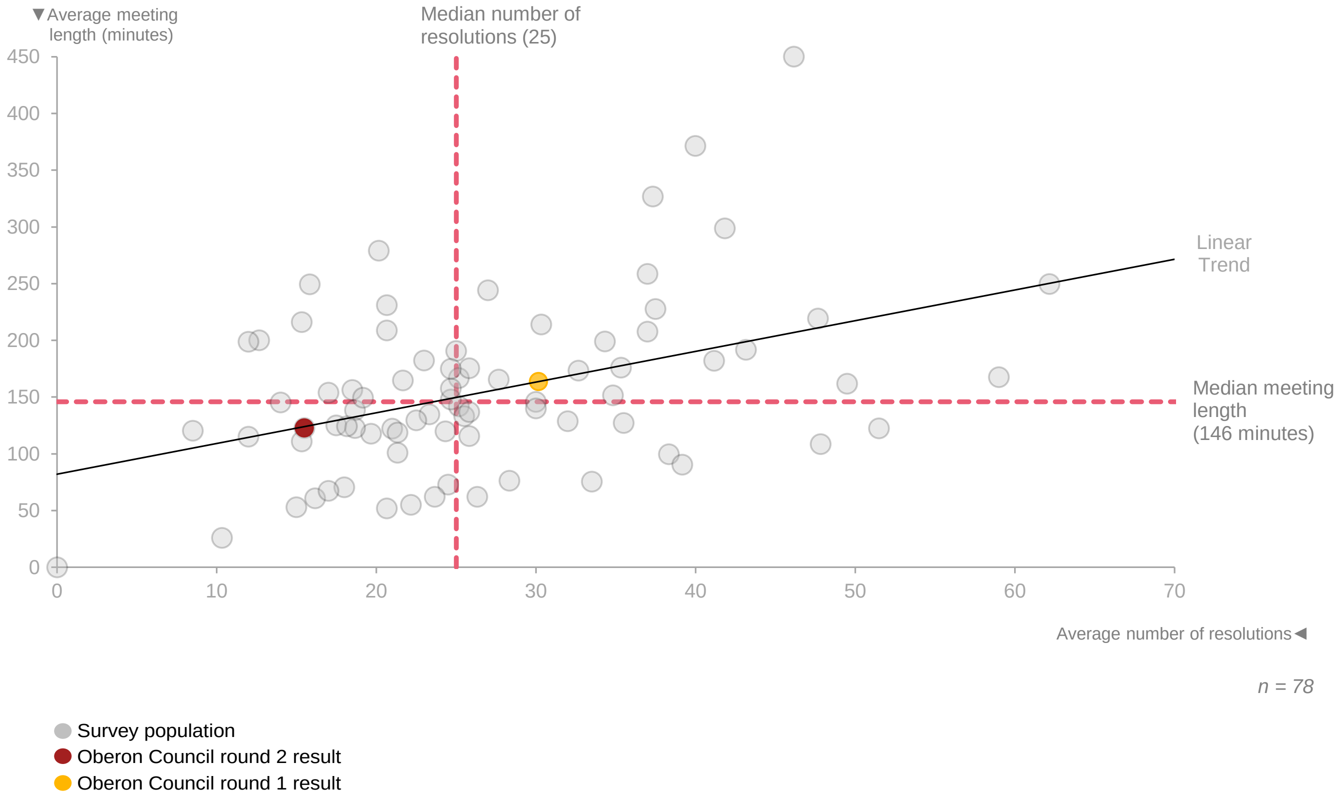
To better understand the efficiency of council meetings, we gathered data on each council's last six meetings in the second half of the 2013–14 financial year. When examining the correlation between meeting duration and resolutions passed, our survey results remained broadly consistent with the prior year, showing that the median council meeting duration (146 minutes) produced around 25 resolutions.

We found that large- and medium-sized councils tend to have slightly shorter meetings than small councils, which spend a median of 175 minutes (almost three hours) producing around 23 resolutions, compared to large councils, which spend a median of 146 minutes (around 2.5 hours) producing around 27 resolutions.

Key considerations

- Do your council meetings regularly extend beyond three hours?
- Are your council meetings passing resolutions in an efficient manner?
- Are meeting papers excessively long and complex, making a proper review onerous for councillors?
- Do you provide councillors with meeting papers one week in advance to enable sufficient review prior to the meeting?
- Do you review the effectiveness of your council meetings?

Figure 5.4: Relationship between council meeting duration and resolutions passed in the second half of FY14



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 explore the correlation between meeting length and the number of resolutions passed at their council meetings in the second half of the 2013–14 financial year.

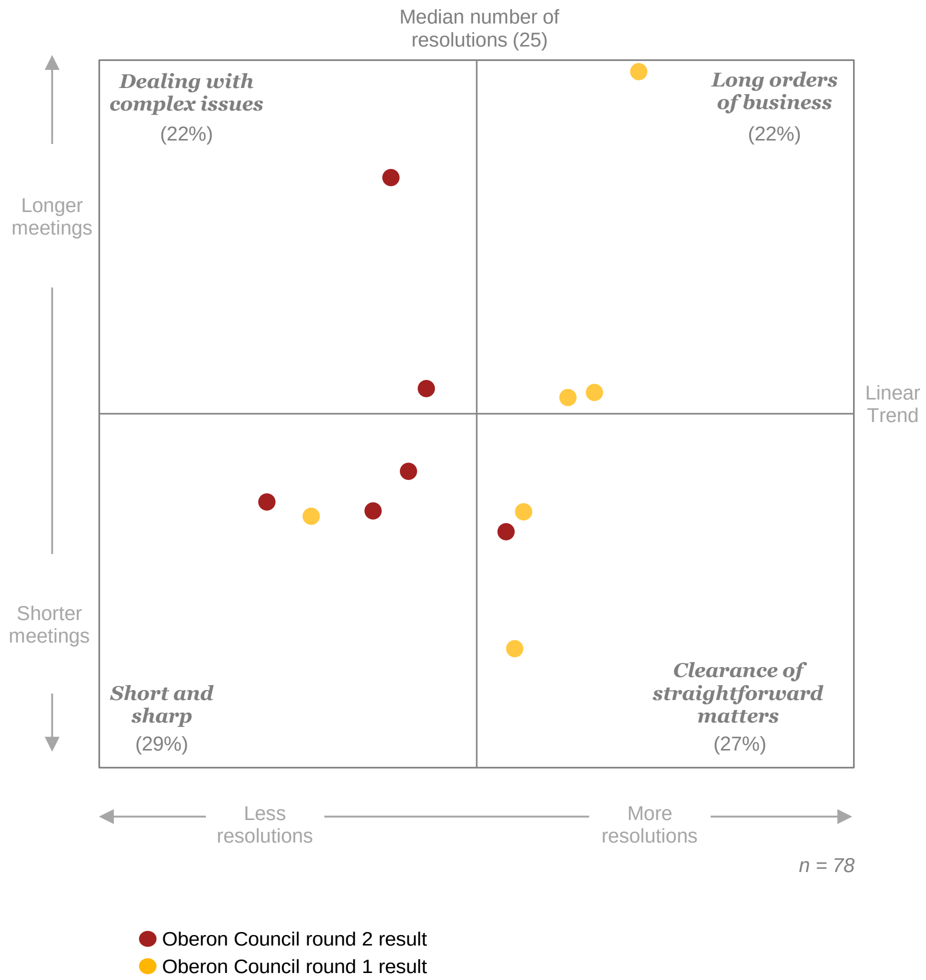
Our results show that overall a greater percentage of councils (27% up from 23% in the prior year) were in the quadrant 'clearance of straightforward matters', indicating that a greater proportion of council meetings focused on efficient decision making in the second half of the 2013–14 financial year, compared to the same period in the prior year.

When reviewing your profile in the chart below, consider that there may be a sound basis – such as the nature of business to be discussed – for whichever quadrant your meetings fell into. In fact, it might enhance a council's productivity if a range of the identified meeting types exists across the year. Each council should assess its results against the complexity and associated risk profile of the issues discussed in council meetings from January to June 2014.

Key considerations:

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

Figure 5.5: Relationship between council meeting duration and resolutions passed in the second half of FY14



Maintaining high levels of staff engagement

Staff engagement

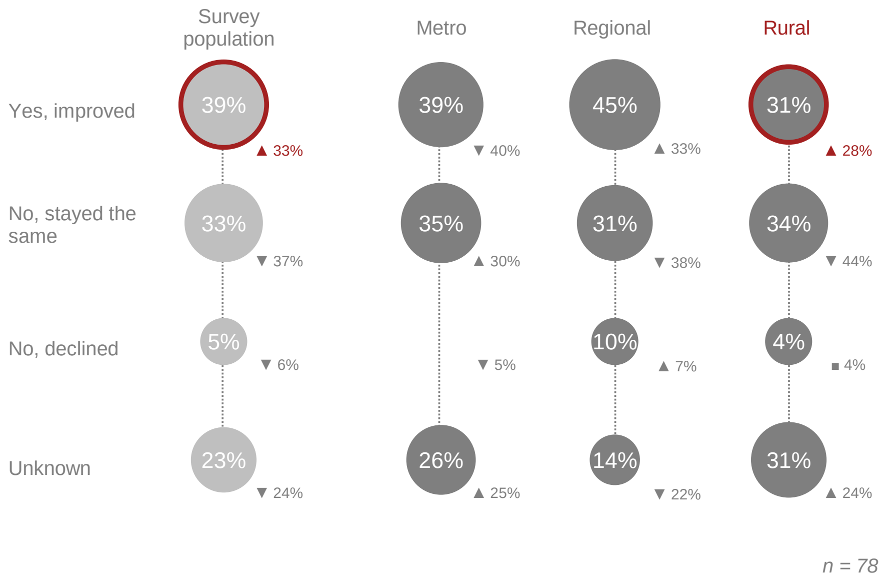
Organisations that regularly assess the 'pulse' of employees are able to gain insights into staff engagement. This allows them to identify trends and areas within the organisation that are more engaging.

Our survey shows that the proportion of councils that have seen staff engagement improve in the 2013–14 financial year increased from 33% to 39% – driven by regional councils rising to 45% (from 33%) and rural councils reaching 31% (up from 28%).

However, close to a quarter of councils (23%) still lack vital information on staff engagement due to the absence of a measurement framework. This is important given that local governments face the challenges of an ageing workforce and the difficulties of attracting and retaining Gen Y employees in the midst of an unsettling reform program. Gen Y staff tend to have different career priorities than older employees, including a desire for flexible hours, frequent feedback on their work, and a dislike of traditional corporate structures. However, engagement strategies can help younger employees apply their range of abilities and passions, and strengthen their connection to the organisation as a whole.[30]

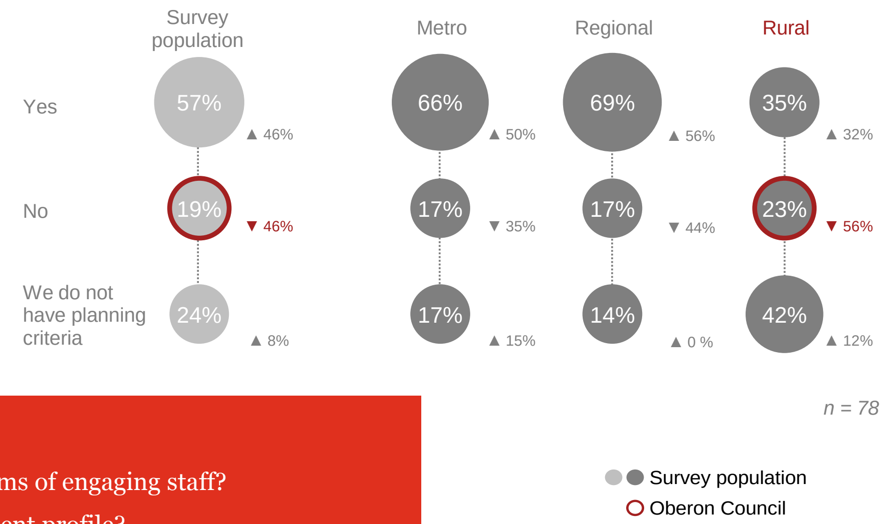
In terms of business planning, more than half of the councils (57%) now have planning criteria in place to help employees develop their business plans, compared to 46% in the prior year. The evidence also shows that for councils with improved staff engagement levels, 60% provide planning criteria to employees to help them better develop their business plans.

Figure 5.6: Did your staff engagement levels improve during the year ending 30 June 2014?



Engagement, as opposed to satisfaction, translates directly into discretionary effort—the willingness to do more than just meet job requirements and customer needs. Employee engagement is the extent to which employees are motivated to contribute to the success of the organisation, and are willing to apply discretionary effort to accomplish tasks important to the achievement of stated business goals.[31]

Figure 5.7: As part of the business planning process, do your staff have planning criteria in place that assist them in developing their plans?



Key considerations

- Where is your council right now in terms of engaging staff?
- Have you analysed your staff engagement profile?
- Have you identified any clusters of employees who are less engaged and taken action to change this?
- How are you communicating your goals, progress and performance? What is the best way to communicate with staff – social media, dashboards, infographics?

30 PwC, February 2014, 'The keys to corporate responsibility employee engagement'.
31 Ibid

Consulting with the community

Community engagement strategy

Over the past year we have seen a significant rise from 80% to 91% in the number of councils with an approved community engagement strategy. A further 4% of councils have one in development. Given this is a requirement of the Integrated Planning and Reporting legislation, we hope that in our next survey all councils will have a documented and approved community engagement strategy.

We are seeing an improvement in the frequency of reviews of the community engagement strategy. Overall, 36% of councils review annually (up from 29%) and 30% review every two years (up from 26%). Metro and regional councils are more likely to review the strategy regularly, with only 10% and 19% respectively reviewing every four years, compared to 39% of rural councils.

Figure 5.8: Do you have a documented and approved community engagement strategy?

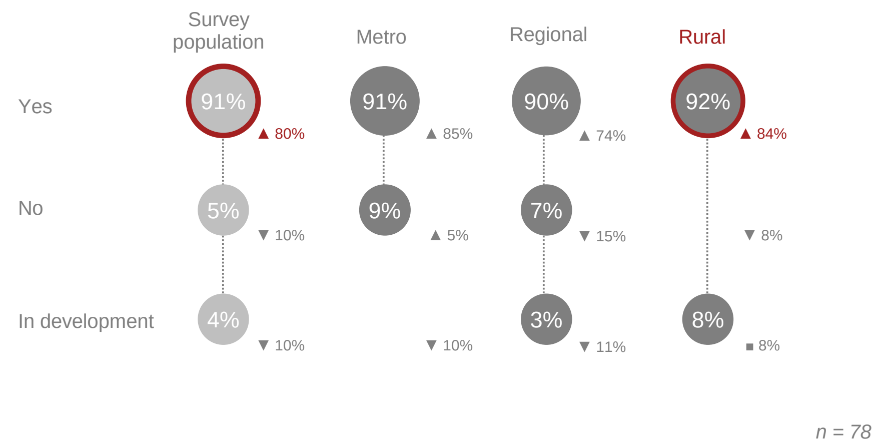
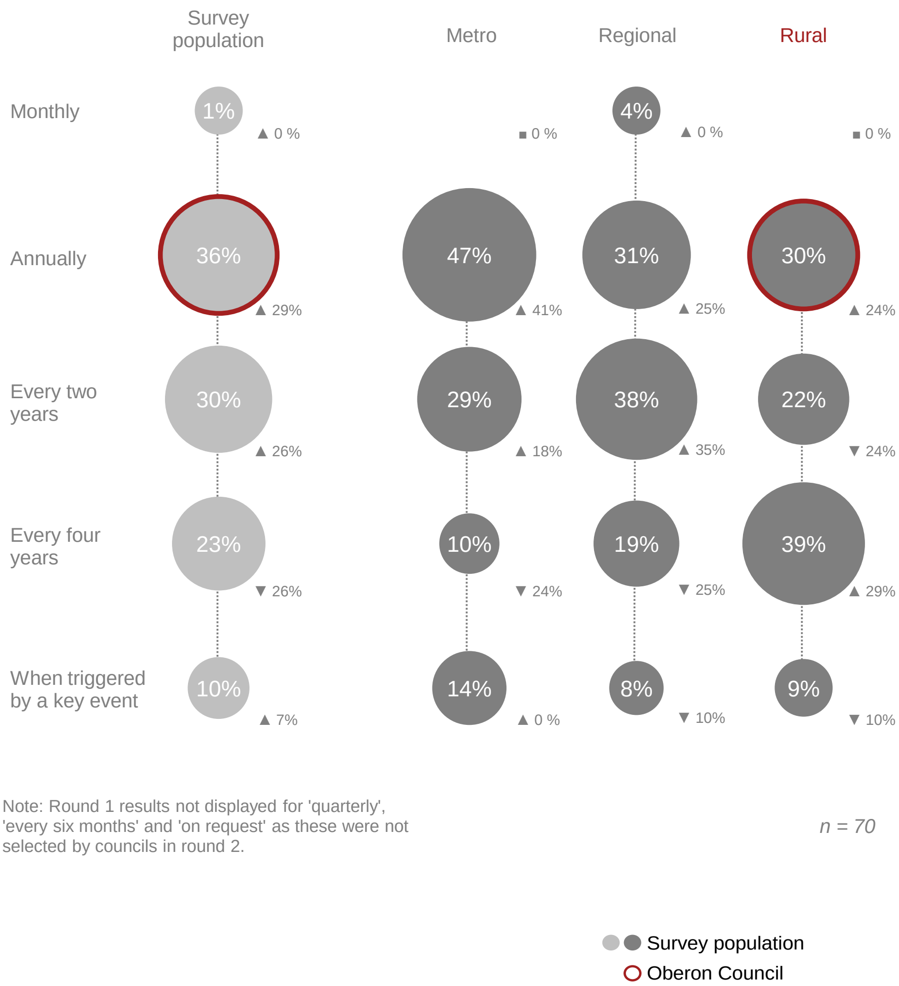


Figure 5.9: How frequently do you review your community engagement strategy?



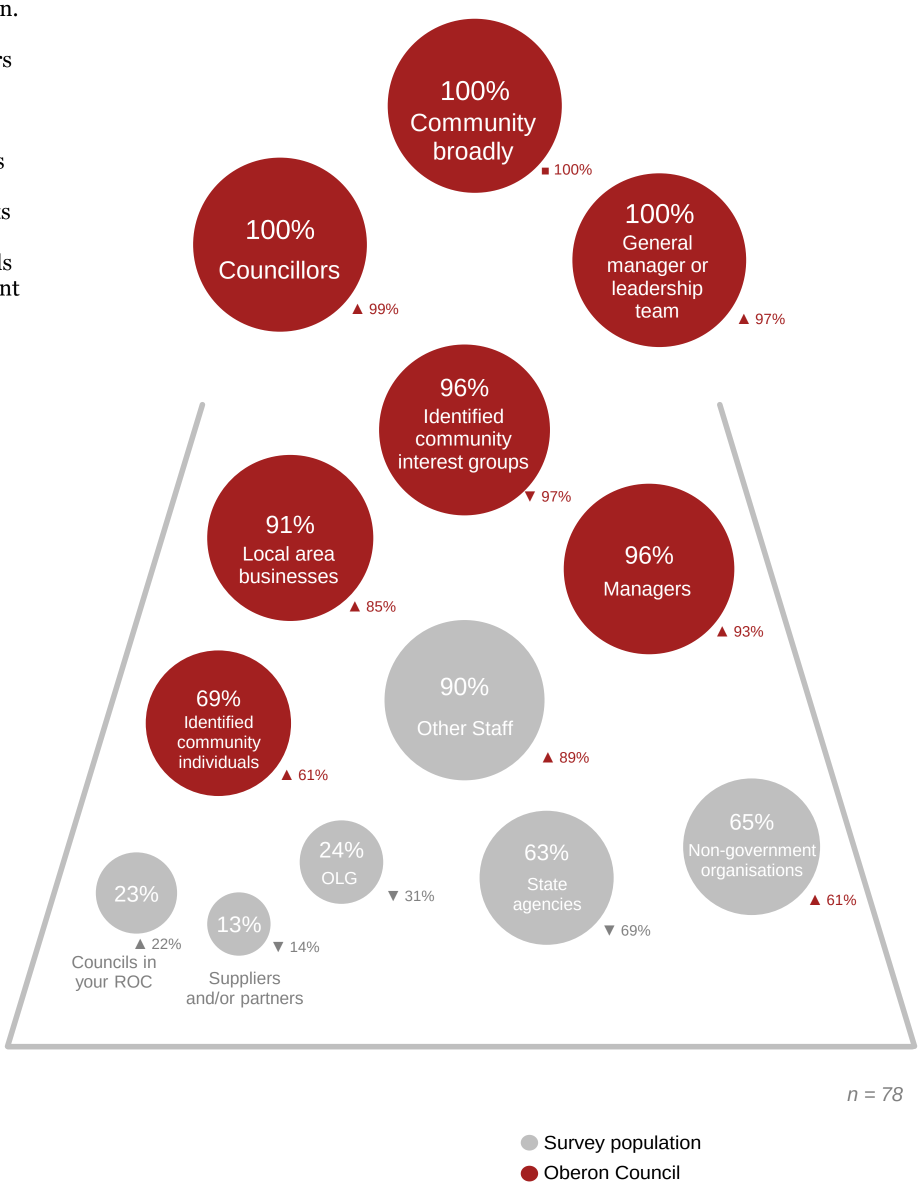
Consulting with the community (continued)

Community engagement

Developing a community strategic plan involves consultation with a broad range of stakeholders. Currently, all councils are consulting councillors, the general manager or leadership team and the community broadly on strategy formation. The vast majority also consult identified community interest groups and managers within the council.

We are yet to see councils consult more widely to obtain a richer variety of inputs and issues to consider. Examples of stakeholders that can provide such inputs include suppliers, neighbouring councils in your Regional Organisation of Councils (ROC) and the Office of Local Government (OLG).

Figure 5.10: Which of the following groups were consulted when developing the most recent council community strategic plan?



Understanding council performance

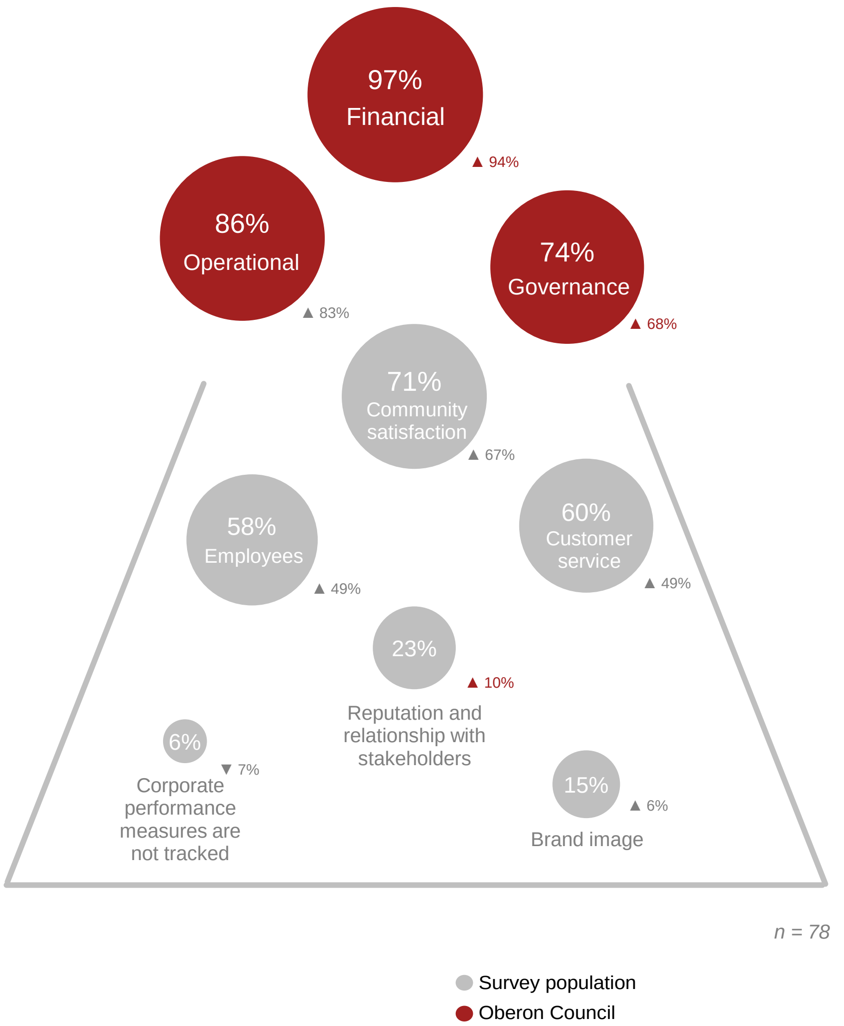
Corporate performance measures

Senior management in local government relies on good quality information to enable measurement of performance against financial and operational plans. Formally tracking a variety of corporate performance measures and reporting the outcomes to council facilitates a culture of continuous improvement. It also enables councils to recognise and reward managers and employees for activities that help the council to achieve its strategic goals.

Our survey reveals that the top three corporate performance measures being tracked and formally reported to council continue to be financial (97%), operational (86%) and governance (74%). Encouragingly, there has been a significant increase in the percentage of councils that focus on measuring customer service (up from 49% to 60%) and employee performance (up from 49% to 58%) in the past year.

It is important to note that the percentage of councils focusing on measuring reputation and relationships with stakeholders (23%) and brand image (15%) has also more than doubled in the past year, indicating a shift in the importance of these measures.

Figure 5.11: Which corporate performance measures are formally tracked and reported to council?



Key considerations:

- Have you created a culture that focuses on measuring improvement in priority areas?
- Have you aligned your corporate measures to your strategy?
- Do you focus on measuring and managing your reputation and interaction with the community, as well as your brand?

Understanding council performance (continued)

Key performance indicators

A key performance indicator (KPI) is an identified business metric an organisation uses to evaluate factors that are crucial to its success. Setting the right KPIs ensures individual performance is aligned to the critical priorities of the organisation. The setting of KPIs informs staff of management's expectations for what will be achieved during the year and are the basis for ongoing discussions about progress.

While there has been an increase in the tracking of corporate KPIs during the 2013–14 financial year (from over two-thirds of councils to almost three quarters of councils), 27% still don't have KPIs in place.

The fall in the number of metro and rural council whose KPIs were 'on track' was also interesting. During the 2013–14 financial year, 70% (down from 85%) of metro councils and 70% (down from 88%) of rural councils were 'on track'. As a result, a much higher percentage of KPIs are 'in progress', with 23% in metro and 21% in rural councils. It is important for councils to question why the status of KPIs may have shifted in the past year and whether there are actual performance issues, or whether it is a result of extra 'stretch' being incorporated into the 2013–14 financial year goals.

Key considerations:

- Do you regularly update employees on how KPIs are tracking?
- Do your KPIs challenge people to perform and are they having a positive impact on your performance?

Figure 5.12: Percentage of councils with corporate KPIs

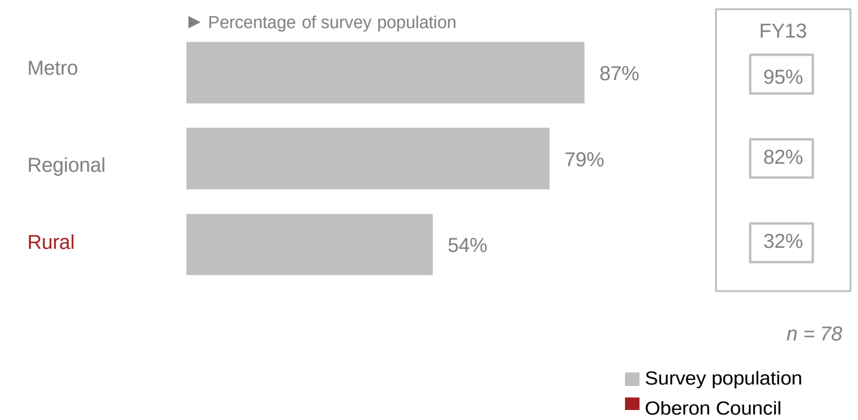
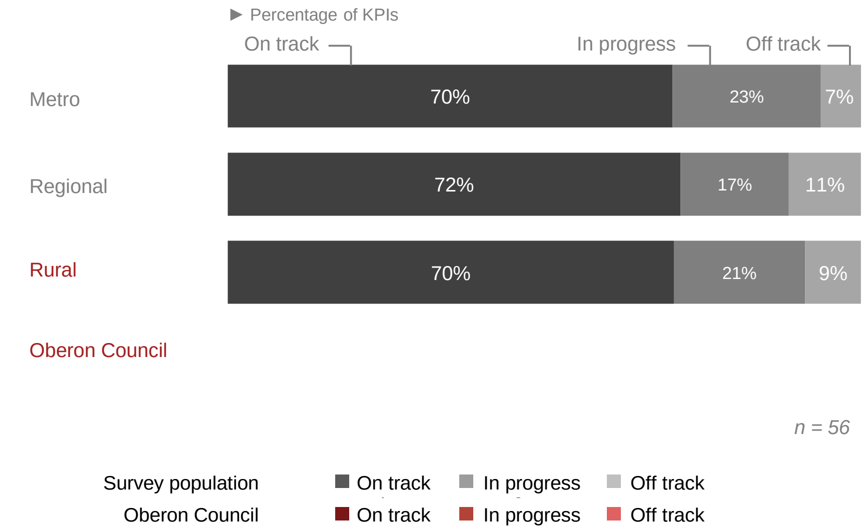


Figure 5.13: Results from tracking corporate KPIs



Contacts

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The NSW Local Government Operational and Management Effectiveness Report FY14 is produced in conjunction with Local Government Professionals Australia, NSW and the results are analysed by PwC.

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Definitions

Definitions

Headcount

Headcount includes permanent and fixed term contract employees based on your HR extract from question 4.1.1. Casual employees are excluded. We calculate headcount at two points in the financial year, 1 July for opening headcount and 30 June for closing headcount.

Full time equivalents (FTE)

FTE includes permanent, fixed term contract employees and casuals based on your HR extract from question 4.1.1. We calculate FTE at two points in the financial year, 1 July for opening FTE and 30 June for closing FTE.

Calculating headcount or FTE at 1 July 2013

Headcount or FTE employees with the following criteria are included:

- Start date on or before 1 July 2013
- An FTE status greater than zero at 1 July 2013 (FTEs of zero or blank are NOT included)

Headcount or FTE employees with the following are excluded:

- A termination date before 1 July 2013

Calculating headcount or FTE at 30 June 2014

Headcount or FTE employees with the following criteria are included:

- Start date on or before 30 June 2014
- An FTE status greater than zero at 30 June 2014 (FTEs of zero or blank are NOT included)

Headcount or FTE employees with the following are excluded:

- A termination date before 30 June 2014

Workforce, employees or staff

When we refer to your 'workforce', 'employees' or 'staff' it relates to headcount thereby including only permanent and fixed term contract employees. If we use full-time equivalents, we will always refer to this group as FTE employees or refer to it in the metric name, for example, Actual training spend per FTE.