



APPENDIX D

Reviewing Service Delivery

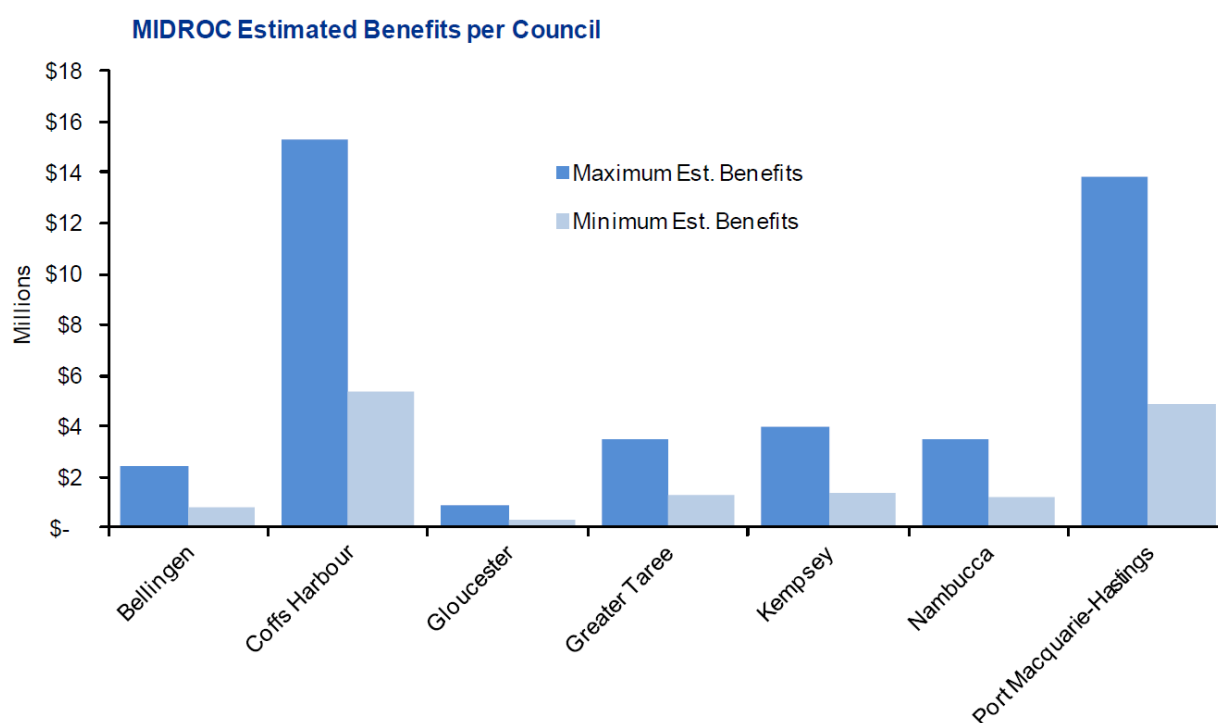
Finding the best way possible to provide services

Executive Summary

Four Councils have united to review the most effective way to provide services for their communities on the Mid North Coast. By working co-operatively they aim to ensure that they have the strategic capacity and the economic scale to effectively provide services.

Background

MidROC member councils have been involved in a process of looking at options for regional service provision on the mid north coast for several years. Initial investigations indicated that there were potential scale and scope. A report by KPMG at a high scale indicated the following potential efficiency benefits opportunities with a ROI of between 185% and 487%.



It is proposed that Bellingen, Gloucester, Kempsey and Nambucca Councils progress an arrangement for sharing service delivery.

The Objectives of the Review will be:

- 1) To identify scale and scope efficiencies from a shared approach and maximize those benefits while minimising negative impacts.
- 2) Review service provision to identify best practice and implement this in all member councils through a range of service structures.

Keys to Success

The model will need to have the flexibility to achieve different scale for different service provision which will lead to measurable net benefits (cash and non-cash) to the members.

It is important that appropriate arrangements are in place that ensures the initial investments are recouped from any members who may choose to leave the services. While participant councils will be required to invest and commit to arrangements for a reasonable period to ensure their investments are covered, the members need to be able to feel there is flexibility to look at other options if they are more cost effective over time.

Councils will need to be committed to working together and be willing to enter into arrangements that benefit the group in total although individually they may receive no benefit. The proviso here is that they also suffer no loss.

Work undertaken to date

Development of initial model and benefits

This process commenced in 2012. The eight member councils of MIDROC commenced discussions on the potential for shared services to improve the ability of the Councils to provide services.

With labour being one of the key variables in achieving efficiencies the staffing details of each member council were combined into a range of models. Span of control were based around best practice ranges identified in the 2014 Commission of Audit undertaken by the Commonwealth Government. These models included one large organisation, medium organisations and variations on separate business units. Each case indicated that there would be some staff number savings. It should be noted that a number of these positions are likely to need to be replaced with technical positions. However it will lead to improved efficiencies and better capabilities to undertake service provision. The estimated value of these positions was \$1.4million per annum. The one large organisation model also showed that there were diseconomies of scale that would occur in some services.

A model was developed and this was presented to all member councils. The model was based around development of a range of shared service business units that would be developed following a full investigation into the best method of service provision and only where it could be shown that an improved outcome would result from regional service provision.

Undertaking an independent review

As a result of this MIDROC commissioned KPMG in 2014 to review what would be required to be put into place to be able to review the services provided by the councils and what were the likely benefits. The report provided a number of options for undertaking service reviews, from a minimalistic approach

to the optimal approach. The ratio of benefits to costs was greatest from the optimal model (ROI of between 185% and 487%).

This report indicated an annual cost of approximately \$1million per annum to establish the review team necessary for an ongoing review of services at the optimal level over a 2-3 year period. The high level of the data gathering and the timeframes for the review meant that only 8% of the expenditure of the group could be analysed. This analysis indicated that between \$1.3 million to \$3.3 million in benefits would be able to be achieved based on the \$33 million reviewed. From this KPMG assessment the grouping of the Belling, Gloucester, Kempsey and Nambucca would be expected to achieve benefits in the range of \$3.8 million to \$10.5 million.

The report indicated a range of priority areas where KPMG were of the view that the councils working together would achieve benefits. They identified benefits in working regionally as coming from:

- Corporate and Support Services – Transactional services: Benefits through increased specialisation and centralisation of functions, exchange of best practice, process standardisation, consistency and continuous improvement.
- Corporate and Support Services – Specialist skills: Creation of centres of excellence will optimise workforce utilisation and will develop a sustainable workforce model.
- Specialist Services - Creation of centres of excellence. Optimisation of workforce and resource allocation.
- Asset Intensive Services - Create centres of excellence. Increased efficiency through process and operations improvements. Maximising asset utilisation.

Post KPMG report activity

Following the completion of the report a discussion on the position of the councils indicated that Belling, Gloucester, Kempsey and Nambucca were interested in progressing the option of shared service provision. These councils have been undertaking further investigation into the potential benefits.

The current staffing structures of the participating councils were reviewed looking at the best practice spans of control to see whether there would be expected efficiencies to be gained. This process indicated that a process of reviewing regional service delivery options may lead to a reduction of around 12-17 positions from the management structure. However many of these would likely be replaced with technical positions. It is expected that this will still provide significant benefits, even if not in cash terms, through the better use of the technical skills that exist throughout the organisations. From Gloucester's perspective the ability to provide succession and relief staffing plans for senior and technical employees is of significant benefit. The transfer of efficiency generated resources to higher level functions enhances scale and capacity.

MIDROC's subgroup and KPMG both looked at the benefits of a shared approach to purchasing, indicating a range of 4% to 15%. Without the larger councils participating, it is expected that the benefits would be at the lower end of the range. A 4% saving would still equate to savings in the order of \$2.5 million for the group.

	Bellingen	Gloucester	Kempsey	Nambucca	Total
Minimum Savings	\$550,000	\$272,000	\$995,000	\$737,000	\$2,554,000

Further to this, each council's controllable expenditures shown in the financial statements were assessed. Based on the controllable expenditure, the above savings would equate to a 3% overall saving.

Individual service data from the participating councils was reviewed against the level of savings to indicate the potential benefits and how they would likely eventuate. This case by case review indicates the following:

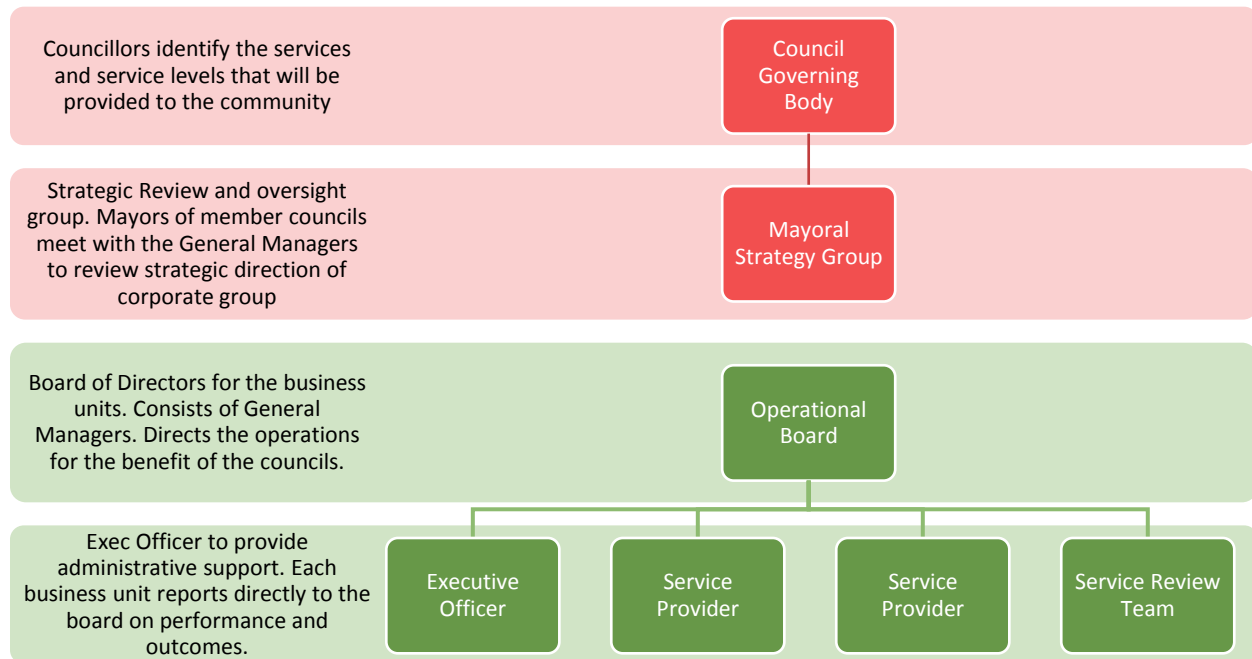
	Cash	Scale Efficiency	Best Practice Efficiency	Not Achievable	Total Savings
Minimum Savings	\$700,000	\$500,000	\$800,000	\$560,000	\$2,000,000

This indicates that the information provided by KPMG is reasonably likely to provide benefits in a range of ways, with reduced costs likely to be a small portion of the overall benefits. The bulk of benefits will come through better ability to provide services to the communities.

Governance Structure

To allow for shared services to be provided an appropriate governance structure will be required. The ability to establish a separate corporation under the current or future Local Government Act will need to be determined. The structure, controls and any shareholding can then be finalised, with the General Managers directing the operations of the business units.

The agreed governance structure will consist of service providers who will be providers of the services requested by the member councils. It will not have a strategic lobbying or decision making role. Neither does it set the service levels that it provides. A conceptual model follows:



Following the reviews, services could be provided by individual councils directly or regionally by two or more councils. An appropriate control unit would be established to provide services jointly. The management board once determined will have responsibility for the provision of services as agreed with the individual councils. The new organisation is to focus on the operations of providing services, leaving regional collaboration to Joint Organisations and determining services required to councillors in their own council bodies.

A mayors group will be established to review the strategic direction, including the priorities for service review areas.

Next Steps

Allocations have been made in the 2015/16 budget by Gloucester Council and the 3 other councils. Kempsey Shire Council has allocated \$700,000 as well as seconding senior staff to the service review. Meetings have occurred with Lake Macquarie Council to learn from their process of service review. It is proposed that the reviews will be undertaken in accordance with the ACELG framework.

Discussions are currently underway between the General Managers of the 4 councils to draft the governance arrangements, plus details of the shared service and audit and efficiency group to allow for the matter to be progressed further for Council consideration. Already identified are those areas of priority to start that would provide underpinning services for any shared service provision. At this stage

the initial reviews could cover information technology services, finance and human resource management.

The member councils will enter into an agreement to formalise the arrangements and commence working through the service review process. It is likely that a company will need to be established for the provision of the shared services. This has been identified through the MIDROC investigations as the most suitable corporate structure to achieve the outcomes desired.

Details of the Group

The group of councils services 66,000 people using 648 staff and revenue of \$151million. Working together gives the group members equivalent strategic capacity to the 15th largest councils in rural NSW. The size of the budgets for road maintenance and construction would make this the largest local government operation in NSW.

Together the Councils will manage a large portfolio including 3,214km of road, 865 hectares of land, 39 halls, 9 libraries and 9 pools. Over 700 development applications per year will be assessed and 430,000 items will be borrowed from libraries.