

Appendix C – Regional Cooperation Plan Outline



Reviewing Service Delivery

Finding the best way to provide services possible

Fit for Future Submission
supporting information

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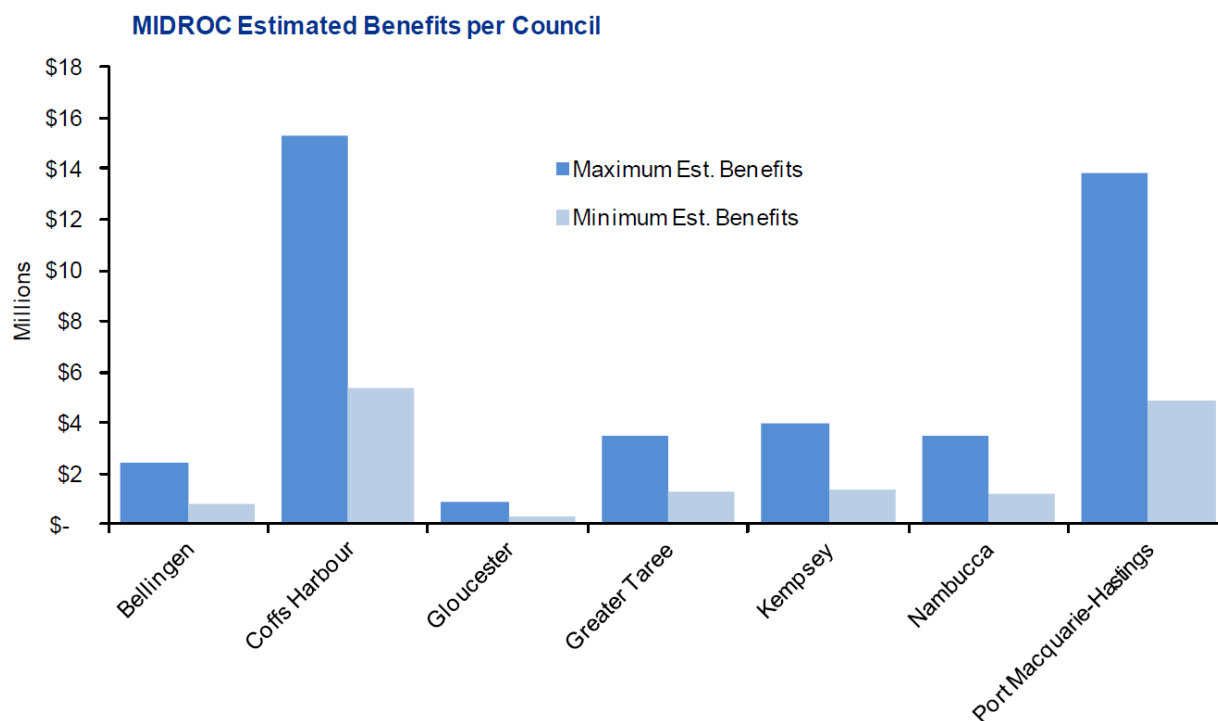
Executive Summary

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

The Councils will

Highlights

The 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%.



Objectives

- 1) To find the scale and scope efficiencies that are available and maximize those benefits while minimising negative scale and scope impacts.
- 2) Review service provision to identify best practice and implement this in all member councils through a range of service structures.
- 3)

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.

Arrangements must be in place that ensure that the initial investments are recouped from the members before they leave the services. While partners will be required to invest and commit to arrangements for a reasonable period to ensure investments are covered by the partners the members need to be able to feel there is flexibility to look at other options if they are more cost effective over time.

Partners will need to be committed to working together and being willing to enter into changes where benefits have been identified and where at while no cost to themselves exists benefits will flow to others in the partnership.

Work undertaken to date

Development of initial model and benefits

This process commenced in 2012. The eight councils that consisted 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, three 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 is likely to 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 were 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 to \$3.3million in benefits would be able to be achieved based on the \$33m reviewed. Based on the KPMG assessment the grouping of the Bellingen, Gloucester, Kempsey and Nambucca would be expected to achieve benefits in the range of \$3.8million to \$10.5million.

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 Bellingen, 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.

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 \$2.5million 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 was assessed. Based on the expenditure shown in the financial statements that the Council can control, the above savings would equate to a less than 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:

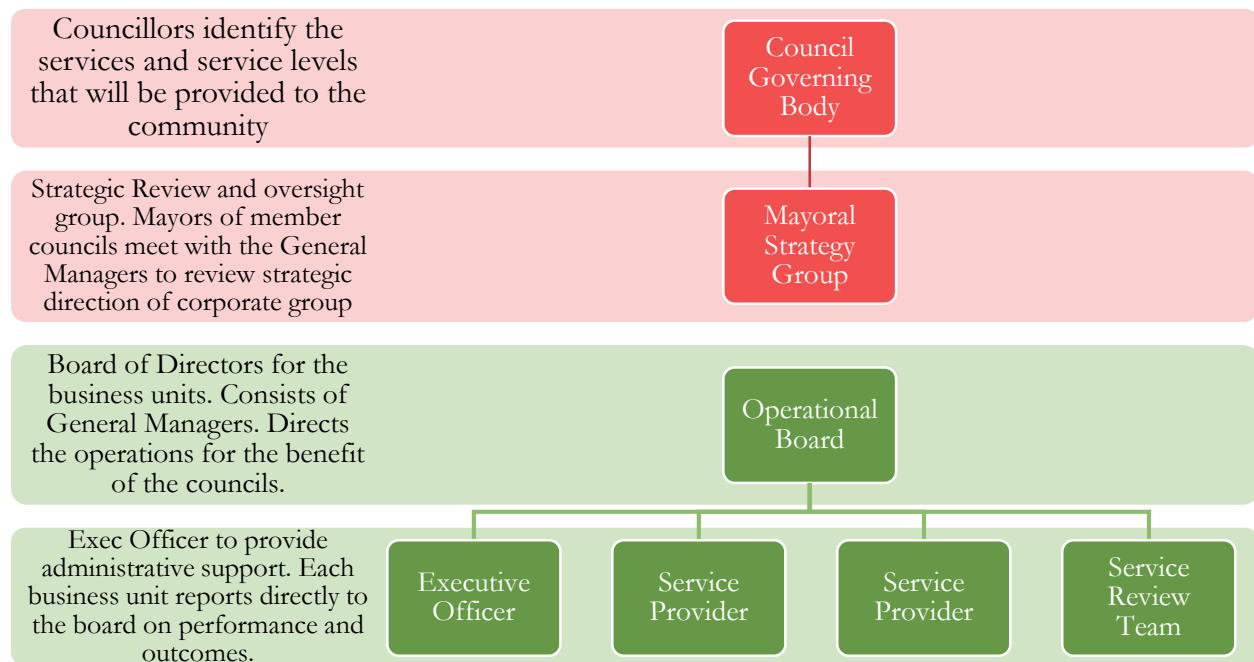
	Cash	Scale Efficiency	Best Practice Efficiency	Not Achievable	Total Savings
Minimum Savings	\$700,000	\$500,000	\$800,000	\$560,000	\$2,000,000

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 it is planned to establish a separate corporation. The member councils will be the shareholders of the company and will appoint the General Managers to direct the operations of the business units.

The corporation will consist of service providers who will be providers of the services requested by the member councils. The Corporation does not have a strategic lobbying or decision making role. Neither does it set the service levels that it provides.



Following the reviews services could be provided by individual councils directly or regionally by two or more councils. A corporation would be established to provide services jointly. The corporate board will have responsibility for the provision of services as agreed with the individual councils. The Corporation 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 of the Company, including the priorities for service review areas.

Next Steps

Kempsey Shire Council has allocated \$700,000 in the 2015-16 Operating Plan to progress service reviews. Staff to be seconded to the service review team have met with Lake Macquarie Council to discuss their process of service review to get a greater understanding of the best way to undertake the reviews. The reviews will be undertaken in accordance with the ACELG framework.

Discussions are currently underway between the General Managers of the councils to draft the governance and details of the shared service and audit and efficiency group to allow for the matter to be progressed. Discussions have identified that areas of priority to start are those areas that would provide underpinning services for any shared service provision. As such it will be recommended that the initial reviews 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 expected that a company will be established for the provision of the shared services as 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.