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Local government operational and management effectiveness report – FY15

Whakatane District Council

*PwC and Local
Government
Professionals
Australia, NSW*

29 February 2016



pwc

Foreword



Stuart Shinfield
Partner
PwC

As PwC enters our third year of this collaboration with Local Government Professionals, it is very exciting that we have continued to grow the study, and to innovate. Our involvement with the Association, and our knowledge of council operations, continues to deepen, which is helping us to constantly create more relevant findings and insights.

The new Service Delivery section of our report represents a breakthrough moment. Since establishing this program, we have been intent on reaching the point where we are able to provide specific, actionable comparisons to help understand key management issues at the operations level. In this pilot, we have provided never-before-seen insight into Local Government service delivery. The foundation that we have built gives us an amazing platform for future development, and I am very thankful to the 34 councils that agreed to participate in this pilot.

We welcomed NZ councils to the study for the first time this year, and the introduction of this group to our data set brings a fresh perspective for all participants. We trust that our NZ participants will find valuable insights as they use the information in this report, and to access the Council Comparative Analytical Tool on the web, for the first time.

Once again, council staff have been tremendous in the way they have supported the collection and submission of data, and senior leaders in councils have provided technical leadership so that our study can be relevant and accurate. Our objective to always provide consistent, reliable calculations has been made possible by the support of council leaders in our technical working groups.

We have arrived at a critical point for local government, particularly in NSW. The council amalgamation agenda of government means that, for many councils, having reliable, consistent, comparable data at your fingertips has never been more important. We are very pleased to support leading councils to achieve just that through this study, and the Council Comparative Analytical Tool that we host.

The team and I look forward to another year of growth and innovation in Local Government Comparative Analytics.



Annalisa Haskell
CEO
LG Professionals
Australia, NSW

This third report is an exciting milestone in our Programme's development. This is not only because it is number three in our initial three year round of comparative analytics, it is also our first report for the 26 additional New Zealand councils who joined us in 2015.

Additionally, it is the report whereby further exciting enhancement was made with the help from the sector. We took a big step forward in the capture of a significantly new pilot data set, that will not only benefit those who participated, but also the future design and shape and power of the Programme itself. A huge thanks goes to the industry working group members who spent time working on the methodology and also the 34 NSW councils who participated in the pilot, we are now in a position to successfully provide you a view on councils' services in more depth.

As with other stages, the sector has again been not only a participant but also involved in the design of the content so that the approach is practical and relevant. These councils can now go down a further level in their comparative performance measurement and we have helped to answer some of their questions such as:

- Does our council service mix look different to the sector?
- Are our council's costs of service delivery in line with other similar councils?
- Are the relative proportions of council's direct workforce costs vs. total council service costs similar or different?
- What does the future picture of outsourcing look like?

We remain committed to developing this as a world class vehicle for robust council self-assessment, as well as an essential business tool for communicating internally and externally. It will continue to be adaptive and flexible as the sector's needs change all the while, also remaining consistent in its framing tracking so that all councils can easily see their changes and trends.

We are also very proud to announce that our association has now launched a new LG Awards category dedicated to this Programme that we will judge each year for councils involved in the Programme and also continue to build a strong trans-Tasman network of professionals dedicated to supporting each other drive operational and management excellence forward with us in partnership – so local government becomes the leading government.

NZ FY15 local government highlights

5.4 FTE
per 1,000
residents

Workforce profile

Among council participants in NZ, overall headcount has grown by 2.8% in FY15. For NSW participants, headcount has remained stable. In NZ councils, there are 5.4 FTE per 1,000 residents, compared to 8.2 in NSW councils.

Span of control

NZ councils have a median span of control of 3.8 'other staff' per manager. In comparison, NSW councils have a median span of control of 3.5 'other staff' per manager.



Gender diversity

Women comprise 57% of the overall workforce in NZ participating councils, compared to 41% in NSW councils. In NZ councils women are better represented within the leadership levels, with a median of 33% female CEs and directors, compared to a median of 20% in NSW councils.



Gen Y turnover rate

41% of the NZ workforce are baby boomers and approaching retirement age. As Gen Y staff enter the local government workforce, they often don't stay. Gen Y turnover rate is 33%, compared to 14% for Gen X and 12% for baby boomers.



Management development training

NZ councils spend substantially more on training than NSW councils, with a median of NZ\$1,539 per FTE, compared to an equivalent of NZ\$973. However, 54% of NZ councils are offering formal management development training, compared to 78% of NSW councils.



Pipeline of female employees

NZ councils are actively building the pipeline of the female leaders. Female managers were promoted at twice the rate of male managers in NZ councils in FY15, with a promotion rate of 7.8% among female managers, compared to 3.9% for male managers.



Succession planning

Only one NZ council has a succession planning program in place, compared to 20% of NSW councils, yet 42% of CEs and 34% of directors will have the option to retire in ten years.



NZ FY15 local government highlights



Role of finance

92% of NZ councils have a CFO who is part of the senior leadership team, compared to 59% of NSW councils. Business insight activities consume 34% of finance effort among NZ councils, compared to 20% in NSW councils.

Forecasting and reporting financials

92% of NZ councils report financials to the leadership team on a monthly basis. However, 73% of NZ councils formally forecast performance to budget.



Formal IT strategy

39% of NZ councils have a formal IT strategy in place, compared to 62% of NSW councils. In addition, 12% of NZ councils rate their IT systems as effective, compared to 29% of NSW councils.

39%

IT priorities over the next three years

NZ councils are focusing on automating service delivery (61%), incorporating mobile technologies (46%), and maintaining/upgrading systems (31%). We can also see 30% of NZ councils ranking analytics and BI tools as a priority.



Outsourcing or sharing corporate services

NZ councils focus on outsourcing or sharing legal (85%), IT hosting and support (61%), and customer service call centres (50%). Opportunities lie in procurement, with 31% of NZ councils (compared to 54% of NSW councils) outsourcing or sharing this area.

Council meetings

NZ council meetings have a median duration of 159 minutes (2.7 hours), producing a median of 19 resolutions. In comparison, NSW council meetings have a median duration of 145 minutes (2.4 hours), producing a median of 23 resolutions.



Service delivery

We have reached an important milestone in this project with the launch of our new service delivery section. This new analysis has been established as a pilot and provides councils with a better understanding of the relative size, shape, costs, and method of delivering various services.

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Asset Management (NZ only)

Appendix

Sharing results with third parties

This report has been provided to each participating council so that a participating council can understand how it compares to the aggregated findings and for no other purpose. The report is intended for the participating council recipient only.

This report, including all data and comparative insights contained in it, is confidential to PwC and the participating council. Except as set out below, the report should not be disclosed in whole or in part to another person unless agreed with PwC and the council.

As agreed in the survey agreement with the participating councils, each participating council is permitted to share the report with third parties as part of a council meeting, on a council website, or with other Participating Councils provided it is shared in its entirety and the following words are included with the report when the report is provided:

“The information, statements, statistics and commentary contained in this report are of a general nature and have been prepared from data provided by Participating Councils. The reliability, accuracy or completeness of this information has not been independently verified.

Accordingly, whilst the statements made in this report are given in good faith, no one should act on the basis of this report without obtaining specific advice and neither LG Professionals, NSW nor PwC accepts any responsibility for the consequences of any person’s use of or reliance on the report (in whole or in part) or any reference to it.”

Methodology

PwC and LG Professionals, NSW are pleased to release the third round of the Local Government Operational and Management Effectiveness Report. This year we welcome 26 New Zealand councils to our study.

The results of the survey predominantly focus on the 2014–15 financial year. This report is the culmination of the initial three-year research plan, throughout which participating councils complete annual surveys and receive findings and meaningful comparisons that focus on operational and management excellence. We are delighted to confirm our second three-year research plan and we hope you will join us for Rounds 4 to 6 of the Local Government Operational and Management Effectiveness study.

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. The process we undertook to produce this customised insights report for each participating council is outlined below.

How the report was produced:

	Survey	<ul style="list-style-type: none">• 79 NSW and 26 NZ councils participated in the third 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	<ul style="list-style-type: none">• The survey for the 2014–15 financial year was launched in August 2015, 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 feedback 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.
	Service Delivery Pilot	<ul style="list-style-type: none">• 34 NSW councils volunteered to participate in a second round of data collection in November 2015 to enrich the existing data set with service delivery information.• Throughout this pilot, we were able to test and refine the services methodology. Based on the success of this round, our intention is to include this in the main study in subsequent years.
	Analysis	<ul style="list-style-type: none">• Once the data collection period finished, the PwC analytics team began its extensive analysis of the data set.• To enable relevant comparisons, we adjusted financial data for NZ councils to reflect AUD\$ using the average NZ exchange rate across FY15.• 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 and data explorer website	<ul style="list-style-type: none">• The survey results reflect the 2014–15 financial year, based on data collected from all 105 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.• Councils that have subscribed to the Council Comparative Analysis Tool (CCAT) will be able to further explore, filter, compare and extract key metrics.

Disclaimer:

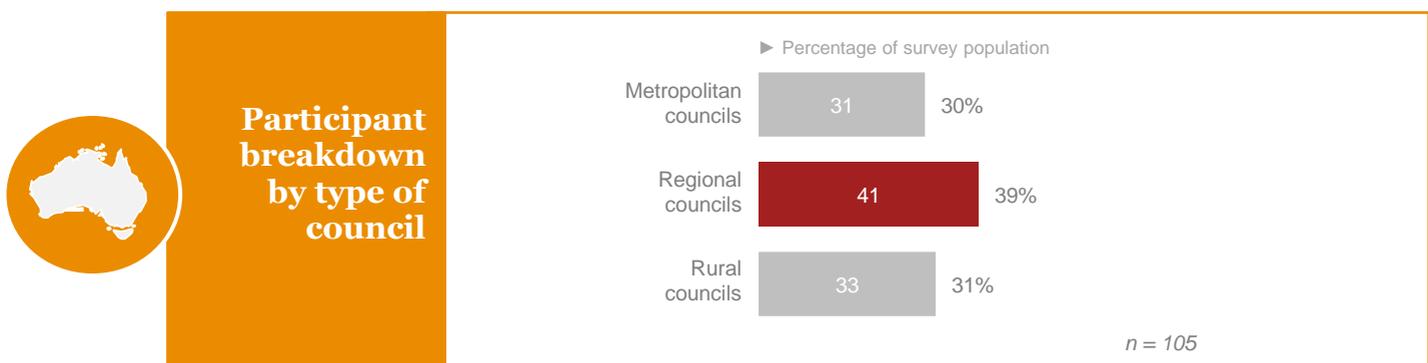
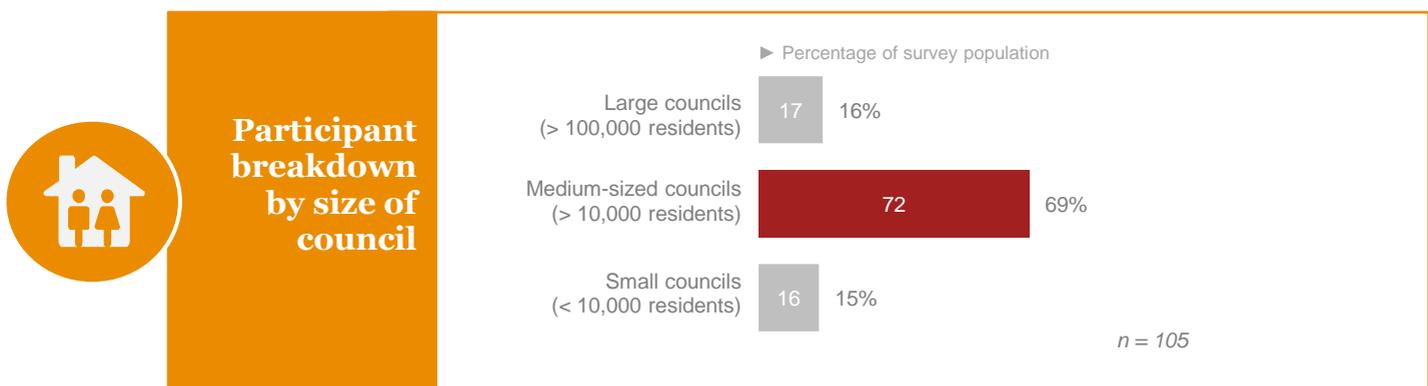
PwC has not verified, validated or audited the data used to prepare this insights report. PwC makes no representations or warranties with respect to the adequacy of the information, and disclaims all liability for loss of any kind suffered by any party as a result of the use of this insights report.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

Survey population

This insights report is based on data from 105 councils across NSW and New Zealand. 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 estimated 2014 resident population provided by the Australian Bureau of Statistics (for NSW councils) and the 2013 census resident population provided by Statistics New Zealand (for NZ councils). 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.

To group councils into metropolitan, regional and rural classifications, we used the Office of Local Government comparative information NSW Local Government 2013-14 time series data report (for NSW councils). In this report, NSW 'metropolitan' and 'metropolitan fringe' are both reported as 'metro', and NSW 'large rural' and 'rural' are reported as 'rural'. SOLGM provided guidance on the mapping of NZ councils.



Understanding this report

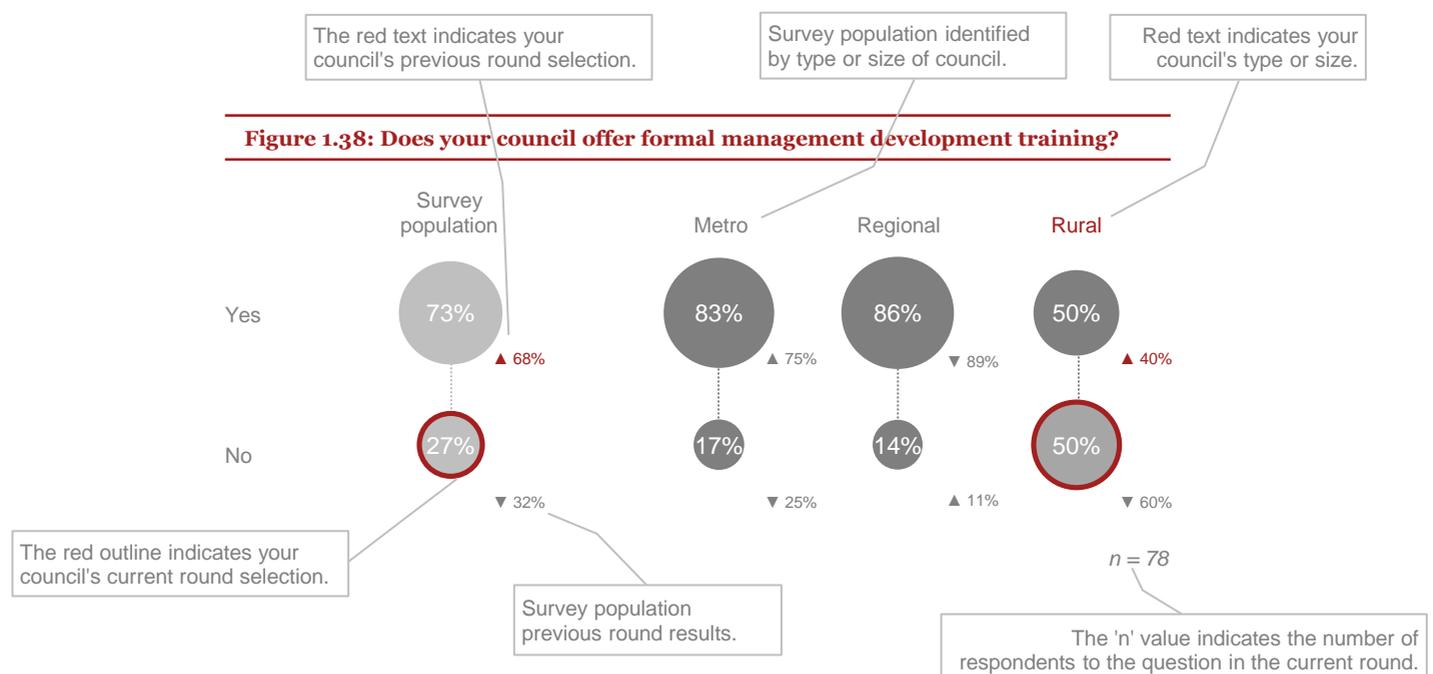
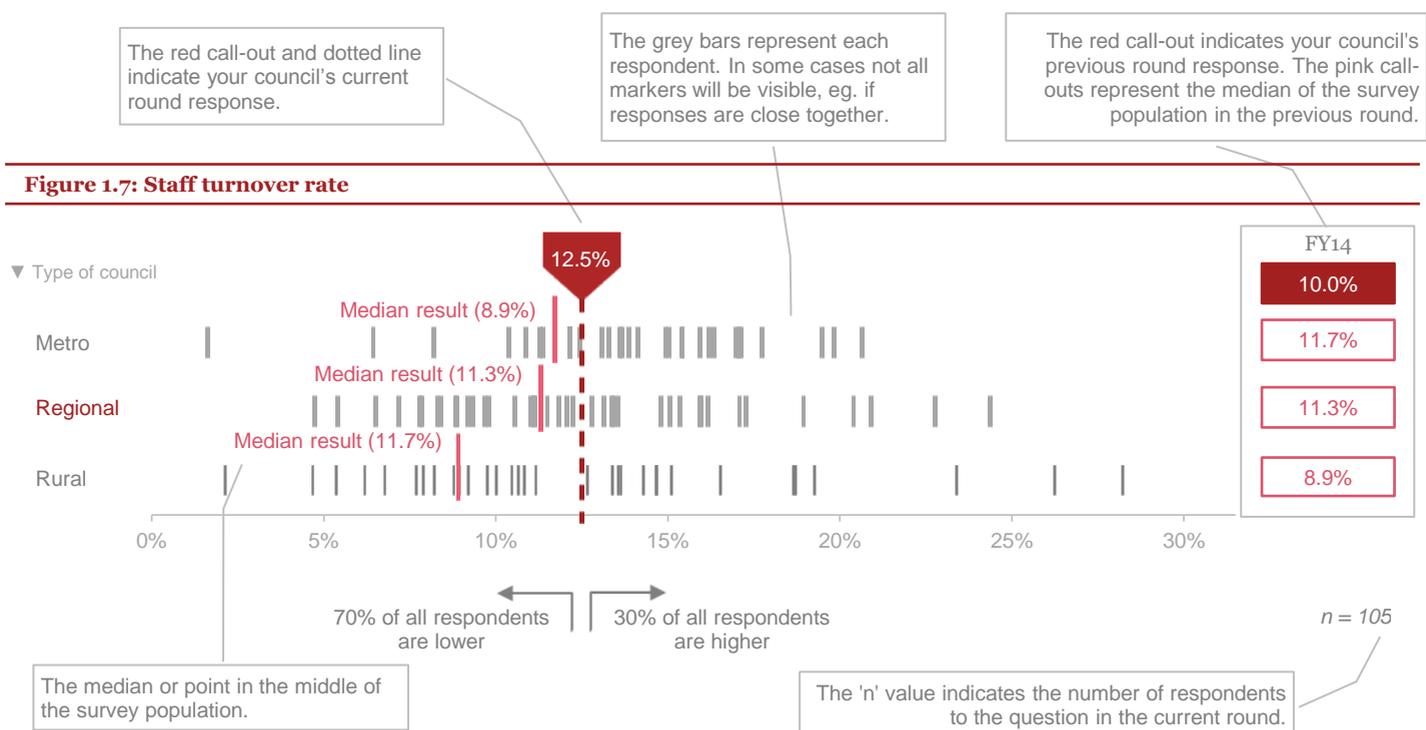
PwC and LG Professionals, NSW's Operational and Management Effectiveness Report FY15 is customised for individual survey participants. All charts within the report represent the individual council's results relative to the sample population that responded to that particular question.

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.

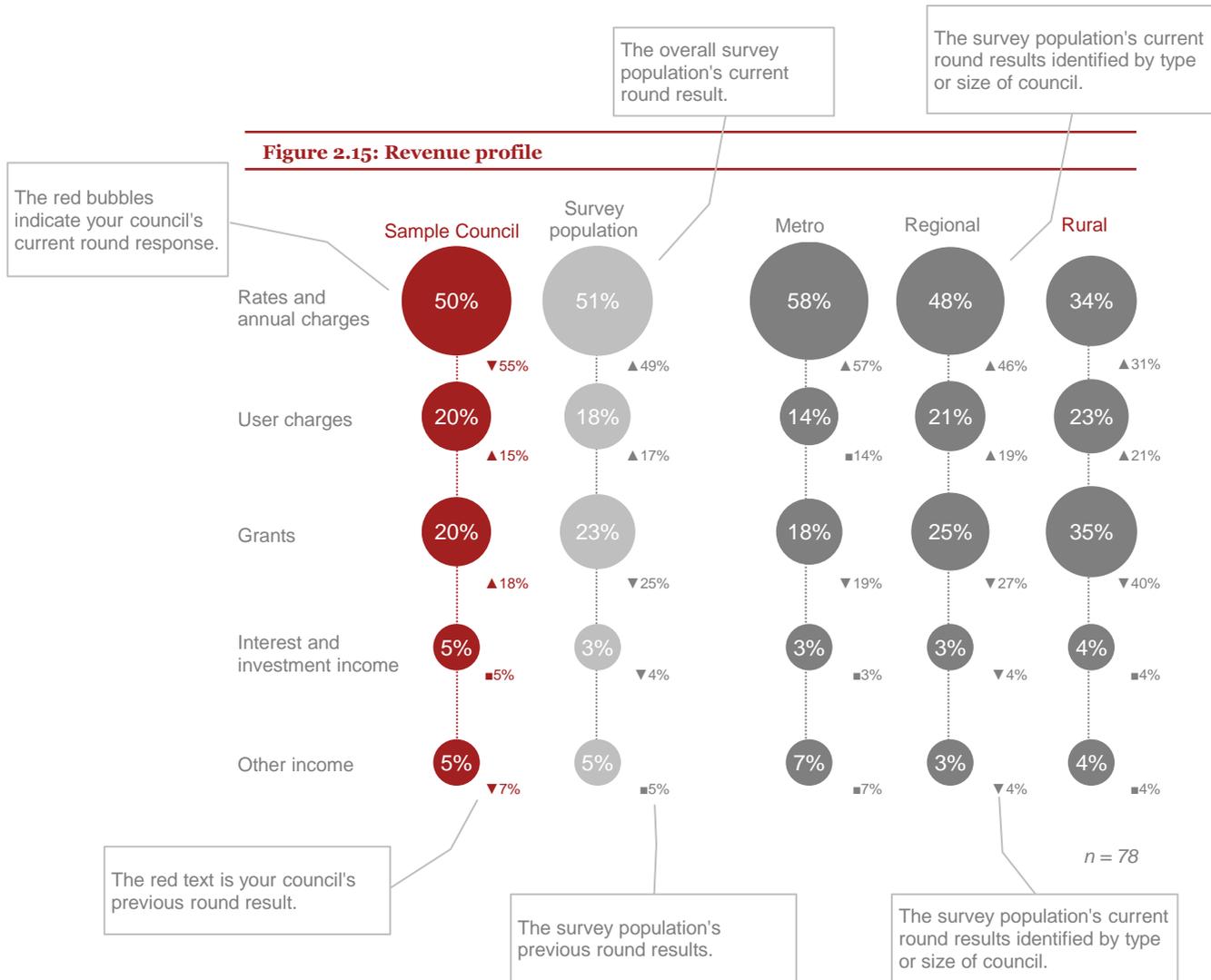
For each response to a question, your council's input is displayed in **red** (indicated by the legend). To help you understand changes from the previous report, the majority of charts within this report also show the results from the 2013–14 financial year (Round 2) for your council and the survey population.

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

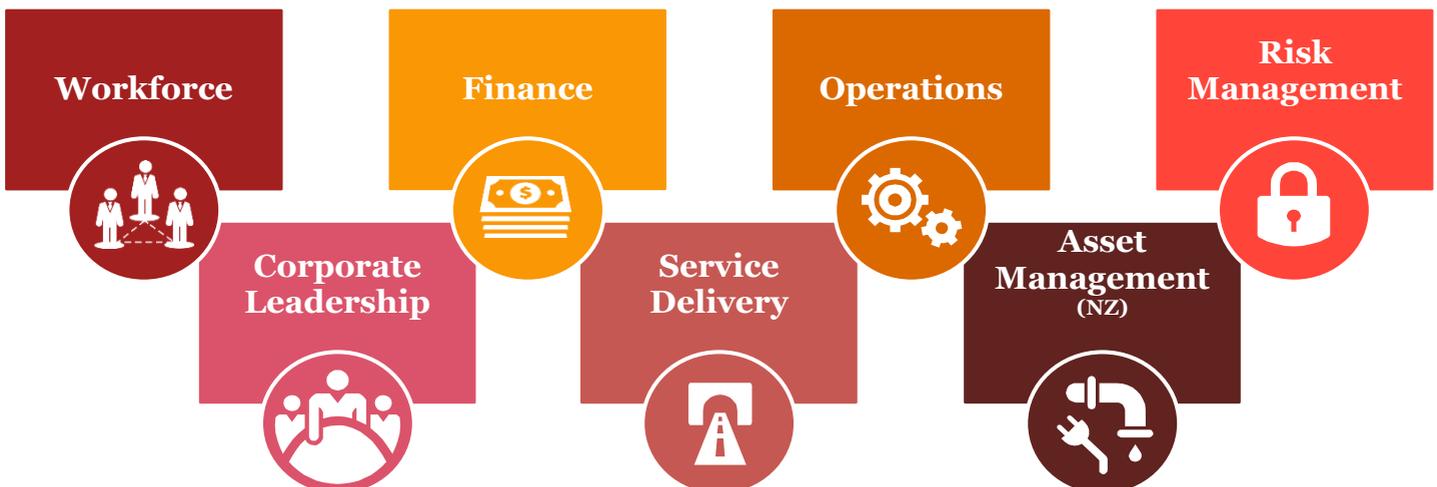


Before reading this report, it is important to note that it is not an in-depth customised analysis or review of each council's business operations. Instead, it reflects your council's survey results in relation to the total sample.

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 businesses – and in some cases international businesses – 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



Whakatane District Council's workforce profile at a glance

34,600 population

Regional council



How did your headcount and employee costs change from FY14 to FY15 ?

1.0%

Decline in headcount



-0%

Growth in employee costs



Who joined and who left your council during FY15 ?

16% Staff turnover rate



32 New starters

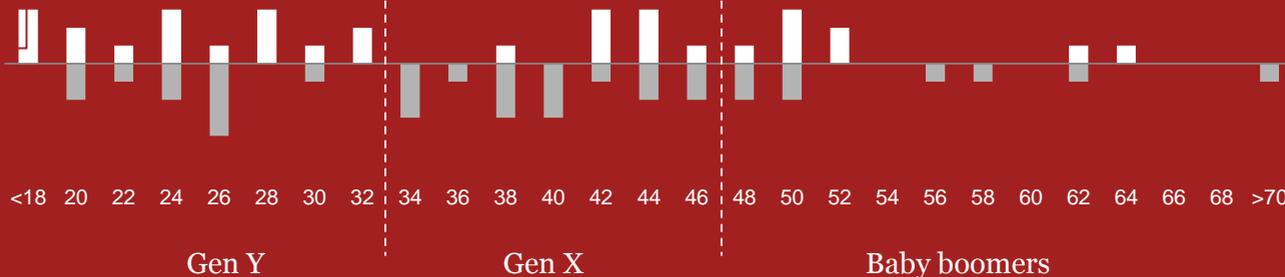


33 Leavers



New starters

Leavers



Does your council have a gender-diverse workforce?

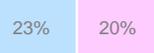
55% of your employees are women



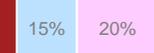
28% of your employees at manager level and above are women



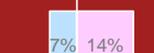
Baby boomers (1943-1966)



Generation X (1967-1980)



Generation Y and younger (post 1980)



GM/CE and Director



Manager



Team leader



Supervisor



Other staff



■ Male ■ Female

Workforce trend summary

Whakatane District Council

Metric	Council	FY13	FY14	FY15	Change from FY14 to FY15
1. Remuneration as a percentage of expenses	Whakatane District Council			22%	
	NZ Survey Population			21%	
2. Overtime as a percentage of salary and wages	Whakatane District Council			0.0%	
	NZ Survey Population			0.8%	
3. Span of control ('other staff' per manager)	Whakatane District Council			4.3	
	NZ Survey Population			3.8	
4. Rookie rate (percentage of new employees in past 2 years)	Whakatane District Council			20%	
	NZ Survey Population			29%	
5. Staff turnover rate	Whakatane District Council			15.9%	
	NZ Survey Population			18.2%	
6. Turnover rate in first year of employment (exc. Casuals/fixed term contract employees)	Whakatane District Council			27.3%	
	NZ Survey Population			16.8%	
7. Gen Y turnover rate	Whakatane District Council			28%	
	NZ Survey Population			33%	
8. Female turnover rate	Whakatane District Council			18%	
	NZ Survey Population			19%	
9. Female managers and above	Whakatane District Council			28%	
	NZ Survey Population			35%	
10. Female promotion into supervisor and above levels	Whakatane District Council			2.7%	
	NZ Survey Population			1.3%	

Workforce trend summary (continued)

Whakatane District Council

Metric	Council	FY13	FY14	FY15	Change from FY14 to FY15
11. Baby boomer employees	Whakatane District Council			43%	
	NZ Survey Population			41%	
12. Gen X employees	Whakatane District Council			36%	
	NZ Survey Population			33%	
13. Gen Y employees	Whakatane District Council			21%	
	NZ Survey Population			26%	
14. Workforce with more than 8 weeks of accrued annual leave	Whakatane District Council			17%	
	NZ Survey Population			7%	
15. Workforce with more than 12 weeks of accrued long service leave	Whakatane District Council			0%	
	NZ Survey Population			0%	
16. Workforce with sick leave taken higher than the median	Whakatane District Council			56%	
	NZ Survey Population			50%	
17. Actual training spend per FTE	Whakatane District Council			NZ \$2163	
	NZ Survey Population			NZ \$1539	
18. Supervisors and above with a formal annual performance appraisal	Whakatane District Council			95%	
	NZ Survey Population			40%	
19. Productivity quadrant	Whakatane District Council			-	
	NZ Survey Population			-	
20. Lost time injury days per 100 employees	Whakatane District Council			11	
	NZ Survey Population			16	

Workforce structure and cost impact

Remuneration

People costs remain a major controllable component of total council expenditure, which is expected given the service-based nature of local government. This highlights the importance of having the right people, with the right skills, in the right service areas, to be able to deliver effective results for councils. Our findings show that the median council employee remuneration, overall, comprises 36% of total expenses, compared to 37% in the prior year. This slight decline is evident in metro councils, while the median result in rural councils has actually increased from 34% to 36%.

It is interesting to note the vast difference between NSW and NZ councils – while the NSW median council employee remuneration represents 38% of total expenses; it only represents 21% for New Zealand councils. This may be explained by either the greater extent of outsourcing of council services in New Zealand, and/or the type of services delivered, for example provision of water by some councils in New Zealand.

When looking at headcount movement between 1 July 2014 and 30 June 2015, we see NSW councils declining marginally by 0.1%, and New Zealand councils growing by 2.8%. The median closing headcount at 30 June 2015 was 288 in NSW councils, compared to 198 in New Zealand councils.



Overtime

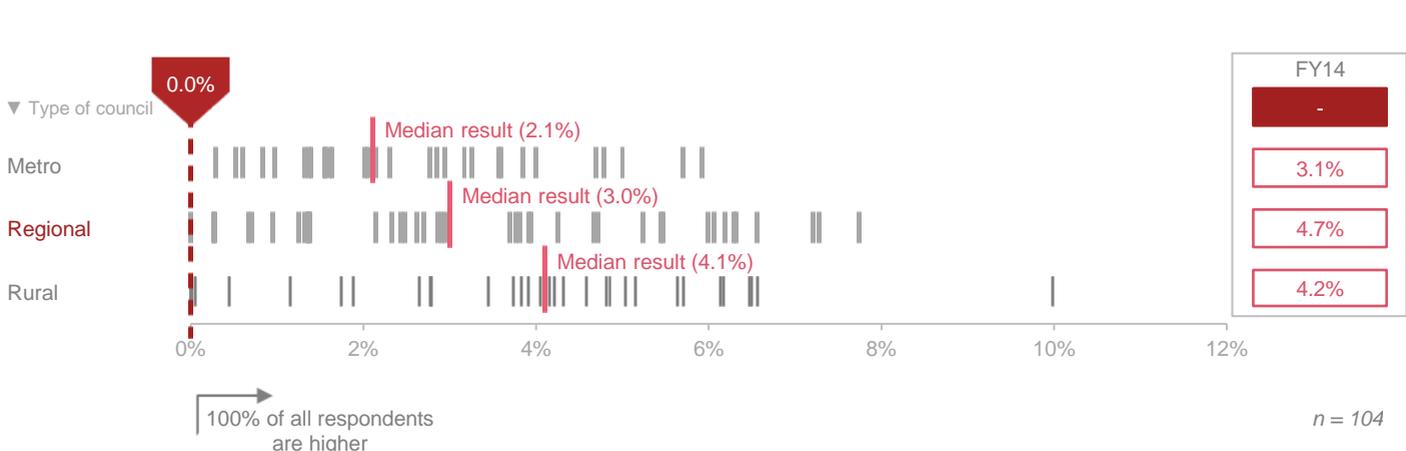
While there are times throughout the year where overtime can be an efficient way to have experienced resources on hand, especially when dealing with seasonal fluctuations in workloads, it is important that overtime is managed carefully to avoid it becoming a drain on council funds.

Our survey shows that the median council spend on overtime for permanent and fixed-term contract employees as a percentage of total salaries and wages, has fallen from 4.1% to 3.1% overall. It is important to note that while the NSW median result has fallen slightly to 3.9% (compared to 4.1% in the prior year), the overall declining result is largely driven by the New Zealand median result of only 0.8%. However, this is likely to be due to the difference in the salary awards across the Tasman. The Council Comparative Analysis Tool (CCAT) provides participating councils with the ability to create their own comparative groups where these differences exist.

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



Survey population | Median | Whakatane District Council

Workforce structure and cost impact (continued)

Agency staff

An additional factor to consider as part of the overall resourcing strategy is the way agency staff are managed within a council. It is important that clear policies and procedures are established regarding the use of agency staff. These, along with the costs incurred, should be monitored regularly to ensure current and future business and resourcing requirements are being managed appropriately.

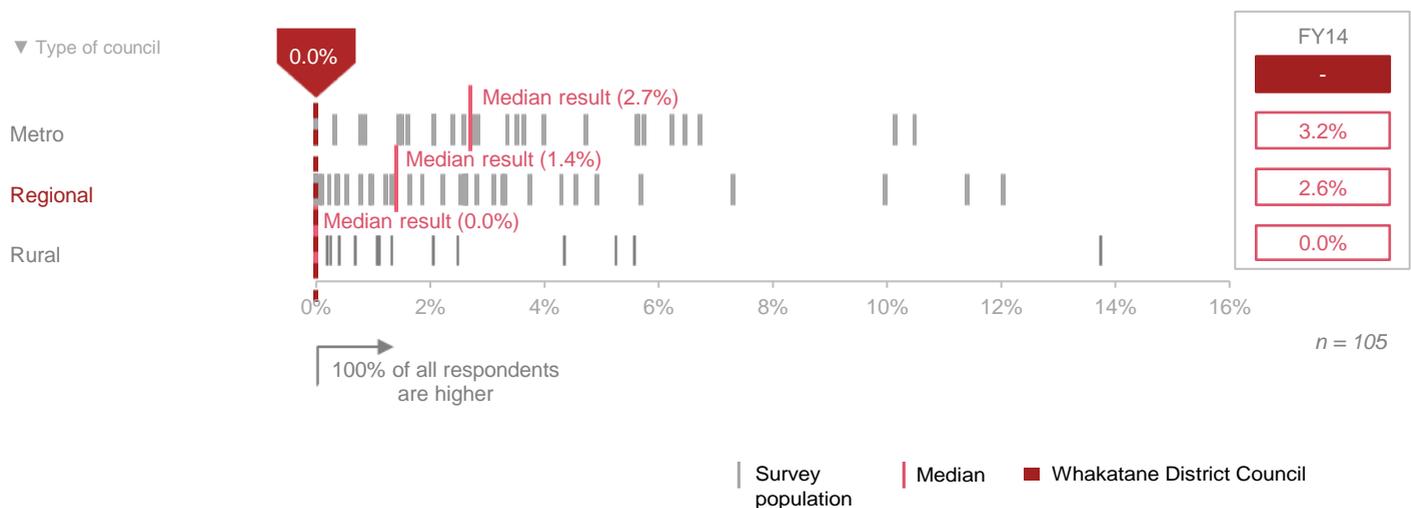
Our survey results show that there is a clear distinction between NSW and New Zealand councils in the use of agency staff. New Zealand councils are far less likely to engage agency staff, with a median spend on agency staff as a percentage of total employee costs at 0%, compared to 2.1% median spend in NSW (up from 1.8% in the prior year).

The ability to access additional resources via an agency (as opposed to using overtime as a way to supplement heavier workloads) is illustrated with metro councils continuing to rely more heavily on agency staff (2.7% median spend) compared to regional (1.4%) and rural councils (0%).

Key considerations

- Are you actively assessing overtime levels by staff level and service area?
- What actions have you recently implemented to deal with excessive overtime levels?
- If you are using agency staff, have you recently reviewed your agreement with your preferred recruitment agencies to ensure you have negotiated the best possible rates?
- Does your council correctly balance the investment in its own workforce with flexible resourcing options?
- Are you building a network of local contingent workers to assist in managing fluctuations in employee workloads?

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



Organisational design

Span of control

The optimal size of management remains an important area of focus when structuring workforce requirements. Local government will be looking to carefully manage costs, improve the speed of decision making, support staff development and, importantly, enhance responsiveness to market changes by having the right skills in place. ‘Span of control’ can be used to monitor management overhead, as it measures the number of employees (‘other staff’ in our survey) as a ratio to the management population. When calculating this metric, we include supervisors and above within the management population.

Our survey reveals that the overall median of other staff per manager has shifted slightly upwards to 3.6 from 3.5 in the prior year. However the results across the different sized councils vary considerably. We continue to see large councils leading the way, taking advantage of their geographic location and scale of operations, with a median result of 4.8 ‘other staff’ per manager (up from 4.6 in the prior year).

While narrower spans of control still exist in medium-sized and small councils, we are observing a move towards marginally better results, with both types of councils slightly increasing the number of ‘other staff’ per manager. The median in medium-sized councils has moved from 3.5 to 3.6 ‘other staff’ per manager over the past year. Small councils continue to have the smallest span of control, with a median of 2.5 ‘other staff’ per manager (up from 2.4 in the prior year). This shows that there are just over 50% more managers in small councils, given the same size of the overall workforce.

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

- Are you building a pool of talented managers who can be used across your organisation to manage larger groups of staff and give you more flexibility in your resourcing?
- Does your council have adequate specialist staff members to deliver the services you have 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

Definition

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

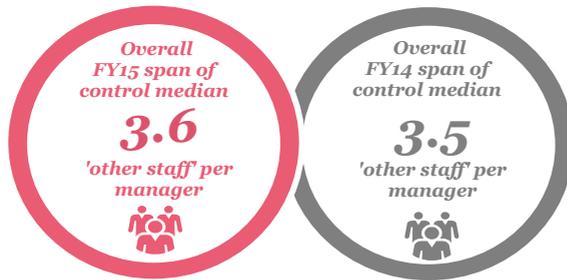
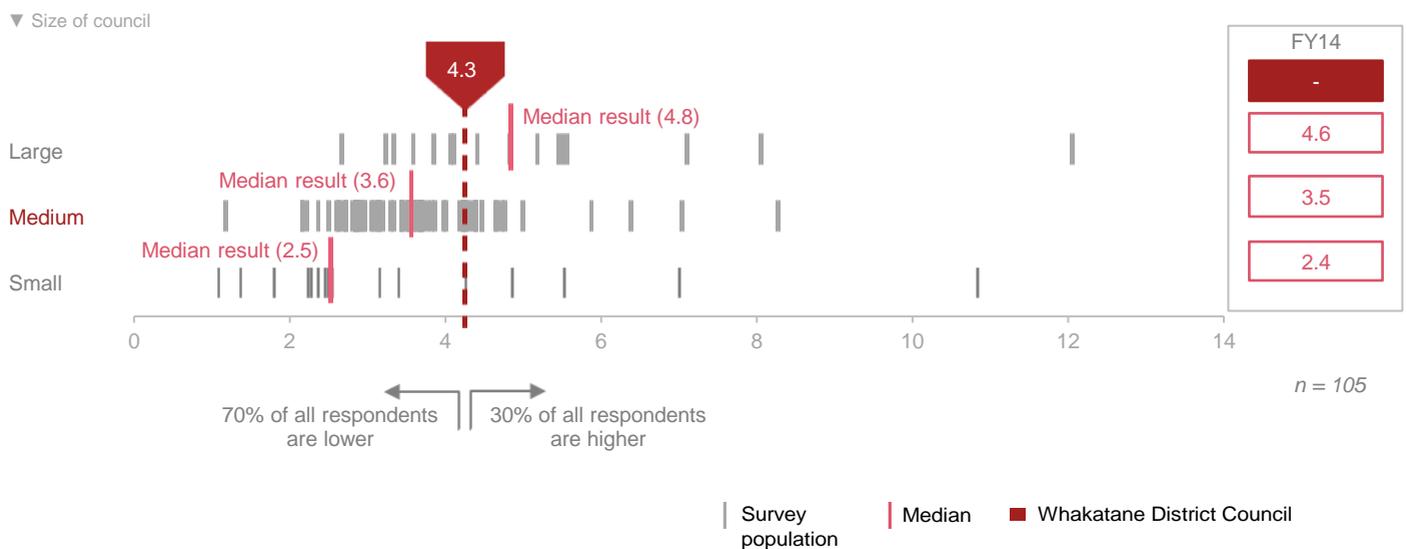


Figure 1.4: Span of control (number of employees per manager)



Don't fall short on new talent

Rookie ratio

The rookie ratio – the proportion of employees who are new to councils – continues to highlight the vast difference in the volume of new talent joining the management ranks, compared to those joining the ‘other staff’ level. For management, the median rookie ratio shows 13% of people in these levels having two years or less experience in a council, compared to 21% of ‘other staff’.

Maintaining a reasonable level of management stability is desirable for retention of organisational knowledge and relevant experience. However, now is the time for local government to embrace new ways of working by fostering fresh, innovative ideas and introducing new, contemporary management capabilities.

The digital revolution is having a profound effect on the shape of an organisation’s resourcing strategy, with a focus on building a dynamic, adaptable and flexible workforce. The skills and talent required in the digital age are more complex. The ability to build a workforce with a willingness to not only embrace change, but to also drive it forward, is placing great pressure on CEOs as they strive to ensure they have the right skills in place to meet future business requirements.¹

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.¹

Key considerations

- Are you carefully considering how you attract the right mix of talent across all areas of the council?
- Are you developing a talent management strategy that responds to market changes, emerging customer needs and digital transformation?
- When recruiting for different roles, do you put enough weighting on generalist skills versus specialist local government skills?

Corporate Services

In our study we focus on four corporate services areas – customer service, finance, HR and IT. Our results show that the median rookie ratio ranges from 21% in HR to 14% in IT. This trend - for HR to have the highest level of new employees - continues, and may be advantageous, given the requirement for focused workforce strategies to be introduced or revised within the local government sector. These strategies may include succession planning, flexible working, inclusiveness and diversity, reward and recognition, and leave management.

The fact that IT has the lowest proportion of new employees of all the corporate services is concerning, given the impact of the digital revolution on work practices, customer interactions, engagement and expectations with council, as well as supplier integration. Councils should be assessing their current talent management strategies in this area, and establishing a structured plan on how best to attract employees with relevant IT skills into local government, 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)

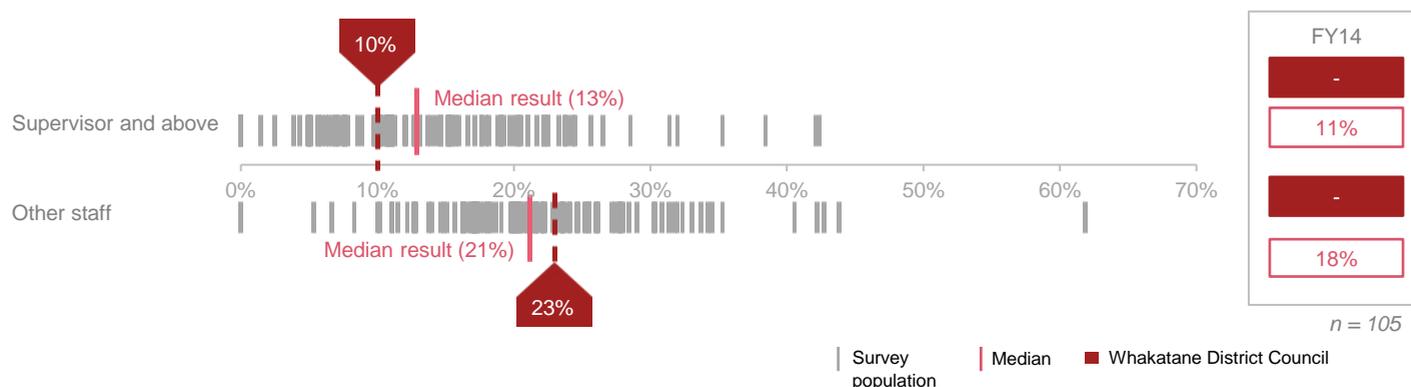


Figure 1.6: Corporate service rookie rate



¹ 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 continues to reveal a low overall median staff turnover rate of 13.1%, albeit a slightly higher result compared to 10.7% in the prior year. This is predominantly due to the higher median staff turnover rate for New Zealand councils of 18.2%, compared to 11.2% for NSW councils. While councils will aspire to achieve a downward trend in the staff turnover rate year on year, councils with a low turnover rate can limit opportunities to promote key internal talent or hire employees with new and diverse skills.

When we exclude fixed-term contract employees from the staff turnover rate, the variance in this metric, between NSW and New Zealand councils, decreases. The NSW median turnover rate becomes 10.2%, compared to 13.3% for New Zealand. This is due to fixed-term contract employees comprising a median of 4.7% of the overall workforce in New Zealand councils, compared to 3.4% in NSW councils.

We continue to see the highest median staff turnover rate in metro councils, with 13.9%. Interestingly, while rural councils plunged to 8.9% in the prior year, they are now more on par (11.2%) with regional councils (12.1%).

Definition

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

Key considerations

- Do you understand which groups of employees have lower levels of engagement and why?
- Do you conduct exit interviews to better understand why your staff are leaving?
- 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?

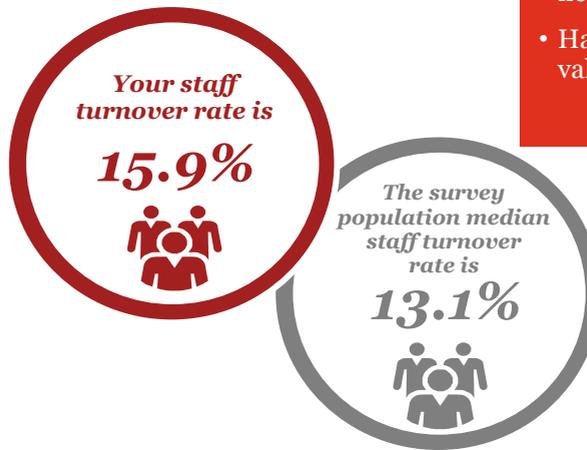


Figure 1.7: Staff turnover rate

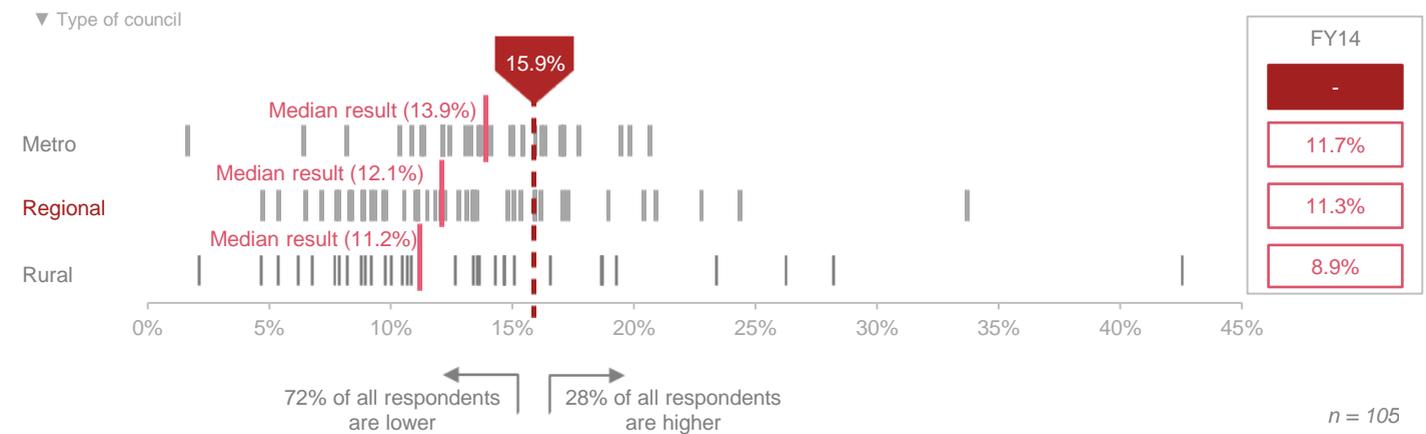
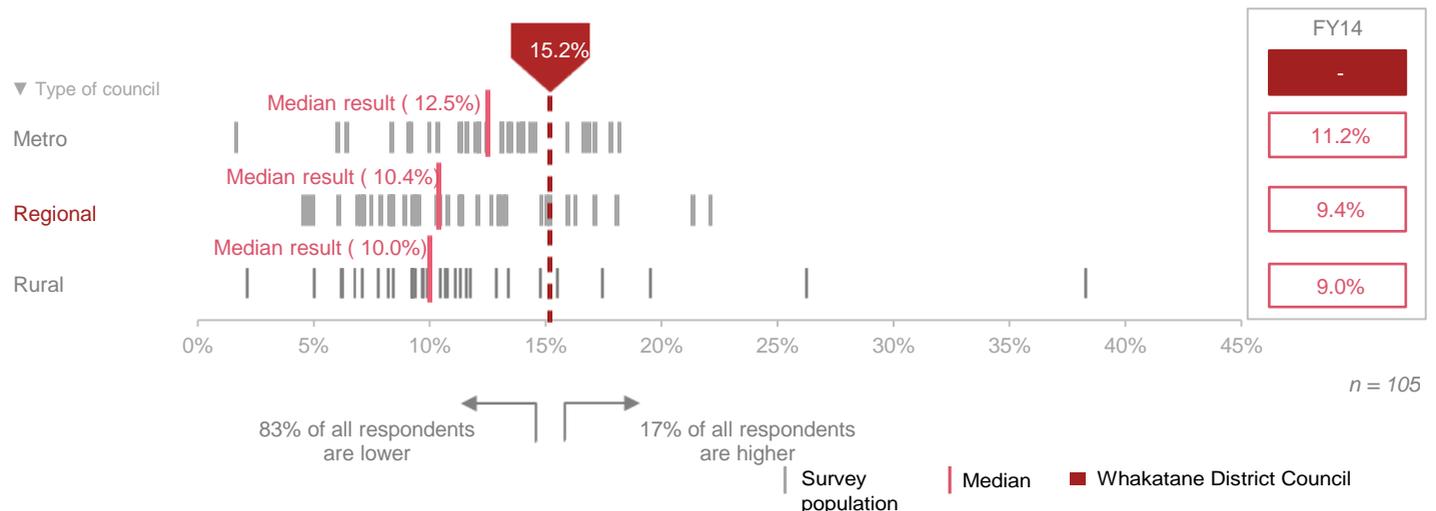


Figure 1.8: Staff turnover rate (excluding fixed-term contract employees)



Turnover rate for employees in their first year of employment

Staff turnover in year one

Our analysis on staff turnover rate goes on to explore the frequency of new employees resigning. Examining the turnover rate in the first year of employment is an indicator of the quality of hire, and the extent to which each role delivers on expectations held by employees. An employee leaving within the first year of employment, whether that is voluntarily or involuntarily, demonstrates a poor fit.

When assessing the staff turnover rate in year one, we have excluded fixed-term contract employees from the calculation. Within our survey, the median turnover rate of employees in their first year (excluding fixed-term contract employees) remains significantly higher, at 17.8%, compared to the overall equivalent turnover rate of 11.3%.

This indicates that retaining new recruits remains a serious issue for local government. Regardless of whether this is unique to the local government sector or not, councils should be examining the reasons behind high turnover in the first year. It is possible that councils are facing a mismatch in their external and internal employer brand, especially when it comes to attracting and retaining newly recruited female and Gen Y employees.

While NSW councils have a lower overall staff turnover rate (excluding fixed term contract employees), compared to New Zealand councils, they actually have a more pronounced retention issue with employees in their first year of employment. The NSW median turnover rate of employees in their first year is 18.4%, compared to a median of 10.2% equivalent overall turnover rate. In comparison, New Zealand councils have a 16.8% median turnover rate of employees in their first year, compared to 13.3% equivalent overall turnover rate.

Metro councils need to be especially more alert to this retention issue of new employees, with a median first-year turnover rate of 25.0%, compared to 14.3% in rural councils. Any council with a high turnover rate for employees in their first year of service should be looking much deeper into recruitment practices and 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.

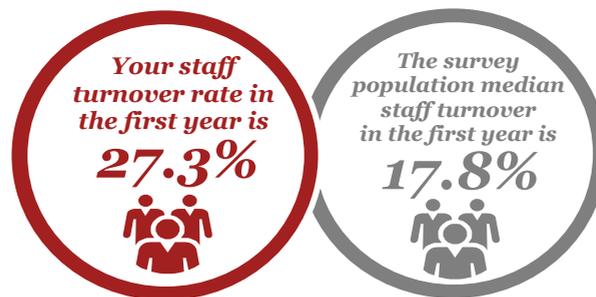
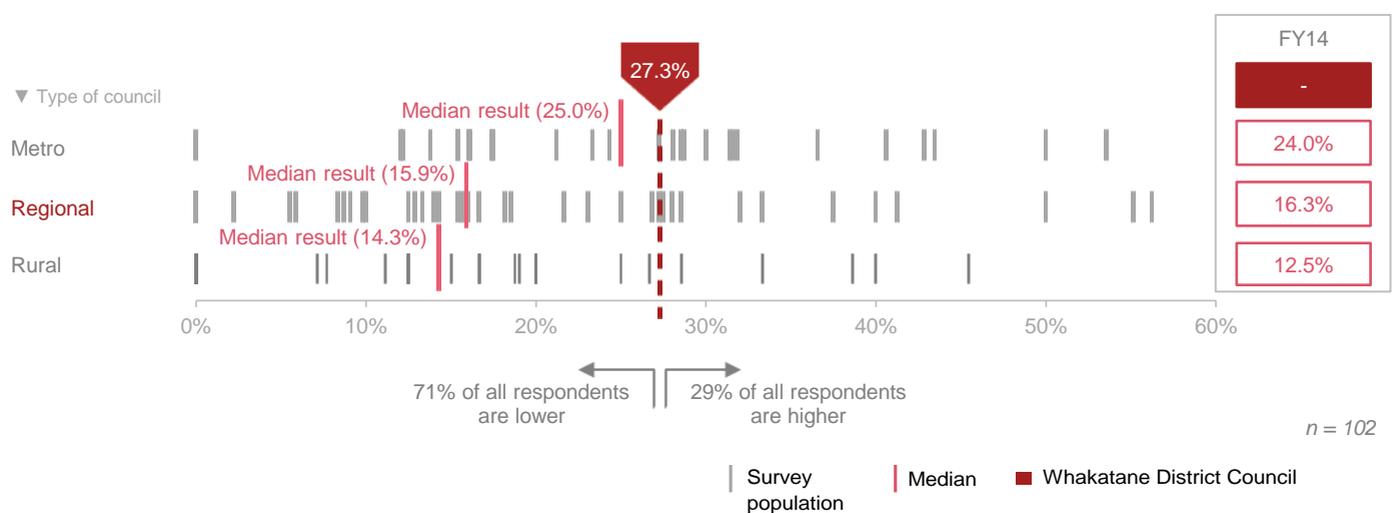


Figure 1.9: Staff turnover rate in the first year (excluding fixed-term contract employees)



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

Female turnover rate in year one

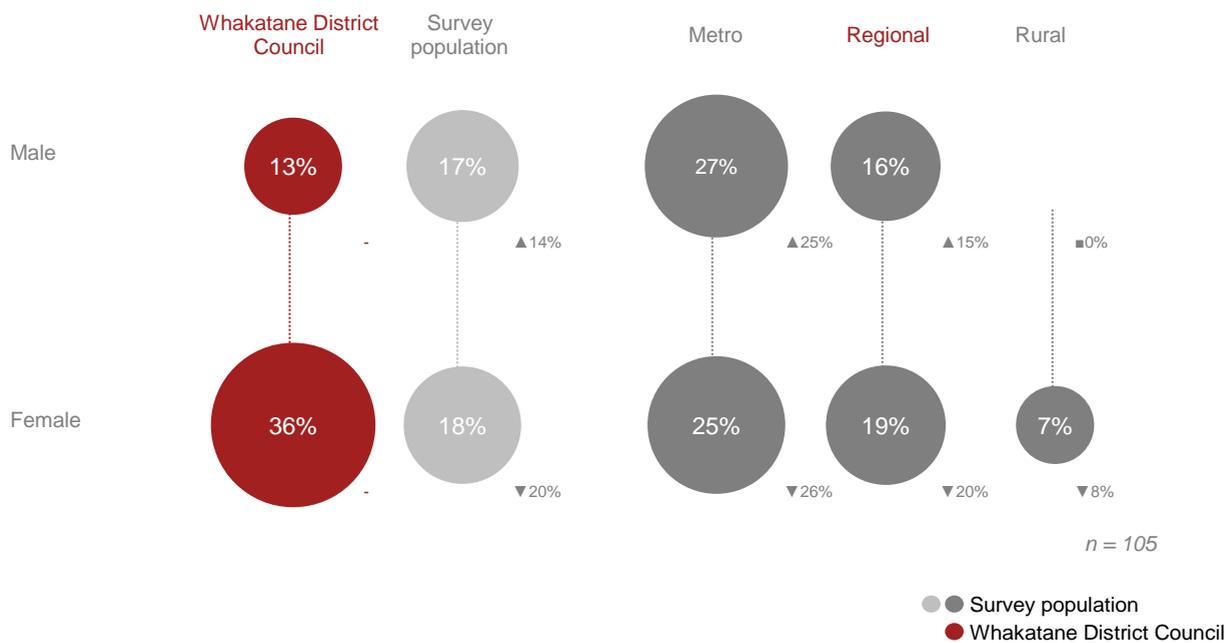
While a year ago, female employees were leaving in their first year of employment at 1.4 times the rate of male employees, we are now seeing a median female staff turnover rate in the first year of 18%, compared to male equivalents of 17%.

NSW councils have seen a decrease in the female year one turnover rate, compared to the prior year, shifting from a median of 20% down to 17.6%. In fact, we now see, in NSW councils, a higher median male turnover rate in year one, at 19.5%, compared to the female equivalent rate of 17.6%. The reverse is true for New Zealand councils, where the median male turnover rate in year one is 12.5%, and grows to 19.2% for females.

Looking at the types of councils, both regional and rural councils continue to face challenges in retaining females in their first year of service, compared to males. However, there has been a shift in metro councils, during the 2014–2015 financial year, as we see newly recruited females leaving at a slightly slower rate compared to newly recruited males.

Metro councils now lose slightly more males (27%, up from 25%), compared to females (25%, down from 26%) in the first year. It is important to also note, that metro councils have a far higher turnover rate in the first year, compared to regional and rural councils.

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



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

Gen Y turnover rate in year one

We performed further analysis on the turnover rate in the first year of service and whether there were any trends within the generations. The results are stark and continue to reveal that all types of councils have trouble retaining Gen Y employees in their first year of employment.

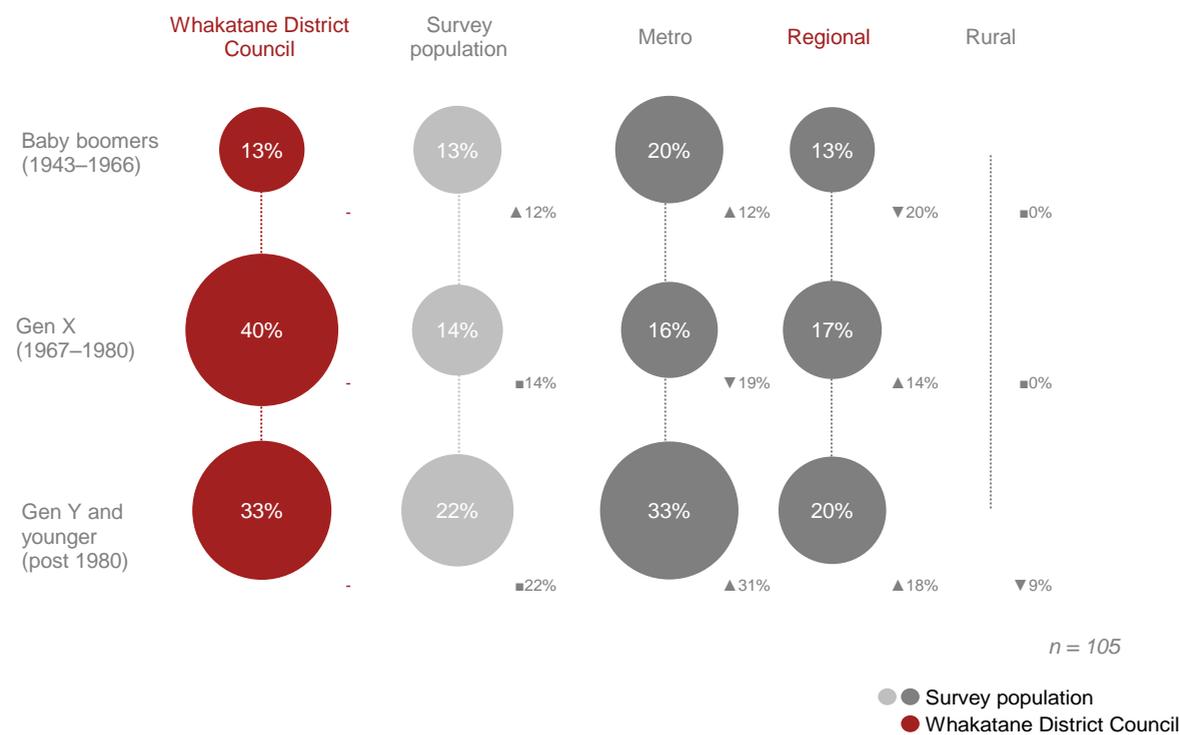
The median turnover rate for Gen Y employees in their first year of employment is 22%, compared to 14% for Gen X and 13% for baby boomer employee equivalents. This indicates that Gen Y employees are leaving in their first year at 1.6 times the rate of Gen X, and 1.7 times the rate of baby boomer employees.

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. The survey observed the various forces influencing Gen Y employees in the workforce.²

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)



² 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

To allow councils to further dissect their staff turnover rate, we have performed the same calculations across five different dimensions. These turnover calculations exclude casuals but include fixed-term contract employees.

The higher churn rate in Gen Y compared to other generations continues to be a trend that requires further investigation at a council level, as shown in Figure 1.12. The Gen Y median turnover rate has increased from 20% to 22% in the past year. When compared to baby boomer turnover (10%) and Gen X (11%), this continues to suggest that Gen Y employees are twice as likely to leave a council, compared to Gen X employees and 2.2 times more likely than baby boomers.

In Figure 1.14, we continue to see higher turnover rates at either end of the staff level spectrum, compared to the middle ranks of team leader and supervisor. Senior management churn (general managers, directors and managers) remains at 11%, and other staff turnover has increased slightly to 13% (11% in the prior year).

When comparing female and male turnover rate, we now see a more closely aligned result. The median female turnover rate remains unchanged at 13%, however the median male turnover rate is now 12% (up from 10% in the prior year).

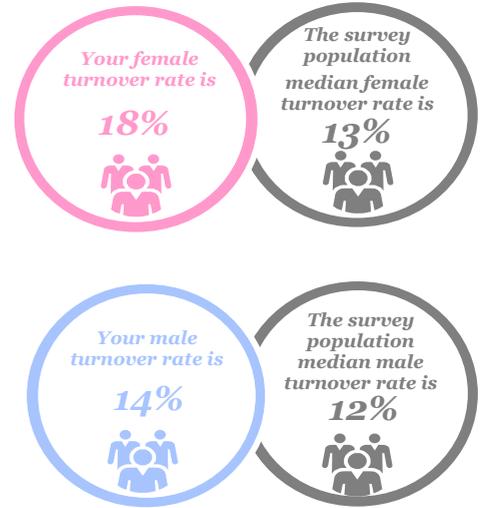


Figure 1.12: Turnover rate by generation

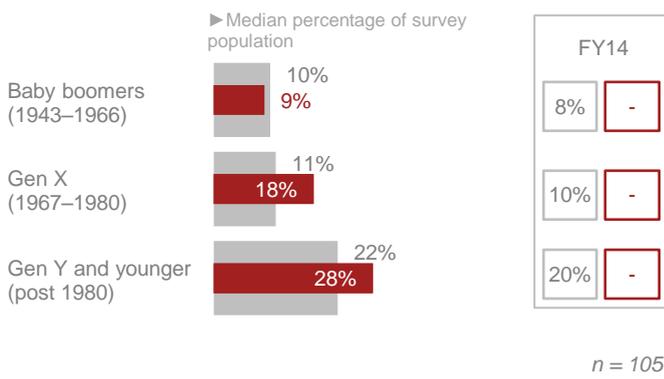


Figure 1.13: Turnover rate by tenure

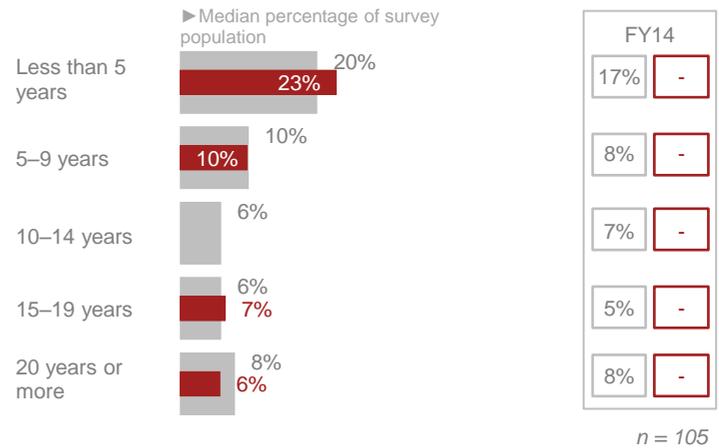
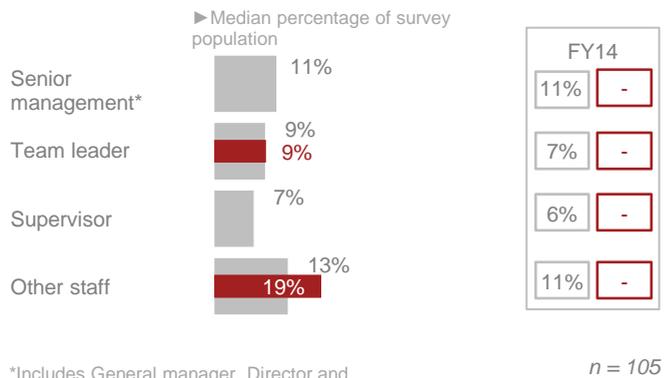
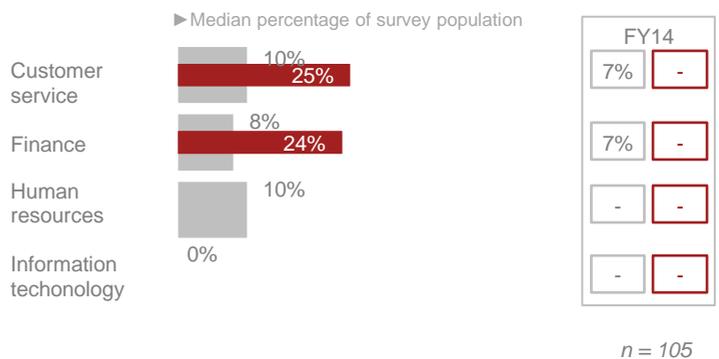


Figure 1.14: Turnover rate by staff level



*Includes General manager, Director and Manager

Figure 1.15: Turnover rate by corporate service area



■ Survey population
■ Whakatane District Council

Talent diversity

Gender diversity

It is encouraging to see that the local government sector continues to be an inclusive workplace for women, who now represent 46% of the surveyed workforce, up from 41% in the previous year. This increase in the representation of women has been hugely impacted by the inclusion of the New Zealand councils – women comprise 57% of the overall workforce across the surveyed New Zealand councils, compared to 41% across the surveyed NSW councils.

Interestingly, the higher proportion of women in New Zealand councils does not just reside at the more junior levels. We are seeing that 23% of GM/CEs, 39% of Directors and 40% of Managers are female in New Zealand councils. This is in contrast to the female pipeline in NSW councils, where 16% of GM/CEs, 25% of Directors and 34% of Managers are female.

Despite this, the trend remains that all levels of management, especially the top levels of management, are heavily male-dominated. In figure 1.16, the council workforce at the junior levels starts with gender balance, with 49% of other staff being female. However by the time females employees reach key management personnel and CEO-equivalent levels, there are only 31% female directors and 18% female GM/CEs.

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.³

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.

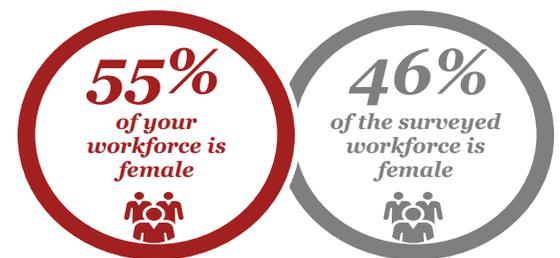
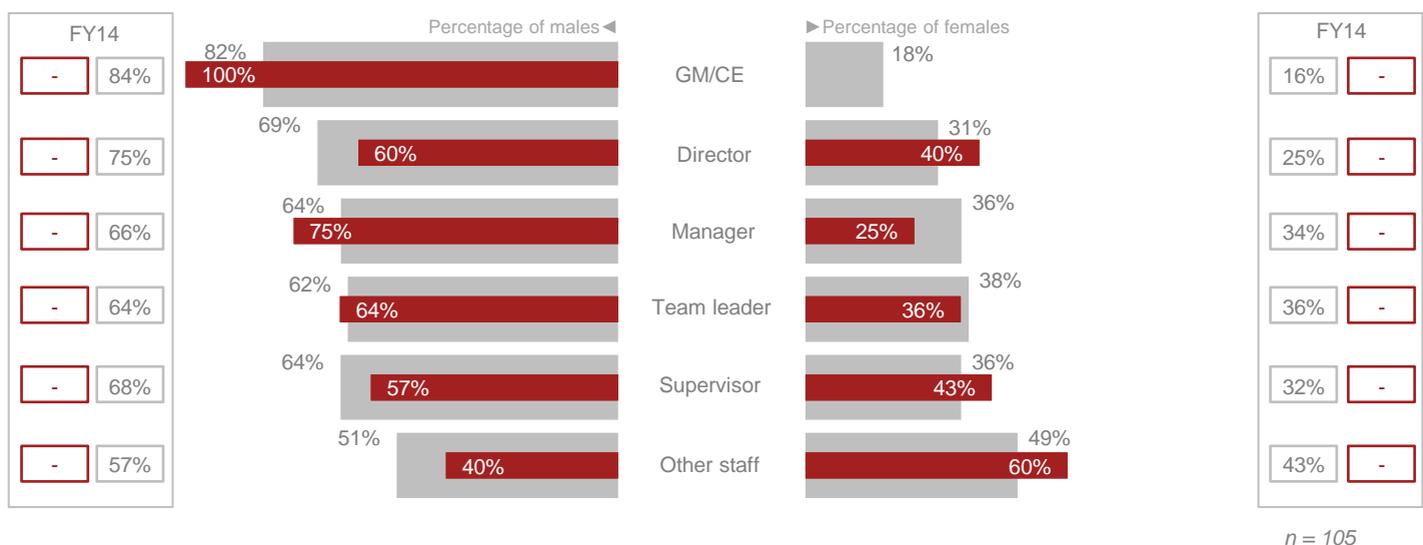


Figure 1.16: Staff-level gender split at 30 June 2015



Legend: Survey population (grey), Whakatane District Council (red)

³ PwC, 2015, 18th Annual Global CEO Survey, 'A marketplace without boundaries? Responding to disruption'.

Talent diversity (continued)

Pipeline of female employees

So what is the pipeline of female staff members in local government? Across the survey population in Figure 1.18, we can see slight growth in the proportion of female managers and above, with a median of 32%, up from 31% in the prior year. Medium councils are leading the way with a median of 33% female managers and above, showing slight growth from 32% in the prior year.

We continue to see the trend of higher female representation in New Zealand councils, with a median of 35% female managers and above, compared to a median of 29% female managers and above in NSW councils. By comparison, based on the data collected by the Workplace Gender Equality Agency, from around 12,000 Australian non-public employers covering close to 4 million employees overall, females comprise 36.5% of manager and above levels.⁴

Figure 1.17 highlights the fact that women face more challenges transitioning from the entry level position of other staff, where there is gender balance, to the more senior levels of manager and above. While small councils have strong female representation at the manager level (47%), this drops dramatically to 20% females at the director level. In contrast, both large and medium-sized councils have fewer females at the manager grade (35%), but they are more likely to maintain a similar level of female representation into the director level, with 36% female directors in large councils and 29% in medium-sized councils.

Despite this, there remains ample opportunity for councils to take on the gender imbalance challenge. We encourage senior management, in conjunction with HR, to develop action plans that support the current 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 each business unit, and whether this is in a unified manner or if there are pockets falling behind.

Key considerations

- Are you equally considering all up and coming managers across the various business units, in terms of career development towards senior leadership positions?
- Are all managers individually supported in developing senior leadership skills?

Figure 1.17: Percentage of female employees by staff level

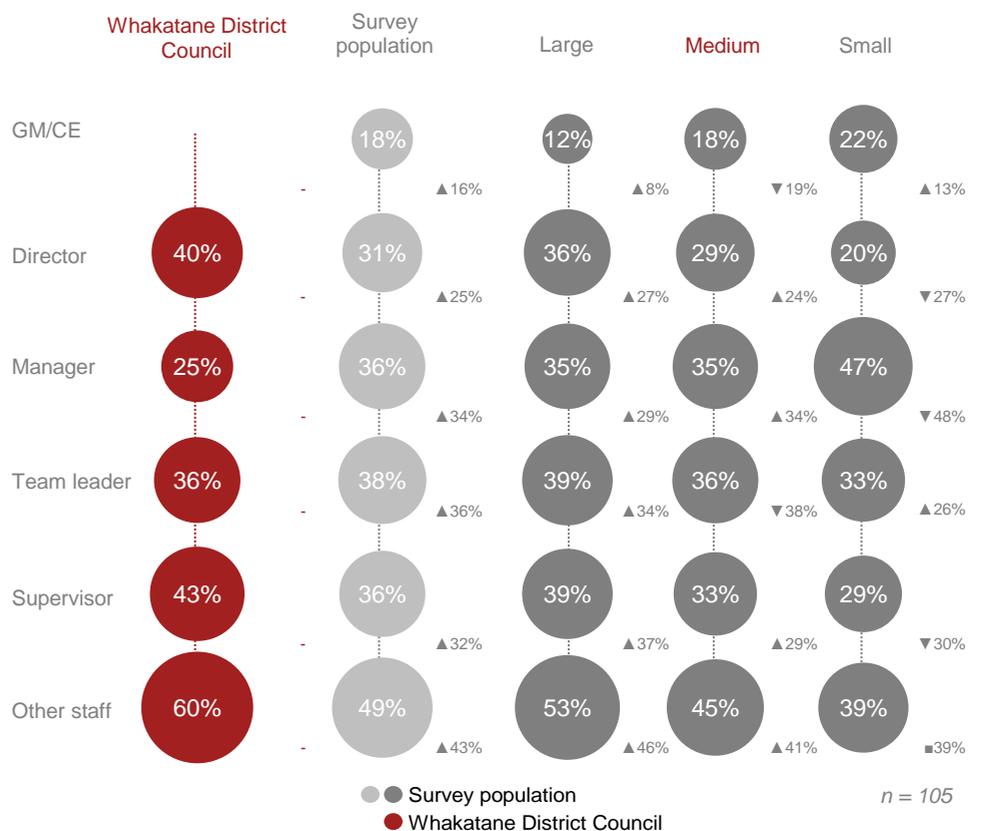
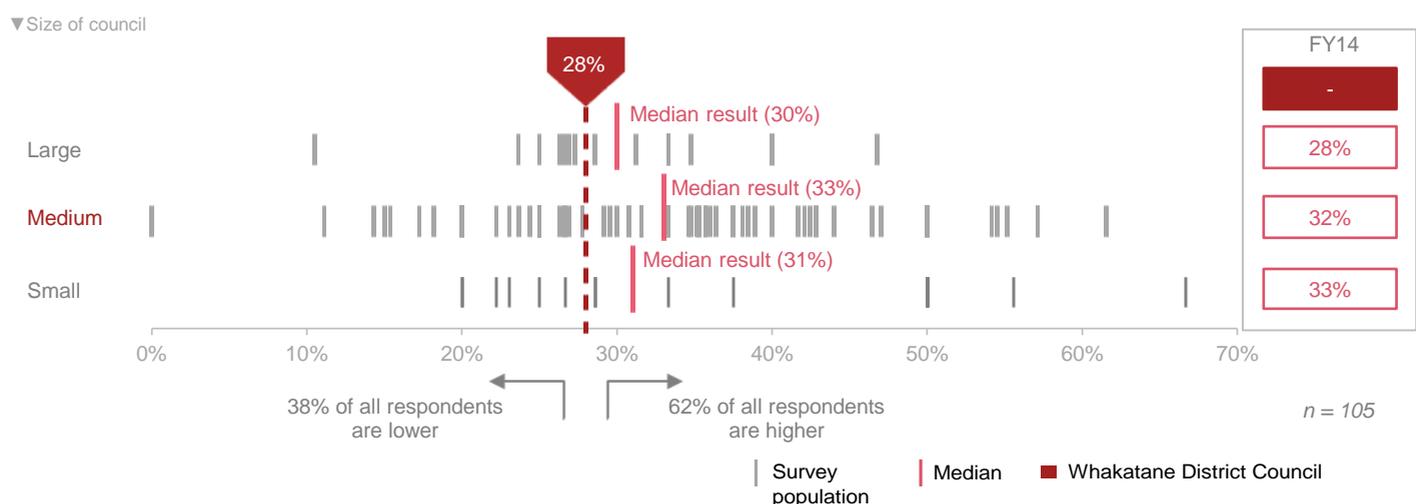


Figure 1.18: Proportion of female employees at manager level and above



⁴ Workplace Gender Equality Agency (WGEA), November 2015, 'Australia's gender equality scorecard. Key findings from the WGEA's 2014-15 reporting data'.

Talent diversity (continued)

Gender diversity in senior levels

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, we know that it is very difficult for women seeking promotion from management to key management personnel levels⁵ where only 27.4% of employees are women, and 15.4% are CEOs.⁶

Female representation at the top levels has aligned this year across our reported council sizes. The median result of female GM/CEs and directors across small councils remains at 25%; medium-sized councils have improved their median result from 20% to 25% female GM/CEs managers and directors; and large councils have recorded 25% female representation at the GM/CEs and director levels (up from 17% in the prior year).

This result has been driven by stronger female representation at the top levels in New Zealand councils, with a median of 33% female GM/CEs and directors, compared to a median of 20% in NSW.

How should councils continue to address the gender imbalance at senior levels? One way is to actively train and develop high performing women in the areas necessary for senior roles – finance, leadership and governance. In addition, councils can seek out other 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 (training, mentoring and shadowing programs, flexible working arrangements) 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.

In addition, councils should explore the development of recruitment strategies that require equal representation for senior roles, both for candidates and the selection panel. These strategies should create a cultural shift in potentially antiquated promotion and recruitment processes.

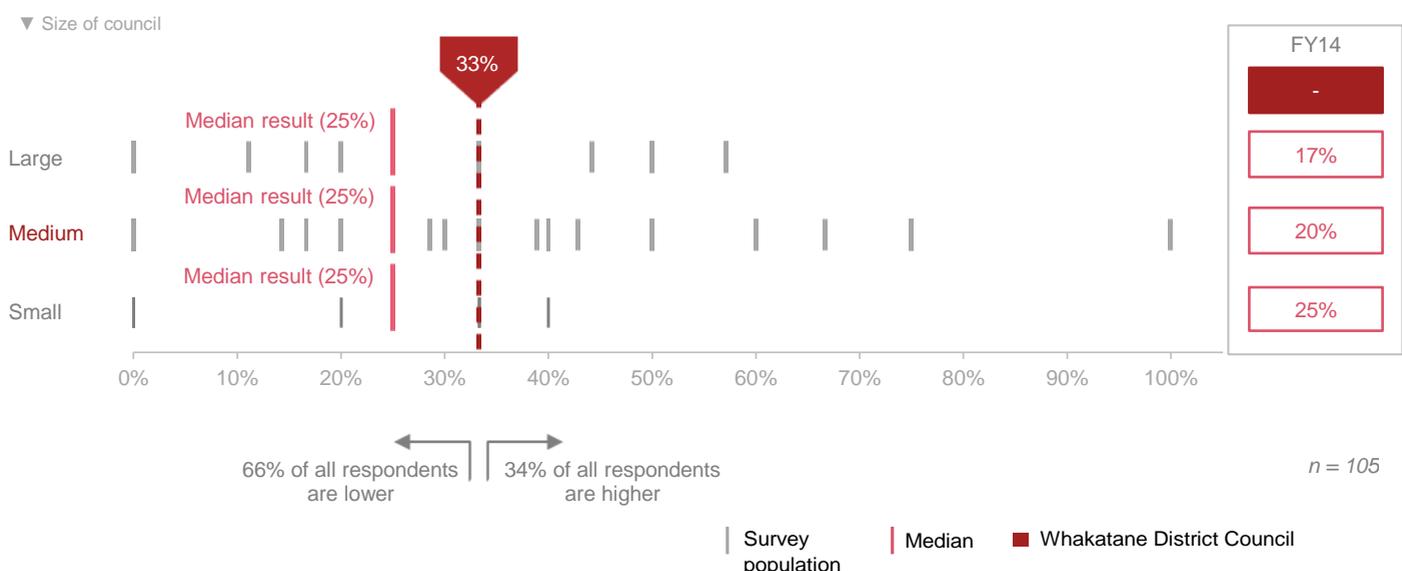
Key considerations

- 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?
- Have you implemented or piloted a flexible working policy and/or strategy?
- Have you incorporated a focus on equal gender representation in your recruitment strategy?
- Are you only drawing on narrower, more specific functional areas such as town planning, finance or infrastructure to identify potential successors for key senior leadership roles? Have you considered other functional areas such as community services?

The representation of women steadily declines when moving up the management levels; women comprise only 27.4% of key management personnel (KMP) positions, and 15.4% of CEO positions.⁷

Key results from Workplace Gender Equality Agency, November 2015

Figure 1.19: Proportion of female employees at general manager and director levels



⁵ KMP is a manager who represents at least one of the major functions of the organisation and participates in organisation-wide decisions with the CE
⁶ Workplace Gender Equality Agency (WGEA), November 2015, 'Australia's gender equality scorecard. Key findings from the WGEA's 2014-15 reporting data'.
⁷ Ibid.

Talent diversity (continued)

Corporate service areas

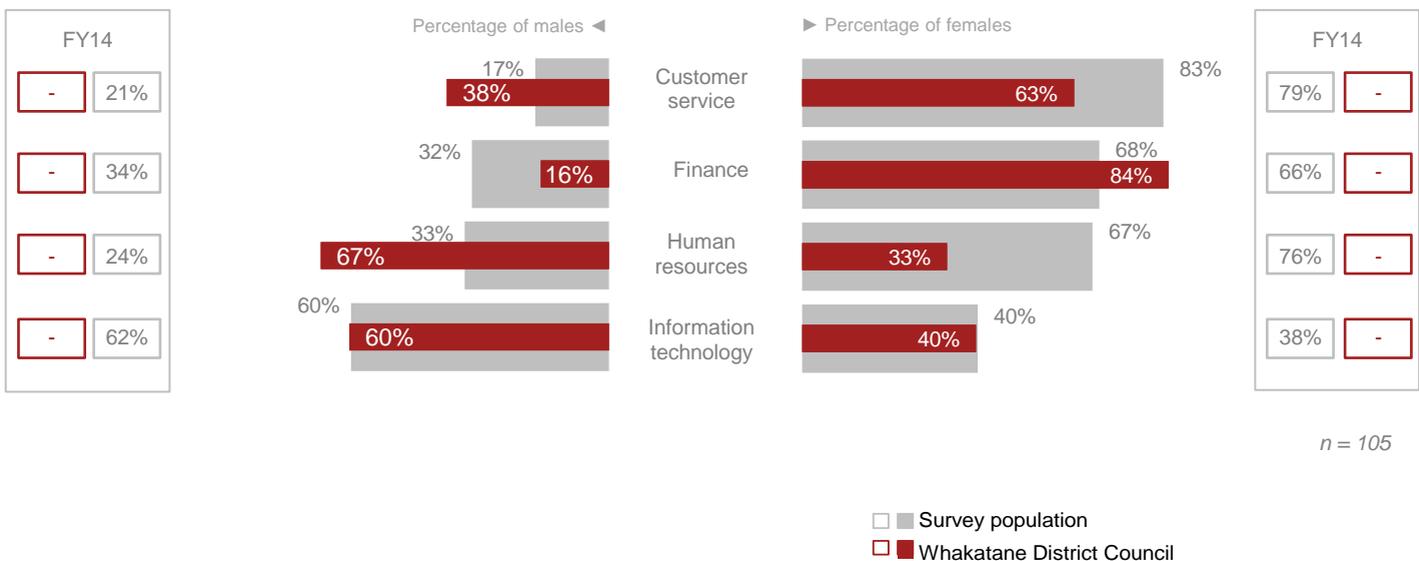
We continue to see women dominating areas such as customer service, finance and HR and males dominating IT. Just fewer than one in five customer service employees are males (17%), and around one third of employees in finance (32%) and HR (33%) are male.

Interestingly, with the inclusion of the New Zealand councils, males now comprise 33% of HR employees, compared to only 24% in the prior year (NSW only). This also accounts for the rise in the proportion of females in IT, now at 40%, up from 38% in the prior year (NSW only).

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

Many organisations constantly experience a shortage of high calibre, appropriately skilled staff with relevant backgrounds. It is imperative for local government to present a strong employment industry brand to attract talent across the mix of skills required. CEOs who participated in the recent global PwC CEO survey have identified the skills shortage as a key concern; 73% name it as a threat to their business, compared with 46% just six years ago.⁸

How are these CEOs tackling this issue? They 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.⁹

Our survey results continue to suggest that attracting the best talent into the sector remains challenging, with a median of 11.1 weeks (down from 11.2 weeks in the prior year) elapsing before an open position is filled. It is encouraging to observe that the median time to fill open positions between 1 July 2014 and 30 June 2015 has decreased for metro and rural councils, with regional councils unchanged from the prior year.

In Figure 1.22, we show the extent of internal versus external recruitment across staff levels during the 2014-2015 financial year. Councils should 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 results highlight a continued reliance on recruiting externally, although this has been decreasing over the past two years. In FY13, 65% of filled positions were done so from outside the organisation, shifting to 60% in FY14 and down to 58% in FY15. This suggests councils have been in a better position to promote or transfer internally for open positions. However, for those councils that rely heavily on external recruitment, 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 2015*

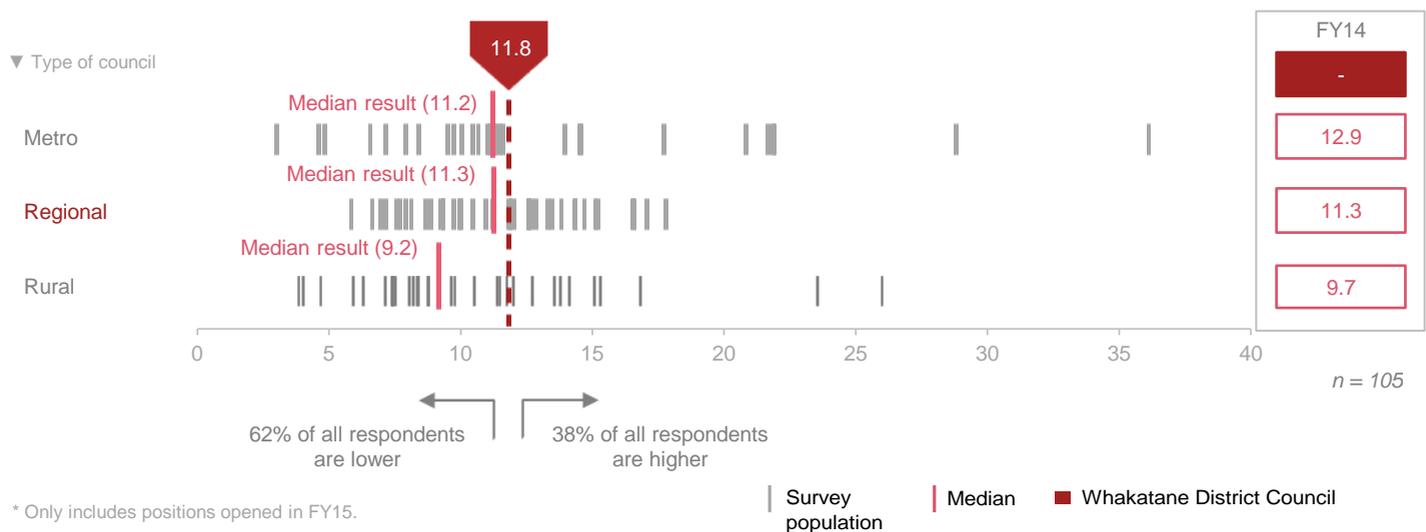
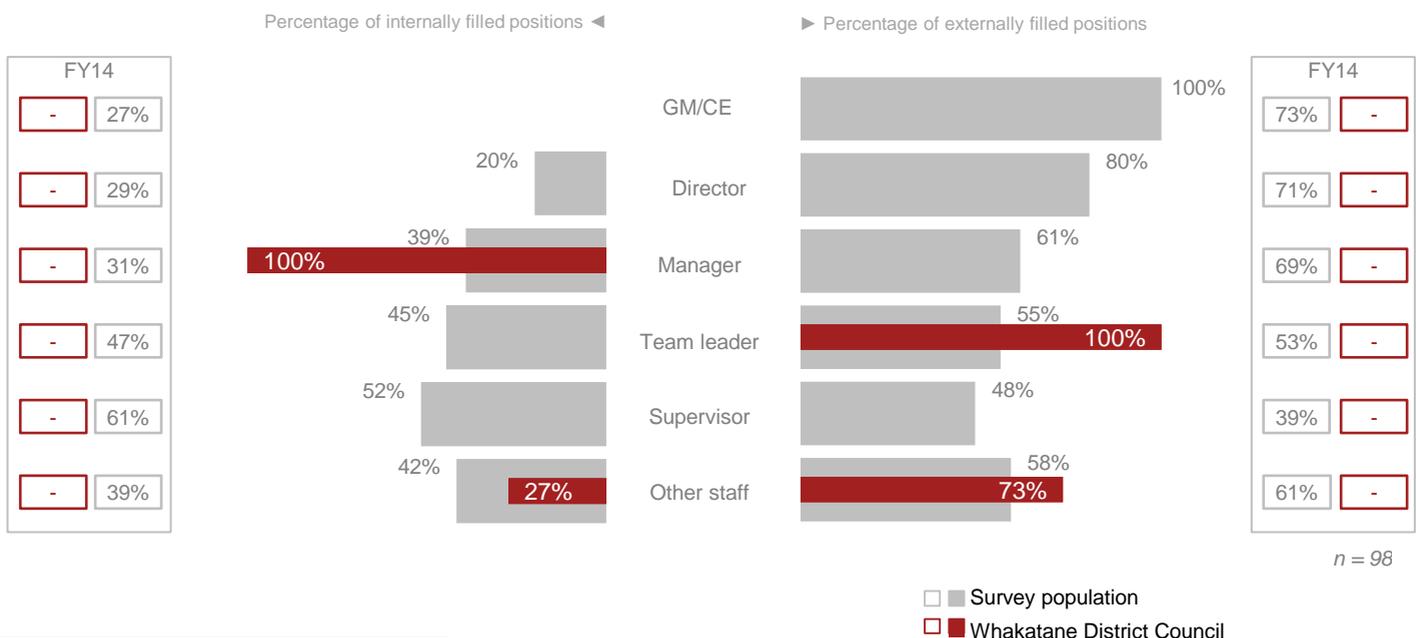


Figure 1.22: Internal and external recruitment by staff level



⁸ PwC, 2015, 18th Annual Global CEO Survey, 'A marketplace without boundaries? Responding to disruption'
⁹ Ibid.

Why you need a recruitment strategy (continued)

Recruitment diversity

It is encouraging to see that across the surveyed council population as a whole, gender balance was in place when recruiting new employees during the 2014-2015 financial year. However, it is now rural councils, as opposed to metro councils, leading the way with a median of 53% female new starters (up from 50% in the prior year). Regional councils are now closer to approaching overall gender balance, with a median of 49% female new starters.

As shown earlier in the workforce section, we continue to see a stronger trend in achieving or exceeding gender balance in New Zealand councils, compared to NSW councils. There were 61% female new starters in New Zealand councils, compared to 44% in NSW councils. This continues to suggest that local government is an attractive workplace option for women in New Zealand.

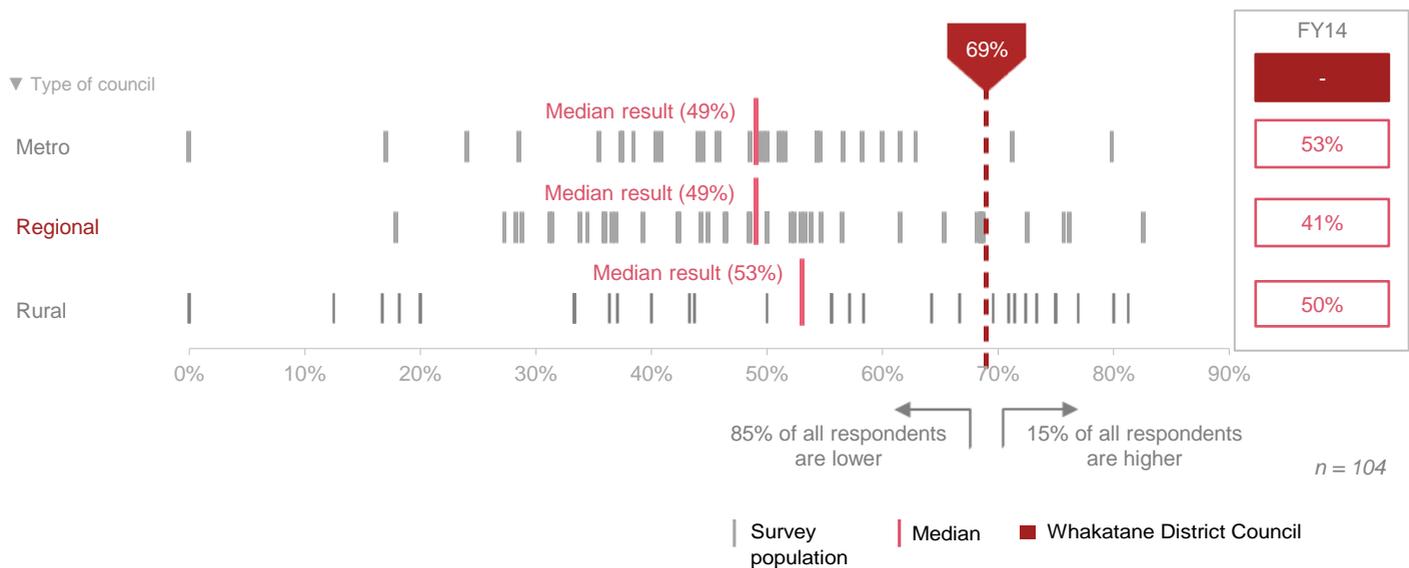
We note that where overall gender balance is achieved, this can sometimes be because results have been aggregated across several imbalanced workforces; a common example of this being male dominance in outdoor workers and female dominance in Children’s and Aged Care services.

Our analysis at a service level, presented in the Service Delivery section, provides a comparison within these workforces and gives councils the opportunity to set goals at the service level.

Key considerations

- Have you reviewed your recruitment criteria to ensure you are able to attract all relevant prospective employees?
- Are you placing the right emphasis on generic skill areas as well as on any specialist requirements for your employees?
- Are you developing strategies that encourage looking as widely as possible for talent?
- Do you understand the most successful method for recruiting staff in your region?
- Do you use multiple channels to find talent?
- When did you last review and refresh your employer brand to present to prospective employees?

Figure 1.23: Proportion of female new starters



Removing the glass ceiling

Promotions

A good indicator of how well a council is growing the career opportunities for women in leadership positions is the rate at which women are promoted into senior roles over time. It is important that councils are harnessing their existing pool of female talent and assessing how close they are to gender balance during promotion cycles.

To better understand the extent of promotion balance in the 2014–15 financial year, we looked at the pool of employees 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 survey results show that, during the 2014-15 financial year, small councils were 1.5 times more likely to promote women (2.3%) over men (1.5%) into supervisor and above levels. In contrast, large councils promoted 1.4% of men, compared to 1.1% of women into supervisor and above levels. Medium-sized councils were closest to promotion balance across genders with 1.3% of men and 1.2% of women being promoted to supervisor or above.

It is interesting to note that while New Zealand councils employ more women and have a higher proportion of women in senior roles compared to NSW councils, men were promoted at 1.4 times the rate of women into supervisor and above levels, with 1.8% of men and 1.3% of women being promoted to supervisor or above.

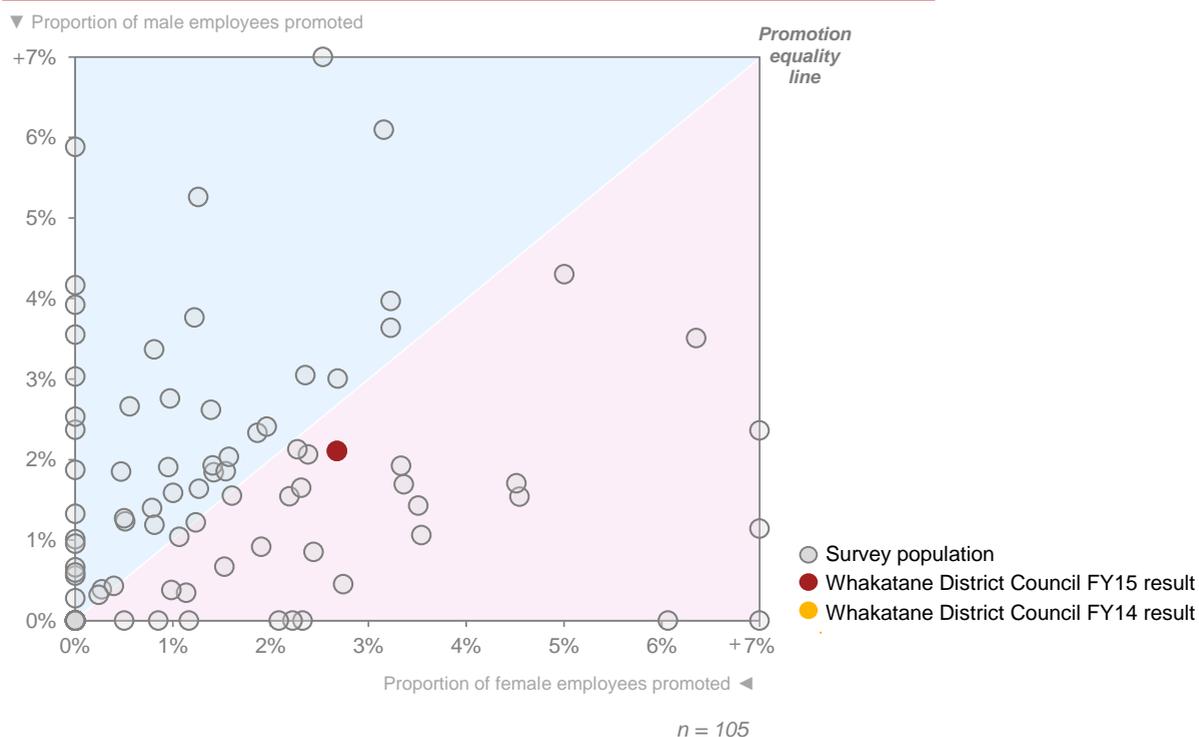
In contrast, NSW councils were closer to promotion gender balance, with 1.2% of men and 1.1% of women being promoted to supervisor or above. A single year of results should be read with care; however this does suggest that NSW councils are working hard to address the gender imbalance issue, especially at the senior levels.

It is important for each council to assess whether it is actively focused on the progression of female employees within the organisation.

Key considerations

- Do you have a rigorous talent review process that supports enhanced decision making regarding promotions?
- Do you understand how balanced your rate of promotion is across skill sets - promotions of people with technical skills versus management/generalist skills?
- Are you tackling 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?

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



Removing the glass ceiling (continued)

Rate of Promotion

We have also examined the rate of promotion for female employees within different staff levels, as shown in Figure 1.25. It is encouraging to see that councils seem to be taking a more serious approach to developing a strong leadership pipeline for female staff members.

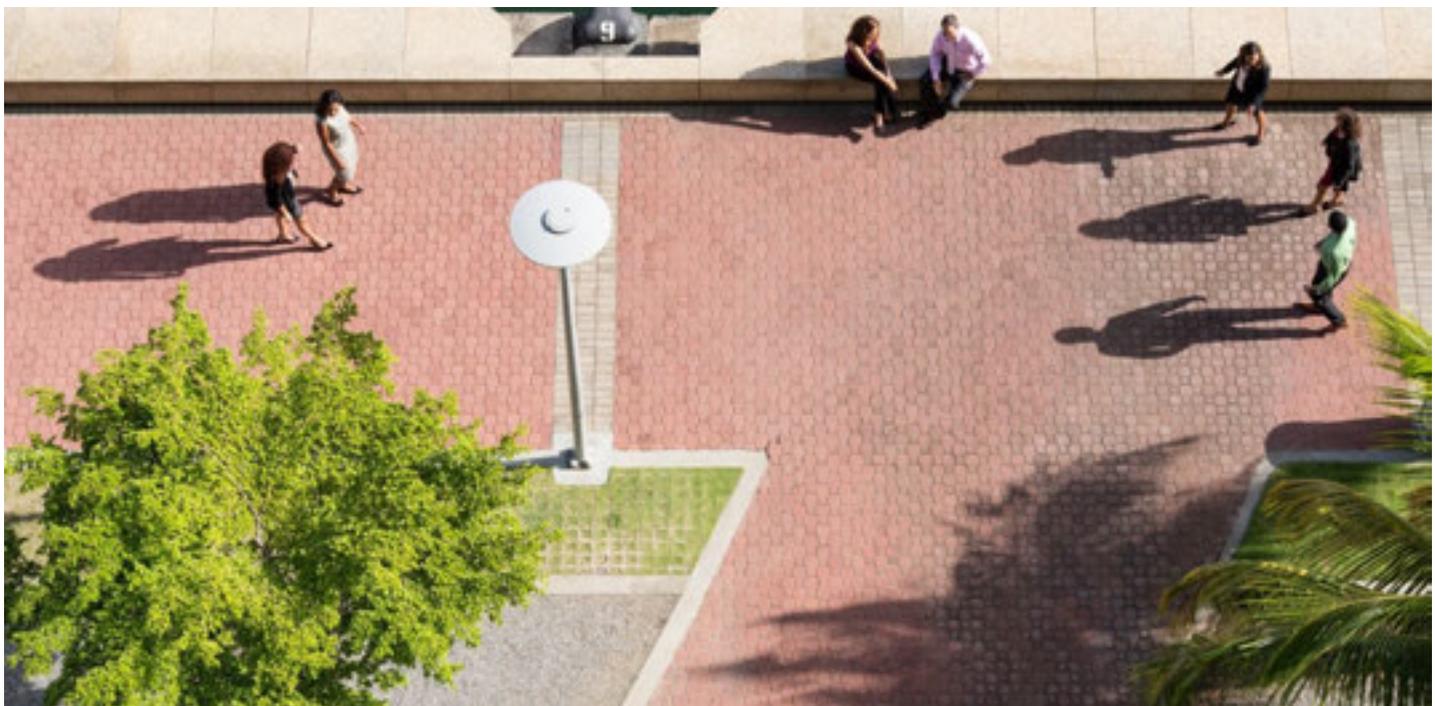
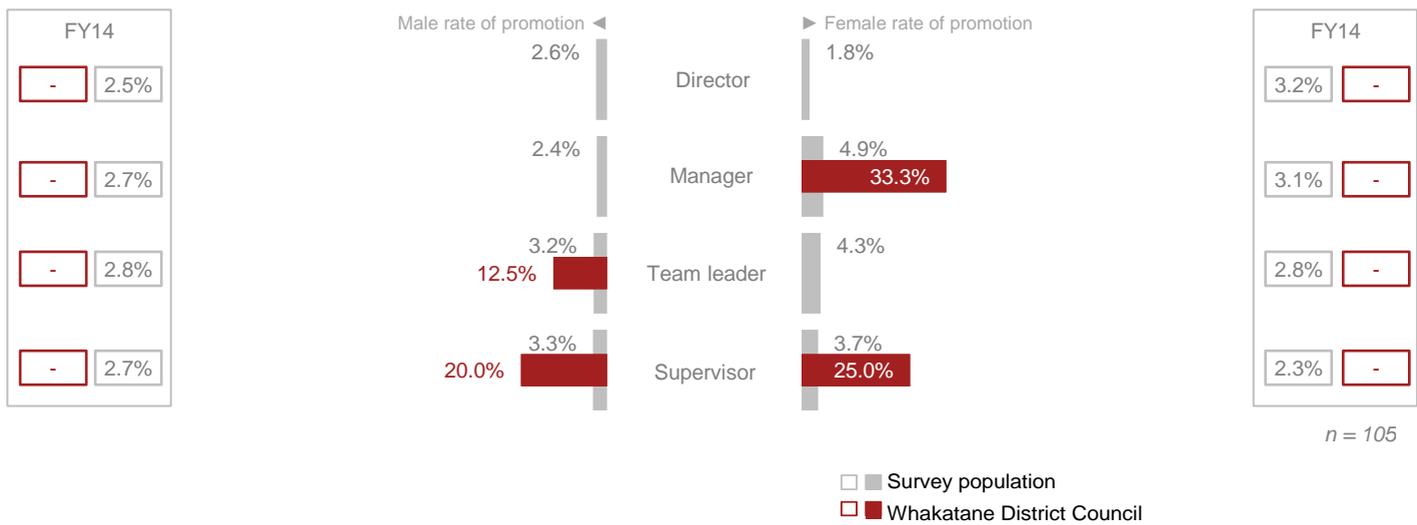
During the 2014–15 financial year, females were promoted at a faster rate than males within the manager, team leader and supervisor levels. However, at the director level male directors were 1.4 times more likely to be promoted compared to females, with a promotion rate of 2.6% among male directors, compared to 1.8% for female directors.

The goal of any organisation is to identify, develop and leverage all existing talent. As people move into management positions, some of these skills are more generic in nature and require less technical ability. Management and leadership skills are transferrable and require a balanced view of talent management.

In future years, we hope to delve deeper into the extent of promotions occurring in the different service areas within local government.

This year we embarked on the service mapping pilot which has allowed for different insights to be produced (see Service Delivery section). In our next survey, all councils will participate in the Service Delivery area and as a result, we will have more data available to produce greater insights across the workforce analytics space.

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



Are you leaving succession planning too late?

Generational diversity

While we continue to see baby boomers dominating the workforce, the generational shift appears to be commencing. Baby boomers now comprise 45% of the workforce, compared to 49% in the prior year and 51% two years ago. The shift has been offset with an increase in the proportion of Gen Y and younger employees, now comprising 22% of the workforce (up from 18% in the prior year), while Gen X employees remain at 33%.

In Figure 1.28, it is clear that senior management roles are dominated by baby boomers. The next step for councils is to examine their succession planning strategy, identifying the next cohort of leaders in local government.

Figure 1.26: Generational headcount mix

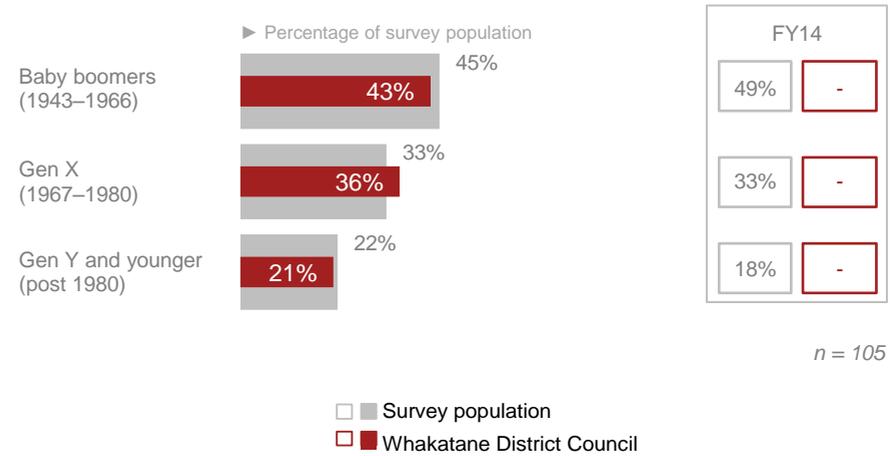


Figure 1.27: Workforce profile (closing headcount breakdown by generation and gender)

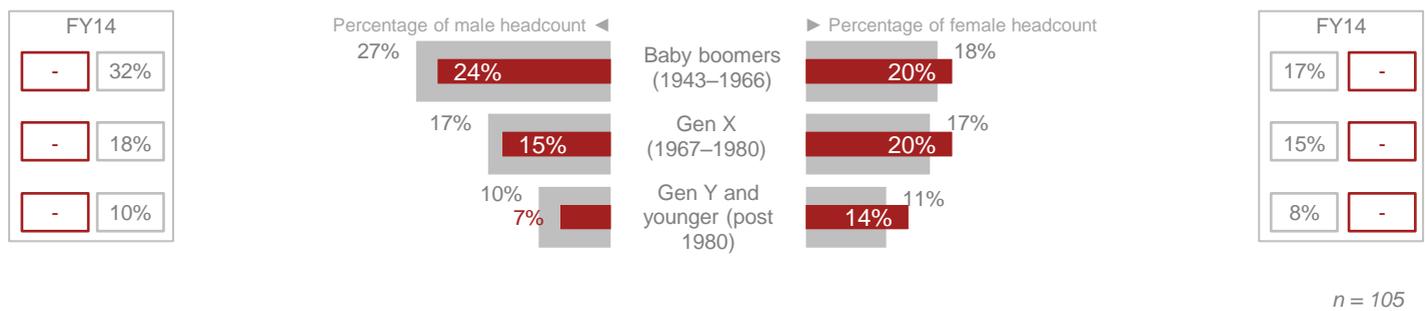
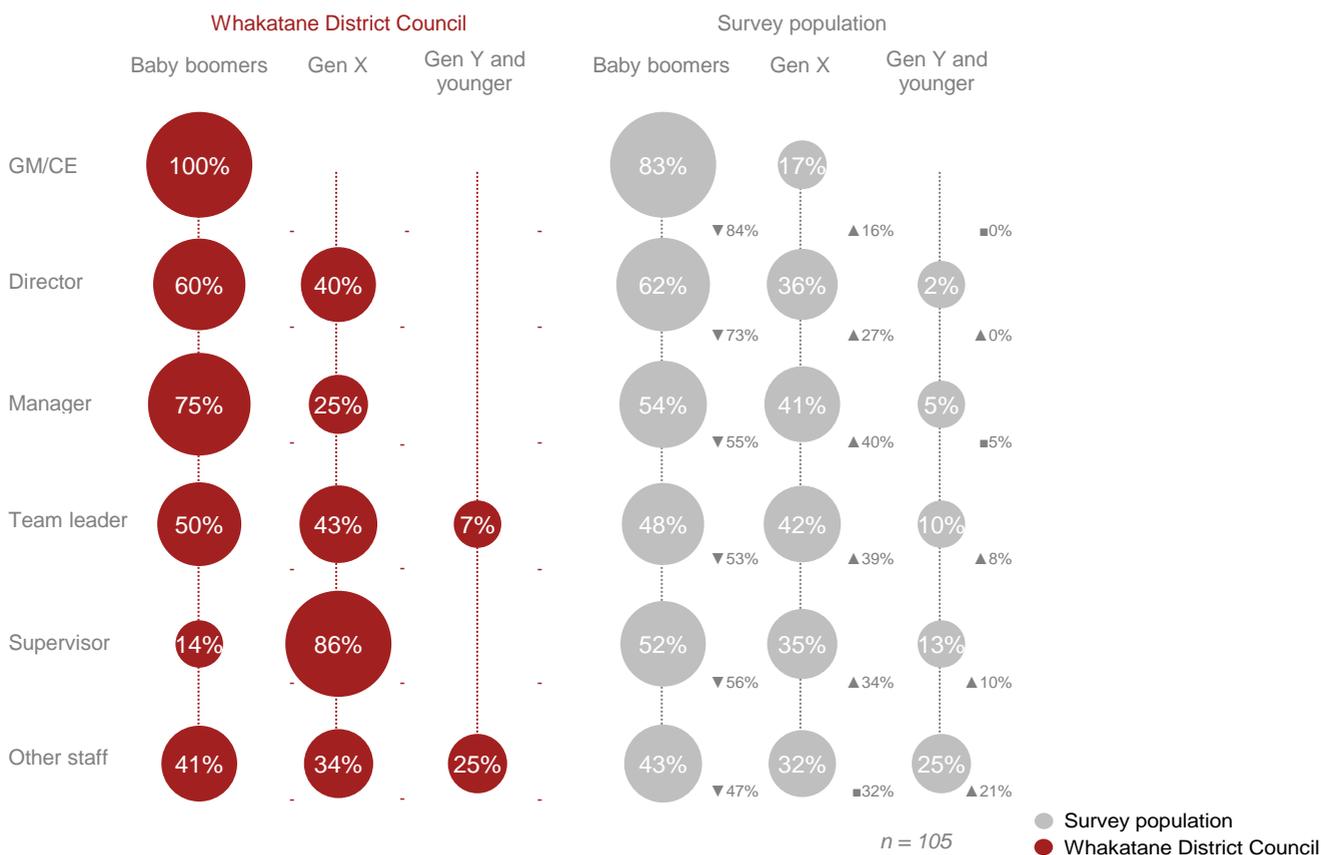


Figure 1.28: Generational staff level mix



Are you leaving succession planning too late? (continued)

Potential retirements

Our survey results demonstrate the aged status of the local government workforce. In Figure 1.28, around four out of five GM/CEs (83%) and 62% of directors are baby boomers. This is even more pronounced at the GM/CE level in New Zealand councils, with 92% baby boomers. In comparison, 80% of GM/CEs are baby boomers in NSW councils.

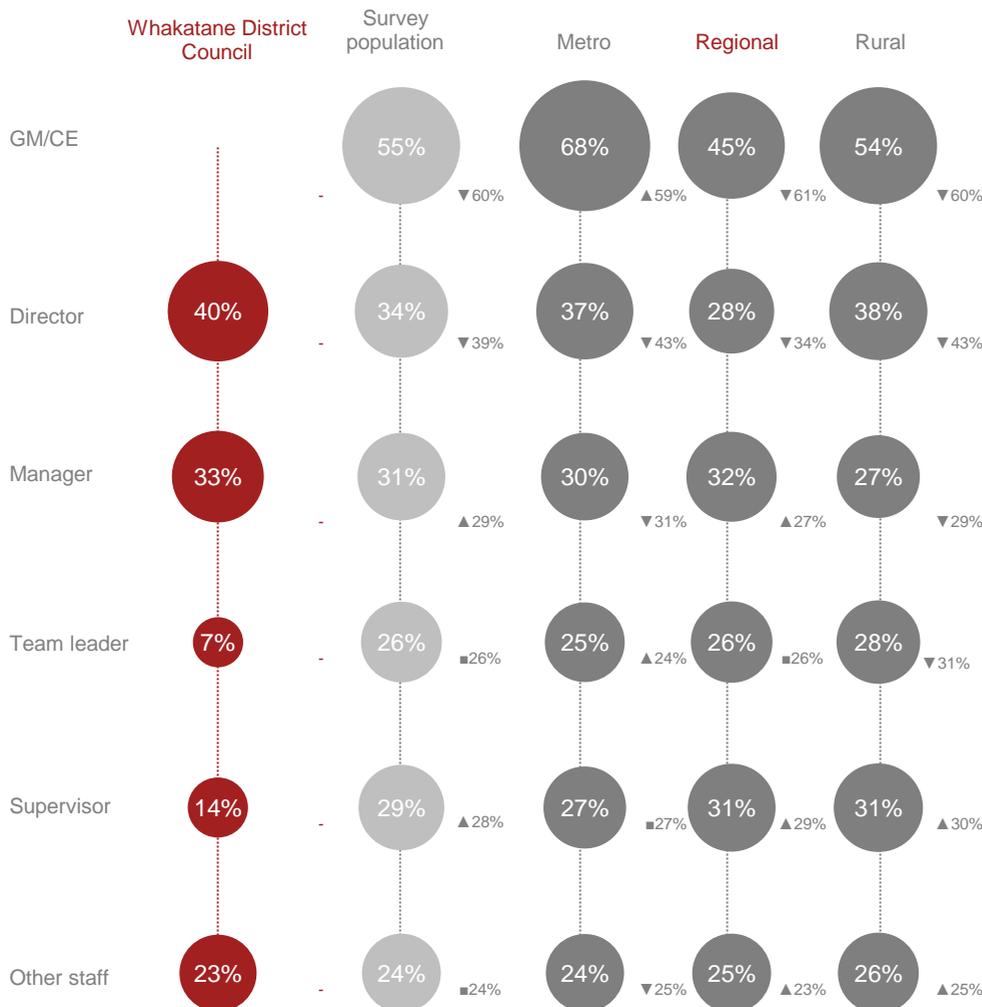
As a result of this current generational workforce trend, councils need to start planning, given the significant effect on future resourcing requirements. In less than 10 years (by June 2025), we can predict that 25% of workers who were employed by councils as at 30 June 2015 will reach the retirement age of 65 years and have the option to retire.

The stable, experienced workforce provided by these workers has likely led to an underinvestment in knowledge management and knowledge transfer capabilities.

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



Figure 1.29: Potential retirements by June 2025



n = 105

● Survey population
● Whakatane District Council

Are you leaving succession planning too late? (continued)

Succession planning

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.

There is an identified risk of loss of vital talent, local government expertise and leadership skills over the next 10 years. It is therefore essential for councils to establish a succession planning program to help them identify and develop emerging talent as potential successors for key leadership roles.

Therefore, it is alarming that over four out of five councils (84%) are yet to adopt a formal succession planning program. NSW councils are slowly starting to see the importance of identifying and building leaders for the future, with 20% of councils establishing a succession planning program.

However, New Zealand councils are lagging behind. Only one New Zealand council is moving in the right direction when it comes to formalising its identification of future leaders.

Given the high volume of general managers and directors potentially retiring in the next 10 years, it is a concern that only 9% of General Managers and 8% of Directors have identified successors for these key leadership roles.

This suggests there may be a lack of understanding about the importance of establishing a strategic HR function to assist the senior leadership team in looking at strategic ways to develop the leadership pipeline. Establishing a talent management framework will assist in identifying the next generation of leaders and is a good first step in launching a succession planning program.

Key considerations

- Is your HR function focused on creating strategies and action plans that focus on the long term health of the council?
- Are you prioritising the investment in talent management and capacity building?
- Do you have a plan as to how to embed this into the culture of your council?
- How are you measuring your council's resourcing resilience?

Figure 1.30: Did your council have a formal succession planning program in FY15?

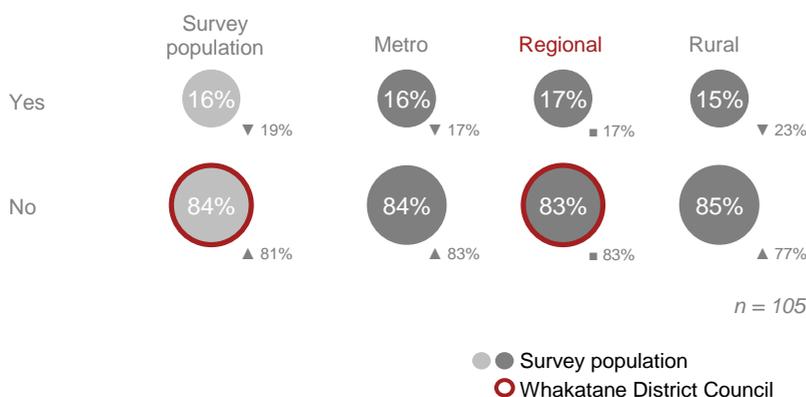
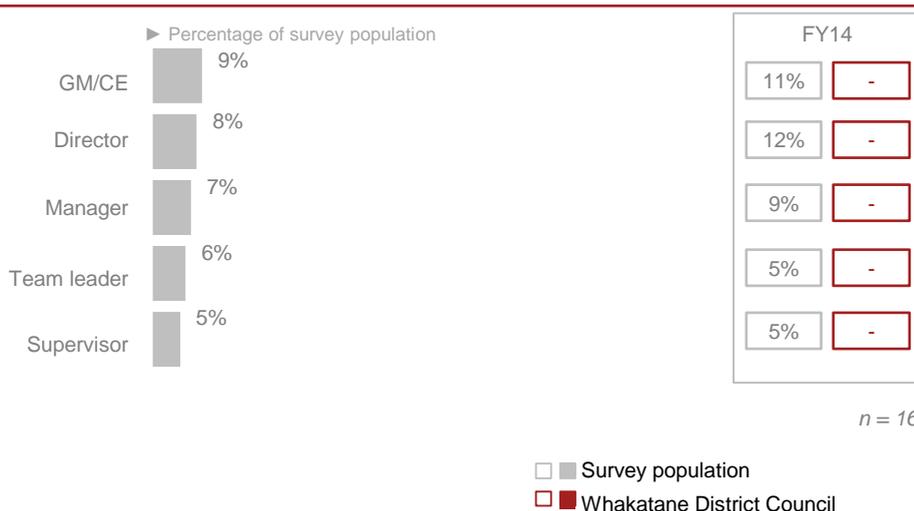


Figure 1.31: Percentage of staff with a succession plan in place



Do you have an active leave management strategy in place?

Annual leave

An active leave management strategy recognises the importance of both the wellbeing of the employee and the financial liability for the organisation. Failure to rest and recuperate may result in health problems and stress-related productivity issues for employees. The financial impact is also important given the value of leave balances continue to increase as individual pay rates rise.

Our survey results show that, as at 30 June 2015, 40% of employees carried more than four weeks of annual leave (down from 42% in the prior year) and 10% had more than eight weeks accrued (down from 12% in the prior year). This downward trend is a result of lower leave balances in New Zealand councils; 35% of employees carry four or more weeks, compared to 43% of employees in NSW councils. Few NSW councils have made positive progress in reducing the number of employees with four or more weeks of accrued annual leave (increase from 42% to 43%).

When analysing the proportion of employees carrying more than eight weeks of accrued annual leave, NSW council employees are 1.8 times more likely to carry this excess accrued leave balance (12%), compared to New Zealand council employees (7%).

It is time for local government, especially NSW councils, to implement an active leave management strategy. From a financial viewpoint, two out of five employees are effectively rolling over one month of salary each year. Just as concerning, if not more important, is the wellbeing factor and the prevention of stress-related illness. Enterprise negotiations often focus on leave entitlements and the family and community benefits of leave; if the evidence shows that these leave benefits are not taken, then their value and relevance could be questioned.

Key considerations

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

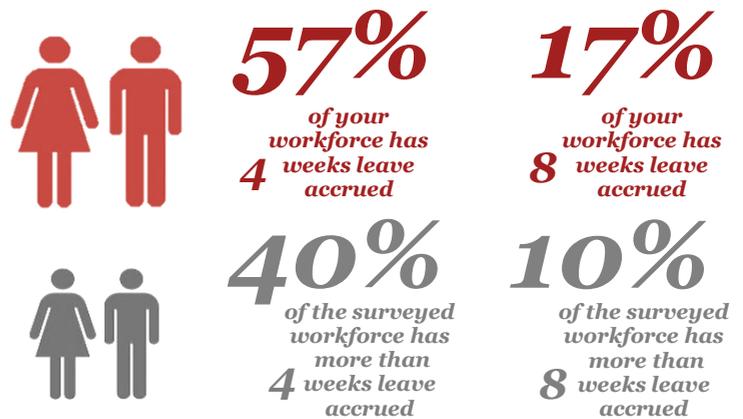
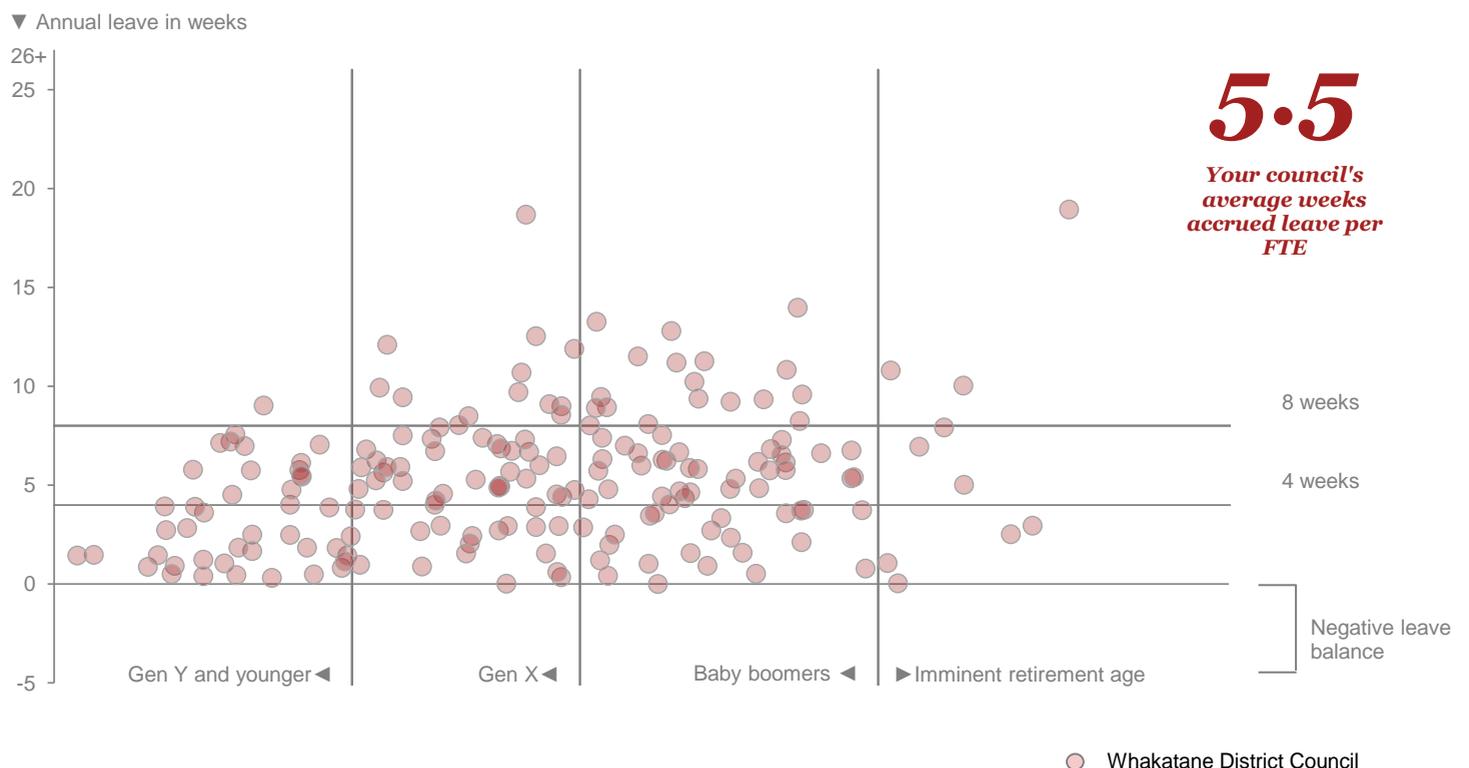


Figure 1.32: Employee annual leave balance in weeks by year of birth



The importance of managing long service leave and retirement

Long service leave

Due to the fact that NSW councils have a statutory obligation to accrue long service leave for their employees, we have only included the NSW local government surveyed workforce in our calculations in this section.

Unfortunately, NSW councils are yet to make any progress with reducing long service leave balances, with 28% of the surveyed NSW workforce continuing to carry more than 12 weeks of long service leave.

Councils with a significant proportion of their workforce in the baby boomer generation would be wise to be aware of the extent of their financial liability, due to the impending retirements of this group of employees.

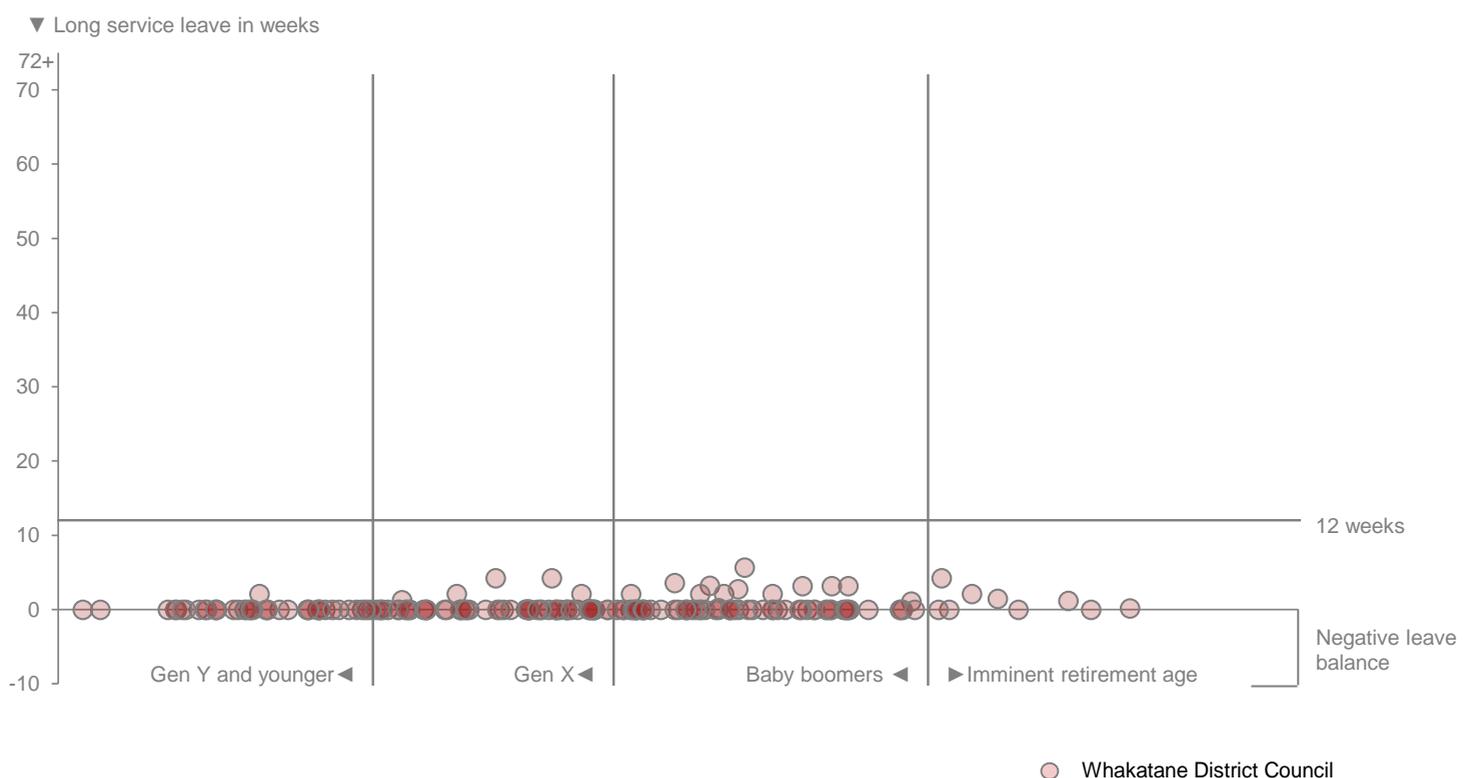
These councils may wish to develop a strategy, or refresh their policies and procedures around the taking of leave, to avoid a cash flow shock over the coming years, and to help manage the transition from work to retirement for employees and the council.

Potential 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 behaviour of using accrued leave
- a smoother transition from work to retirement, leading to better employee welfare, knowledge retention, and knowledge 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.



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



Learning from sick leave and absenteeism

Absence

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 2014–15 financial year, the 25% of employees who used a small amount of sick leave took 2.6 days or less (up from 2.2 days or less in the prior year), and on the other end of the spectrum 25% of employees took 11.1 days or more (no change). The remaining 50% of staff took between 2.6 days and 11.1 days of sick leave – this is the ‘normal’ range.

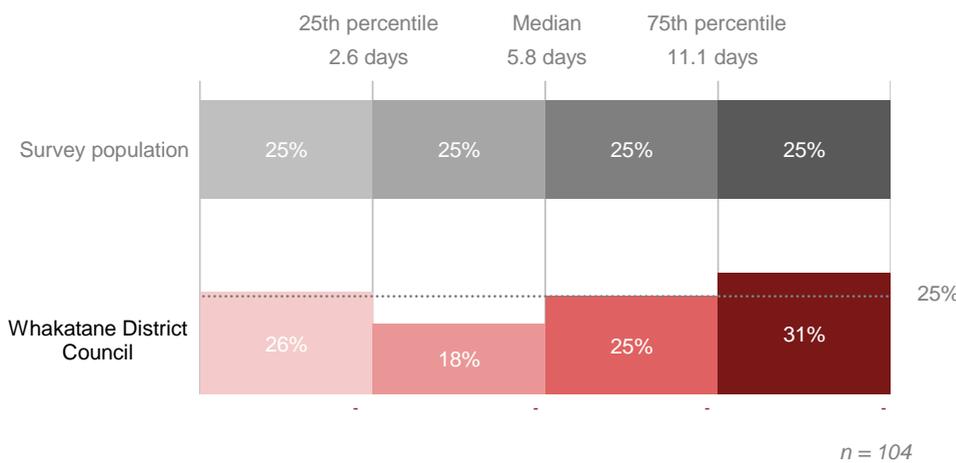
It is important for each council to examine their sick leave profile in Figure 1.34. What percentage of your employees fall within the ‘normal’ range? If you have more than 25% of employees in the higher range (taking more than 11.1 days), do you understand why certain employees are reporting high levels of absenteeism?

To gain a deeper understanding of your sick leave profile we have provided each council with a quartile breakdown on sick leave taken by supervisors and above compared to other staff in Figure 1.35. 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 at the top end of the spectrum?
- Which employee groups are reporting high levels of absenteeism?

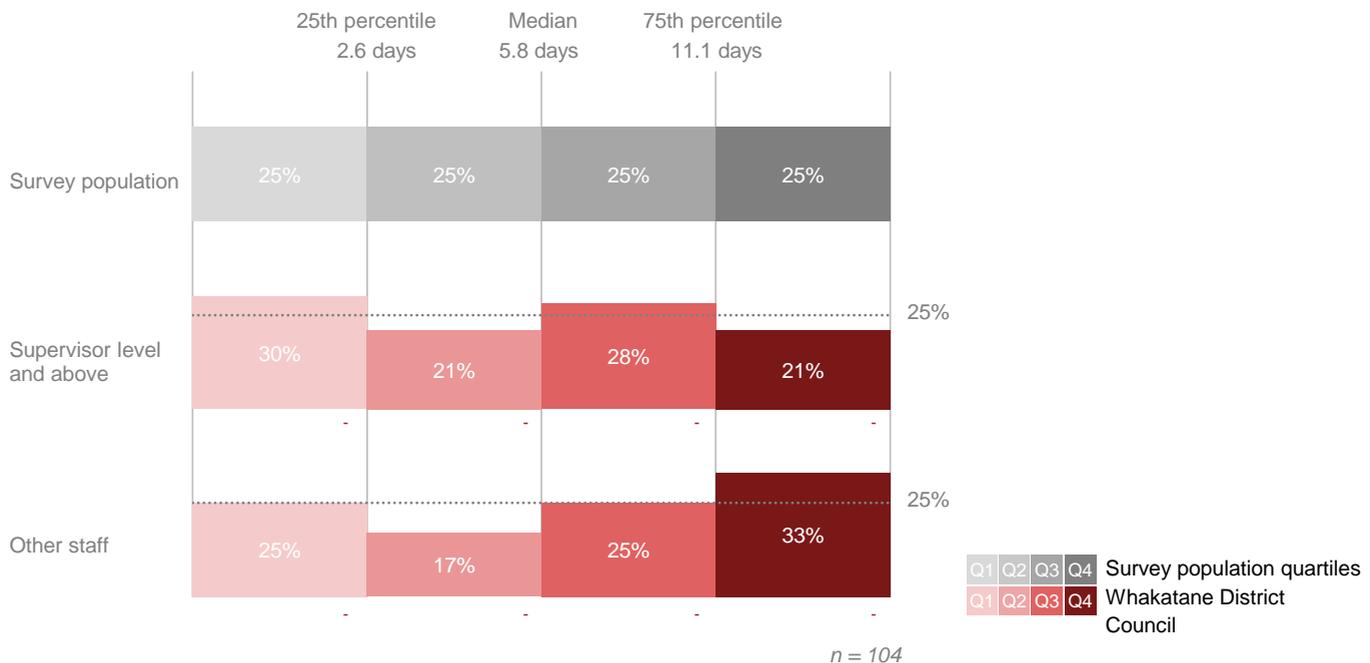
Figure 1.34: Percentage of employees taking sick leave by quartile



6.3

median sick leave days taken in FY15 across your workforce

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



Are you equipping staff with new skills?

Staff training

Equipping staff with new skills has become even more important with the rapid change in customer and employee expectations. Flexibility and adaptability are important attributes, and equipping managers as well as junior levels of staff with the confidence to engage and interact in new ways is critical.

While it is encouraging to see that 99% of councils set a formal training budget each year, only 23% of councils with a training budget for the 2014–15 financial year actually spent the full amount. This suggests that either employees are not being allocated sufficient hours in the year to develop, or, while the council may have good intentions during the budget setting cycle, an actual training strategy may be absent to convert the budget into a mixture of effective technical and soft skills training courses or activities.

The overall median annual training spend per FTE is A\$975 (NZ\$1,050), compared to the median training budget per FTE of A\$1,138 (NZ\$1,225).

NSW councils spend a median of A\$904 per FTE (or NZ\$973), however only 85% of the median NSW training budget is being spent (A\$1,060).

In comparison, New Zealand councils spend a median of NZ\$1,539 per FTE (A\$1,430), using 89% of their median training budget (NZ\$1,730).

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.

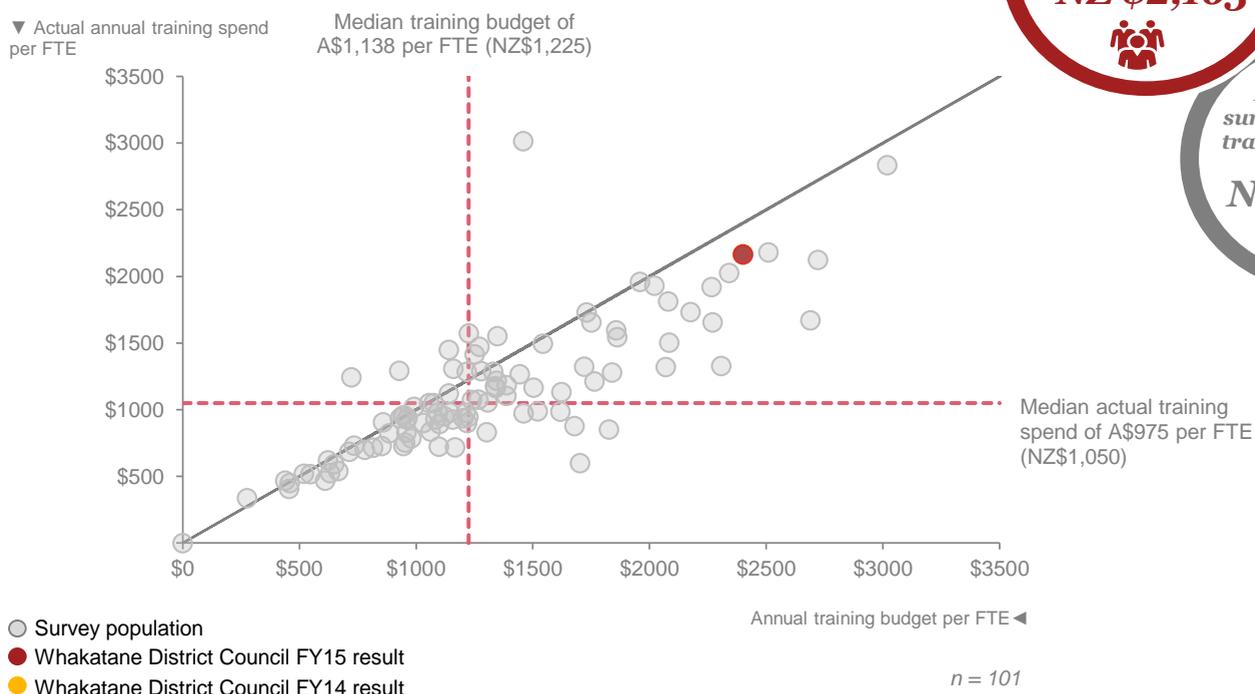
If council lacks commitment when it comes to creating opportunities for learning, this may lead to reduced productivity, low staff engagement, loss of staff, reduced management pipeline, as well as an inability to innovate and quickly respond to changing circumstances.

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 annual training spend (NZ \$) against training budget per FTE



Access to management development training

Management development training

A formal management development training program covers any specific training that will support the professional development of management or leadership skills. Our survey results show that close to three quarters of councils (72%) have a formal program in place. NSW councils are leading the way, with 78% actively looking to develop management and leadership skills, while only 54% of New Zealand councils are doing the same.

Rural councils continue to lack a more formalised approach to training; only 45% of councils have a formal management development program in place, compared to 87% of metro and 83% of regional councils.

With over half of directors and managers, and 58% of GM/CEs actively participating in management development training, it suggests a focus on talent management, with councils investing as staff reach the more senior levels in the organisation.

It is important to also consider increasing the amount of management development training provided to middle management - team leaders and supervisors - especially given the 'people responsibility' extended to this group of employees.

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?

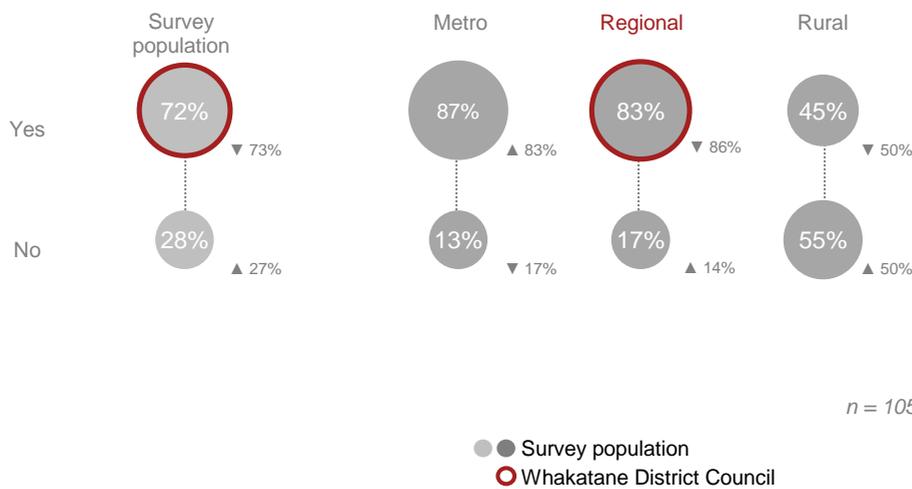
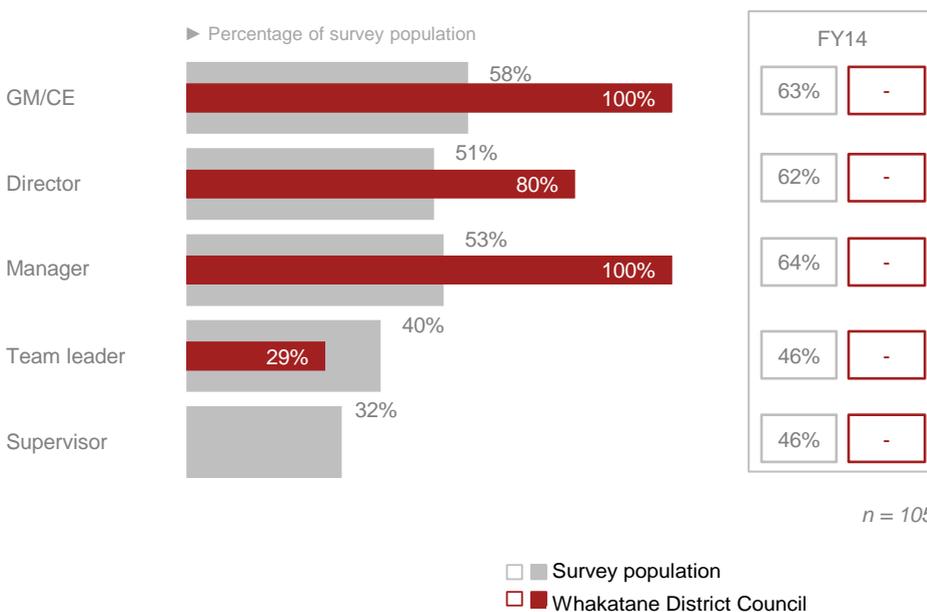


Figure 1.39: Percentage of staff who participated in management development training



Access to management development training (continued)

Management development training programs

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

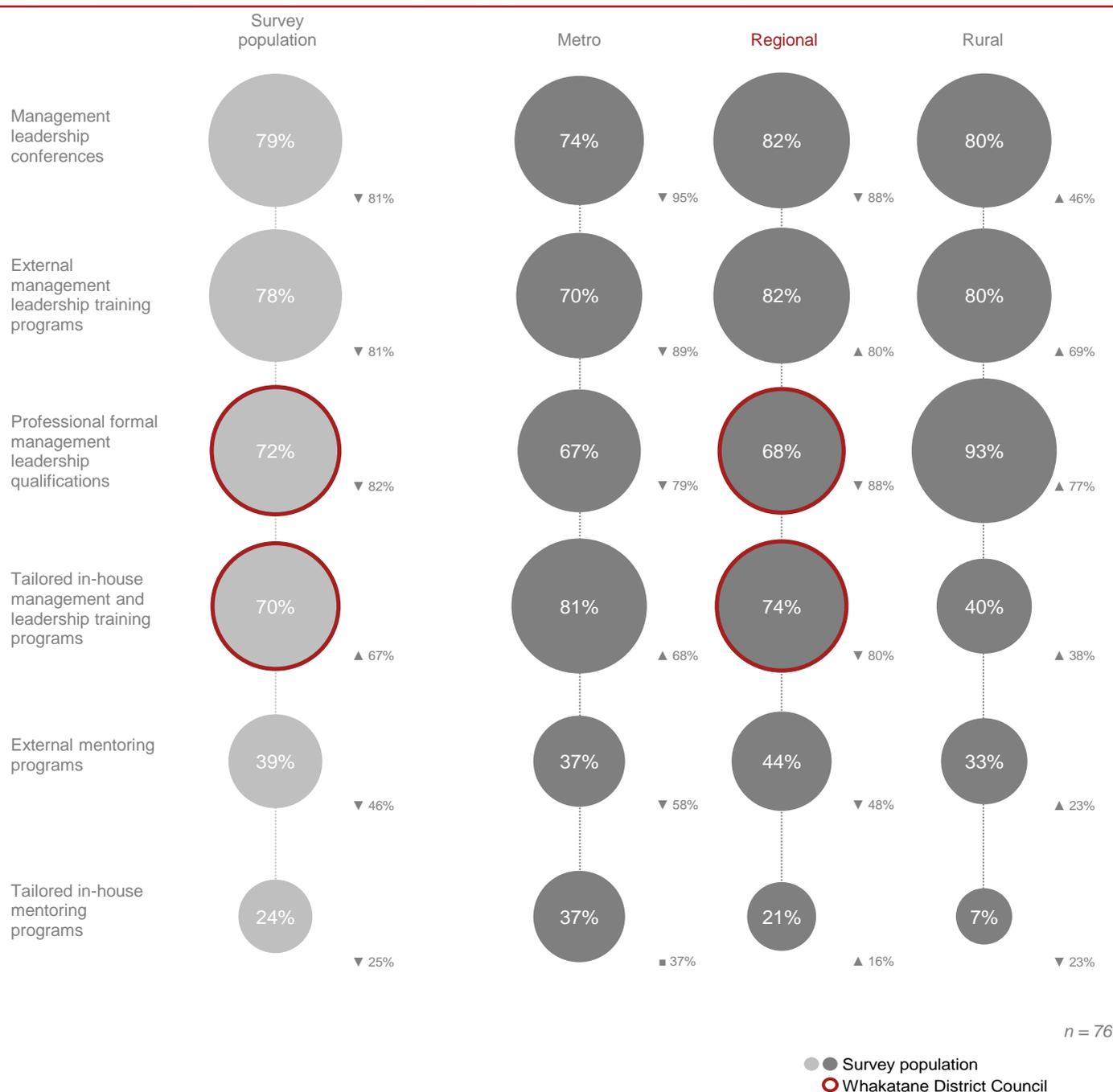
While a formal staff training budget exists in most councils (see Figure 1.36), it appears that management development training is funded in an informal way. Only around half of the councils (51%) have a dedicated budget set aside for this type of training.

Management and leadership focused conferences are the most popular form of management development training, during the 2014–15 financial year. Coming in a close second, at 78%, are external management leadership training programs.

Industry based mentoring programs continue to be less prevalent; only 39% of councils offer such programs. This is an area where aspiring managers as well as experienced 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 FY15?



Strategy and performance are intrinsically linked

Performance appraisal

Formal performance appraisals not only benefit individuals; they allow an organisation to identify skill shortages and plan accordingly. Fostering honest and timely performance feedback can have a significant impact on employee morale and productivity, as well as creating a culture of continuous improvement.

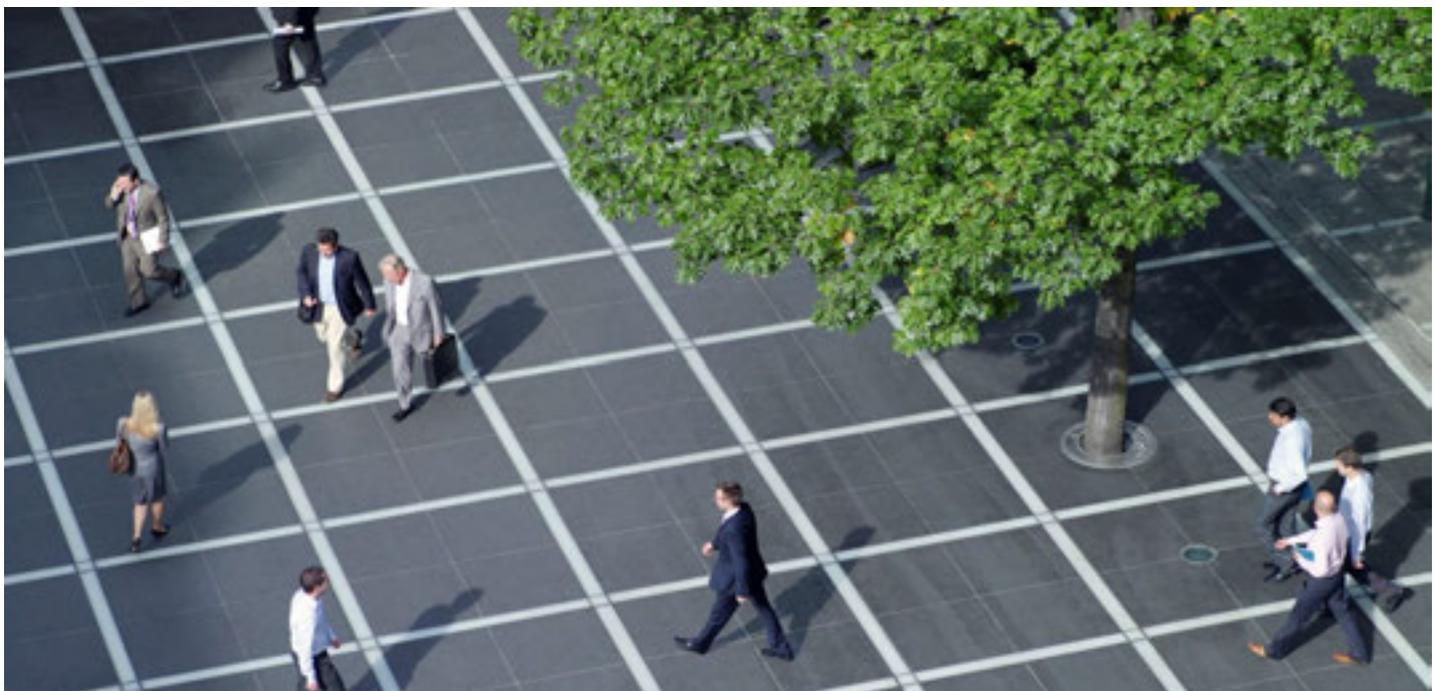
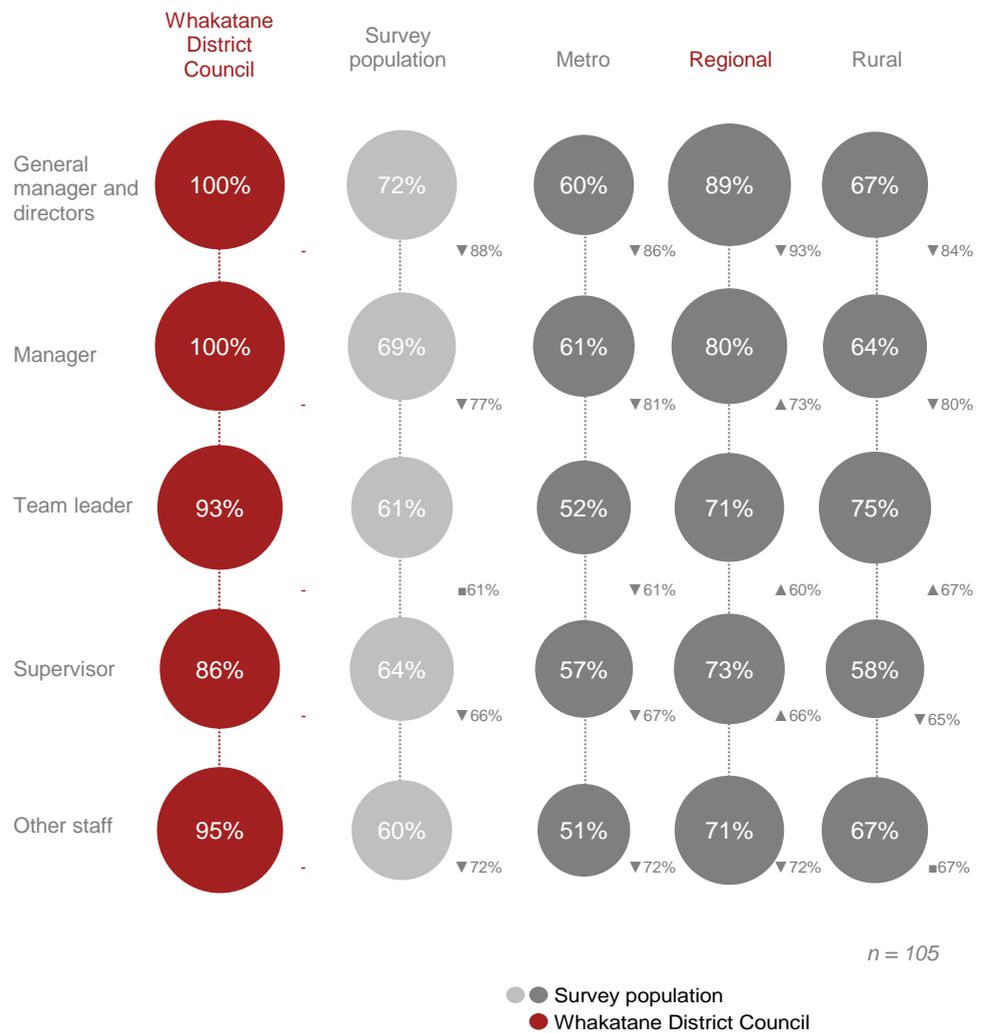
Our survey continues to highlight that GM/CEs and directors (72%) are more likely to receive a formal performance appraisal compared to staff members at any other level. However, the gap has narrowed between this group and the 69% of managers receiving formal feedback during the year.

Regional councils have made great strides in the past year, embracing the importance of providing regular feedback to their employees. They have outperformed metro and rural councils, providing an annual performance appraisal to a far higher proportion of their staff, the only exception being team leaders where rural councils lead the way.

It is important to acknowledge the progress NSW councils are making when it comes to focusing on recognition and feedback to the influential levels of team leaders and supervisors. There are now 69% of managers receiving formal feedback during the year (up from 61% in the prior year) and 77% of supervisors (up from 66%) in NSW councils receiving an annual performance appraisal.

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.

Figure 1.41: How many of your employees had a formal annual performance appraisal in FY15?



Strategy and performance are intrinsically linked (continued)

Linking performance outcomes to the Delivery Program

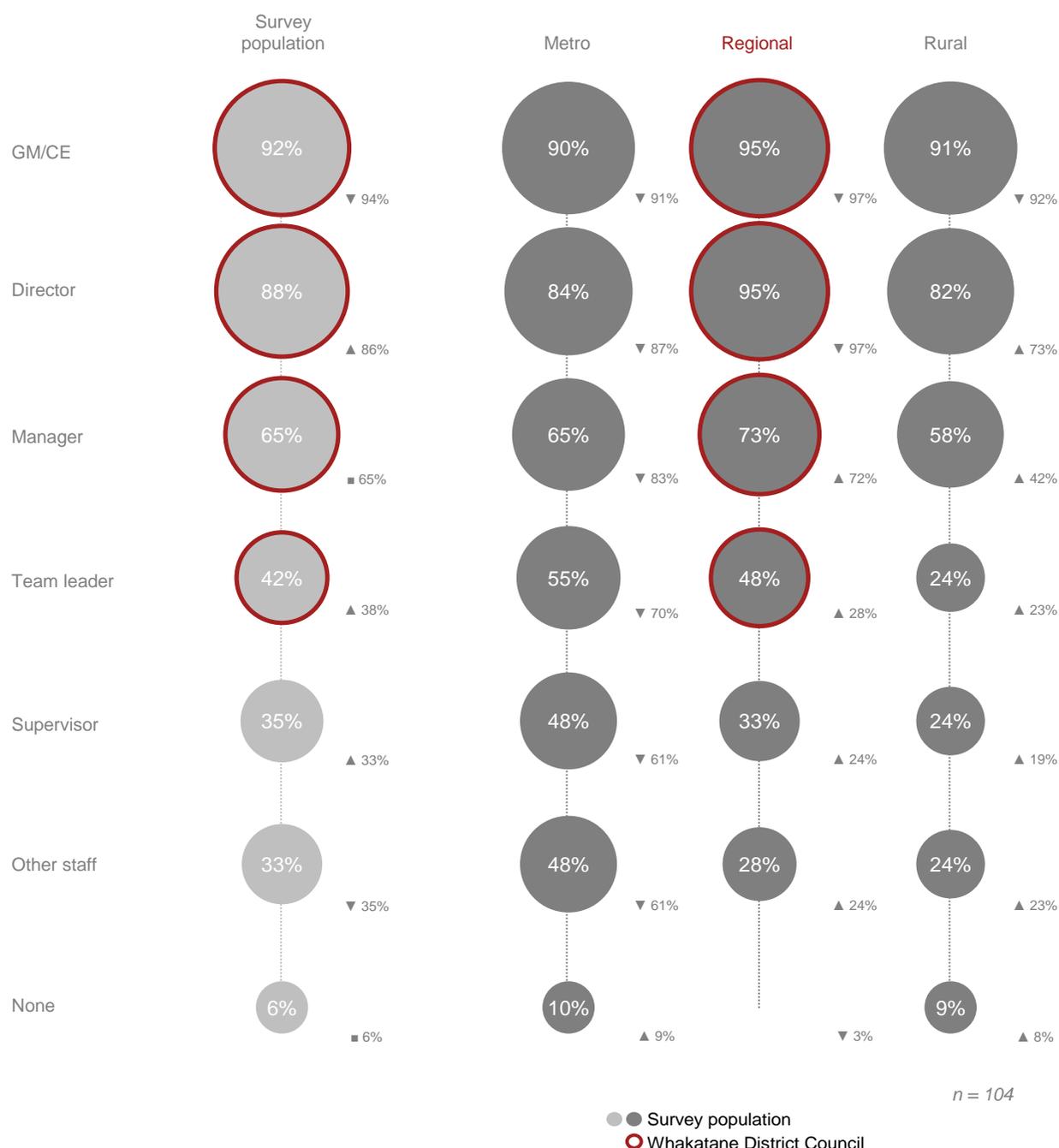
For an organisation to succeed it is considered best practice to establish clear organisational goals and objectives. The next step is to link these goals to an employee's performance appraisal to ensure alignment at both the organisation and employee level.

Our survey findings support this practice, with a continued increase in the proportion of staff with linked performance outcomes. Remarkable progress has been made over the past couple of years within the team leader and supervisor staff levels.

Back in FY13, there were only 26% of team leaders engaged when it came to connecting the council's goals and objectives to their performance outcomes. This grew to 38% in FY14 and now sits at 42% of team leaders having linked performance outcomes.

A similar story exists for supervisors where there were only 22% with linked performance outcomes in FY13, moving to 33% in FY14 and now 35% in FY15.

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

It is very challenging to measure productivity; there are 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.

For councils that have participated in two or more survey rounds, we are able to calculate the percentage of output growth and percentage of workforce growth by comparing these factors between two financial years.

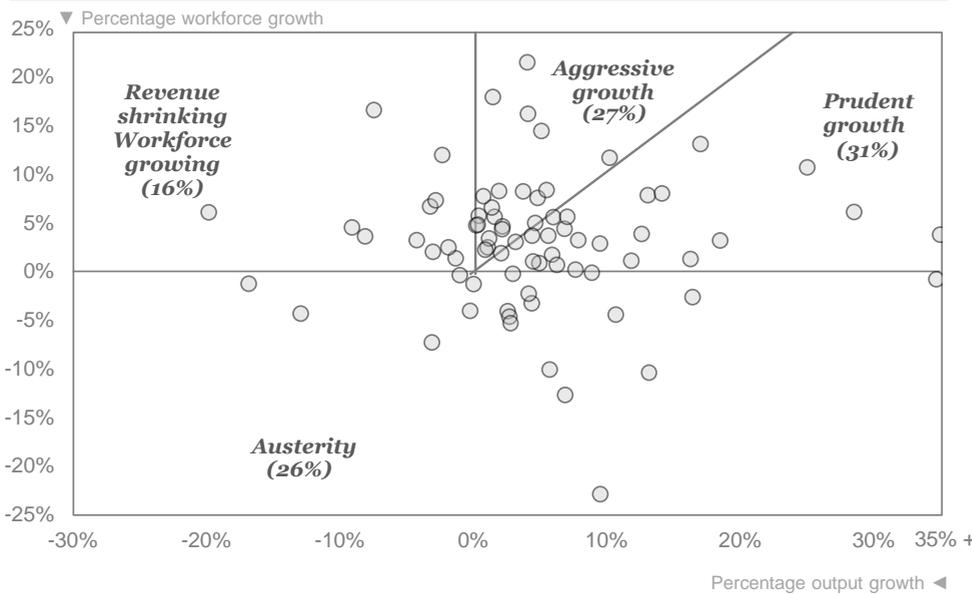
Our productivity measure aims to assess whether councils are improving the balance between the level of their controllable outputs (measured by controllable revenue) compared to the increasing costs of their workforce.

There continues to be a clustering of councils (31% down from 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. This has been offset by an increase in councils within the 'aggressive growth' area (27% up from 20%). This indicates that, during the 2014–2015 financial year, while councils have experienced reasonable output growth, it has been difficult to keep up with the growth in workforce costs.

We continue to observe 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 2013–14 and 2014–15 financial years.

Metro councils continue to experience reasonable output growth relative to workforce costs, with 48% in the 'prudent growth' area. We now see only 6% of regional councils (down from 10%) in the 'revenue shrinking, workforce growing' area, with councils shifting into the 'aggressive growth' (32% up from 28%) and 'austerity' quadrants (36% up from 31%). 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

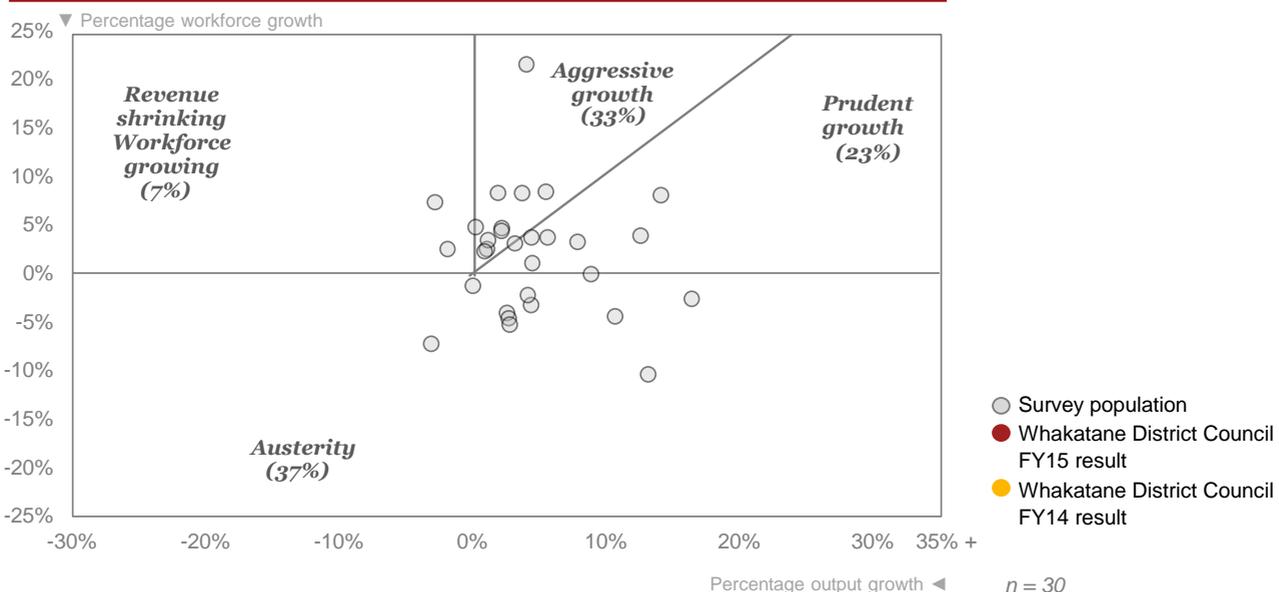


Definition

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.

Figure 1.44: Productivity - Regional councils



Managing lost-time injury incidents

Lost-time injury incidents

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.

During the 2014–15 financial year, we have seen a decline in the average rate of incidents across all age groups of workers. It is encouraging to see the number of incidents per 100 employees for those aged over 60 reducing from 5.1 to 3.2, and those aged 46–60 dropping from 4.1 to 2.9 incidents per 100 employees.

These two age brackets continue to see the highest relative number of incidents per 100 employees. Councils should further explore the nature of these incidents so they can implement awareness and wellbeing programs that target the 46–60 and 60+ 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 serious to minor?
- Do you regularly report volume of incidents by service area to council?



Figure 1.45: Lost-time injury incidents

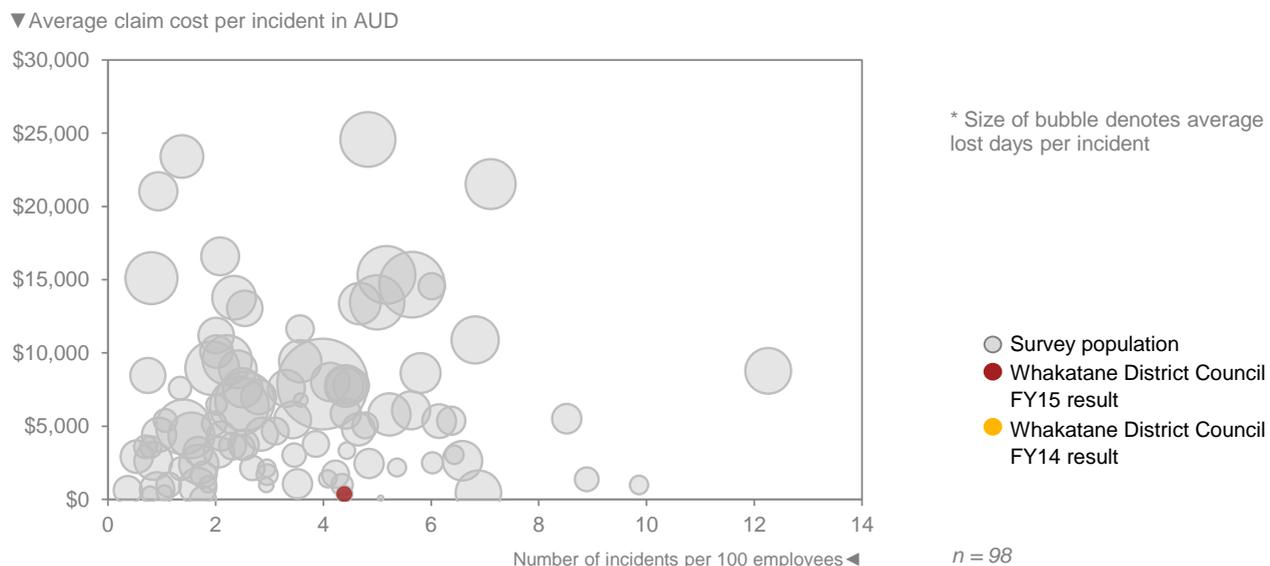
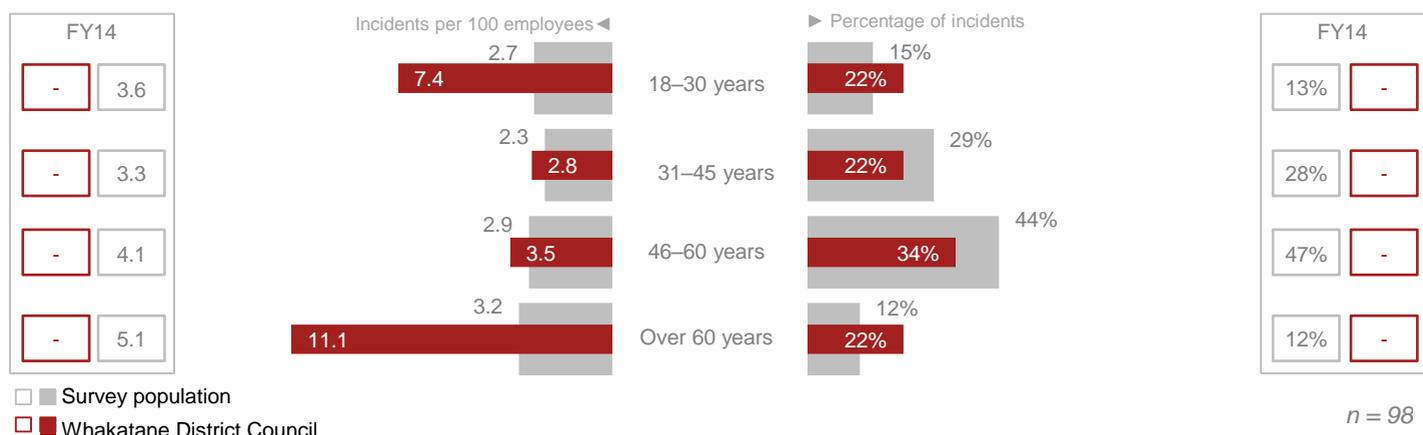


Figure 1.46: Incidents per 100 employees by age bracket



Finance



Finance trend summary

Whakatane District Council

Metric	Council	FY13	FY14	FY15	Change from FY14 to FY15
1. CFO works closely with general manager and leadership team	Whakatane District Council			Yes	
	NZ Survey Population			92% (Yes)	
2. Finance employees with at least a bachelor degree	Whakatane District Council			32%	
	NZ Survey Population			60%	
3. Finance function effort - transactional tasks	Whakatane District Council			72%	
	NZ Survey Population			57%	
4. Finance function effort - business insight activities	Whakatane District Council			13%	
	NZ Survey Population			34%	
5. Cost of finance as percentage of revenue	Whakatane District Council			2.8%	
	NZ Survey Population			2.3%	
6. Frequency of reporting financials to senior management team	Whakatane District Council			Monthly	
	NZ Survey Population			92% (Monthly)	
7. Total elapsed days for the budgeting process	Whakatane District Council			320	
	NZ Survey Population			209	
8. Revenue profile - rates and annual charges	Whakatane District Council			69%	
	NZ Survey Population			60%	
9. Rates and annual charges collected by end of quarter 2	Whakatane District Council				
	NZ Survey Population			54%	
10. Capital expenditure per resident	Whakatane District Council			NZ \$474	
	NZ Survey Population			NZ \$506	

Finance partnering with the business

The role of finance

The role of the Chief Financial Officer (CFO) traditionally comprised reporting and monitoring responsibilities, with less involvement and limited awareness of frontline business operations. Today, however, there is an expectation that an experienced CFO or senior finance professional embraces and promotes strategic transformation, while also safely and reliably managing reporting and control functions.

CFOs are now expected to be focused on commercial insight, not operational duties, to invest in finance people with diverse approaches and ideas for fresh insight, and lead matters in executive meetings. They also need to challenge decision making processes, and harness the potential of real time data analysis and visualisation tools. An effective CFO will be curious and flexible, and be able to learn and evolve as business situations change over time.¹

Our findings show that the CFO is continuing to play a greater role in the development of the strategic vision in local government. More than two thirds of the councils surveyed (68%) have their CFO working closely with their GM/CE and senior executives to define the business strategy (up from 53% in the prior year). Interestingly, 92% of CFOs in New Zealand councils are engaged in a more strategic role, compared to only 59% in NSW councils.

To deliver meaningful insights that drive strategic transformation, local government requires finance professionals who are experienced, creative and highly skilled. Our overall survey findings show an improvement in the qualifications of the finance team, with 46% of finance employees with at least a bachelor degree (up from 34%) and 23% who have attained a postgraduate qualification (up from 16%). These changes in team make-up take time, but can yield big benefits in the long term.

“Leading finance functions continue to drive waste and inefficiency out of their processes, leverage technology and sourcing in innovative ways, and are more aligned with internal customer priorities.”²

Key considerations

- Does your CFO collaborate closely with the business to identify priorities and highlight ways to drive the business forward?
- Is your CFO and finance team continually challenging the status quo?
- Is your finance team examining user needs as a way to reduce repetition, duplication and errors?

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

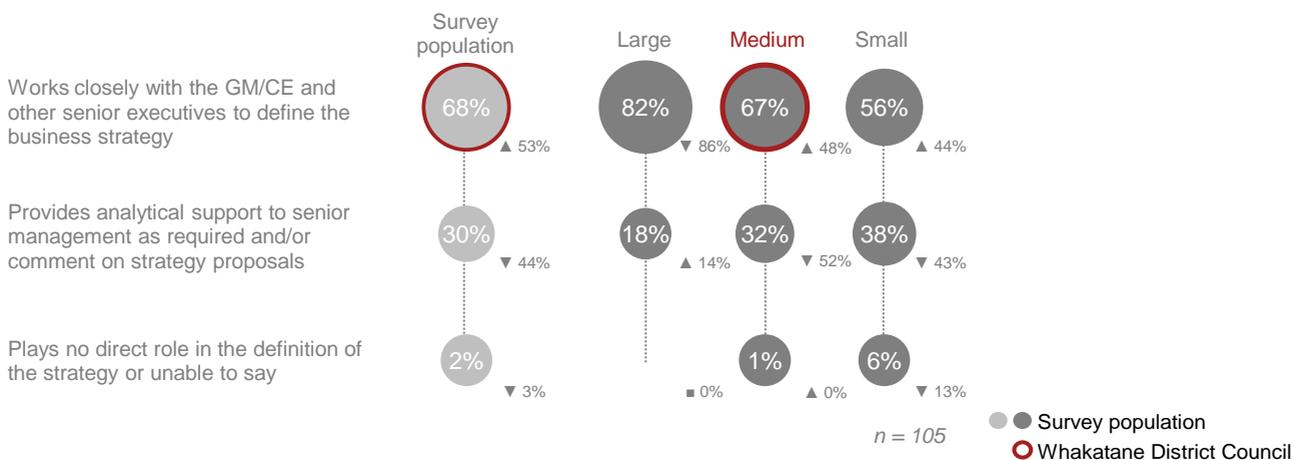
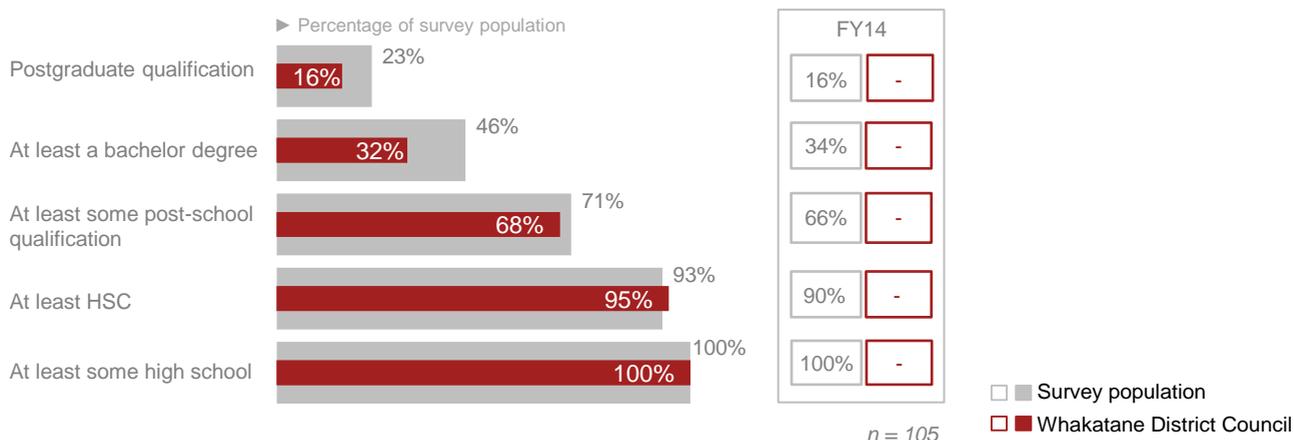


Figure 2.2: Finance employee qualifications (cumulative)



¹ PwC global finance benchmark report 2015, 'Breaking away: How leading finance functions are redefining excellence'.
² Ibid

What is your finance function really costing you?

Finance function activities

Our third year of comparative analysis is showing a reported move towards finance teams devoting more time to business insight activities. The traditional focus on transactional efficiency tasks has fallen from 67% to 61% of total finance effort, and is being offset with 24% of effort (up from 17%) devoted to value-adding business insight activities. This measurement is based on employed resources only, and so those councils that have outsourced some transactional functions (eg Payroll) should expect a lower proportion of effort allocated to transactional efficiency.

This shift to the finance function now devoting 24% of finance effort on business insight activities is broadly in line with the most recent global PwC finance effectiveness findings³. Large councils are actually exceeding the global benchmark of 23%, with 27% of time allocated to business insight. The global findings highlight how leading finance organisations are delivering more commercial impact by harnessing the skills of the insight-focused employees to

analyse and interpret large datasets, allowing them to engage with the business to highlight the commercial implications with confidence.

The key elements of a high performing finance function⁴ include:

Business insight relates to effective ways of working with the business to provide valued business partners; sustainable business growth; and relevant and timely performance management information.

Efficiency means improving task performance in a timely and cost-effective manner by simplifying processes enabled by technology, and outsourcing and using shared services for non-core activities to make transactions more efficient.

Compliance and control relates to the need to balance sustainable cost without constraining the business by optimising risk management, and remaining flexible enough to accommodate future changes in regulation.

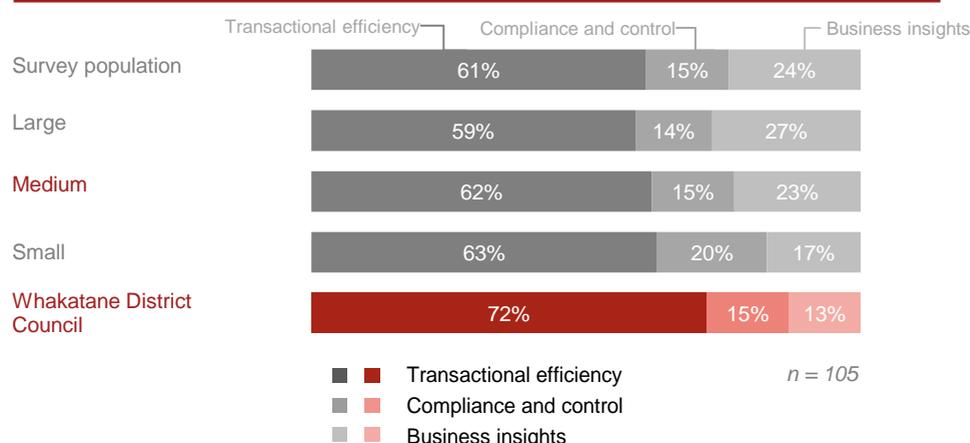
Finance function cost

Understanding the cost of the finance function is important when assessing the current value derived and changes that may be required to create further efficiencies. In large councils, the median cost of finance as a percentage of revenue, has trended downwards from 1.6% to 1.5%. This comes at the same time as large councils are adjusting how they target resources by engaging finance effort in more business insight pursuits.

Medium councils are now operating with a higher median finance cost of 1.9%, driven largely by the inclusion of new survey entrants. This may be a result of the increased business insight focus having a greater impact, due to the initial investment required to recruit higher qualified finance professionals. Small councils, on the other hand, continue to operate at a median cost of 3.1% of revenue.

As a comparison, the recent global PwC finance effectiveness findings⁵ show that organisations with revenue below USD\$1 billion have a median finance cost of 1.7%, with the lowest-cost quartile in this group operating at 0.97%

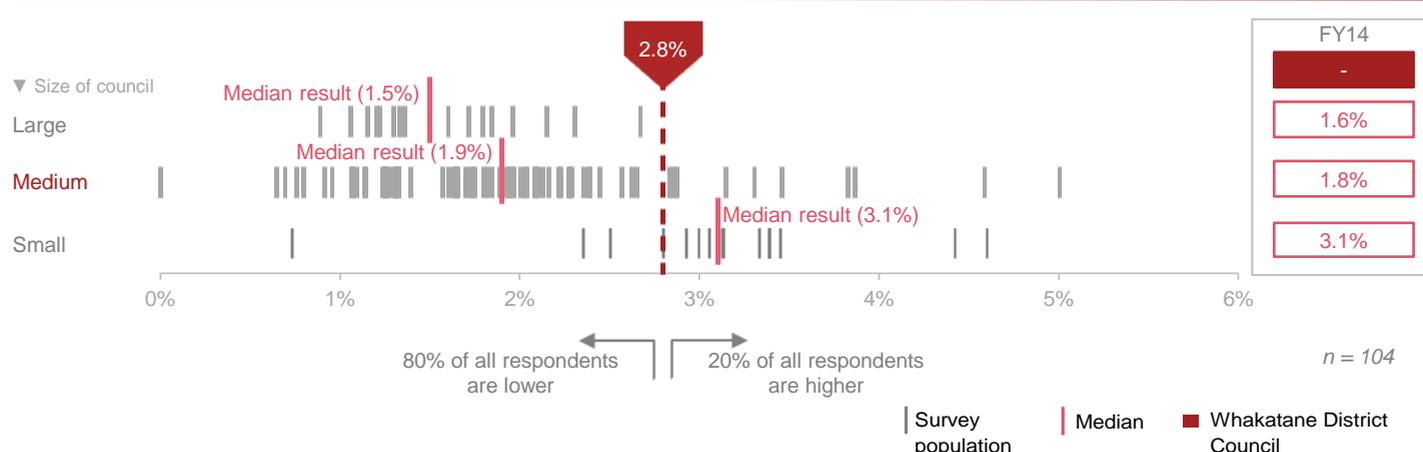
Figure 2.3: Finance function effort by process



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 2.4: Cost of finance as a percentage of revenue



³ PwC global finance benchmark report 2015, 'Breaking away: How leading finance functions are redefining excellence'.

⁴ Ibid.

⁵ Ibid.



Case study: Gisborne District Council Financial Business Intelligence (FBI)

When did Gisborne District Council (Gisborne) identify there was a case for change?

We knew that the finance team were working hard but they weren't working smart and that was simply a reflection of the tools they had inherited. In 2013, we utilised PwC to undertake a finance function stocktake from both a customer and finance perspective. The key message delivered was the need for smarter financial management and reporting tools. At the same time, our council was going through a business transformation and our council values provided us with direction - we needed to make it **smart**, we needed to make it **easy**, and we needed to make it **happen**.

What was the chosen solution?

We designed FBI - Financial Business Intelligence - which provides us with smarter and easier financial reporting. It's a financial datamart updated using an ETL (extract, transform, load) approach with Microsoft's integration services which provides an agnostic financial solution allowing us to analyse our financial data in ways we couldn't before. Or as finance see it, provide the magic numbers that appear each day.

As a high level summary, the process is:

- Extract and validate our data
 - Transform the data into a format optimised for analytics
 - Merge and load the transformed data into the analytical database
- This process is accurate and automated.

This provides us with:

- Key performance indicators across any view of the organisation
- Trend and comparative reporting enabling decision making
- Budget reforecasting, measuring against our annual plan
- Project and programme reporting views which are simple to view and drill down
- Position portals bridging the gap between management reporting and current financials
- Full suite of statutory financial reports (which used to be in unlinked manual spreadsheets)
- Links back to source systems and Excel OLAP for audit & analysis

What criteria did you use to decide on your chosen solution?

The first question we asked ourselves was whether we needed to use all the data that we currently collect. The response was yes - we needed the ability to use all of our data to understand and own financials, enable better and more timely decision making, and measure financial performance across the whole Council.

We then explored how we were going to achieve this. We **understood** our data and the associated **business knowledge**. We knew what we **wanted** and understood the **gaps** within our ERP. We had the **technology** in existing Microsoft licensing. We wanted a **complete** financial solution delivered with no ERP **development** – this meant resolving gaps through **smart design**. We did not introduce any new tools – we built on the existing capability within our organisation: OLAP in Excel for ad hoc analytics (slicing and dicing), and reporting services for intuitive easy to use business intelligence reporting solution.

External collaboration was key to mitigate risk associated with the in-house development of FBI. Datacom recognised the benefits of our FBI solution and so a partnership was formed which included the exchange of the FBI solution. This extended the support framework of FBI - mitigating any risks of isolating it within the council.



What challenges did you face? How did you work to resolve them?

To implement such a huge cultural change within an organisation required collaboration. We knew what we wanted FBI to deliver from a finance perspective but we also had to ensure it met the needs of the wider business – this required communication, workshops and constant engagement.

We also needed a culture change within the finance function, moving the finance team from static Excel-based reporting to dynamic and intuitive drill down reporting.

As we had already committed to only increasing annual rates by 2%, for the next 3 years of our long term plan, we had to be innovative using existing architecture and resources to solve this problem.

How was the solution implemented?

FBI was an agile project, with daily scrums, quick sprints, and workshops and user group feedback, all ensuring we met our user's needs.

- 1st 90 days – FBI framework through excel OLAP deployed to Finance
- 2nd 90 days – FBI reporting solution deployed to all of Council
- 3rd 90 days – FBI financial statements through excel OLAP deployed to Finance
- 4th 90 days – FBI financials statements solution delivered to the Business

A complete financial reporting and business intelligence solution delivered in one year

What were the results of the chosen solution? How long did it take before results were seen?

Tangible performance measures included a reduction of external debt to 84% of budget which was a requirement going into our 2016 Long Term Plan; we completed 99% of our capital programme; and year-end operating expenditure was pulled back to within 3% of budget.

Other intangible performance measures included moving our stakeholders towards using FBI; improving the engagement of our managers within the finance team; reduction in use of static spreadsheets, etc.

What are you working on next?

This has been the first delivery of our overall BI work programme. Revenue and performance are now in the testing phase, and Asset and Environmental in scoping phase – an important area with future requirements looking toward standard data schemas, providing for open data nationally. We are applying the same process and framework as FBI to all of our core datasets: we have the business knowledge, and we understand our data, we just want the ability to use it.

This entire BI solution will be provided through Council Intelligence & Analytics – or as we like to call it CIA – a single source of the truth for council reporting and data solutions

What would you do differently? What recommendations would you give for councils looking to pursue a similar solution?

As mentioned above, the culture change is the biggest challenge to overcome. Here are some specific tools we used to ensure the success of the program:

- Workshops to ensure business needs were being met.
- Training sessions on how to use the tool. Simple 5 minute instructional videos were also provided to support our users and reducing the reliance on finance.
- Instructional powerpoints to help users understand our new financial key indicators.

FBI has now been implemented at two other councils (so far) and is now offered as the standard financial reporting tool for Datacom Local Government.

"We didn't just build FBI for us, we built it for local government."

How efficient is your finance function?

Days to close and manual journals

A prolonged monthly close-to-report cycle time can indicate an unbalanced amount of data-gathering effort and focus, rather than value-driven analysis and interpretation of results. It is crucial for the CFO and senior management to receive timely and accurate information to support efficient decision making.

Our survey shows an improvement in the speed of the close-to-report process, with a median of 11 days, compared to 14 days in the prior year. Councils in the top quartile are making remarkable progress, providing financial results in only 4 days (down from 6 days in the prior year).

Councils taking more than the median of 11 business days to provide management with financial results, 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. Our findings show that just over one quarter of councils (28%) are still 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; 59% of large councils process 1,500 or more manual journals, compared to only 7% 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.

Key considerations

- Do you have a smart and efficient close-to-report cycle?
- Have you standardised your data and investigated or implemented an automated approach to data collation?
- Are you using low-cost data analytics tools to improve data visualisation allowing for more rapid interpretation of results?

Figure 2.5: Days to close and report for March 2015 month end

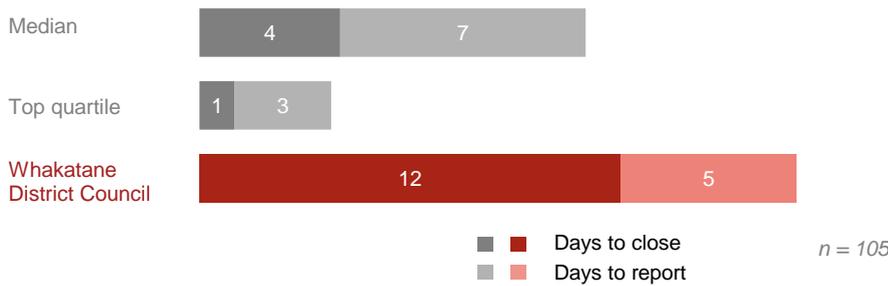
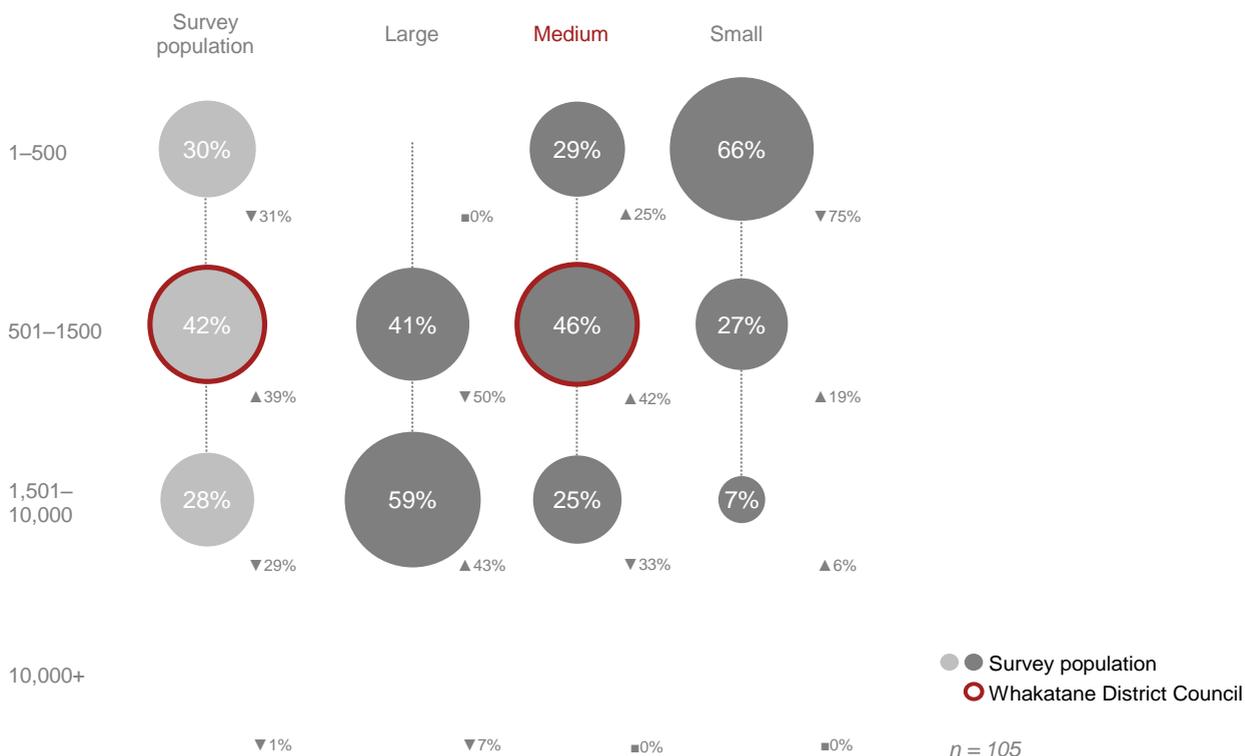


Figure 2.6: What was the total number of manual journals processed in the year ending 30 June 2015?



Delivering insights to senior management

Finance policy

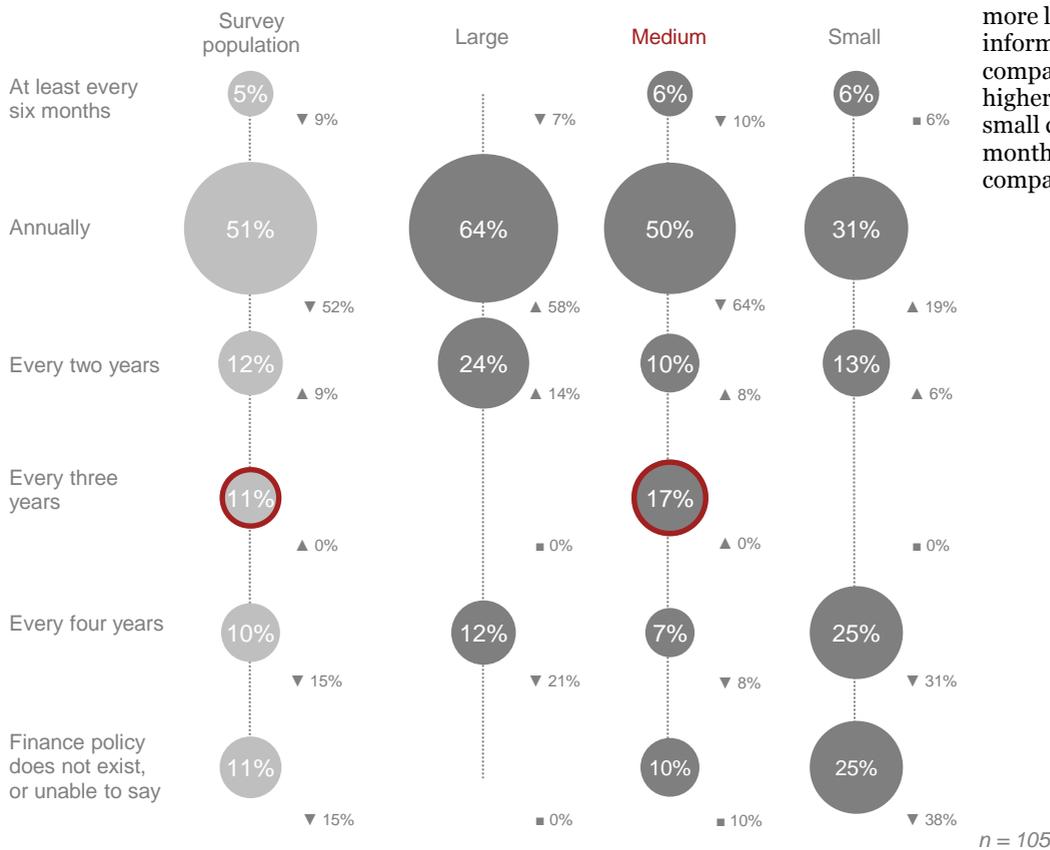
Just over half of the surveyed councils are continuing to review their finance policy on an annual basis. Large councils continue to apply a higher level of rigour, with 64% reviewing every year. Small councils have notably improved their oversight and review of the finance policy, with 31% now reviewing annually (up from 19% in the prior year).

New Zealand councils are almost evenly split, with 50% that review annually and 46% that review based on the statutory three year planning cycle. In comparison, 51% of NSW councils review annually and are then dispersed across the other frequency categories. The 11% of NSW councils without a finance policy have an opportunity to apply improved governance in this area.

Reporting to management

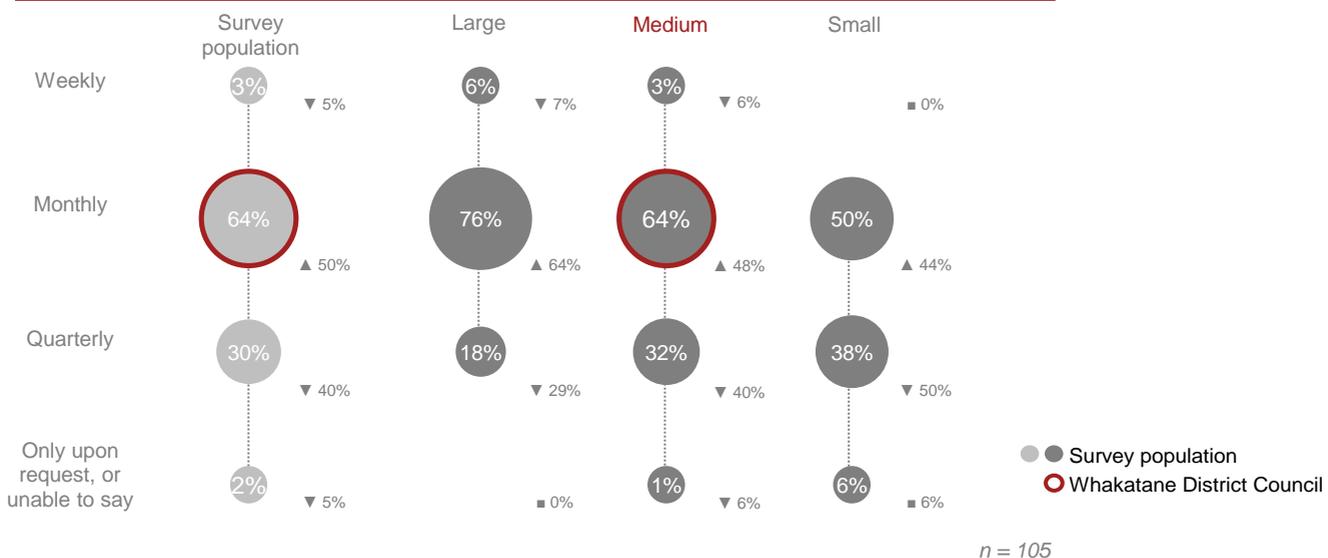
An important role of the finance function is to provide timely insights to the senior management team. We are now seeing 64% of council finance teams (up from 50%) sharing approved financial information on a monthly basis with senior management. This is driven by New Zealand councils, with 92% reporting on a monthly basis, compared to 54% of NSW councils doing the same (up from 50% in the prior year).

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



While large councils are still 1.5 times more likely to receive this financial information on a monthly basis (76%) compared to smaller councils (50%), a higher proportion of finance teams in small councils are now reporting on a monthly basis (50% up from 44%), compared to the prior year.

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



Delivering insights to senior management (continued)

Sharing financial results

Supporting both senior and junior finance team members to build relationships with their peers in other areas of the business allows for a better understanding of what key insights are needed to make business decisions. Encouraging this collaborative approach between the finance team and other business units can lead to improved efficiencies as well as a level of empowerment among the finance team.

Sharing financial results and business insights with various levels across a council is one way to create a culture where employees within business units become 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

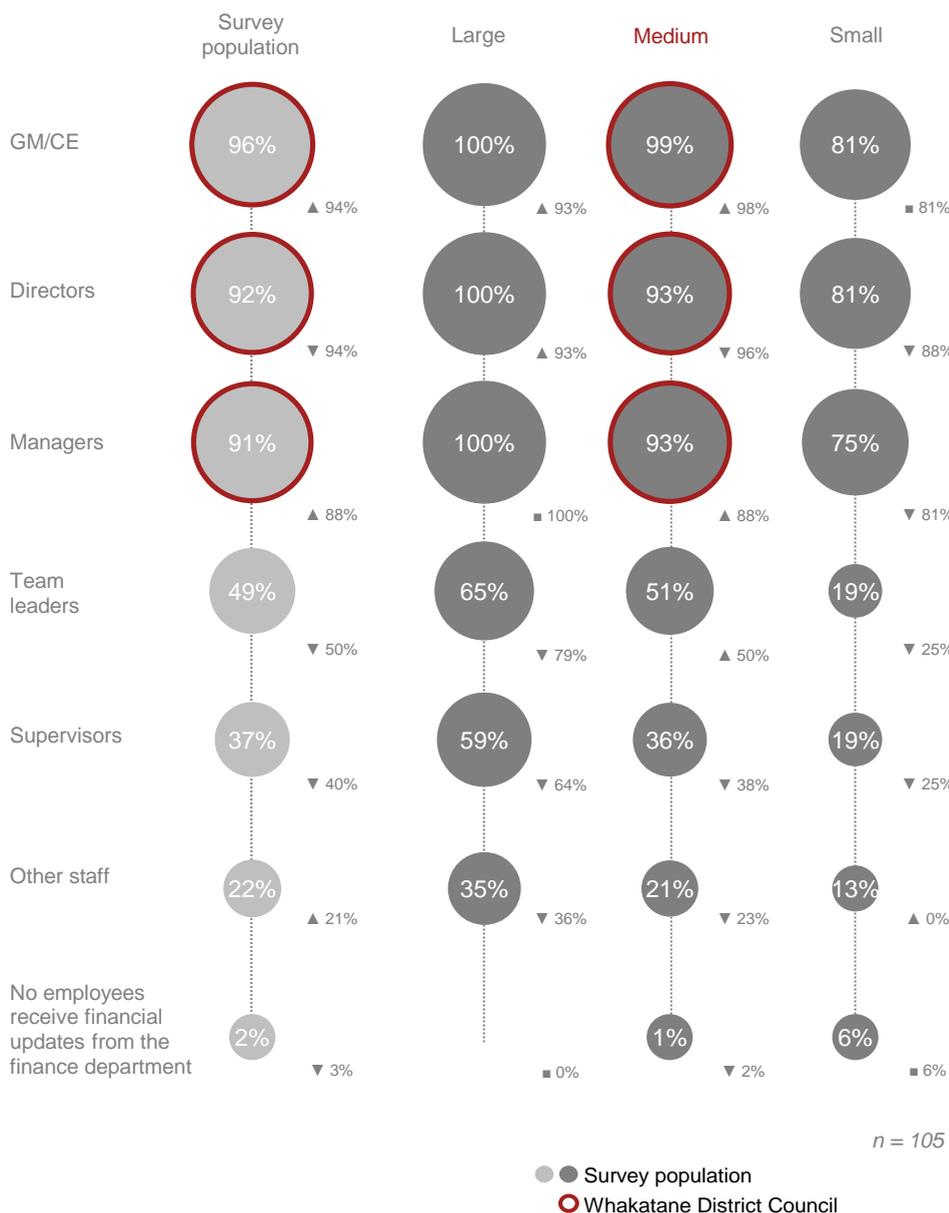
drivers – and consider what it means to their business unit and team – before they move into the more senior levels of management.

While the survey results suggest extensive sharing of financial results with managers, directors and the general manager or chief executive, especially in large councils, this drops dramatically when sharing financial information with lower levels of management – 49% of councils share with team leaders, 37% with supervisors, and only 22% with other staff.

Key considerations

- Has your finance team been empowered to initiate more effective planning and cross-skilling between resources to allow for greater flexibility in how demands are met?
- Are you encouraging and rewarding a shift in mindset – moving from performing the same tasks each month, to engaging with the business to better understand what insights are needed for effective decision making?
- Is peer to peer relationship building across finance and other parts of the business rewarded and encouraged?
- Have you supported your finance team with increased communication skills training?

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



Balancing insight and efficiency

Budgeting

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 124 business days in small councils to 171 business days in large councils.

In comparison, the recent global PwC finance effectiveness findings⁶ show that the median budget cycle was 95 days in the 2013-14 financial year, falling from a median of 103 days in the prior year.

The global study states that gains are being driven by organisations fundamentally rethinking the budget process, as well as improvements in technology and automation.

The global results are in stark contrast with our local government sector findings. While the regulated nature of the environment is undoubtedly a factor in this difference, councils should remain alert to the fact that a longer process will unavoidably consume more resources from across the organisation.

Looking deeper into the budget process in Figure 2.11, we see that finance teams continue to spend most of their time preparing and refining the budget to obtain general manager approval, with a median of 90 elapsed business days, representing 63% of the total budget time. The next stage takes just under half that time, with a median of 44 business days for council to review and approve the budget, representing 31% of the total budget time. Finalising and loading the budget is the final stage and represents 6% of the total budget time.

Figure 2.10: Total elapsed business days for the budgeting process

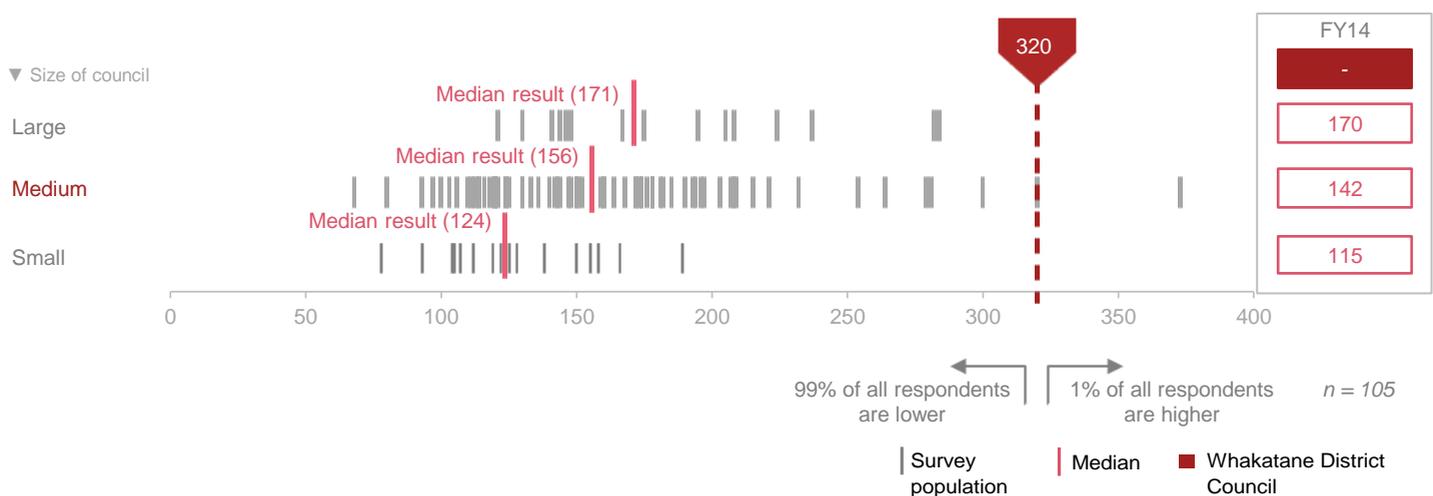
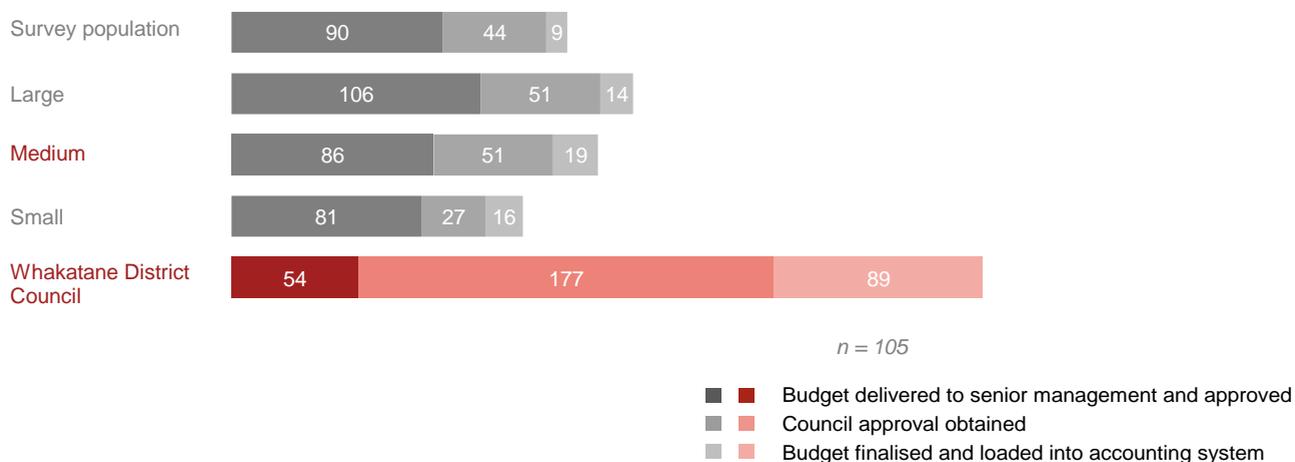


Figure 2.11: Breakdown of budget stages – elapsed median business days



⁶PwC global finance benchmark report 2015, 'Breaking away: How leading finance functions are redefining excellence'.

Balancing insight and efficiency (continued)

Forecasting

A finance team that creates an environment where a rigorous forecasting process is valued and relied upon should be in a better position to identify emerging trends and highlight business risks and issues, in a timely manner. The next critical step is to understand and act on the forecast variances with a resolution to deliver actionable insights.

It is encouraging to see that 89% of councils are investing in a formal forecasting process, with metro councils 1.2 times more likely to prepare forecasts (94%), compared to rural councils (79%). However, these forecasts could be prepared more frequently; only around one-quarter of councils prepare a monthly forecast (24%).

According to the PwC Australian federal and state government corporate services benchmarking report⁷, which surveyed 20 Australian government organisations, 65% of these Australian Government organisations prepare forecasts on a monthly basis. By comparison, our local government result of 24% is significantly lower and may suggest that the time taken to prepare budgets in local government is encroaching on what may be a more valuable use of time by senior finance staff. Preparing forecasts more frequently may assist in a faster and more efficient budget process.

Key considerations

- Which areas of the planning, budgeting and forecasting process could you improve by increasing automation?
- What processes do you undertake to understand forecast variances to budget and how do you work to mitigate future risk?
- Have you considered monthly forecasting as an essential business management tool to allow for better planning and

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

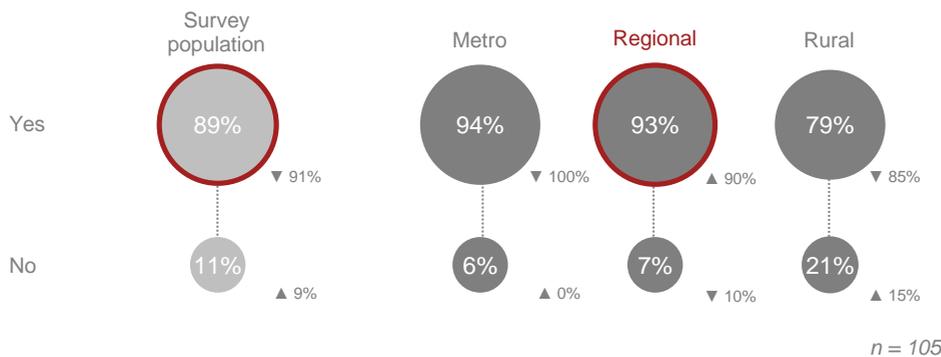
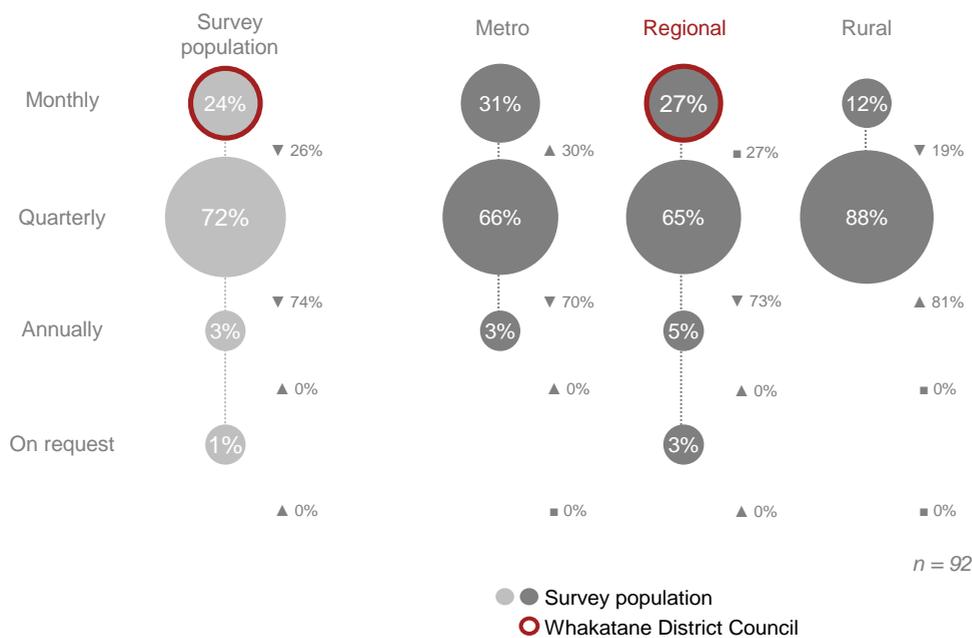


Figure 2.13: How frequently are forecasts prepared?



⁷ PwC Australia 2014, Benchmarking of Commonwealth and State government corporate services, 'Sustainable Productivity'

Are you leveraging technology to create real-time insights?

Finance processes

As a result of digital advances, the opportunity now exists for finance teams to transition to more timely and insightful management reporting. Using the latest business intelligence and data visualisation packages allows for more self-service reporting that in turn creates more agile users. Leading finance teams are already spending a lot less time moving data between spreadsheets to prepare information. Their role is to interpret the data and present meaningful insights to the CFO and key stakeholders.⁸

It is, therefore, encouraging to see that the proportion of councils manually loading information into spreadsheets to produce financial reports, has reduced to 33% (down from 41%). This is now lower than the 37% of Australian Government organisations⁹ doing the same procedure.

While we see an increase in the proportion of councils (26% up from 22% in the prior year) tackling these challenges by increasing their use of business intelligence (BI) tools, this is driven by the 39% of New Zealand councils investing in BI tools, compared to 22% of NSW councils.

Despite the difference, when compared to only 11% of Australian Government organisations using BI tools¹⁰, this is a significantly higher uptake of these time-saving and value adding tools.

We continue to see a high reliance upon financial reports being produced using spreadsheets and manual manipulation of data in small councils (55%), compared to 24% of large and 31% of medium-sized councils.

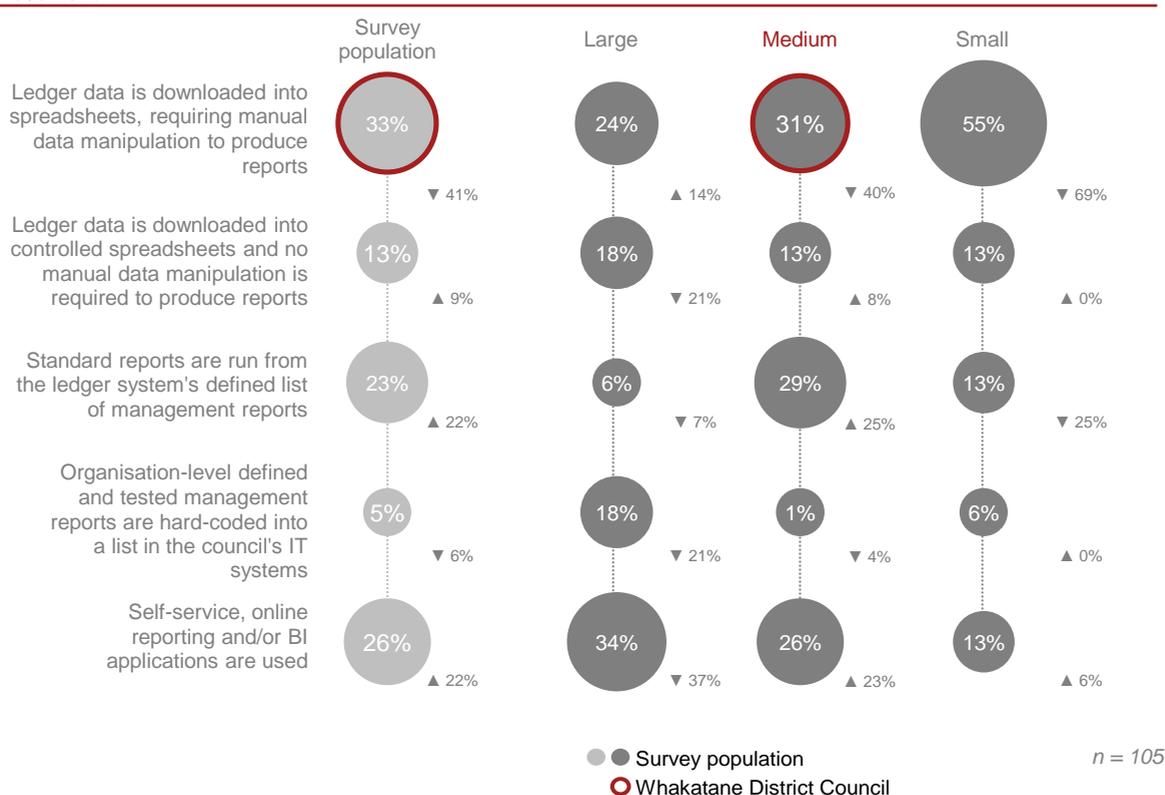
If the option to invest in BI tools is limited, it is essential to create a spreadsheet inventory and well-defined protocols regarding the control, manipulation and review of the data. Appropriate training on these protocols is essential for all finance team members.

This spreadsheet inventory should include an initial baseline integrity check of existing key spreadsheets. In addition, assessing the need for current reports and asking the business how they assist in generating insights, is a necessary step in unleashing the time burden on finance team members to produce unused reports.

Key considerations:

- Does your management team feel it has the information it needs to proactively make decisions about the council?
- When did your finance team last conduct a review with a focus on eliminating redundant reports?
- Would investing in business intelligence and/or data visualisation tools help your council focus on the right performance measures?
- Is your finance team frustrated by their lack of time and/or the need for significant manual manipulation to interpret results and add business insight?

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



⁸PwC global finance benchmark report 2015, 'Breaking away: How leading finance functions are redefining excellence'.

⁹PwC Australia 2014, Benchmarking of Commonwealth and State Government Corporate Services, 'Sustainable productivity'

¹⁰Ibid..

Source of income

Revenue profile

We can see a vastly different mix of income between NSW and New Zealand councils. While NSW councils derive almost half of their revenue from rates and annual charges (49% down from 51% in the prior year), this same source of revenue represents 60% of all income across New Zealand councils.

The reliance upon grants differs significantly, with 25% of total income in NSW councils represented by grants (up from 23% in the prior year), compared to only 10% in New Zealand councils.

We also acknowledge that New Zealand councils derive 13% of their income from alternative income streams; this is more than double compared to NSW councils, where only 6% (up from 5%) comes from other income.

It is essential that councils actively review their current revenue profile, looking for additional or different sources of incomes. It is important to determine how best to gain more control over this critical component for future sustainability.

Key considerations:

- Does your council have the right skills, resources and ability to identify additional income opportunities?
- What dormant opportunities lie in your existing income streams, fees and services?
- Are your finance teams aware of all the various income streams available to your council?
- Have you carefully analysed new service pricing options in a bid to maximise revenue?

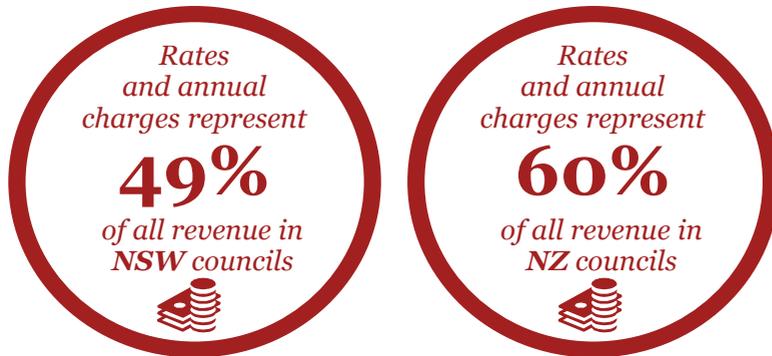
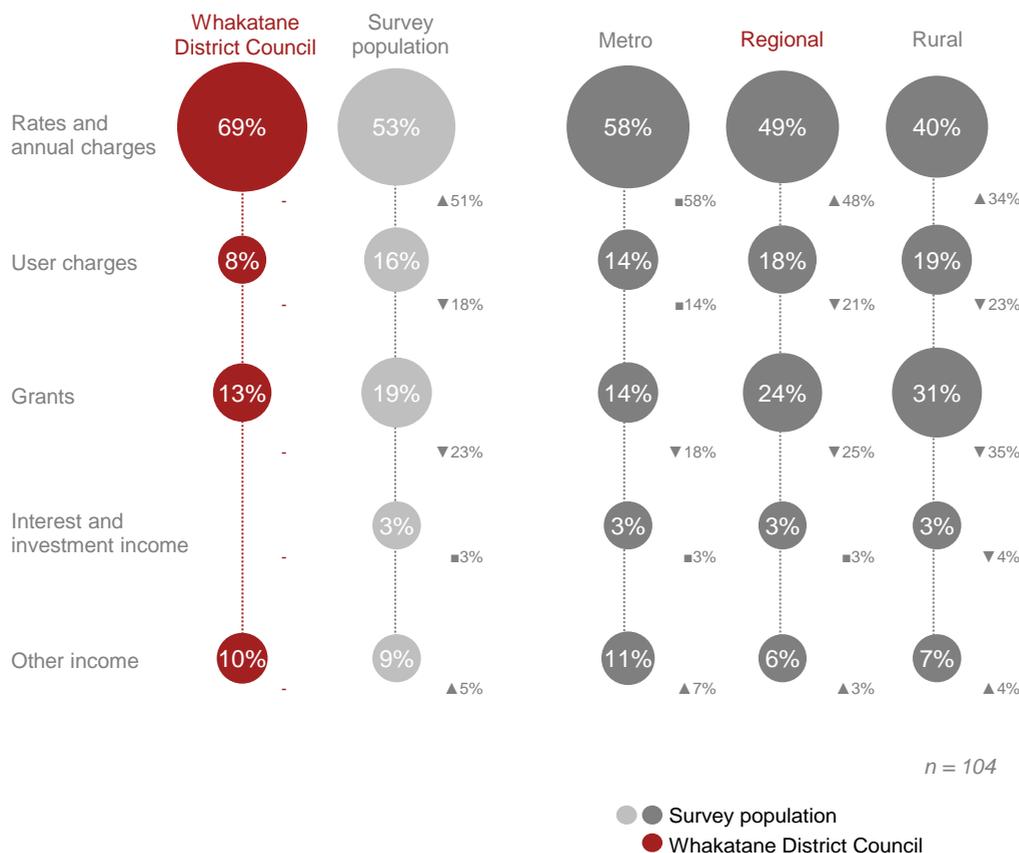


Figure 2.15: FY15 revenue profile



Rates revenue

Category of rates

It is important for each council to understand the extent of its access to different categories of rates and rate payers. This is due to the fact that rates are the principal form of own-sourced income and the most efficient means available of raising funds to cover essential services and infrastructure.

Our survey continues to indicate a very high reliance on residents and businesses in terms of efficient cash collection (see Figure 2.16); residents comprise 71% and businesses 25% of all invoiced rates.

When calculating cash collected as a percentage of rates invoiced (see Figure 2.17), residential and business ratepayers tend to pay their rates promptly; councils collected 98% of invoiced rates for both categories, during the 2014–15 financial year.

While farming only comprises 3% of total rates invoiced, it is important to note that councils with farming ratepayers may find their rate collections to be more volatile, compared to councils with a higher reliance on residential or business ratepayers.

Our survey shows that the percentage of farming invoiced rates collected in the 2014–15 financial year was far lower for this group of ratepayers, with only 90% of cash collected for farming rates. Councils in this position may need to consider how slower cash collections may impact service delivery, and whether priorities need to shift should rate revenue decrease or take longer to collect.

Overall your council collected **98%** of total invoiced rates in FY15

Figure 2.16: FY15 category of invoiced rates

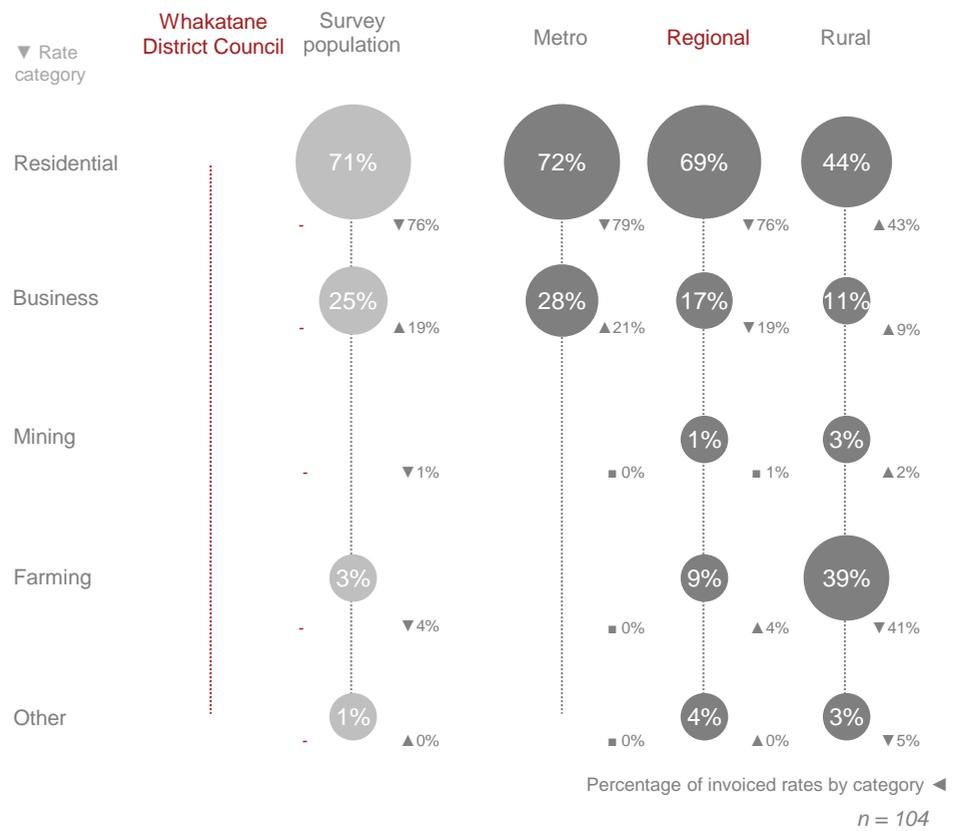
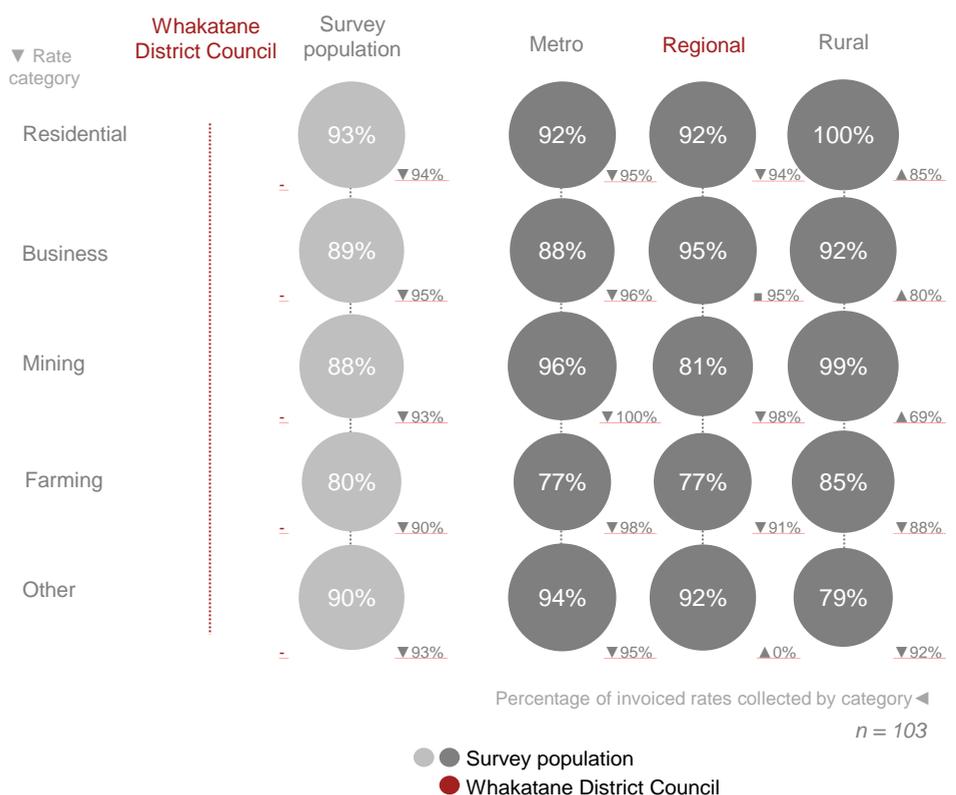


Figure 2.17: FY15 collection of rates



Optimising working capital

Collection of rates and annual charges

Maintaining a focus on the speed at which rates and annual charges are collected throughout the year allows councils to better understand whether working capital is being managed effectively.

Facilitating easy payment options for rate payers, as well as automating financial processes, can help build agility into labour-intensive activities, and improve the relationship between councils, rate payers and suppliers.

Figure 2.18 shows the cumulative collection of rates and annual charges compared to the survey population, and figure 2.19 displays the quarterly cash collections, during the 2014–15 financial year.

Metro councils lead the way in efficient cash collections, with more than a third (35%) of their total rates and annual charges collected by the end of quarter one, compared to only 26% in regional (down from 34% in the prior year) and 27% in rural councils (down from 35%).

This downward trend during quarter one tends to be due to slower cash collections in New Zealand regional and rural councils, while NSW regional and rural councils are collecting cash at a comparable rate to the prior year.

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: FY15 cumulative collection of rates and annual charges

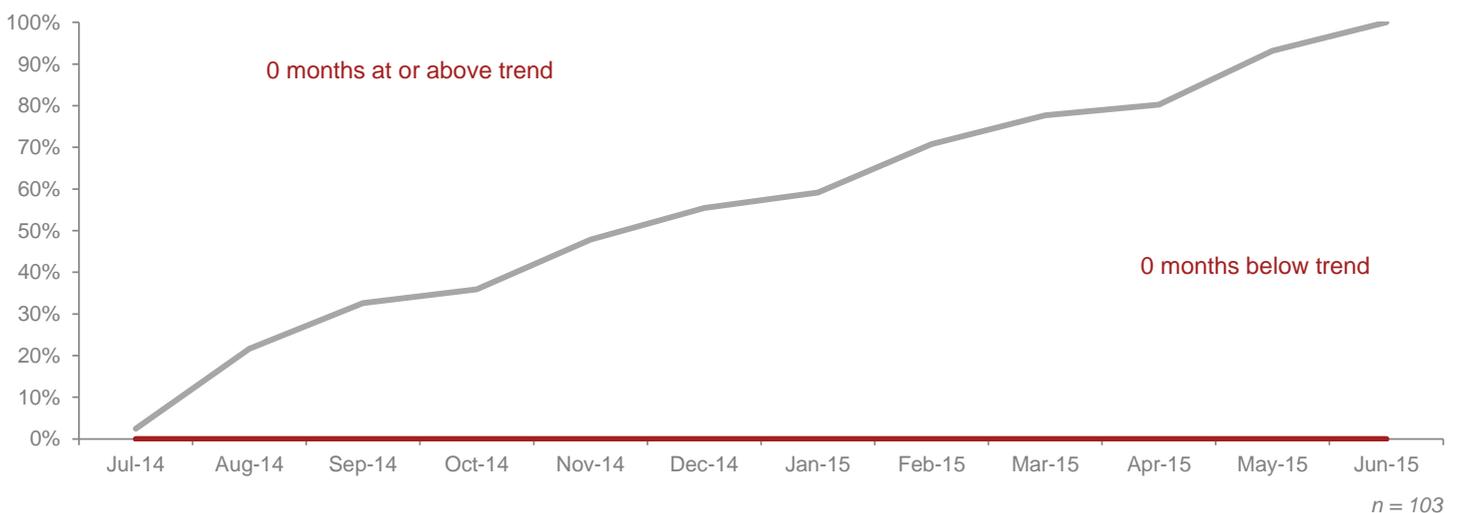
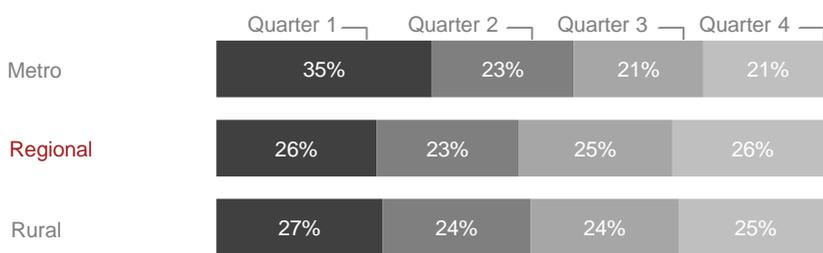


Figure 2.19: FY15 quarterly collection of rates and annual charges



Whakatane District Council

Percentage of rates and annual charges collected ◀

n = 103



Automating the billing process

Electronic delivery of rates notices

More consumers are opting to receive utility, phone and other household bills electronically. However, based on the councils surveyed, this level of automation in delivery of rates notices is remarkably low. The overall median shows that only 0.6% of total rates notices issued during the 2014–15 financial year, were delivered electronically. Metro councils lead the way when it comes to automating this component of the billing process, with a median of 1.3% of total rates notices delivered electronically.

New Zealand rate payers appear to be slightly earlier adopters of electronic rate notices, with a median of 1% of total rate notices delivered electronically, compared to a median of 0.4% for NSW councils.

Electronic billing allows councils to reduce paper and postal costs, and improve cash collections. Councils that offer this service but have a very low adoption rate may need to investigate ways to further promote electronic billing among the community, including consideration of an opt-out implementation of electronic billing.

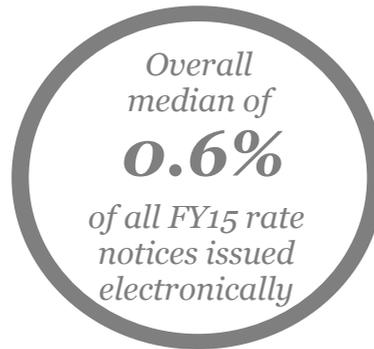
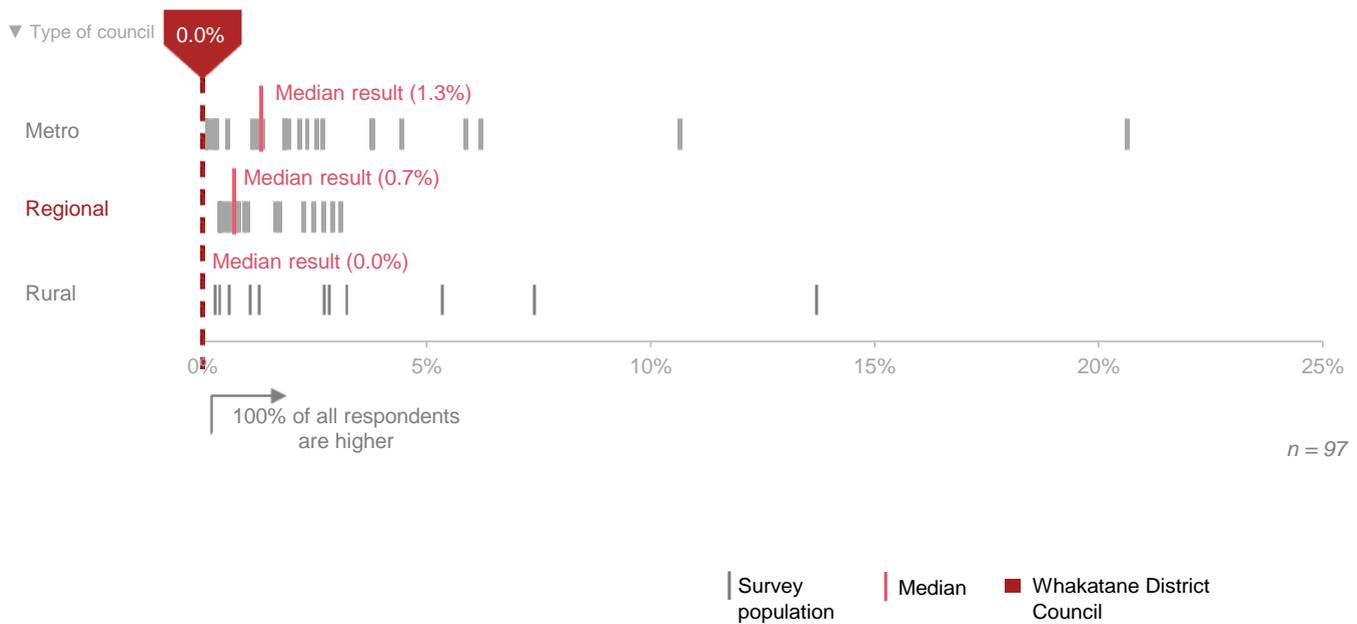


Figure 2.20: Percentage of rate notices issued electronically in FY15



Automating the billing process (continued)

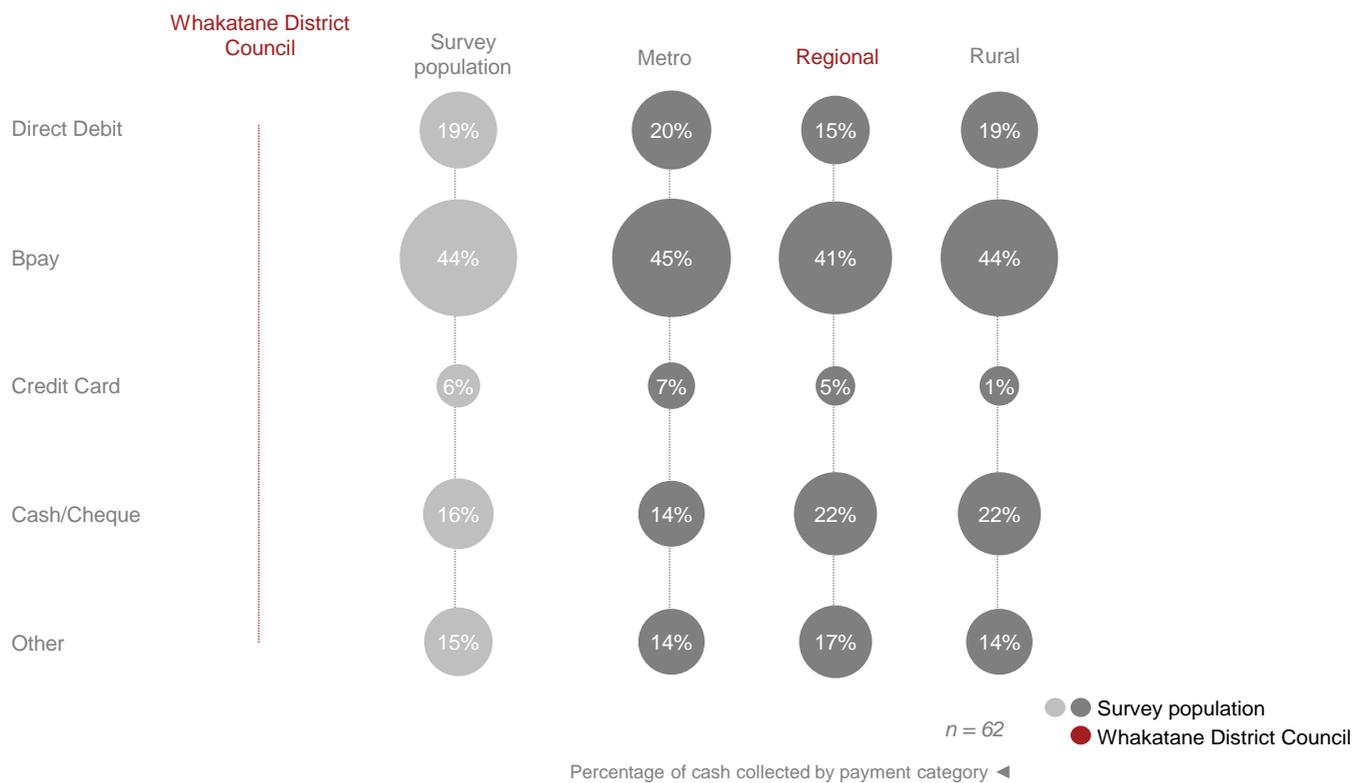
Method of payment

Another interesting insight has been the method of payment for rates and annual charges. Our survey shows that the favoured method of payment is via Bpay, with 44% of cash collected in this way.

However, of particular importance is the higher reliance New Zealand councils place on the use of direct debit, with 32% of cash collected in this way, compared to only 7% in NSW councils.

Direct debit is a convenient way for customers to know that bills are paid automatically, and offers significant cash flow benefits to the council. Creating online application forms that can be submitted via the council website, in line with an appropriate awareness campaign, should lead to rapid adoption of this method of payment.

Figure 2.21: Method of payment - rates and annual charges



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 A\$250 per resident (or NZ\$269) in metro councils to A\$770 (or NZ\$829) 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.

Overall our survey results show a median capital expenditure of A\$480 per resident (or NZ\$517). NSW councils spend a median of A\$490 per resident (or NZ\$527), which is only marginally different to the New Zealand councils’ median of A\$470 (or NZ\$506).

Project management

When it comes to the overall management of capital projects, a significant portion of councils are positioned in the top right-hand quadrant of the chart in Figure 2.23; 58% of councils formally track and project-manage all or most of their capital projects (down from 66% 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: Total capital expenditure per resident (NZ \$)

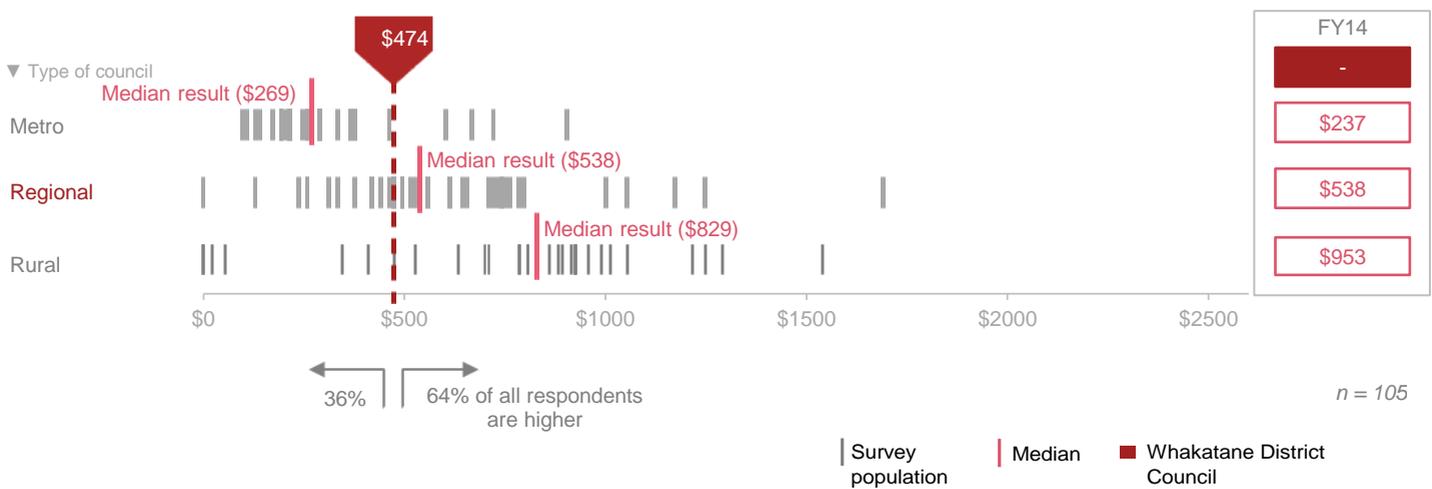
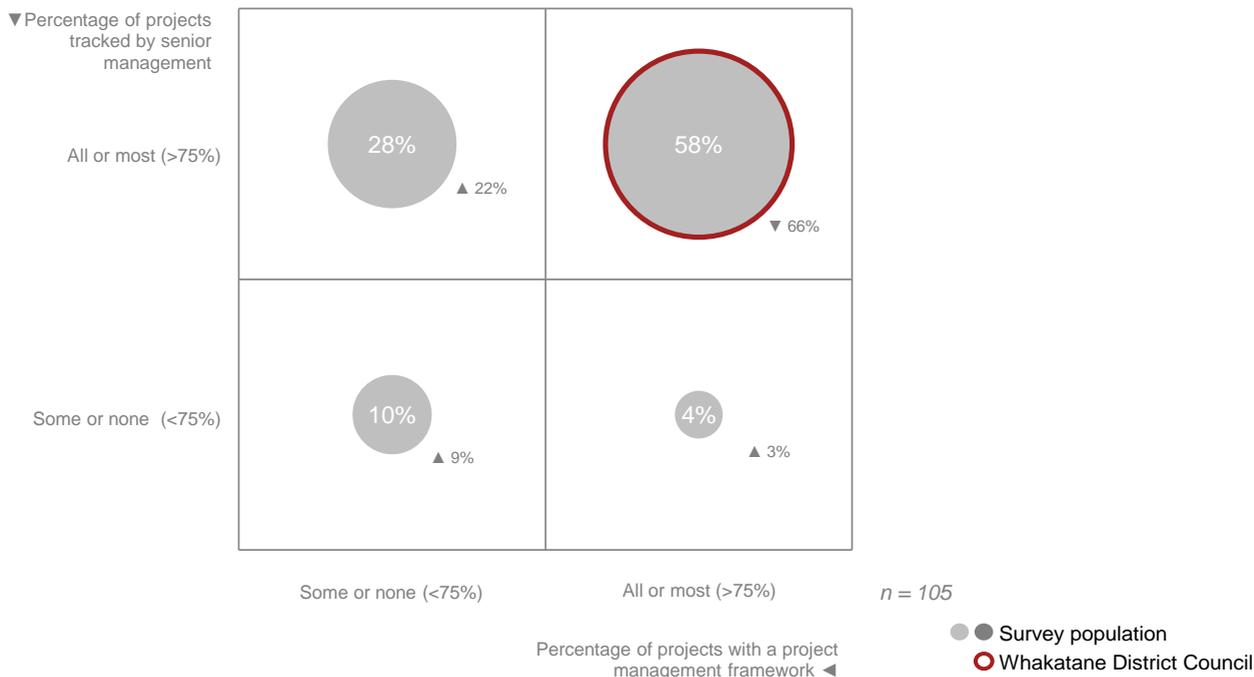


Figure 2.23: Tracking and managing capital projects



Tracking and managing capital projects (continued)

Approval of capital business cases

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.

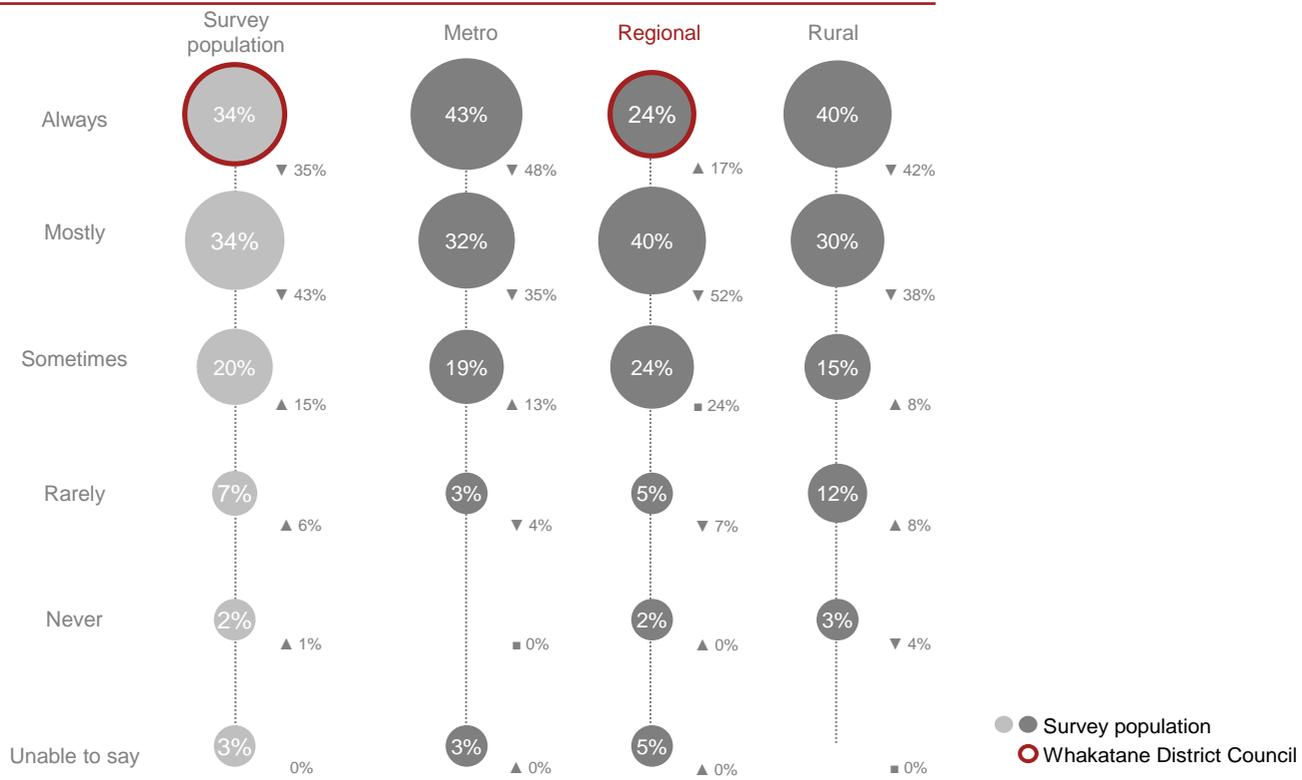
As shown in Figure 2.24, it is concerning to see a decline in the rigour associated with capital expenditure business case approvals.

The percentage of councils that always or mostly have a business case signed off prior to budget appropriation has fallen from 78% to 68% in the 2014–15 financial year.

This form of governance is especially weak in regional councils, where only 64% always or mostly approve business cases prior to budget appropriation, compared to 75% in metro and 70% in rural councils.

The decline in governance levels is especially noticeable in rural councils, where 70%, compared to 80% in the prior year, always or mostly approve business cases prior to budget appropriation.

Figure 2.24: Are all business cases requiring capital expenditure approved before budget appropriation?



n = 105



Operations



Operations trend summary

Whakatane District Council

Metric	Council	FY13	FY14	FY15	Change from FY14 to FY15
1. Corporate service staff per 100 employees	Whakatane District Council			17.1	
	NZ Survey Population			19.7	
2. Formal IT strategy in place	Whakatane District Council			Draft	
	NZ Survey Population			42% (Draft)	
3. IT spend per employee	Whakatane District Council			NZ \$11,751	
	NZ Survey Population			NZ \$10,426	
4. Effectiveness of IT systems	Whakatane District Council			Adequate	
	NZ Survey Population			68% (Adequate)	
5. Customer service FTE per 10,000 residents	Whakatane District Council			1.8	
	NZ Survey Population			3.2	
6. Frequency in reporting unresolved 'open' general enquiries to senior management	Whakatane District Council			When triggered by a key event	
	NZ Survey Population			31% (When triggered by a key event)	
7. Percentage of improved customer service measures against the charter	Whakatane District Council				
	NZ Survey Population			52%	
8. Percentage of Operational Plan actions achieved	Whakatane District Council			57%	
	NZ Survey Population			67%	

Fostering productive corporate services functions

Corporate services

Well-run corporate service functions have the capacity to improve business processes and provide insights that help the business to make critical decisions for the future. These high-performing functions are characterised by the prevalence of experienced and highly skilled employees, who are enabled by reliable, fit-for-purpose technology.

Our study focuses on four key areas within corporate services: customer service, finance, human resources and IT. We continue to see finance employees representing the largest proportion (31%) of total corporate service FTEs, followed equally by IT and customer service, with 26% FTEs. Customer service has contracted in the past year, however, IT is showing signs of growth moving from 21% to 26% as a proportion of total corporate service FTEs.

In NSW councils, we have seen the overall pool of corporate service employees remain relatively stable in the past year (0.4% growth), compared to New Zealand councils where there has been 3.4% growth.

Interestingly, in New Zealand councils there is a stronger focus on IT resources; they are the largest group, comprising 31% of total corporate service FTEs, compared to 22% in NSW councils (the third largest group).

Our survey continues to reveal the economies of scale that operate in some corporate service functions, as shown in Figure 3.2. This is most apparent in the customer service and finance function areas where large councils operate with a leaner team of 4.3 and 4.6 staff members for every 100 employees respectively, compared to 5.8 customer service and 6.0 finance employees per 100 employees in small councils.

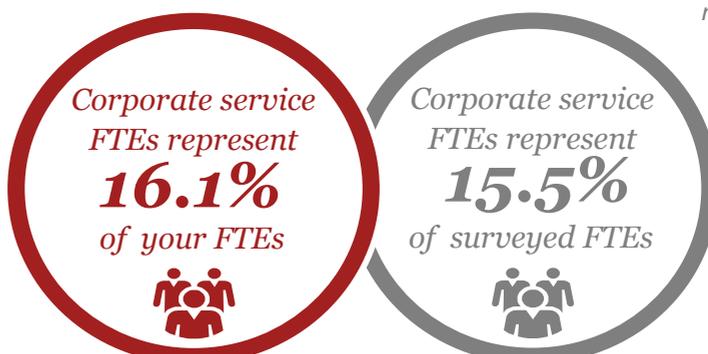
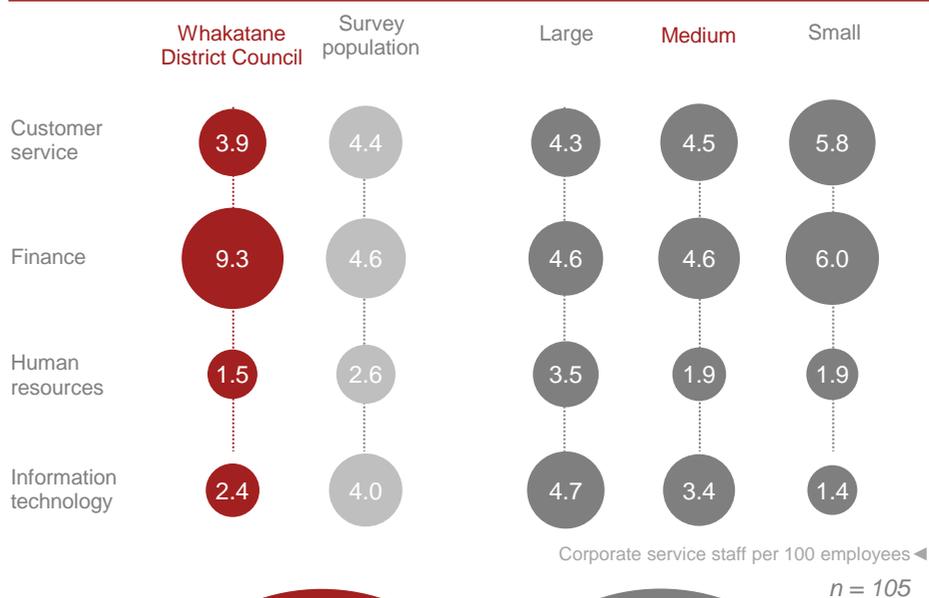
On the flipside, large and medium-sized councils allocate more IT resources, with 4.7 and 3.4 staff members for every 100 employees respectively, compared to 1.4 in small councils. This is reflected in the rising number of councils deploying a formal IT strategy, as well as the increase in IT spend per employee. We discuss the importance of digital transformation further in this section of the report.

We urge all councils to continue 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.

Figure 3.1: Breakdown of corporate service FTEs



Figure 3.2: Breakdown of corporate service staff per 100 employees



Conducting service reviews

Service reviews

Our survey shows that 72% of councils conducted at least one service review in the 2014–15 financial year, compared to 68% of councils in the prior year. This indicates a continued focus by councils, in the past year, on identifying potential service delivery improvements.

It is encouraging to see a significant increase in the percentage of rural councils (60%) performing service reviews, compared to 42% in the prior year. This suggests that rural councils are seeing the benefits that come from performing service reviews and how they can assist in improving their service delivery.

Rural councils are applying a higher level of formality and governance when it comes to advising senior management of the outcomes of these service reviews. The proportion of rural councils that performed service reviews and then reported the outcomes to senior management has risen from 15% to 36%.

In our survey, we focus on the extent of recommended changes across nine corporate service areas. Our results show that human resources (HR) has shifted into the number one corporate service area to be reviewed, during the 2014–15 financial year, with 72% of councils conducting a service review in this area (up from 67% in the prior year). However, as shown in Figure 3.4, HR comes in third place when it comes to requiring significant changes as a result of the service reviews conducted.

Procurement is the second area, with 71% of councils conducting services reviews, closely followed by IT in third place with 70%. Both procurement and IT continue to require the most changes, with 41% of councils needing to devote significant time and effort in these areas.

It is interesting to note, that the focus on reviewing finance has increased, with 69% of councils doing so, compared to only 59% in the prior year. As a result, there are now 30% of councils (up from 22%) requiring significant change in this area.

Figure 3.3: During FY15, did your council complete service reviews?

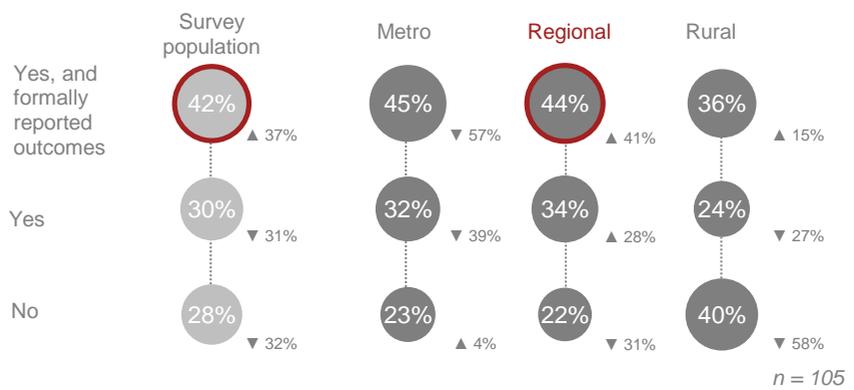
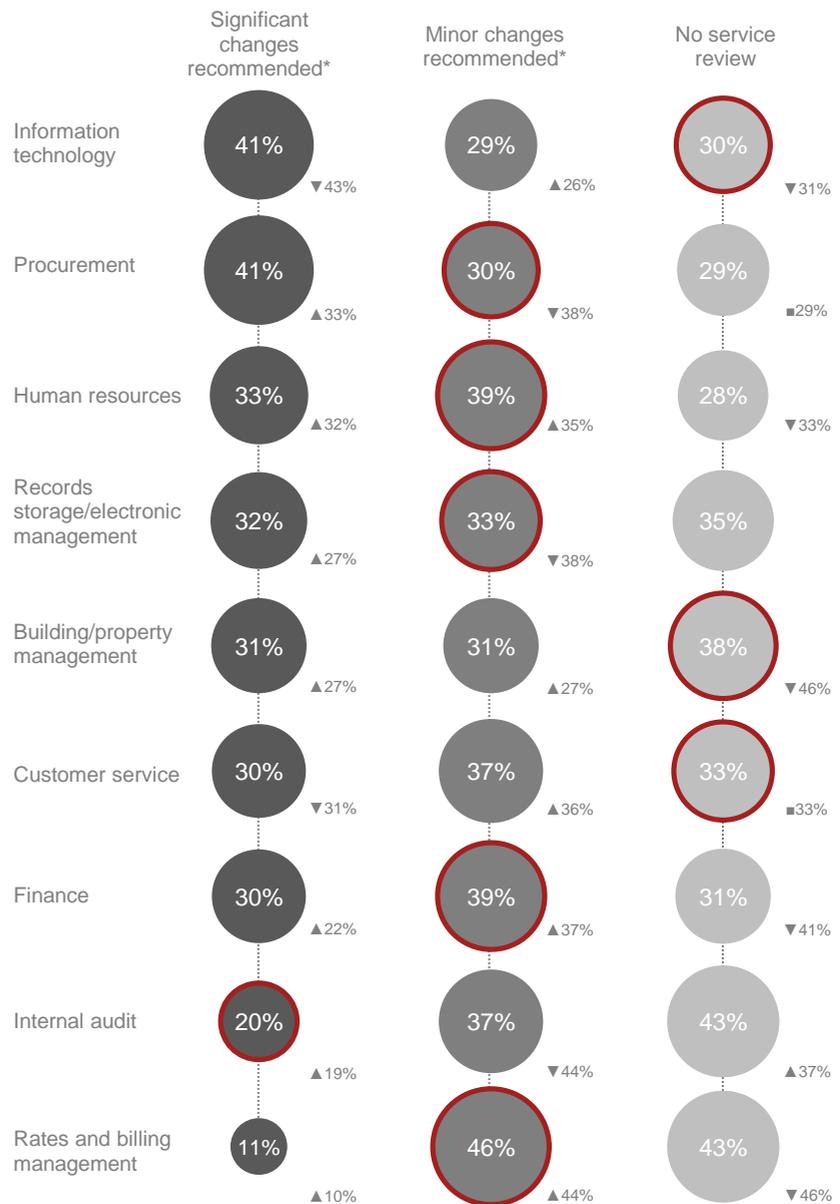


Figure 3.4: Extent of recommended changes from corporate service reviews



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

● Survey population
 ○ Whakatane District Council
 n = 105

Leading councils have an IT strategy

Importance of an IT strategy

Our survey continues to reveal a growing trend across councils when it comes to establishing a formal IT strategy that aligns with the business strategy. There are now 56% of councils with a formal IT strategy in place, up from 53% in the prior year.

NSW councils are seeing the importance of having a formal IT strategy; 62% (up from 53% in the prior year) now have a formal IT strategy in place, compared to only 39% of New Zealand councils.

The 2015 PwC Global Digital IQ survey, which surveyed 1,988 IT and business leaders, found that top-performing organisations are more deliberate in their digital strategy, innovation and execution. The findings highlight 10 attributes that correlate with stronger financial performance. The foremost was CEO leadership when it comes to setting the tone and vision for digital, followed by ownership by the digital leader and executive team through to the sharing of the strategy across the organisation.¹

In addition, it is important to highlight that based on the findings from the 2015 PwC Global CEO survey, 88% of global CEOs see digital technology as creating the most value in terms of improved operational efficiency². Digital transformation is positively influencing the way organisations do business and interact with their customers.

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.

While more councils are implementing a formal IT strategy, this is yet to translate to a significantly higher proportion of councils rating their IT systems as effective. We continue to see the majority of councils rating their IT systems as adequate, with 64% of NSW and 68% of New Zealand councils citing adequate systems with a level of functionality missing.

Now is the time for 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?

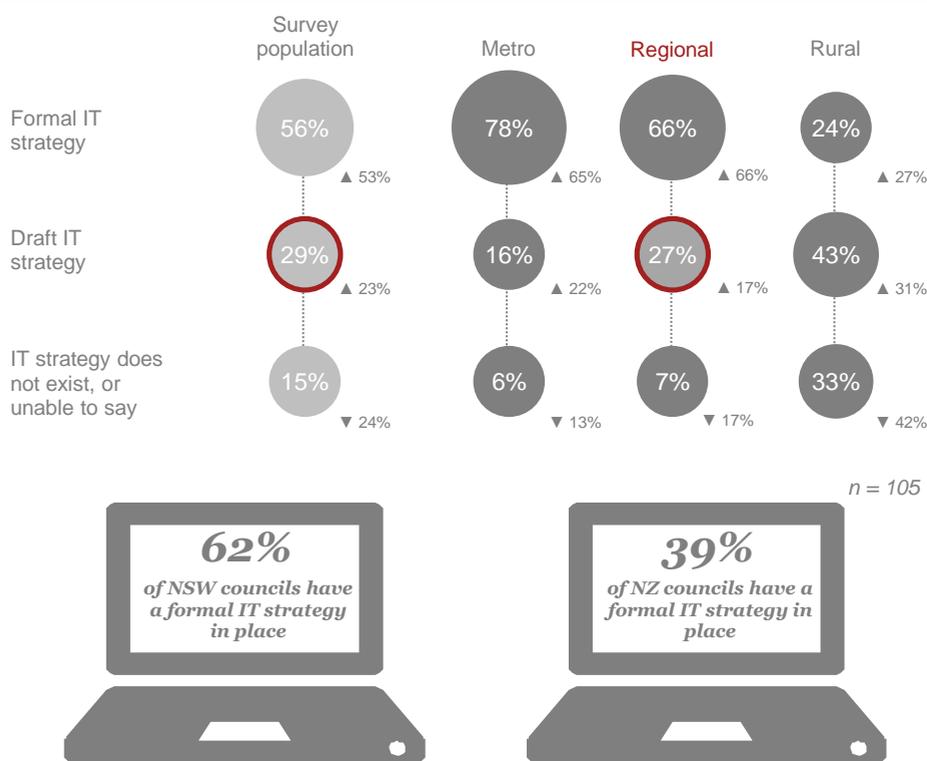
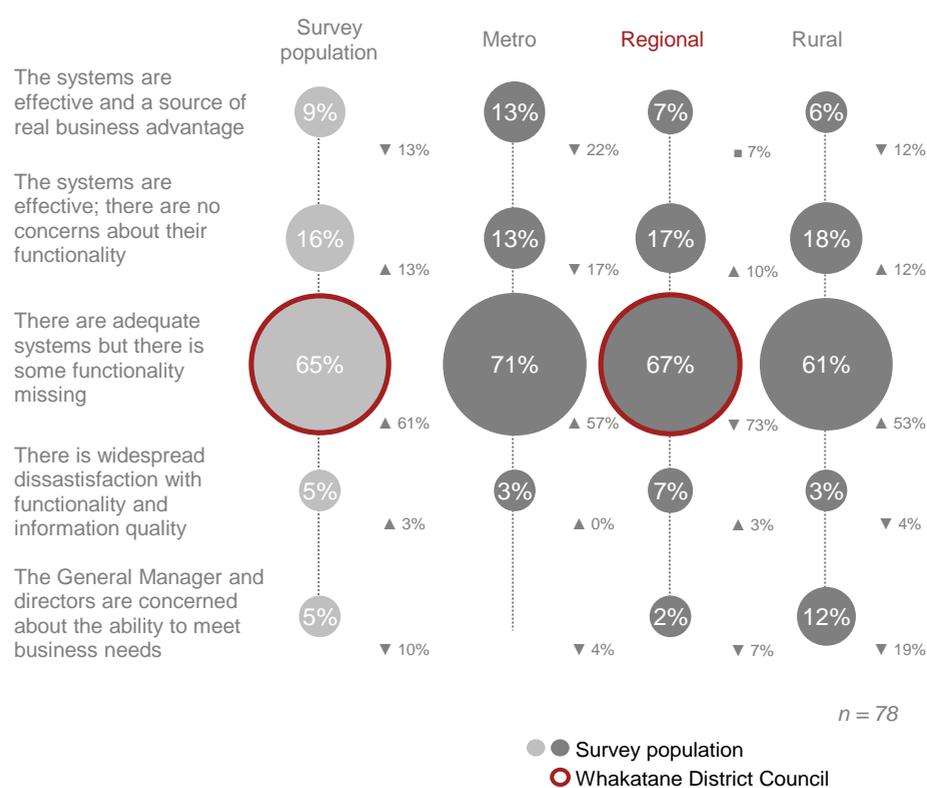


Figure 3.6: How effective are IT systems at supporting your business?



¹PwC 2015, Global Digital IQ Survey, 'Lessons from digital leaders, 10 attributes driving stronger performance'.

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

Leading councils have an IT strategy (continued)

Effective IT systems

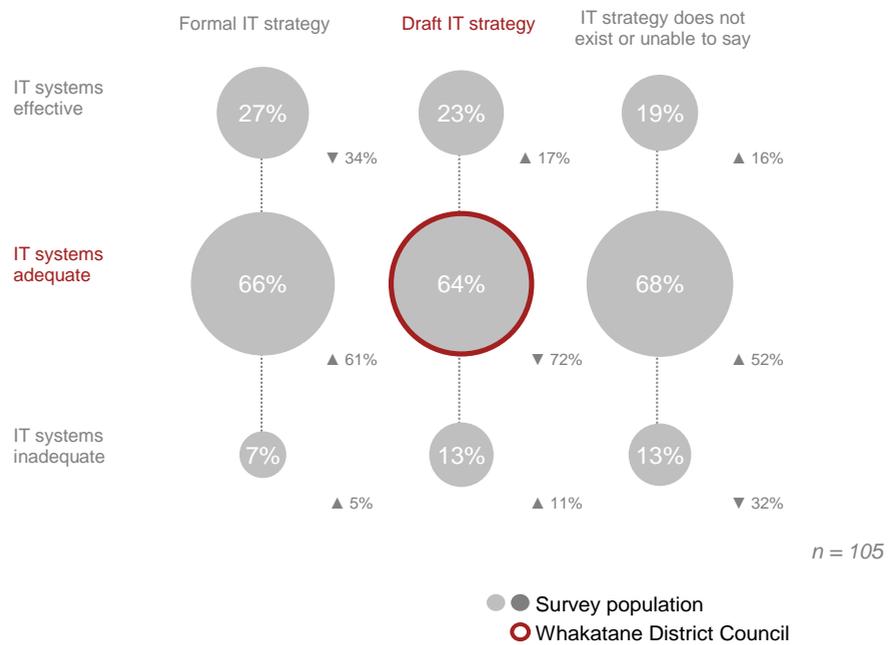
Councils without a clear and formalised IT strategy should question how this affects the effectiveness of their IT systems.

We continue to see, in figure 3.7, 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 1.4 times more likely to have a formal IT strategy in place (27%), compared to councils without an IT strategy (19%).

Additionally, councils without an IT strategy or with only a draft IT strategy were almost twice as likely to rate their IT systems as inadequate (13%), compared to councils with a formal IT strategy (7%).

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



According to *Implementing a World Class IT Strategy*,³ “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?

³Peter 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.

Leading councils have an IT strategy (continued)

IT spend

It is interesting to note that New Zealand councils spend almost twice as much per employee on IT, compared to NSW councils. Our survey results for New Zealand councils show a median spend of A\$9,688 per employee (or NZ\$10,426), compared to a median of A\$5,137 (or NZ\$5,529) for NSW councils.

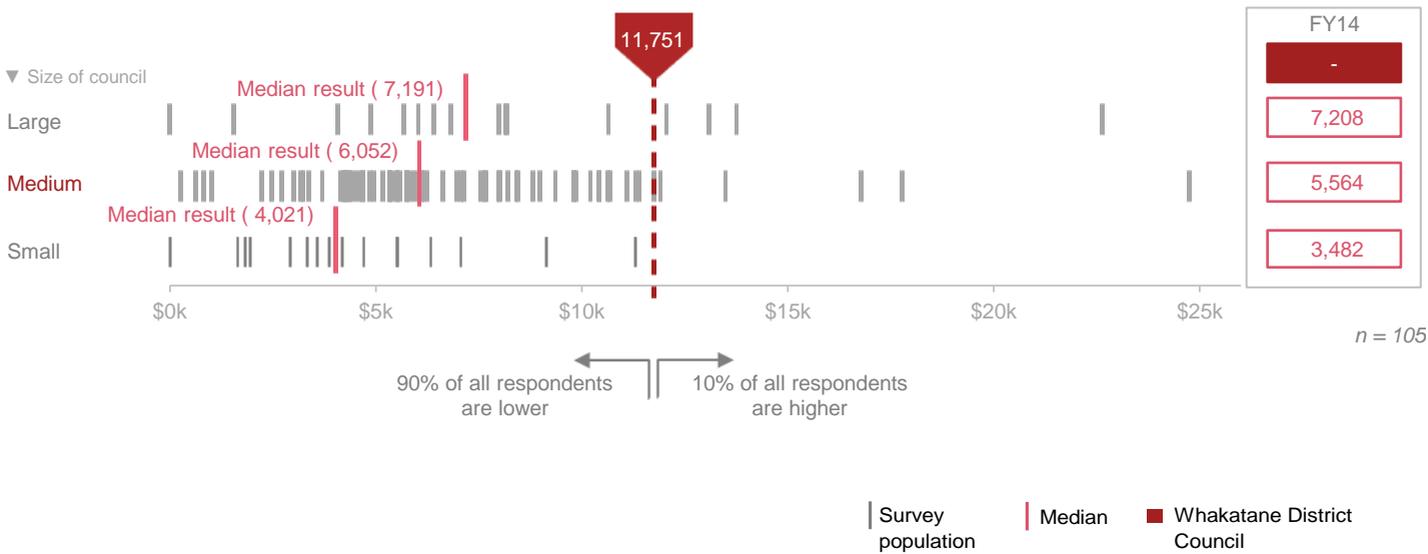
This is likely to be as a result of the additional scope of services that New Zealand councils are more often responsible for (such as water, waste water, transport systems) which often include IT-intensive functions such as billing and asset management.

The IT spend per employee continues to vary significantly across councils, which is an expected result in a single year given the cyclical nature of IT projects and investments.

Large councils are making a higher relative investment in IT infrastructure, with a median spend of A\$6,681 (or NZ\$7,191) per employee, while that figure drops to A\$3,736 (or NZ\$4,021) for small councils. This is despite the fixed-cost nature of many areas of IT spending which, all other things being constant, should lead to an expected higher spend per employee in smaller councils.

It is important for the senior management team to continue to identify business areas that can benefit from integrated IT systems, cloud computing, software developments and investment in experienced IT professionals.

Figure 3.8: IT spend (\$) per employee in NZ \$



Managing your IT projects

IT priorities

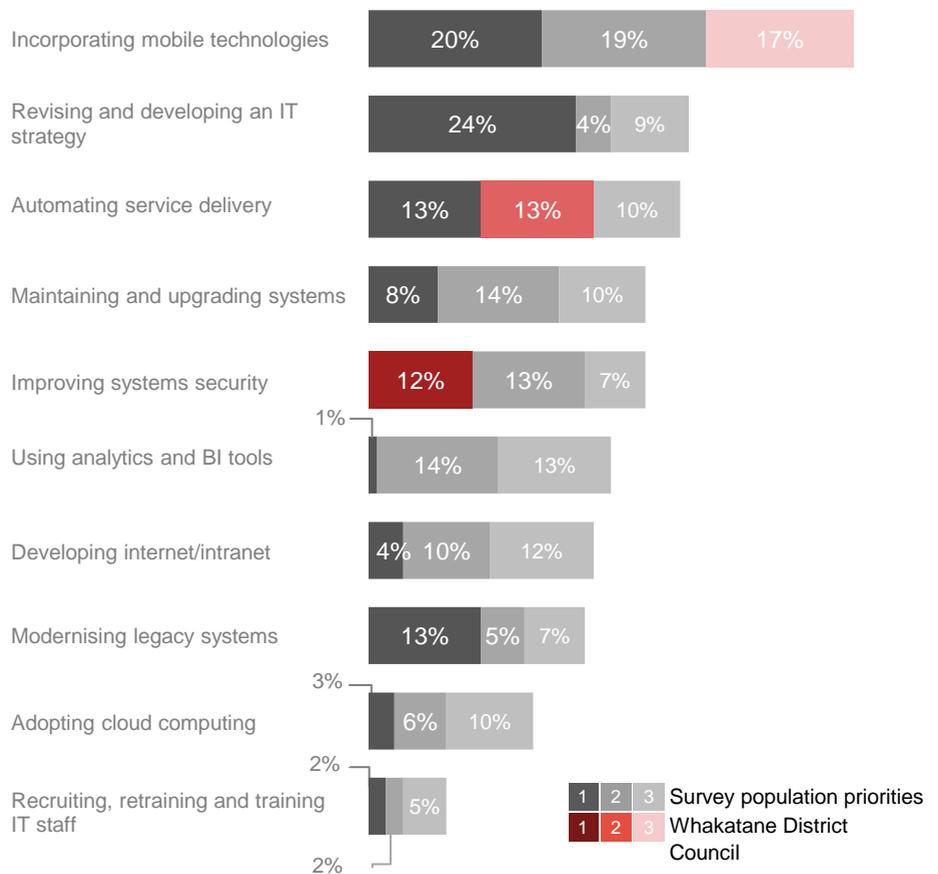
In a time of unprecedented change in the IT landscape, councils have the opportunity to consider how technological innovations are impacting the lives of their residents, businesses and employees, and assess the options for better interaction and engagement with these groups. This should then drive the prioritisation of IT projects so that councils can use digital innovation to improve employee and community engagement.

Councils' top three IT priorities over the next three years have shifted slightly. Incorporating mobile technologies (56%) and revising or developing an IT strategy (37%) remain in the number one and two positions overall, however automating service delivery (36%) has shifted from the fourth to the third priority.

While the overall percentage of councils that ranked incorporating mobile technologies as either their first, second or third priority was lower than last year, 56% down from 63%; we now see more councils ranking it as their number one priority (20%), compared to only 9% last year. 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.⁴

Of particular interest, is the rise in the importance of analytics and BI tools, with 28% of councils overall ranking this area as a priority, compared to only 17% of councils in the prior year. This suggests that councils are starting to see the benefits in using the vast amounts of available data to make more informed business decisions, as well as better understanding the needs of their residents to make way for enhanced relationships. This greater emphasis on the use of analytics is consistent with the 80% of global CEOs who cite data mining and analytics as strategically important.⁵

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



n = 104

⁴PwC 2015, 18th Annual Global CEO Survey, 'A marketplace without boundaries? Responding to disruption'.

⁵Ibid

Managing your IT projects (continued)

Project management and governance

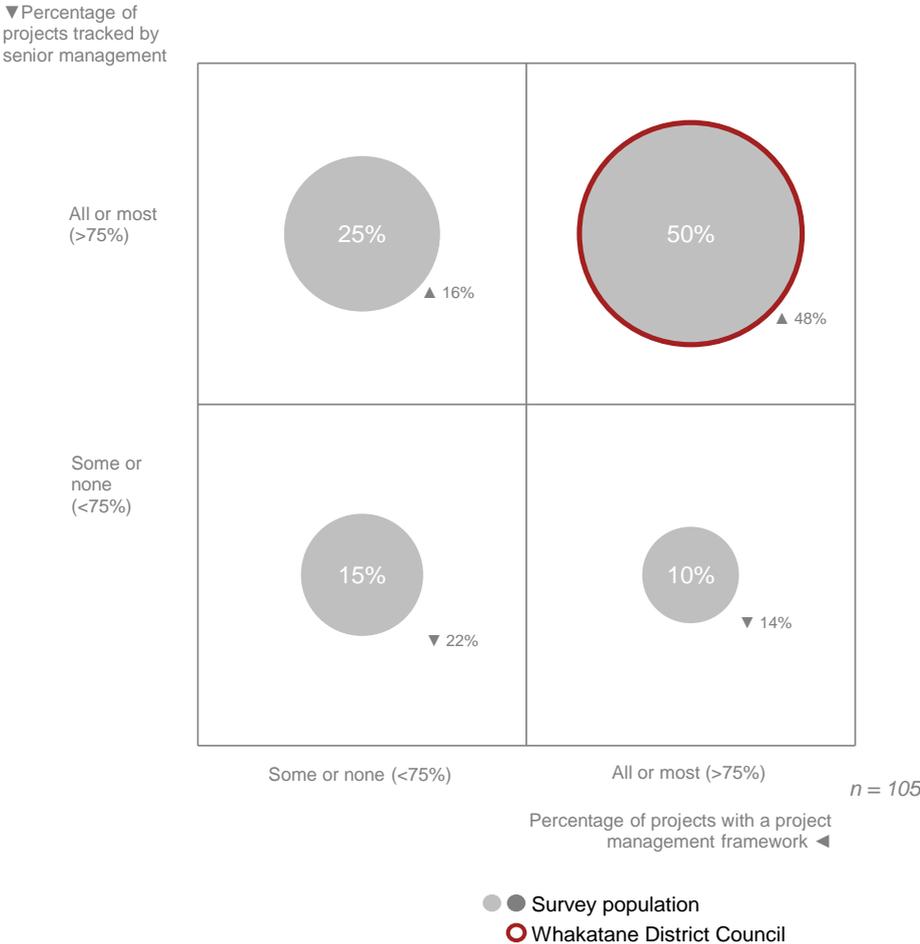
An indicator of effective project governance and management is the application of a project management framework, combined with structured tracking and monitoring of the project as it develops. Instilling accountability by having senior management track the development of IT projects is an important factor that demonstrates the commitment to successfully delivering the project.

We have seen a vast improvement in the percentage of councils that now sit in the favoured top right hand quadrant in figure 3.10 – 56% of councils (up from 42% in the prior year) have a project management framework in place and have senior management track all or most IT projects. This suggests that these councils have a management team who play a strong role in overseeing projects.

There is a stronger focus overall on governance protocols, with 79% of councils using senior management to track all or most IT projects, compared to 66% of councils using a project management framework to manage their IT projects.

Councils in the bottom left hand quadrant 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: Digital Technology, BI and Analytics

How has your council been innovating or investing in digital technology?

“We are increasing the number of mobile or tablet devices being deployed to our field workforce, and as a result these staff can now take advantage of completing online learning courses, which has reduced the amount of time spent in face-to-face training.” **Kempsey Shire Council**

“We are piloting the ability to sign documents electronically and securely. This technology is particularly important in Development Assessments as it will allow for paperless creation of key documentation. We are also providing our field workforce with tablets and portable hardware devices as well as working with 3rd party software developers to provide online forms.” **Lismore City Council**

“We are investing in digital technologies that support:

- Anytime, anywhere access to facilitate a culture of efficient responsiveness, including the use of cloud-based technologies.
- Innovative Processes supported by the appropriate ICT tools and platforms, resulting in more effective and efficient operations.
- Improved Service Delivery due to a greater desire for online services that present new opportunities for the public to be more easily and directly involved with the council.”

Greater Taree City Council

“We have recently invested in the development of a council app to provide more tools to interact with the community. We also redeveloped our council intranet and implemented video conferencing across our core branches and service locations to improve online communication, reduce travel time requirements and speed up customer service options. We are piloting tuff book functionality around asset management to improve operational processes and data management.” **Tamworth Regional Council**

“One of our IT strategic themes is to inform decision makers at all levels across the organisation. We have invested in a series of reports that show our performance against defined KPIs, and are exploring the use of dashboards that display critical information for our management and staff, regardless of where they are working. We have also issued supervisory field staff with smart phones so they have email access, and can receive weather and other emergency alerts when in the field. We use tablets in the field for asset monitoring, water billing, etc. Managers are currently moving to the Microsoft Surface Pro as their primary desktop and mobile computing platform ensuring they have access to the information they need, wherever they may be.” **Richmond Valley Council**

As many government and economic services have moved to an online delivery-only platform, we have identified a gap in the requisite skills and equipment required by our community to access these services. Through our library services we have implemented patron self serve printing, internet and scanning capabilities to assist the community. We also have access to a statistical analytics tool (BlueCloud Analytics) that allows us to evaluate and measure data related to library patrons.” **Ashfield Council**



Case study: Digital Technology, BI and Analytics (continued)

How does your council plan to invest in digital technology in the future?

“Our focus is to continue to pursue mobile workforce enabling technologies and the Digital Signatures initiative. The introduction of such technology has meant we can now optimise our current business processes to take advantage of the non-paper component. Electronic documentation eliminates many administrative steps and will improve workforce productivity. In support of this initiative, we are also collecting and refining the email addresses of our residents and community members. Over time, we will look to move to electronic communications as our preferred methodology.” **Lismore**

“Key targets for further investment in digital technology are Customer Relationship Management and Field Workforce Management. We are working to implement a solution that permits contact with customers, independent of channel, to be tracked and reported from a single system, and separates the fieldwork requests from the customer communications. The intention is to improve community satisfaction with council services through this change.” **Kempsey**

“We are working on a range of initiatives and technologies, including the rollout of Skype for Business; improved enterprise search capabilities for our core business applications; and the virtualisation of desktops to support anytime, anywhere access. Initiatives already completed include the migration to Office 365 and the use of Nintex Workflow and Nintex Forms for improved workflow.” **Greater Taree**

“Our digital initiatives include:
Website enhancement to show a full listing of services provided and to improve online services to allow residents and customers to access at any time
Electronic tools deployment for allocation of operational works to reduce administrative burden, reduce double handling of data and allow more to be done from the field.
Social media and other online and digital communication tools enhancement for fast and simple interaction with staff, the community and interest groups.
BI and data management tools implementation to allow more real time access to information for more informed decision making.” **Tamworth**

“Our digital initiatives include:
Electronic Service Delivery to better serve our ratepayers and community. This starts with digitising all council records to improve organisational efficiency and also benefit our community with all publically accessible documentation, such as DAs available online.
Collaboration tools to increase organisational efficiency (eg Office 365). This will enable the sharing of knowledge, encourage teamwork, better communication and collaboration.” **Richmond Valley**

Case study:

Digital Technology, BI and Analytics (continued)

What are the benefits you have already achieved or expect to achieve from the investment in digital technologies?

“We expect to see:

A reduction in travel time and costs.

Potential for hot desking for field staff.

Improved customer response times via mobile documentation in the field.

Improved accuracy and quality of data, and the ability to incorporate photographs, videos and sound into forms where appropriate.

Digital Signatures should eliminate need for paper letterhead; reduce postage costs; improve staff efficiency; and increase the ability to authenticate a signed document.”

Lismore

“The deployment of online learning systems has increased the ability to take advantage of ad-hoc opportunities to deliver training, and decreased the volume of face-to-face training.

Future benefits include increased customer satisfaction as we will be more responsive, have

increased visibility over council resource allocations and the overall performance of our

council.” **Kempsey**

“To date, our revised approach has led to the delivery of projects in shorter time frames and at a lower cost than traditional approaches. This will improve our ability to meet community expectations and deliver efficient and effective services.” **Greater Taree**

“Improving the information and services provided online is expected to result in:

Greater exposure for tourism and events.

Improved customer service, eg. home owners have real time access to their property information; DA information can be searched online at a time that suits the applicant.

More efficient council operations, eg. last year we broadcast the AOP from one location and video conferencing was used to interact with branch locations.” **Tamworth**

What recommendations would you give to other councils looking to improve their use of digital technologies?

“Have a clear vision of what you are trying to achieve through the use of technology. Define the expected outcomes, and test any proposed solution against those outcomes.” **Greater Taree**

“Use trials to test proposed solutions before full implementation. Ensure you have sufficient resources allocated and that they are skilled in managing the new technologies. Get it right before full implementation - it must work the first time or confidence is lost (and is hard to regain). Centralise the responsibility to drive a consistent approach.” **Tamworth**

“Identify ‘champions’ within business units to assist with integration.” **Lismore**

Customer service scorecard

Servicing the community

We are starting to see a rise in councils articulating a formal IT strategy. This demonstrates an understanding that realising the potential benefits of technology will require commitment, purpose, persistence and planning.

Councils have an opportunity to embrace technology to create efficiencies, drive innovation, and transform the way they engage with residents, businesses and their employees; although this is unlikely to be achieved without a shared vision across the organisation.

The new breed of customers and employees expect more flexible, accessible, portable and bespoke products, services and experiences. The customer service function is often the first interaction residents and businesses are exposed to, whether it be via the website, phone or face-to-face.

It is evident then that considering ways to integrate innovative technology allows customer service enquiries to be dealt with more quickly and smoothly, leaving a positive impression within the community. Embracing new technology should also alleviate resourcing pressures and costs, often faced by customer services departments.

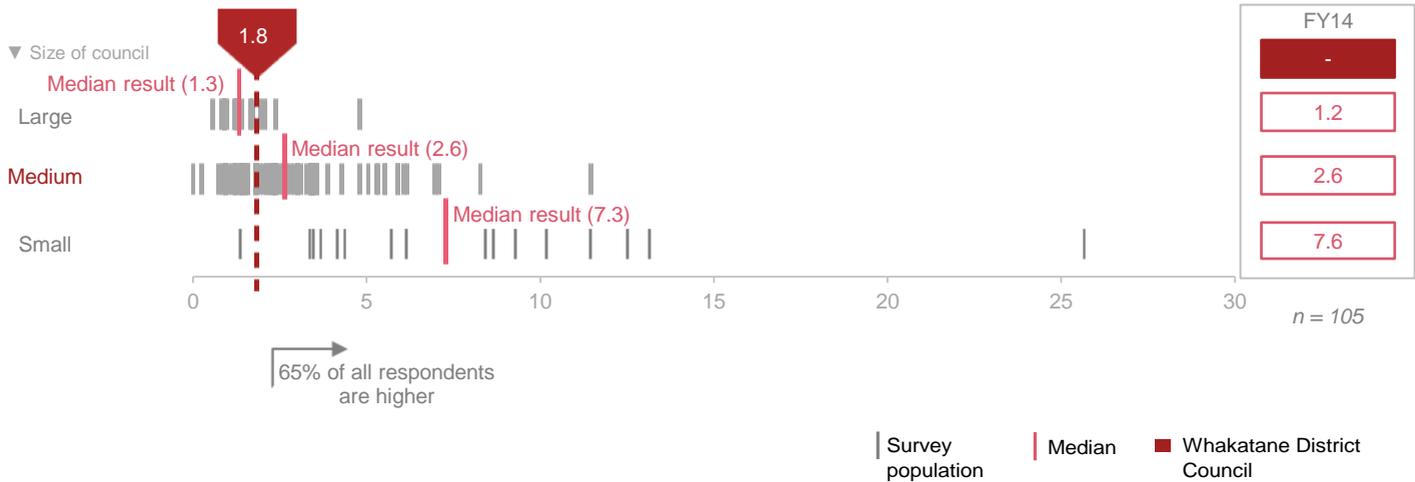
Our survey shows that large and medium-sized councils continue to operate customer service functions broadly in line with the prior year, with a median of 1.3 and 2.6 customer service FTEs per 10,000 residents respectively.

While small councils continue to have a substantially higher median of 7.3 customer service FTEs per 10,000 residents, this result is showing a downward trend, with a 22% decline over the past two years (9.4 in FY13).

There are further opportunities for small councils to investigate the sharing or outsourcing of the customer service function. Further in this section, we explore the proportion of councils outsourcing or sharing different corporate service areas, and we can see that only 6% of small councils operate an outsourced or shared customer service function, compared to 46% of medium-sized and 35% of large councils.

As high-speed network access continues to improve in these rural and remote areas, there will be more and more opportunities to bring different ways of serving the community to more areas. It is critical for councils to investigate how they can use technology to support this transformation.

Figure 3.11: Customer service FTE per 10,000 residents



Customer service scorecard (continued)

Effective customer service

It is important for senior management to remain properly informed of issues facing the community. An effective customer service team should report unresolved general enquiries to senior management on a regular basis, which in turn, demonstrates to the community that the council responds to enquiries promptly.

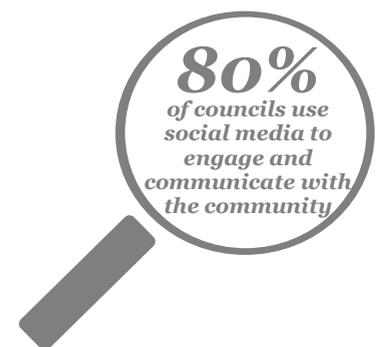
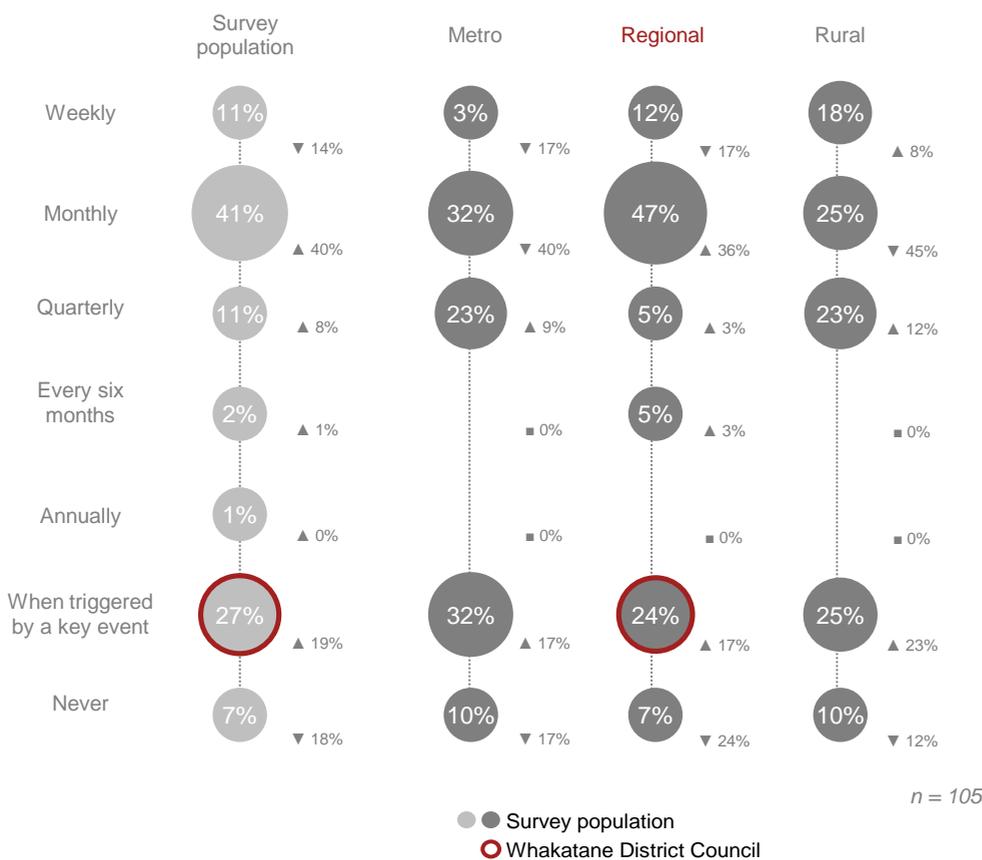
Our survey reveals that 41% of councils have a monthly reporting schedule for updating senior management on the nature of unresolved general enquiries, compared to only 11% of councils reporting weekly. There are now 27% of councils (up from 19%) that report unresolved 'open' queries to senior management only when triggered by a key event.

Senior management in these councils may be missing essential sources of information about community needs. Of equal importance are the internal blockages or levels of complexity that may be highlighted by these enquiries, and these could be resolved through further support from management.

We also found that 80% (up from 68%) of councils use social media to engage with residents and businesses, and 92% (up from 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 78% of regional councils and 76% of rural councils.

We have previously discussed the importance councils place on developing mobile technologies over the next three years. However, our survey shows that currently only 16% of councils use text message notifications 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?



The importance of a customer service charter

Tracking customer service levels

A customer service charter can be used by councils to measure and track customer service levels, and is a useful resource when it comes to providing feedback 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 all service-based organisations.

It is therefore concerning that almost one third (30%) of surveyed councils do not have an established customer service charter.

Progress continues to be made in small-sized councils with 50% putting a customer service charter in place (albeit 19% not yet approved by council), compared to 44% in the prior year.

Once a customer service charter is shared with employees and residents, the next step is to use the commitments and standards defined in the 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.

While small councils have made progress with establishing a customer service charter, the frequency of measuring the progress against the charter is limited, with 49% failing to measure at all. This is in stark contrast to 67% of large and 54% of medium-sized councils measuring progress against the charter at least on a quarterly basis.

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

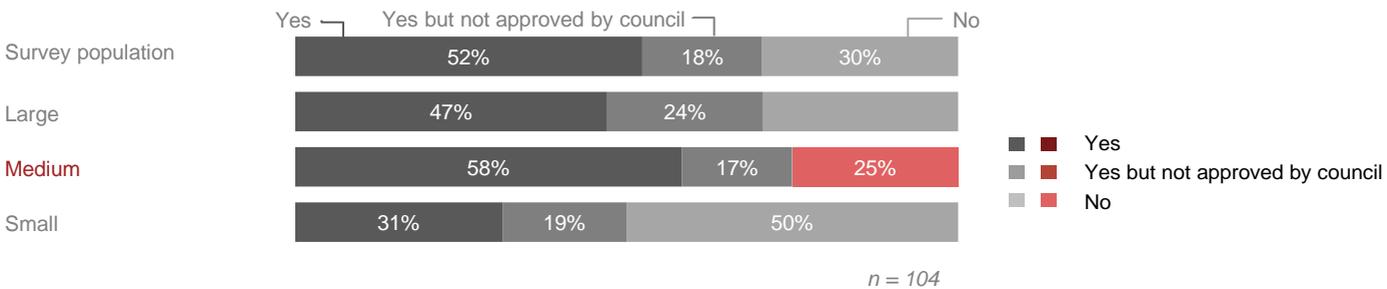
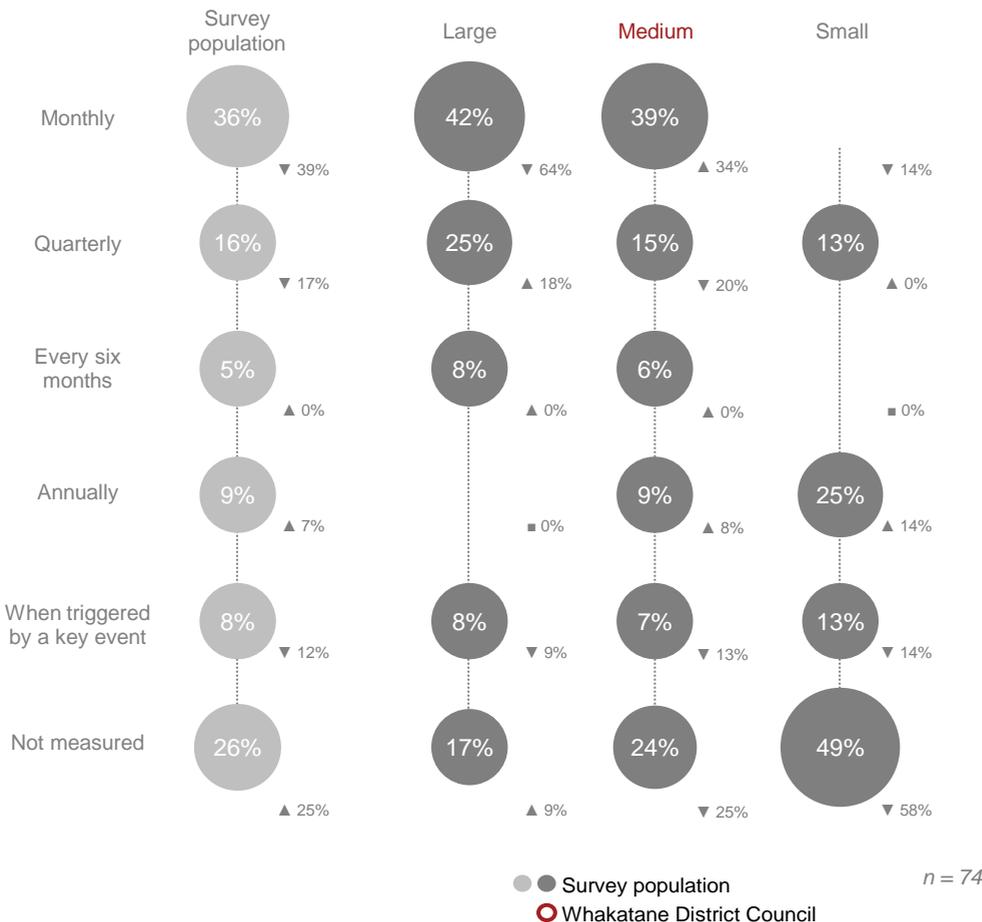


Figure 3.14: How frequently do you measure the progress of core components against the charter?



The importance of a customer service charter (continued)

Performance against customer service metrics

In a service based organisation, it is of particular importance to formally encourage and recognise the efforts of customer service staff. It reinforces the values of the customer service function thereby creating a culture where a high level of standard is both desirable and appreciated.

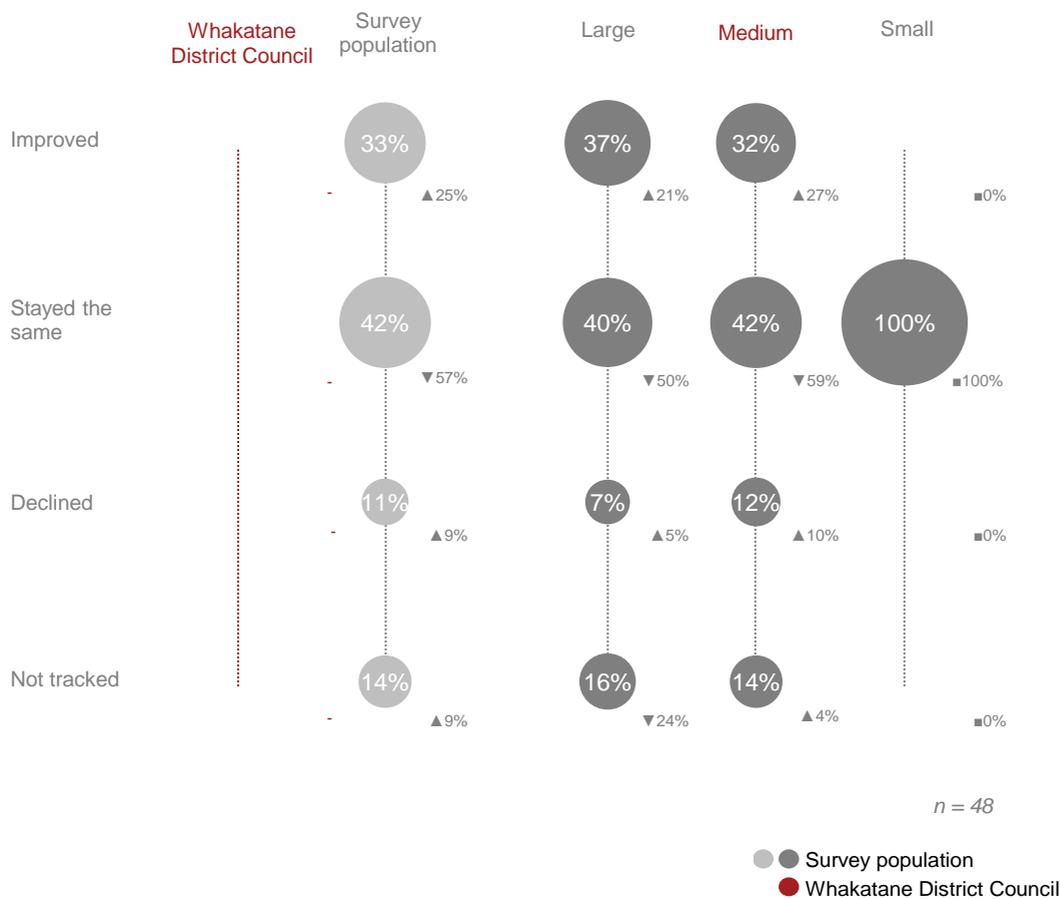
Establishing a mechanism for measuring and tracking customer service allows councils to assess service levels against the charter year-on-year, adjusting them as needed, while staff develop a better understanding of what is being measured.

It is encouraging to see that councils that measure performance against customer service metrics in the charter are seeing improvements, with 33% of performance metrics improving compared to 25% in the prior year.

Key considerations

- Have you recently updated or created a customer service charter?
- Are you actively promoting the importance of the charter with your employees?
- Do you share the customer service charter with the community on your website?
- Have you used recent customer service results to identify opportunities for improvement and more challenging commitments?
- Do you formally recognise where customer service staff go above and beyond the minimum standards set out in the charter?
- Do you focus on the quality of service, as well as the quantity of services provided? Do you actively measure both?

Figure 3.15: Performance against customer service metrics in the charter during FY15



Looking at different ways to deliver corporate services

Outsourcing and shared services

The approach to delivering corporate services is an important aspect for councils to understand when looking for ways to optimise operational effectiveness. The sharing or outsourcing of services has the potential to drive increased efficiencies, achieve service improvement, deliver better value to users and generate cost savings. The opportunity exists for more collaboration with nearby councils by investigating how corporate services may be shared with each other, or outsourced to service providers with specific expertise.

Our survey continues to reveal that legal (91%), IT hosting and support (69%), and procurement (49%) are the top three areas either outsourced or shared.

The two areas where we are seeing the most change in the way a corporate service area is managed are IT hosting and support, with 69% (up from 63%) of councils electing to outsource or share this function, and the customer service call centre, with 38% (up from 32% in the prior year).

Further examination into the top three areas shows that legal services continue to be predominantly outsourced; 86% of councils choose this option, while 5% of councils share legal services.

IT hosting and support continues to be twice as likely to be outsourced (46%) than operated as a shared service (23%), while procurement is 1.6 times more likely to be a shared service (30%) compared to being outsourced (19%).

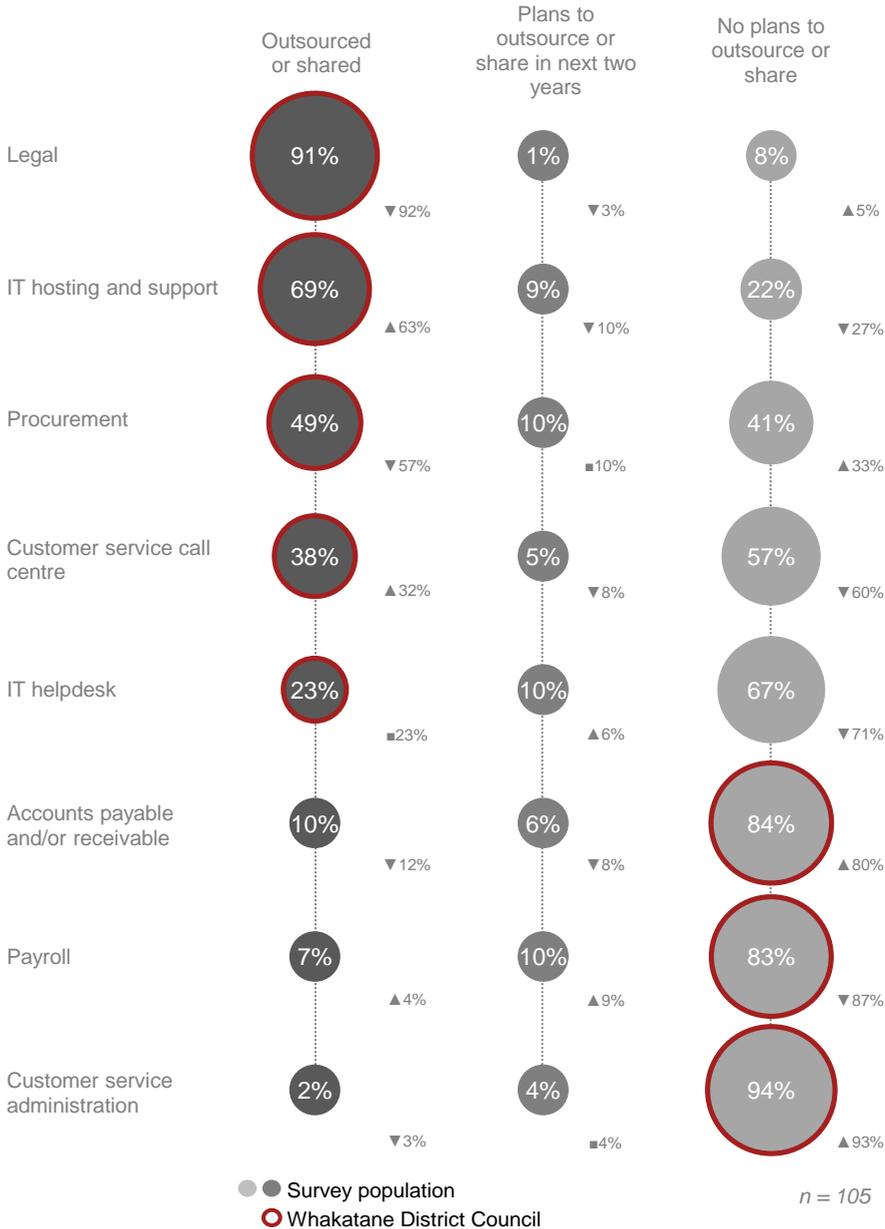
In the past we have highlighted the potential for outsourcing or sharing of payroll and accounts payable and receivable, due to their transactional nature. While the proportion of NSW and New Zealand councils outsourcing or sharing accounts payable and receivable only differs slightly, with 10% compared to 8% respectively, there is a vast difference when it comes to the outsourcing or sharing of the payroll function.

Almost one in five New Zealand councils (19%) are operating an outsourced or shared payroll function, compared to only 3% of NSW councils. In addition, there are a further 12% of New Zealand councils that plan to outsource or share the payroll function in the next two years, and 10% of NSW councils planning to adjust the way

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 or for a geographic specific activity?
- Are you getting the most from your current resources or could you vary the way services are delivered to create time for more value-adding activities from existing capacity?

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

For councils currently sharing or outsourcing corporate services, our findings now show that an improvement in service delivery is the most important key business driver, with 90% of councils citing this as a key factor when choosing to share or outsource (up from 88% in the prior year).

Cost reduction is the second key driver at 80%, although this has dropped from 89% in the prior year. The third driver continues to be improved reliability, at 34%.

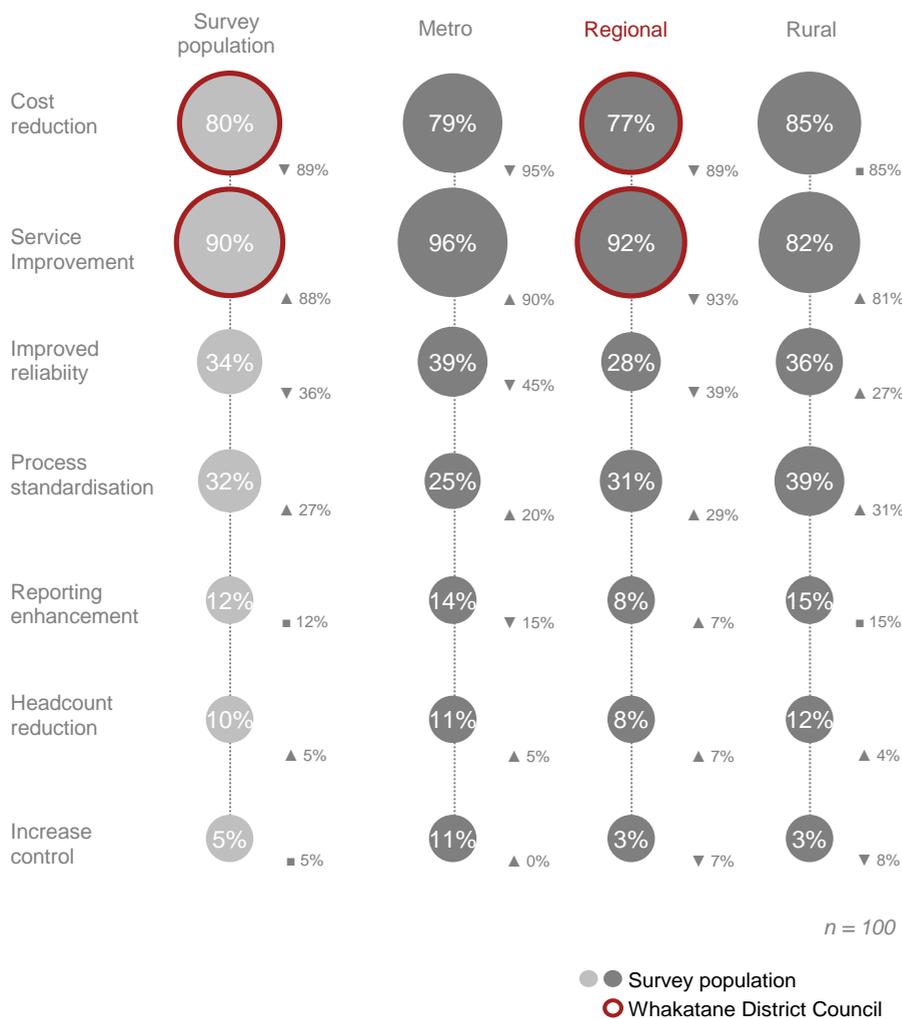
The key objective of sharing services and outsourcing is to obtain economies of scale and centres of excellence by standardising, re-engineering and consolidating processes.

This allows councils to use information more effectively and focus on their core business, often re-investing back into service delivery.

When contemplating the transition to sharing or outsourcing particular services, it is important to have a long-term approach. The initial goal is to 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.

When implemented in a logical and strategic manner, the quality of service should be a noticeable improvement in the early stages, with cost reduction a longer term objective.

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

One of the keys to the success of any transition to sharing or outsourcing services lies in the tone and vision articulated by the senior management team.

Equally important is the establishment of a formal service-level agreement between internal customers and service providers. Both of these factors set expectations around deliverables for all parties involved, with roles and responsibilities clearly defined.

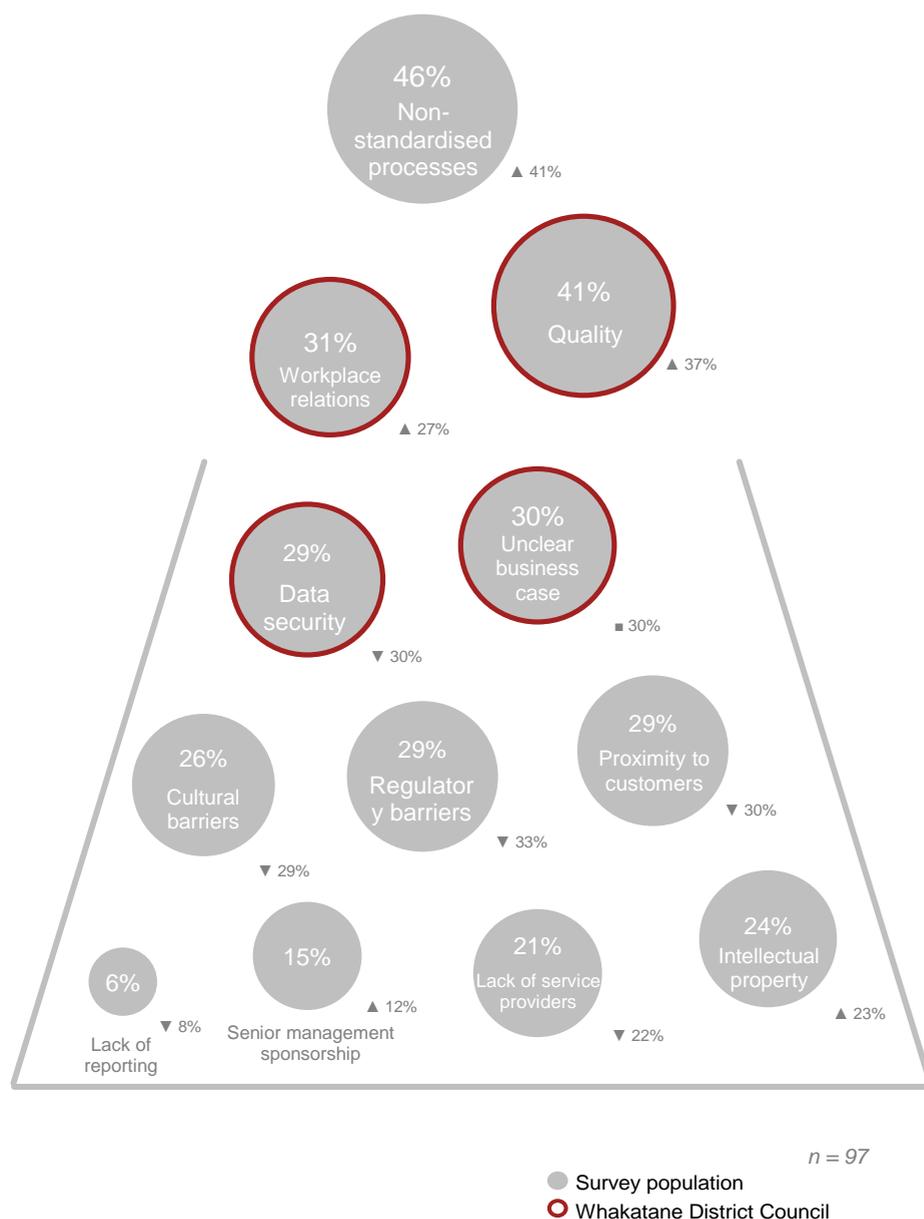
Our findings show councils that currently share or outsource services cite non-standardised processes (46%), quality (41%) and workplace relations (31%) as their top three challenges.

Workplace relations has shifted into third place, replacing regulatory barriers. Regional councils are 1.6 times more likely to report workplace relations as a key challenge (42%), compared to metro councils (26%).

The issue of non-standardised processes continues to rank highly. We acknowledge that having one common process across all business units is rarely seen in practice.

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



PwC have identified seven areas of focus to deliver successful business service transformation projects⁶:

1. Know your problem
2. Sell the change
3. Stand behind your benefits case with absolute confidence
4. Balance clear vision with detailed design
5. Start early, move fast
6. Understand the upfront costs
7. Remember the retained functions change too

⁶PwC 2013, 'Transforming business services: The seven essentials for success'

From Operational Plan to action

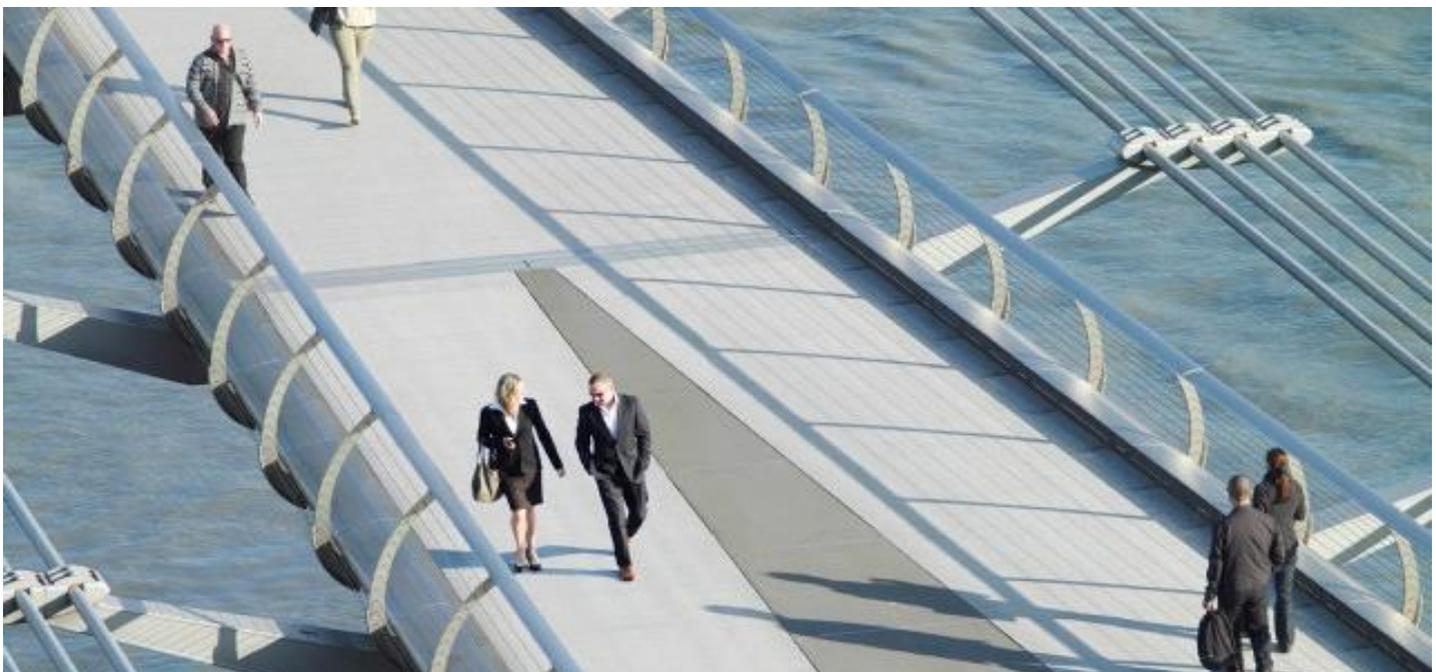
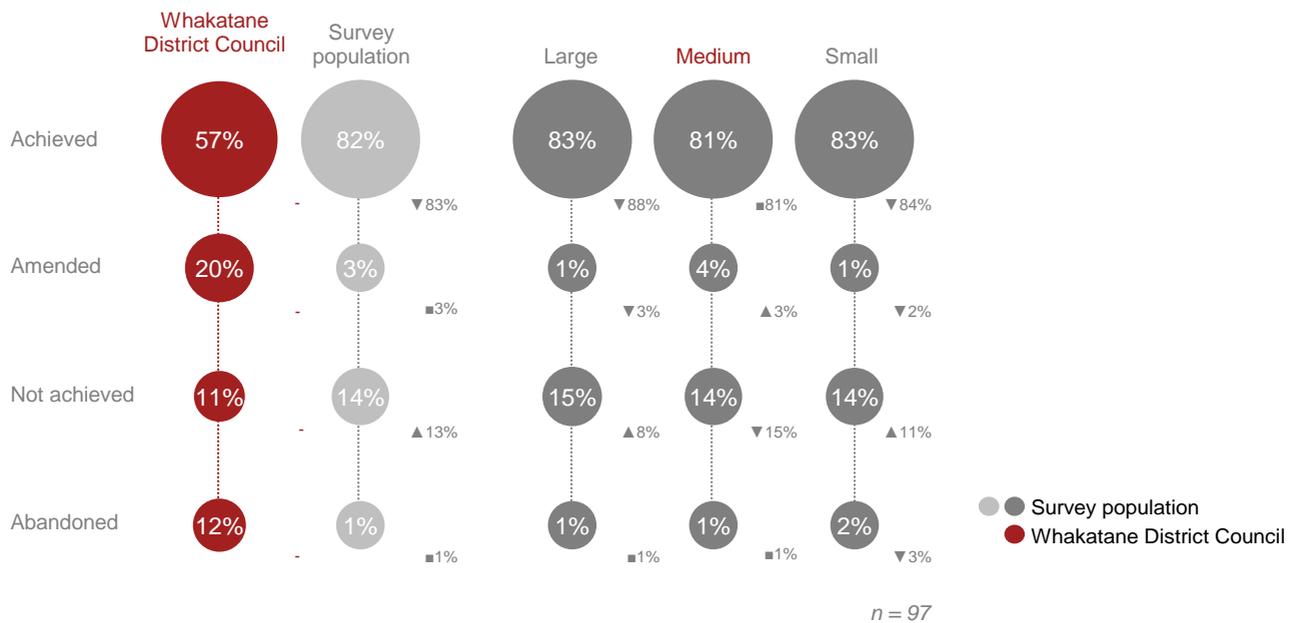
Operational Plan

The annual plan or operational plan is a critical document that translates community strategic objectives and commitments into individual projects, programs and activities.

It is important that councils set realistic actions within their annual or operational plan, taking into account resource capacity, capability and level of commitment required to achieve the desired outcomes.

Our findings show that 82% of reported 'actions' in the FY15 annual or operational plan were achieved by councils. While the overall result has only fallen by one percentage point, large councils have seen a larger decline in the percentage of actions achieved, falling from 88% to 83%. As a result, 15% of actions were not achieved in large councils, up from 8% in the prior year.

Figure 3.19: FY15 Operational Plan status



Risk Management



Risk Management trend summary

Whakatane District Council

Metric	Council	FY13	FY14	FY15	Change from FY14 to FY15
1. Risk management policy in place	Whakatane District Council			Yes	
	NZ Survey population			61% (Yes)	
2. Frequency in formally reporting risks to council	Whakatane District Council			As required	
	NZ Survey population			27% (As required)	
3. Audit and Risk Committee in place	Whakatane District Council			Yes	
	NZ Survey population			96% (Yes)	
4. Independent or external members on Audit and Risk Committee	Whakatane District Council			20%	
	NZ Survey population			17%	
5. Number of risk-related FTEs	Whakatane District Council			0.0	
	NZ Survey population			0.2	
6. Delivery of internal audit	Whakatane District Council			Outsourced	
	NZ Survey population			23% (Outsourced)	
7. Days of internal audit effort per NZ \$10 million in council revenue	Whakatane District Council			5.3	
	NZ Survey population			0.9	

Managing risk

Risk management policy

Although our survey results show a decline in the proportion of councils with an approved risk management policy in place (83%, down from 87% in the prior year), this is due to the contrasting results between NSW and New Zealand councils. While we now see 90% of NSW councils with an approved risk management policy, and a further 9% with a policy in development, in comparison there are 61% of New Zealand councils with an approved risk management policy, and 31% with a policy in development.

Rural councils continue to have an opportunity to move forward in this area, with 76% having a risk management policy in place, compared to 90% of metro and 83% of 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.

We have observed an improvement in the frequency of formally reporting risks to council - 43% of councils now report risks at least 4 times per year (up from 34% in the prior year). However, there are over a third of councils (38%) where management is only reporting risks to council annually or as required, although this has fallen from 55% in the prior year.

It is concerning that 20% of regional and 15% of rural councils are not reporting risks at all to council. The frequency and forum of formal reporting of risks to council depends 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?

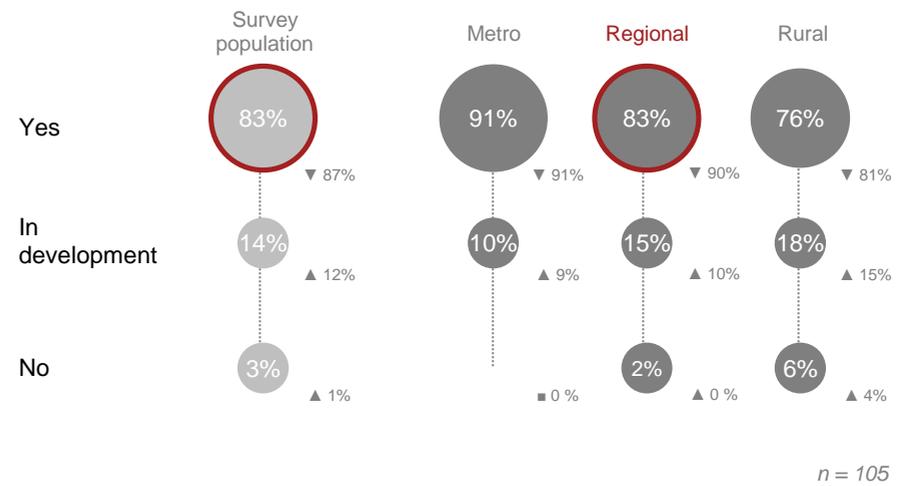
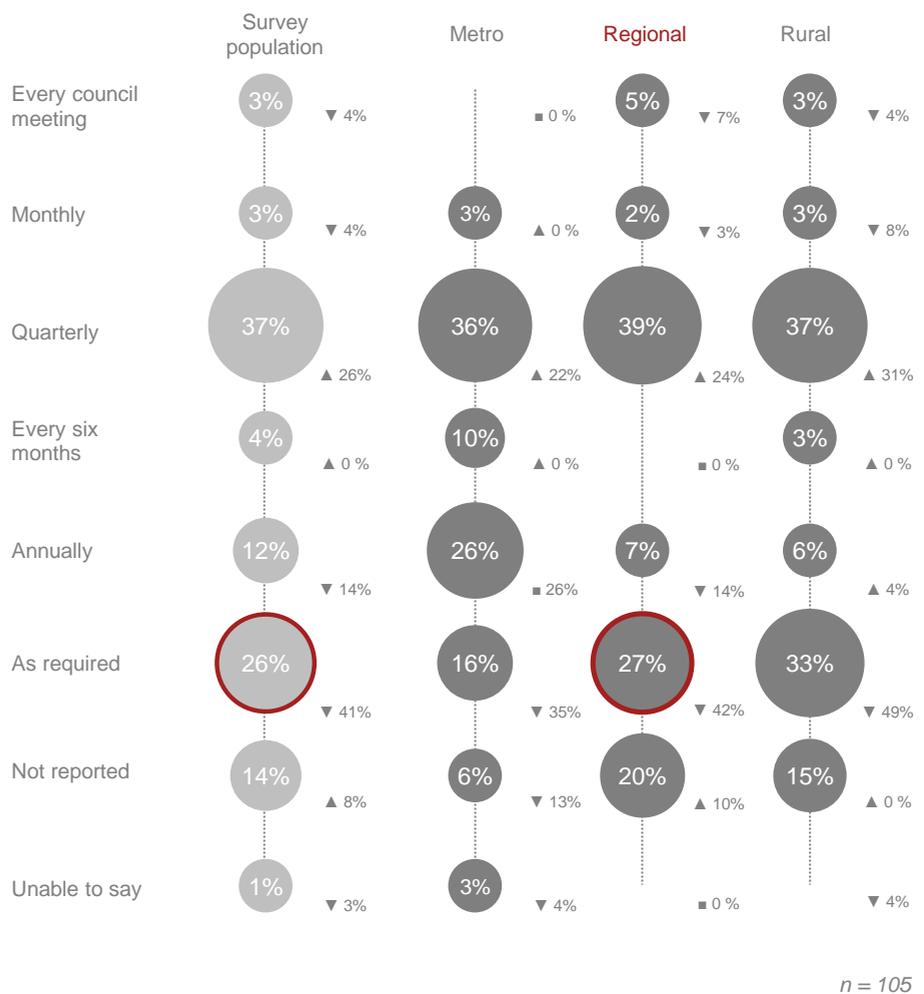


Figure 4.2: How often does management formally report risks to council?



● Survey population
 ○ Whakatane District Council

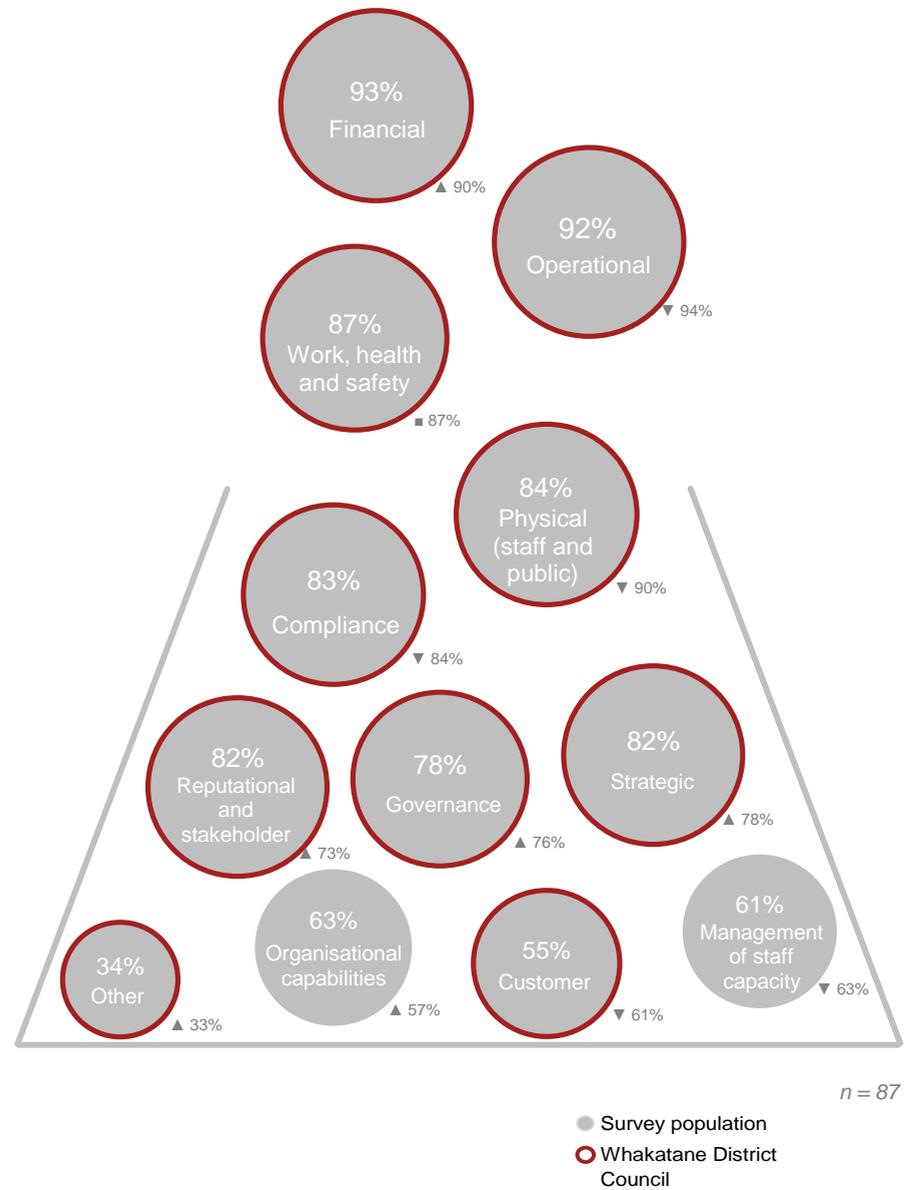
Managing risk (continued)

Risk management categories

Within the risk management policy, the majority of risk categories covered appear to be consistent with the prior year. Operational (92%), Financial (93%), Physical (84%) and Workplace, health and safety (87%) remain the top four reported categories.

Interestingly, we have observed a decrease in the reported importance of customer risk (55%, down from 61% in the prior year), but an increase in reputational and stakeholder risk (82%, up from 73% in the prior year), which ties into some of the trends reported in later sections of this report.

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



Corporate governance

Audit and Risk Committee

The Audit and Risk Committee is a sub-committee of council, and provides key links between management, council and the external auditor. Audit committees can ease pressure on a busy council by addressing many of the following areas: risk management & internal control; regulatory, compliance & ethical matters; financial reporting; internal audit; and external audit.

With this in mind, it is encouraging to see that nine out of ten councils report having an Audit and Risk Committee in place (90%, up from 79% in the prior year). This demonstrates a large improvement for NSW councils, with 89% (up from 79% in the prior year) having an established Audit and Risk Committee. New Zealand councils report strong corporate governance in this regard, with 96% having an established Audit and Risk Committee. This is particularly pleasing given the increased focus on reputational and stakeholder risk reported in Figure 4.3, as this can form part of the audit committee mandate under compliance and ethical matters.

It is important that the audit committee is independent, of sufficient size and has the required technical expertise to discharge its mandate effectively.

To strengthen the committee’s actual and perceived independence, it is important to maintain a reasonable balance of external or independent Audit and Risk Committee members. In NSW councils, we continue to see a median result of 50% being independent or external to council. In comparison, New Zealand councils have a median of 17% of their Audit and Risk Committee members being independent or external to council.

We encourage those councils to review the composition of their Audit and Risk Committee and re-consider 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)?

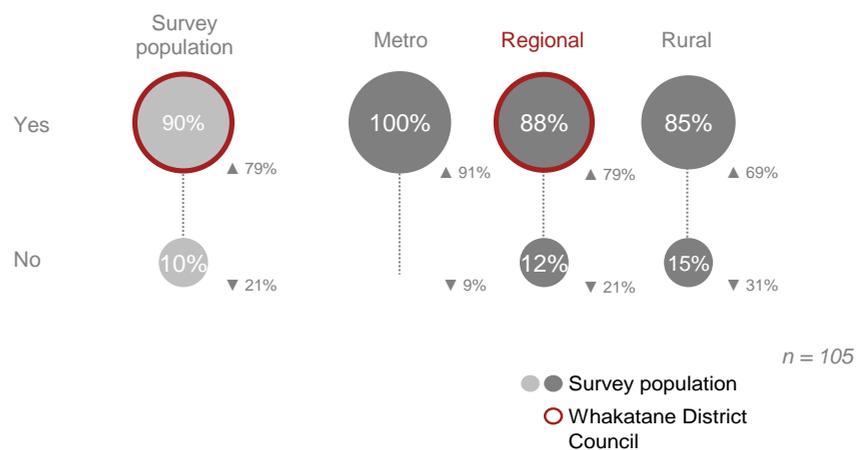
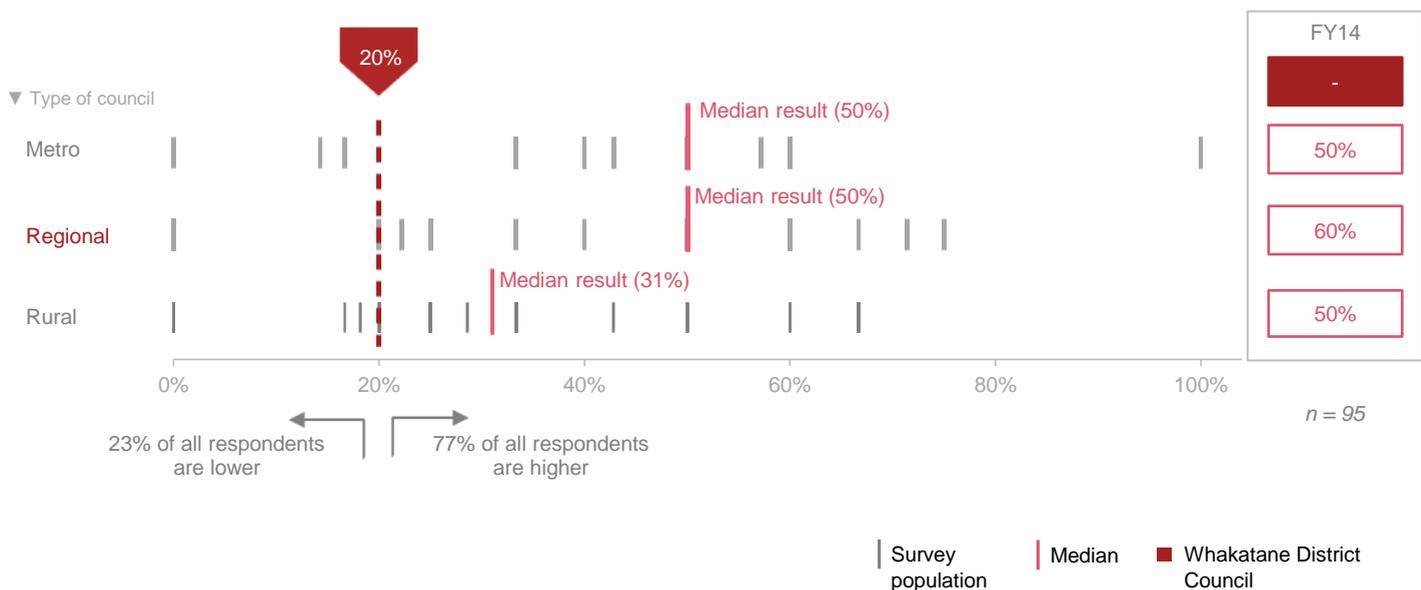


Figure 4.5: Percentage of independent or external members of the Audit and Risk Committee



Corporate governance (continued)

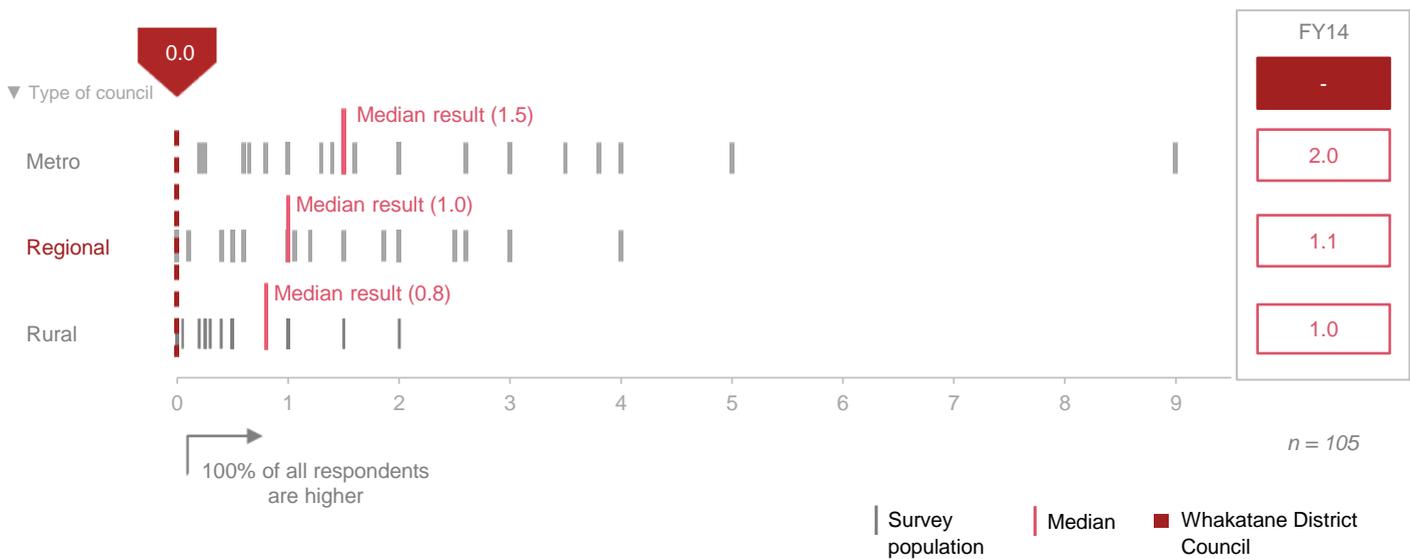
Risk management resources

To execute on the risk management policy and in order to support the audit committee achieve their mandate, council must have access to sufficient risk management resources to identify risks, understand and assess them, take action where required, and report or follow up.

We continue to see councils reporting a median of one risk-related full-time equivalent, though this ranges from a median of 0.8 FTE in rural councils to 1.5 FTEs in metro councils.

We recognise that the variation is in large part due to individual council decisions on how to allocate risk management responsibilities. The important factor for councils to consider is that at some level there is clear ownership and accountability for risk management.

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



Delivery of internal audit

Internal audit delivery and effort

Internal audit provides the third line of defence in an organisation’s risk management strategy, and those internal audit functions delivering the greatest value to businesses today are characterised by their ability to keep pace with business changes by being adaptive to the risk landscape.¹

While we continue to observe that almost twice as many councils prefer to outsource internal audit (37%) rather than co-deliver it (18%), there is a large difference in the way internal audit is delivered across the survey population. NSW councils are 1.8 times more likely to outsource or co-deliver internal audit (62%), compared to New Zealand councils (35%). New Zealand councils prefer to operate their own internal audit function (34%), and close to one third of New Zealand councils opt out of maintaining an internal audit function at all, compared to 19% of NSW councils.

Rural councils remain the most likely to abstain from carrying out an internal audit, with 52% reporting no internal audit during the 2014–15 financial year, compared to only 3% of metro and 12% of regional councils.

Once again our survey results indicate that internally delivered audits take more than twice the effort of outsourced audits, with a median of 9.9 days per A\$10 million in council revenue (or 9.2 days per NZ\$10m), compared to 3.6 days for outsourced internal audits (or 3.4 days per NZ\$10m). Outsourced internal audits may reflect either lower levels of scope and 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?

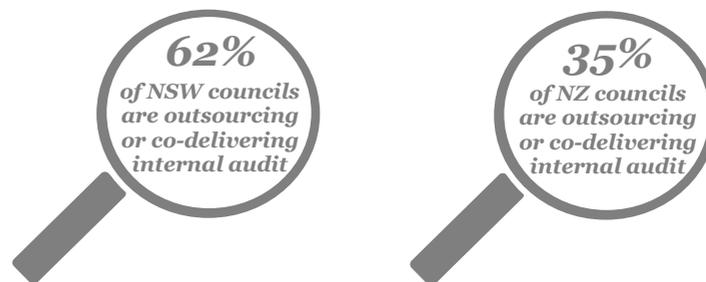
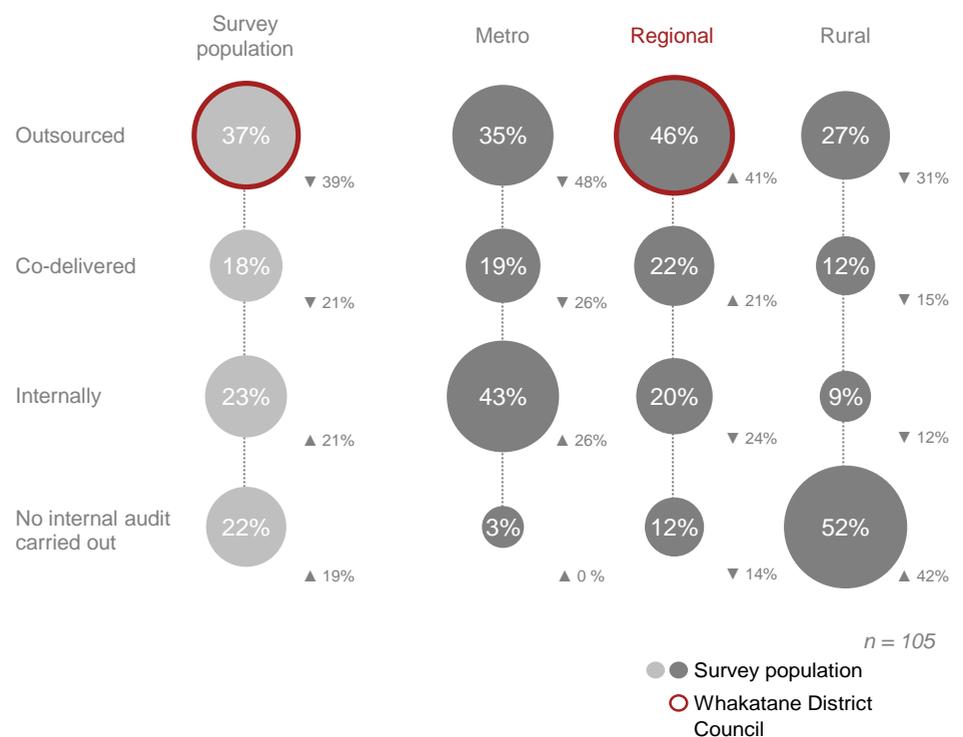
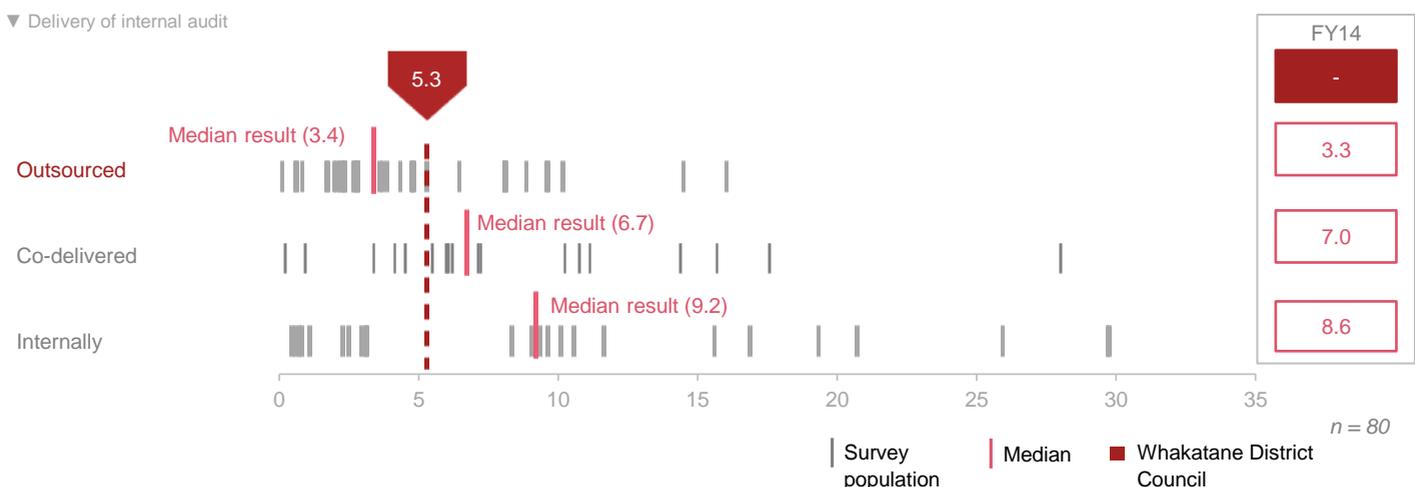


Figure 4.8: Days of internal audit effort per NZ \$10 million in council revenue



¹ PwC, 2015, State of the Internal Audit Profession Study, 'Finding True North in a period of rapid transformation'.

Delivery of internal audit (continued)

Internal audit effectiveness

Just as important as efficiency is the effectiveness of the internal audit. Councils were asked to rate the effectiveness of their internal audit function across specific areas. 'Promoting quality improvement and innovation' is now the top rated area, with 66% of councils rating their internal audit as performing well or extremely well in this area (up from 60% in the prior year). This was closely followed by 'Focusing on critical risks and issues the council is facing' (65%) and 'Aligning the scope of the audit plan with stakeholder expectations' (64%).

In PwC's 2015 global internal audit study², more than 1,300 chief audit executives (CAEs), senior management, and board members globally were surveyed, and four key performance areas were identified as top enablers for internal audit to be a more valued contributor - risk focus, talent model, business alignment and technology/data analytics. Based on the results from our survey, the greatest opportunities for councils lie in technology ('leveraging technology effectively' is performed well in only 49% of councils) and the talent model ('obtaining, training and/or sourcing the right talent for audit needs' is performed well in only 50% of councils).

In particular, the global internal audit study indicates that internal audit functions that are adding significant value to their businesses are almost twice as likely to harness the power of data throughout the audit life cycle to provide better insights into the business. We have also touched on the use of analytics and BI tools earlier in the finance section of this report.

A key role of the Audit and Risk Committee is to support and liaise with the internal audit function, and it is evident in Figure 4.10, that councils with an Audit and Risk Committee perform better in more areas of internal audit. We can see that 54% of councils with a committee, report that internal audit performs well (in six to eight areas of the internal audit), compared to 30% without an audit committee.

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

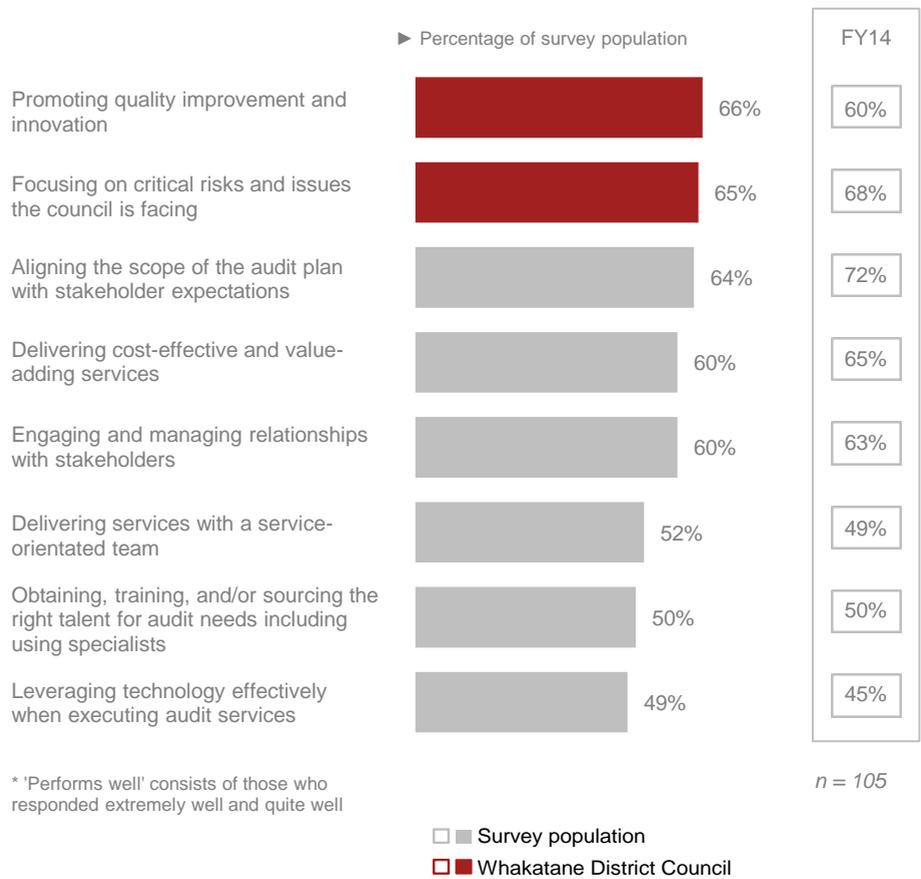
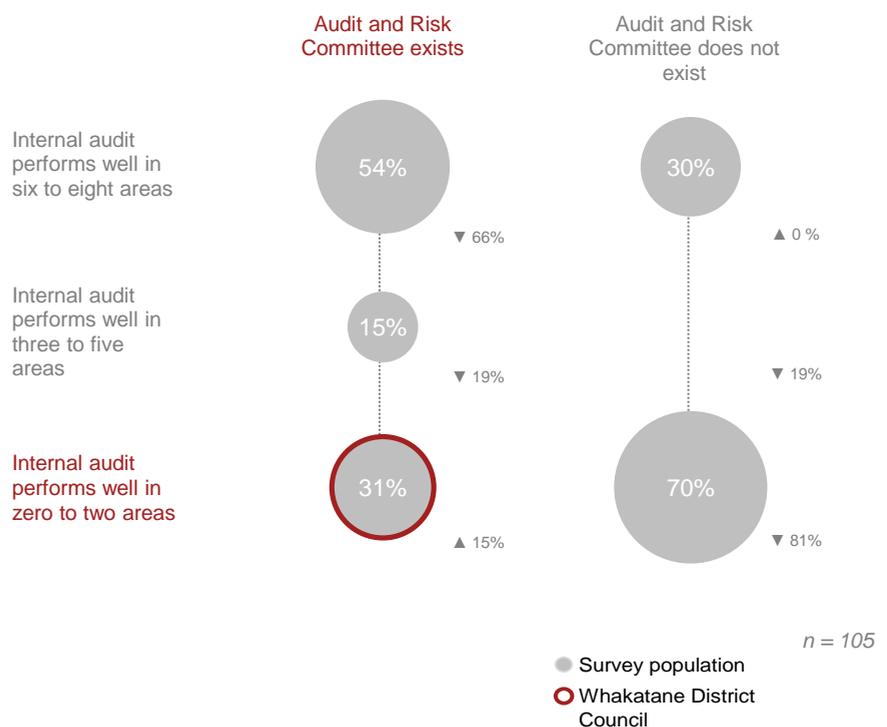


Figure 4.10: Correlation between having an Audit and Risk Committee and internal audit performance



² PwC, 2015, State of the Internal Audit Profession Study, 'Finding True North in a period of rapid transformation'.

A new focus on supplier risk management

Supplier performance and relationships

Supplier risk management is becoming increasingly important as the number of relationships with external suppliers grows and organisations experience pressures to create operational efficiencies through outsourcing and strategic sourcing³. With the increased focus on reputational risk noted earlier, it is clear that understanding and managing supplier performance is an area of focus.

Our survey continues to show improved ratings in both the performance of and relationship with key suppliers over the past year, with 86% of councils (up from 83%) falling into the top right-hand quadrant, thereby rating both the relationship and the performance of key suppliers 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.

The methods that councils choose to employ in measuring the performance of key suppliers are fairly consistent with the prior year results. The top three mechanisms are contract management (73%, up from 69%), regular meetings with suppliers (74%, up from 65%) and cost (70%, up from 62%). Metro councils continue to place a high level of importance on regular communication with key suppliers to avoid potential supply chain risks, with 84% using regular meetings as a measure of supplier performances.

In the prior year report, we highlighted the opportunity for improved use of key performance indicators (KPIs) as a measure of supplier performance management. We now see 36% of councils using KPIs, compared to 26% in the prior year, however this has been mainly driven by New Zealand councils citing KPIs as a commonly used method. We continue to recommend the use of KPIs to all councils as a method of creating clear service level expectations and increasing the visibility and accountability of key suppliers.

Key considerations:

- Are you getting the most you can 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

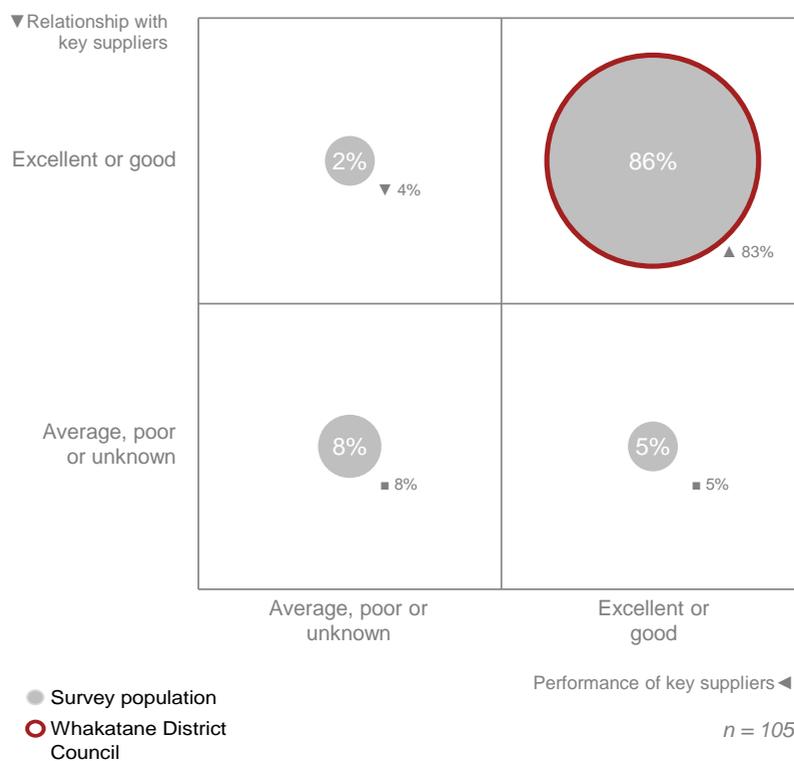
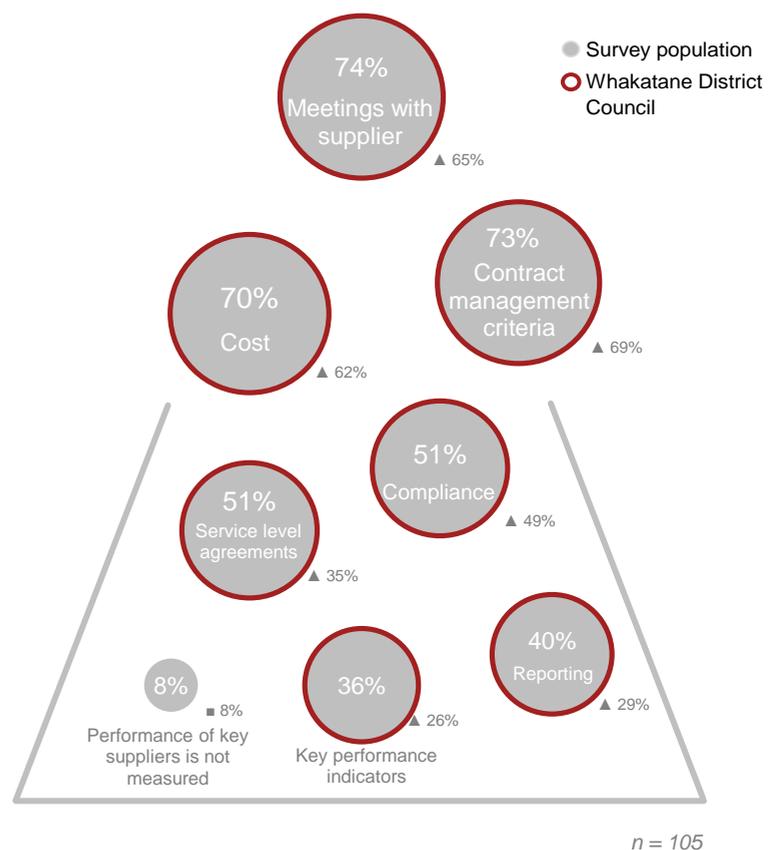


Figure 4.12: How does your council measure the performance of its key suppliers?



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

Corporate Leadership



Corporate Leadership trend summary

Whakatane District Council

Metric	Council	FY13	FY14	FY15	Change from FY14 to FY15
1. Frequency of review of delegations register	Whakatane District Council			More than once per election cycle	
	NZ Survey population			19% (More than once per election)	
2. Council decisions audited for compliance to delegations register	Whakatane District Council			Yes	
	NZ Survey population			50% (Yes)	
3. Average council meeting duration (minutes)	Whakatane District Council			126	
	NZ Survey population			159	
4. Average council resolutions passed	Whakatane District Council			19	
	NZ Survey population			19	
5. Improved staff engagement	Whakatane District Council			Yes, improved	
	NZ Survey population			42% (Yes, improved)	
6. Frequency of review of community engagement strategy	Whakatane District Council				
	NZ Survey population				
7. Corporate KPIs in place	Whakatane District Council			Yes	
	NZ Survey population			81% (Yes)	
8. Percentage of corporate KPIs on track	Whakatane District Council			83%	
	NZ Survey population			63%	

Ensuring efficient and consistent decision making

Delegations register

The delegations register acts as an essential compliance tool to protect against misuse of delegated authority.

Our survey results show similar results to the prior year, with 45% of councils reviewing their delegations register annually. However, NSW councils are showing an improved approach to their level of governance, with 50% (up from 44%) now monitoring on an annual basis. In contrast, only 27% of New Zealand councils review their delegations register annually.

We are starting to see a slight improvement in the proportion of councils auditing their decisions for compliance, with 51% of councils now doing so (up from 49% in the prior year). However, there are 59% of regional councils and 61% of rural councils that do not perform this crucial step as part of their risk framework. We recommend that all councils implement a process to audit and review the performance of delegated functions and ensure compliance with operating procedures.

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

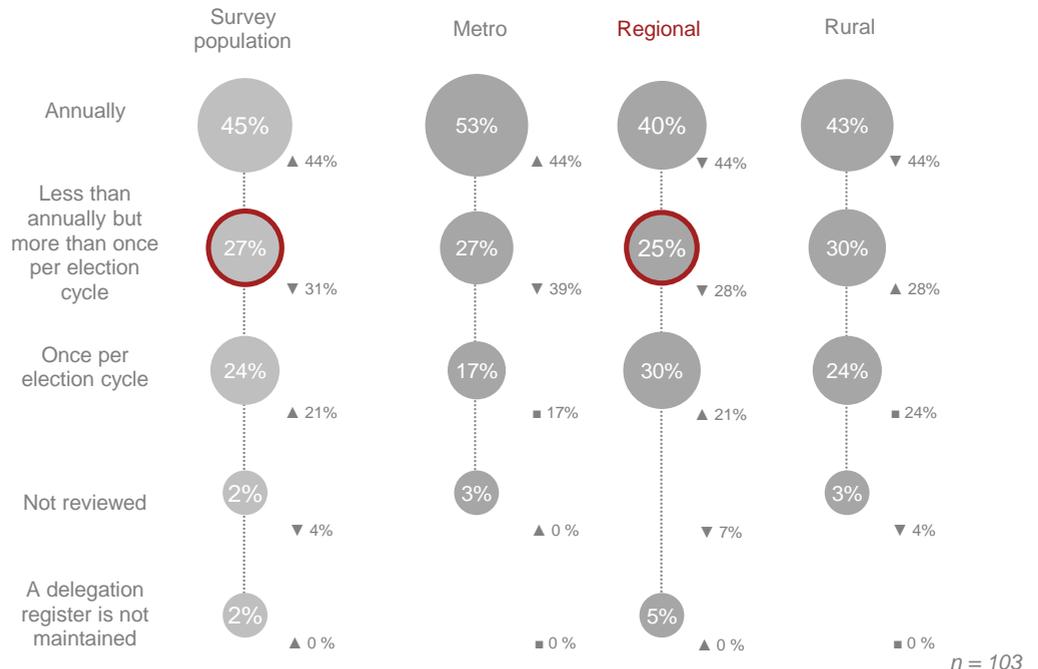


Figure 5.2: Are your council's decisions audited for their compliance with the delegations register?



● Survey population
 ○ Whakatane District Council

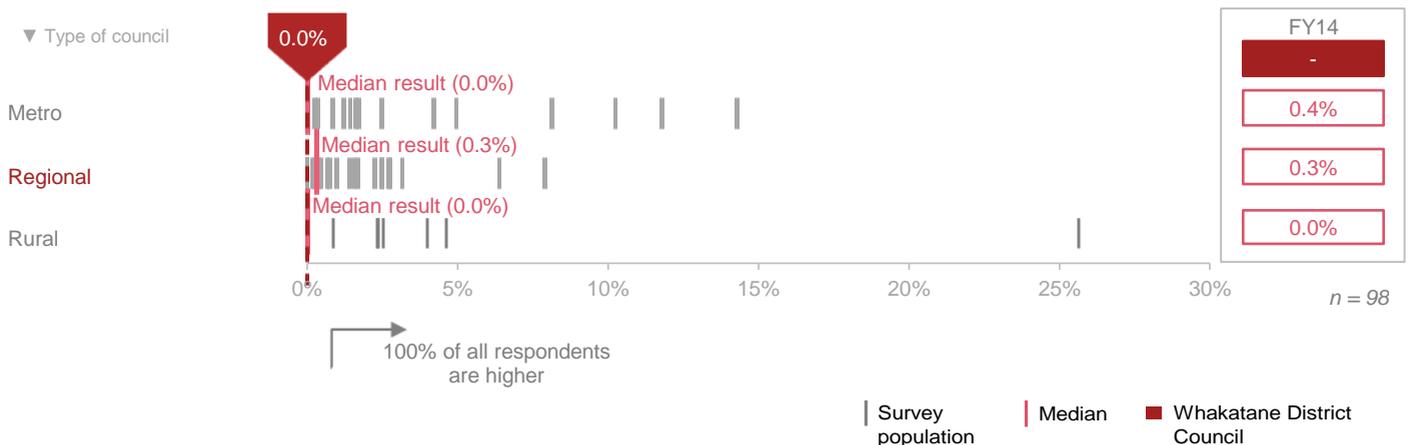
Development applications or building consents

It is important that development applications or building consents be processed consistently, and as efficiently as possible, especially as it may be the first or only direct interaction that community members have with the council.

Increased efficiency is typically achieved when a DA can be actioned by council staff rather than considered at a council meeting, and many councils appear to be taking full advantage of the delegated authority.

Our findings support increased efficiency in this area, especially in metro councils where the median result is now 0% (down from 0.4%) of councils using the delegation of authority to action DAs or building consents.

Figure 5.3: Percentage of DAs or building consents 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 2014–15 financial year.

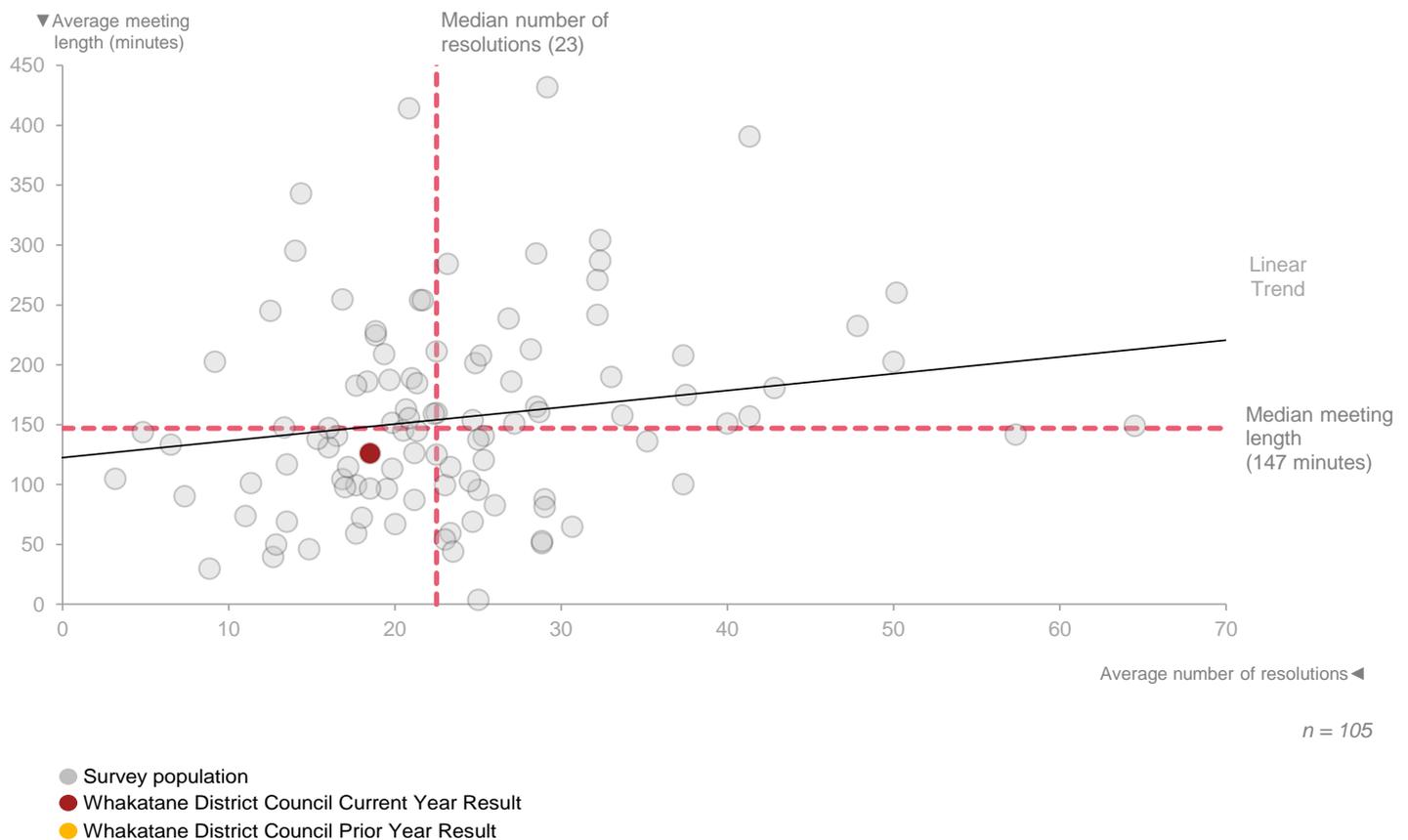
When analysing meeting duration and resolutions passed, our findings show a slight shift in both results when compared to the prior year, with the median council meeting duration going up to 147 minutes (146 in the prior year) and producing less resolutions - 23 resolutions down from 25 in the prior year.

Interestingly, New Zealand councils tend to have longer meetings than NSW councils, whereby they spend a median of 159 minutes (2.7 hours) producing a median of 19 resolutions, compared to NSW councils, which spend a median of 145 minutes (2.4 hours) producing a median of 23 resolutions.

Key considerations

- Do your council meetings regularly extend beyond three hours?
- Are your council meetings passing resolutions in an efficient manner?
- Are your meeting papers clear and concise, allowing councillors to perform a timely review prior to the meeting?
- Do you provide councillors with meeting papers in advance, allowing sufficient time prior to the meeting to review adequately?
- 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 FY15



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 2014–15 financial year.

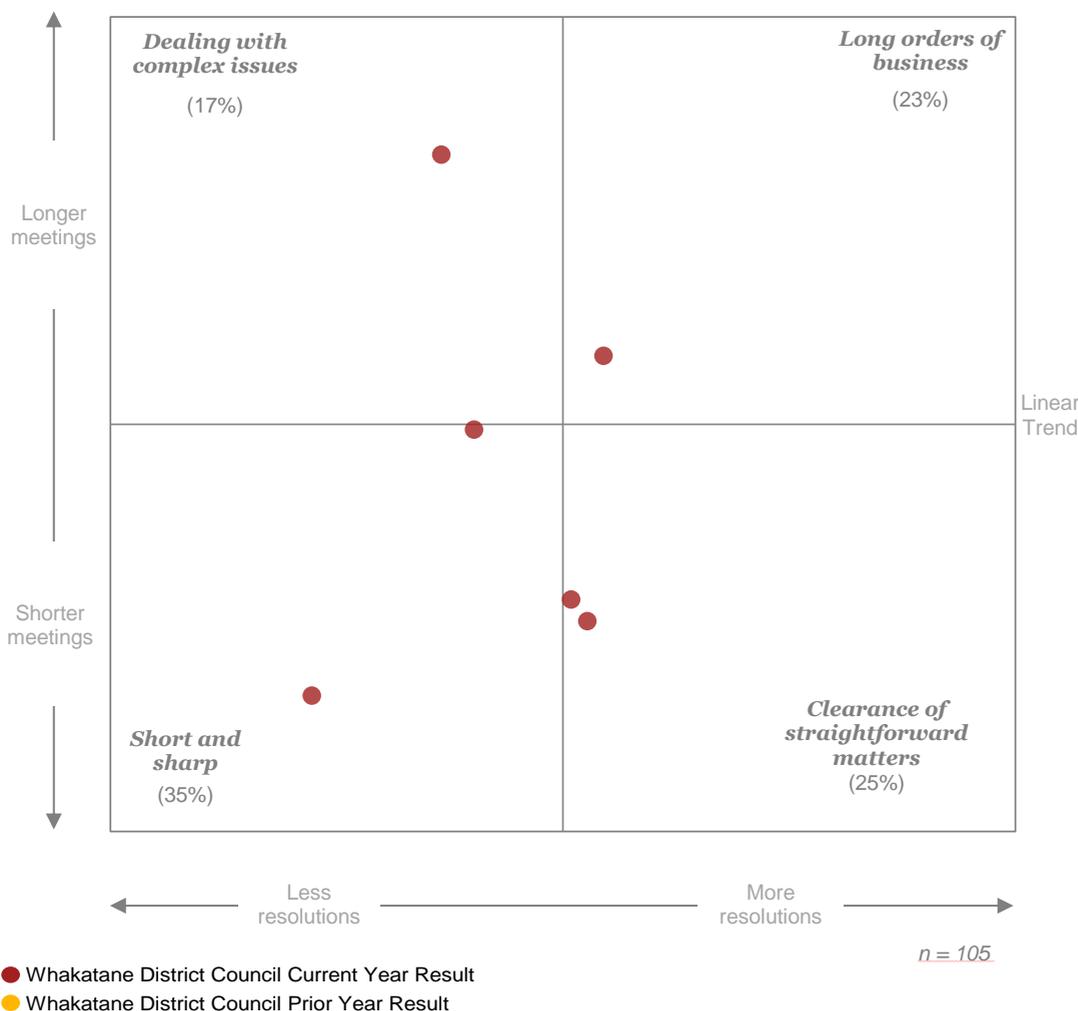
Our results show that, overall, a greater percentage of council meetings (35%, up from 29% in the prior year) were in the quadrant ‘short and sharp’, indicating that a greater proportion of council meetings focused on decision making, with less discussion of individual items, in the second half of the 2014–15 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 2015.

Key considerations:

- Did the complexity of issues match the time taken to resolve them?
- Could more meetings have been short and sharp?
- Are you conducting extra meetings to support and inform your councillors so that council meetings are more productive eg. strategy or key operational issues?
- Is your councillor meeting agenda well structured, clearly delineating sections for specific council purposes eg. information only versus strategic decisions?

Figure 5.5: Relationship between council meeting duration and resolutions passed in the second half of FY15



Maintaining high levels of staff engagement

Staff engagement

It is encouraging to see that for those councils that measure staff engagement levels, a higher proportion of councils (41% compared to 39% in the prior year) are seeing an improvement in staff morale. There has been a remarkable improvement in reported staff morale in metro councils, with 52% (up from 39%) citing improved staff engagement levels.

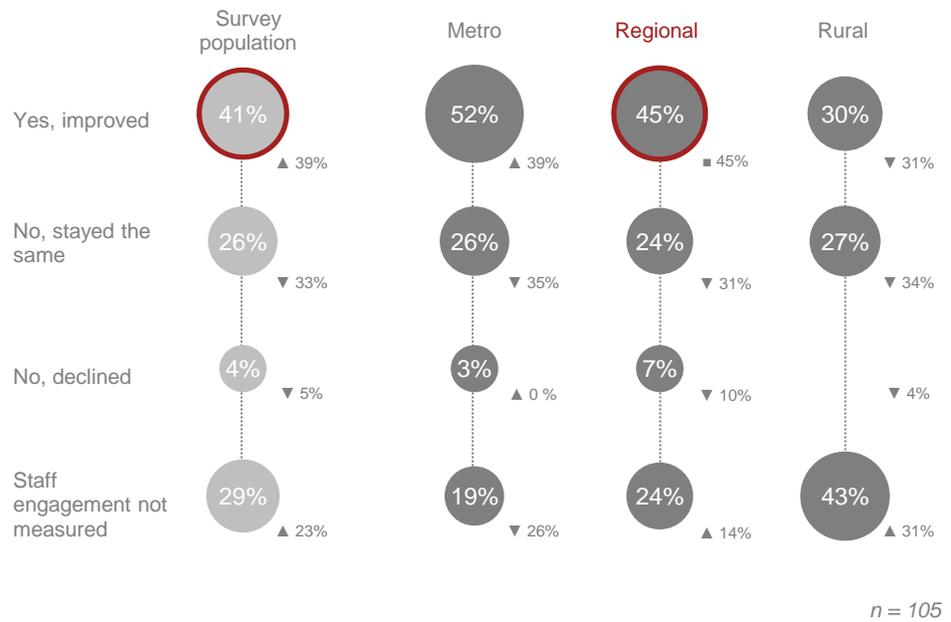
However, more than one quarter of councils (29%) still lack vital information on staff engagement due to the absence of a measurement framework, compared to 23% in the prior year. This is important given that local governments face the challenges of an ageing workforce and the difficulties of attracting and retaining Gen Y employees.

Gen Y staff tend to have different career priorities to older employees, including a desire for flexible hours, frequent feedback on their work, and a dislike of traditional corporate structures. Implementing engagement strategies can help younger employees apply their range of abilities and passions, and strengthen their connection to the organisation as a whole.¹

In terms of business planning, more than two thirds of the councils (67%) now have planning criteria in place to help employees develop their business plans, compared to 57% in the prior year.

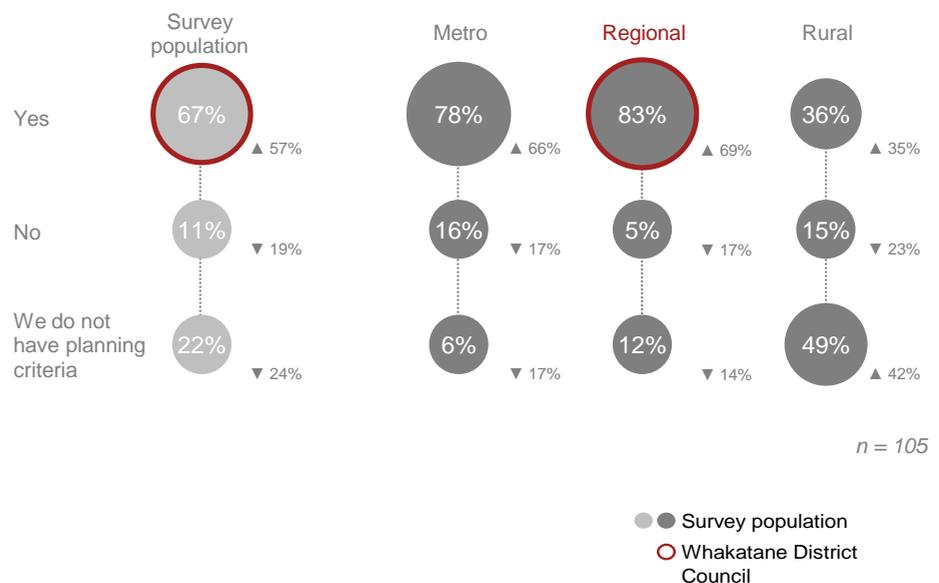
The evidence also shows that for councils with improved staff engagement levels, 68% provide planning criteria to employees to help them better develop their business plans.

Figure 5.6: Did your staff engagement levels improve during the year ending 30 June 2015?



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.²

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

- Have you recently 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? Do you know the best way to communicate with your staff – regular reports/comms, social media, dashboards, infographics?

¹ PwC, February 2014, 'The keys to corporate responsibility employee engagement'.
² Ibid

Consulting with the community

Community engagement strategy

Effective local government needs a combination of representative and participatory democracy, and a key way to achieve this is to implement a community engagement strategy. Councils should be moving beyond informing or consulting with the community, to involving, collaborating with and empowering their communities.

Our survey results show that 88% of councils have a documented and approved community strategy in place. We are seeing 94% of metro and rural councils, and 93% of regional councils, with a documented and approved community strategy established or in development.

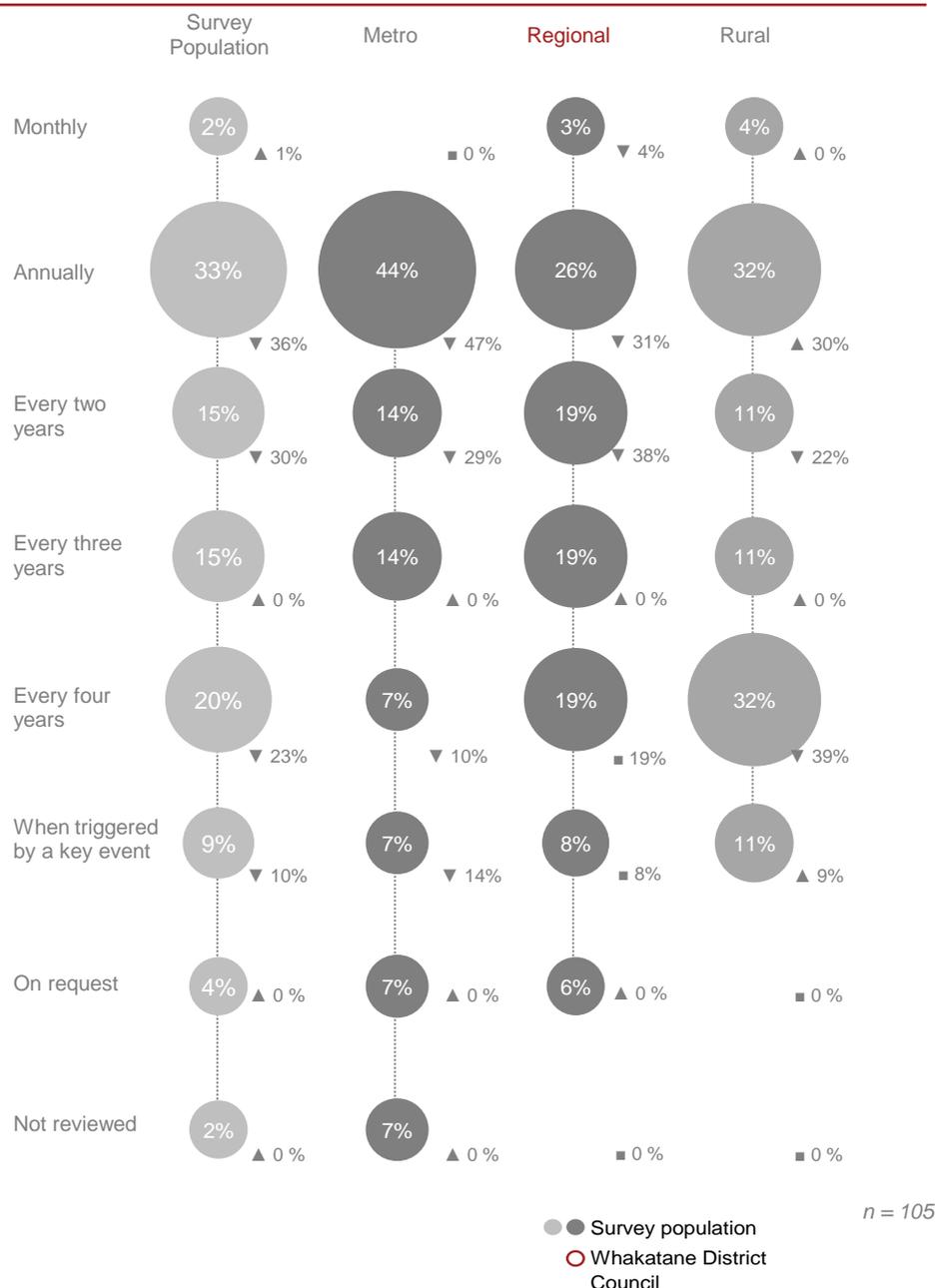
Almost as important as the strategy itself is the frequent review of the strategy, to confirm that it continues to meet the community's requirements. There appears to be a vast difference between NSW and New Zealand councils when it comes to the frequency of reviewing the community engagement strategy.

NSW councils are more likely to review on an annual basis (37%), compared to only 20% of New Zealand councils. The vast majority of New Zealand councils (65%) review their community engagement strategy every three years, in line with the triennial long term plan (LTP) process.

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?



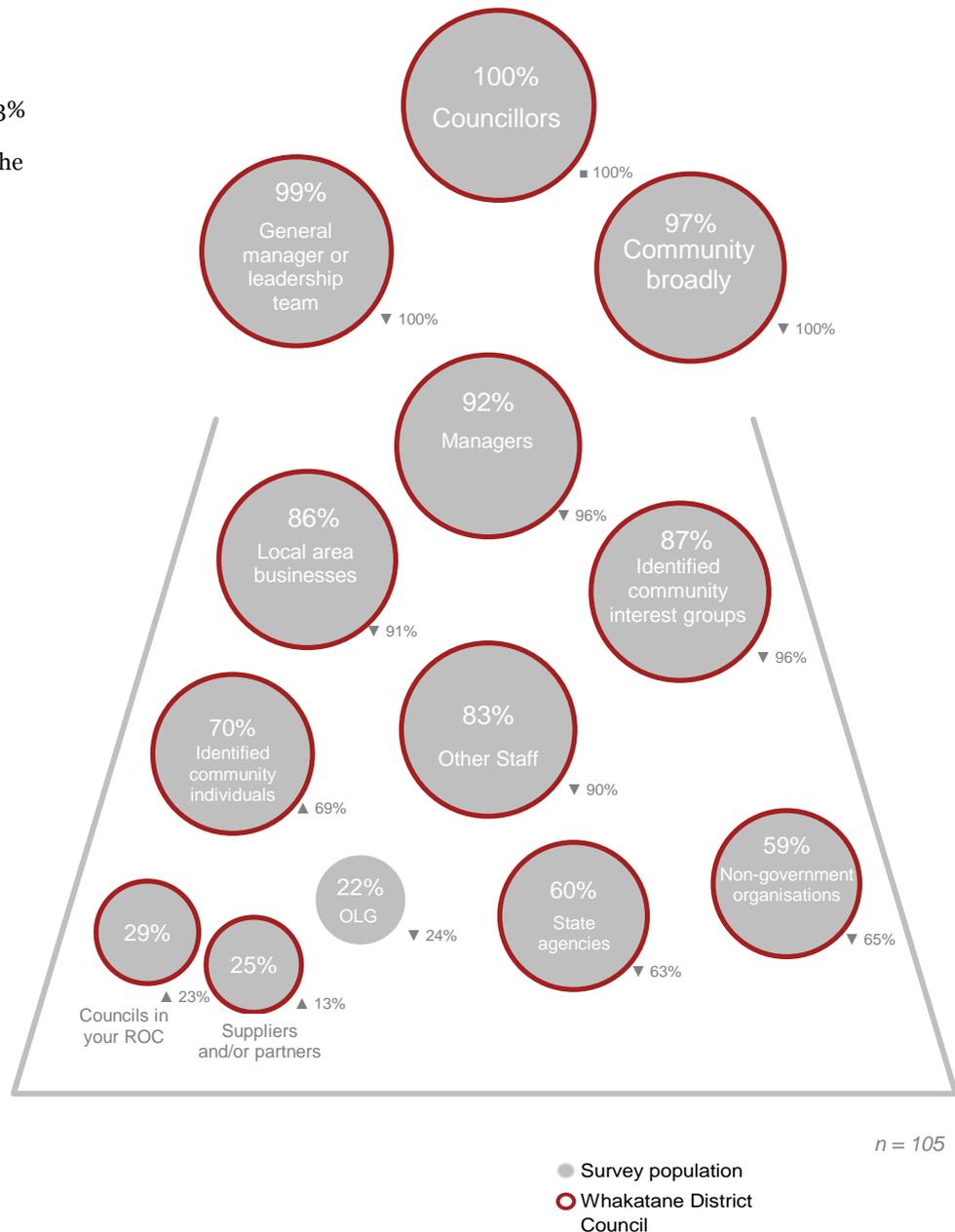
Consulting with the community (continued)

Community engagement

Consulting with a broad range of stakeholder groups will lead councils to obtain a richer variety of inputs and issues to consider, and ultimately result in a more comprehensive strategy for the local community.³

It is encouraging to see a higher proportion of councils engaging with neighbouring councils (29%, up from 23% in the prior year) as well as suppliers and/or partners (25%, up from 13% in the prior year), as part of their consultation and engagement strategy. All other stakeholder groups are now being included in the consultation process by more than 50% of councils, with the exception of 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

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%, no change from the prior year), operational (89%, up from 86%) and governance (72%, down from 74%).

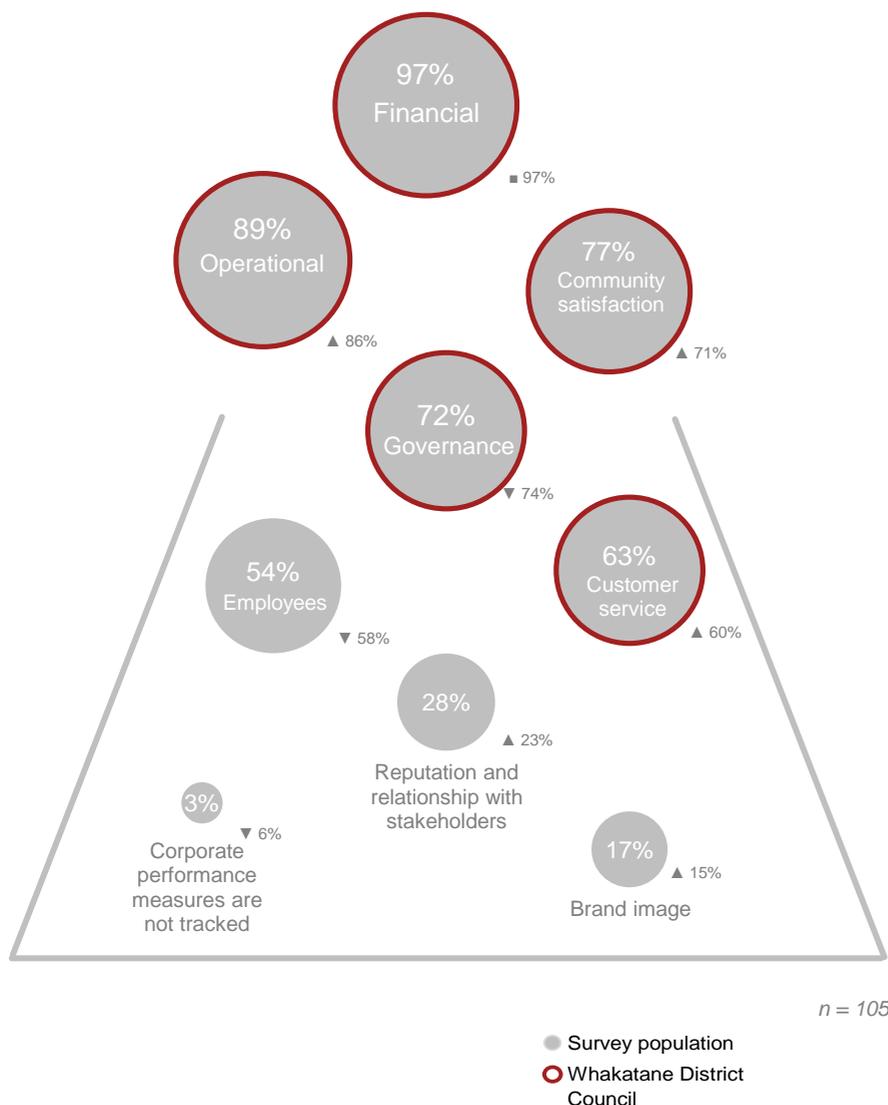
Encouragingly, we are now seeing greater emphasis on measuring community satisfaction (77%, up from 71%), as well as measuring customer service (63%, up from 60%).

We continue to see more focus on both the reputation and relationship with key stakeholders (28%, up from 23%) and brand image (17%, up from 15%), indicating a shift in the importance of these measures.

Key considerations:

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

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



Understanding council performance (continued)

Key performance indicators

A key performance indicator (KPI) is an identified business metric an organisation uses to evaluate the 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.

We continue to see 71% of NSW councils tracking corporate KPIs during the 2014–15 financial year, however in comparison, 81% of New Zealand councils are seeing the benefits in being able to measure and track key metrics across the council.

During the 2014–15 financial year, 76% of KPIs in metro councils (up from 70%) and 80% of KPIs in rural councils (up from 70%) were reported as 'on track'. As a result, a much lower percentage of KPIs are now 'in progress', with 16% in metro (down from 23%) and 11% in rural councils (down from 21%).

In contrast, the percentage of KPIs 'on track' in regional councils have remained steady at 71% (72% in the prior year), yet there has been a surge in the percentage of KPIs 'off track', at 14% (up from 11%).

It is important for councils to analyse any shift in the status of KPIs in the past year and whether there were actual performance issues, or whether the following or a combination of the following occurred: lack of sufficient planning was completed initially, effective risk management protocols were not in place, or an element of control was lost due to internal or external factors.

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

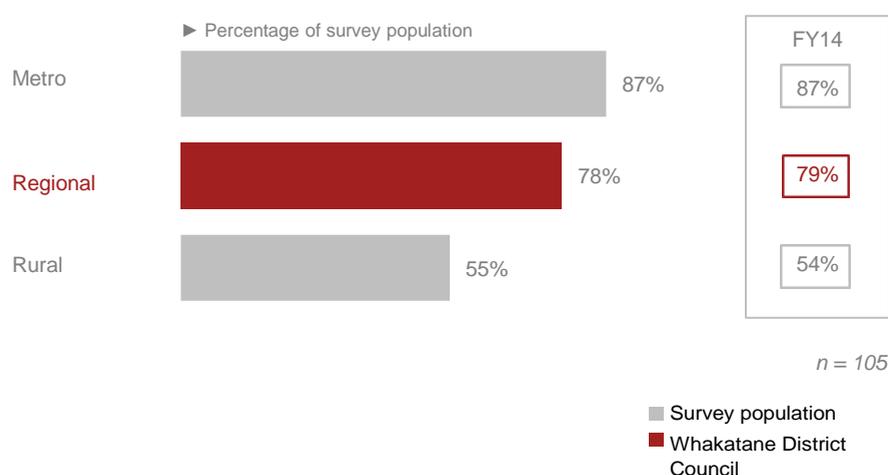
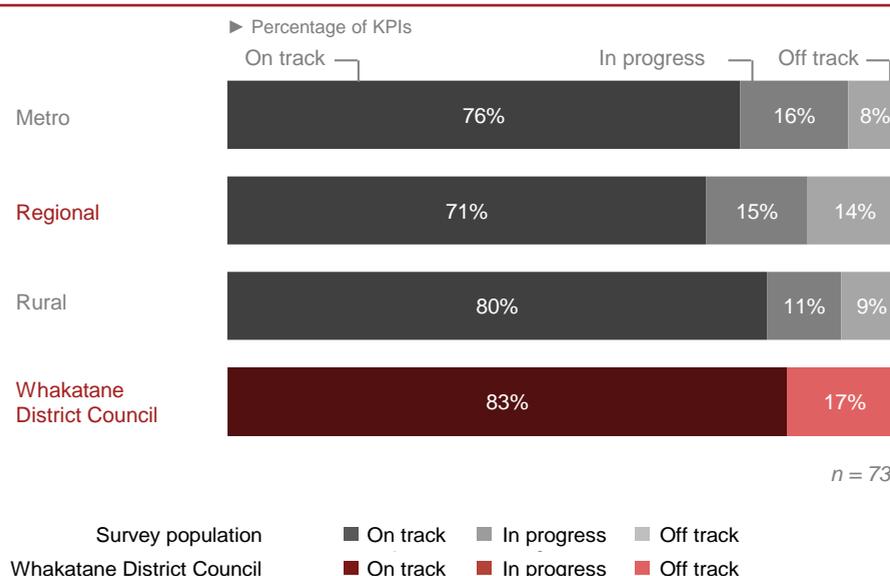


Figure 5.13: Results from tracking corporate KPIs



Service Delivery

(Pilot)



Industry Snapshot

31
councils

Top Services

Of the councils who participated in our Service Delivery Pilot, 31 provided information about their financial spend on services. Below are the top six services by cost and the average cost per resident.

	Number of councils*	Average \$ per resident*	Range of \$ per resident ^
 Water	 12 councils	 \$271	\$231 – \$364
 Governance & Administration	 31 councils	 \$248	\$146 – \$700
 Roads & Bridges	 29 councils	 \$235	\$86 – \$1,090
 Sewerage	 16 councils	 \$228	\$62 – \$359
 Solid Waste Management	 27 councils	 \$162	\$121 – \$244
 Parks & reserves	 30 councils	 \$79	\$33 – \$83

* where service is provided

^ middle 80% of councils by cost per resident

Overview

Introduction

Workforce costs remain a major controllable component of total council expenditure (median of 36%). In addition, councils are very significant asset managers requiring management resource to plan and direct. There is also a constant tension between the need for resourcing in direct service delivery versus resourcing in the support or central administration functions, and the challenge of optimising the skilled support in the management layers with the right number of resources in direct service delivery. And of course it is not necessarily about the current resourcing but also future resourcing needs of the council that matters.

The service delivery section in this report is an important milestone as it will be the first time local government can see how some of these challenges and tensions are being resolved. The allocation of resources within service areas, as well as overall, is one of the most important areas of management given the competitive pressures on skills, capacity and increased community demands.

Understanding the relative size and shape of your various services, in terms of workforce and cost, is important, and now this Programme enables the pilot participating councils to see relevant comparisons of their service delivery profile compared to other councils' profiles.

Now that we have established this valuable section in the survey, we look forward to expanding these insights to more programme participants and unlocking even more relevant analysis to assist all councils.

Background

As part of our commitment to constantly improving the operational and management effectiveness survey programme, we have established a new initiative this year to **enrich the existing data set with service delivery information**. We established this new initiative as a pilot for FY15 and we thank the 34 NSW councils that volunteered to participate.

This pilot section will benefit councils by providing a better understanding of:

- the profile and scope of services delivered by councils;
- the way services are delivered (outsourced vs insourced) across councils;
- the associated costs in delivering these services; and
- the workforce makeup within various services delivered by your council.

This new phase of the project has been established as a pilot. It is important to note that this is the first time we have performed the mapping of Council Cost Centres to service areas and we plan to work in a collaborative manner to learn more about what works well, and identify areas for improvement before we launch this as part of the overall survey in FY16. We also expect participating councils to further refine and improve their data submission accuracy during the next survey round.

PwC and LG Professionals Australia, NSW worked with a technical working committee (senior representatives from participating NSW survey councils) to establish, test and validate the approach to launching this pilot including the data submission requirements, the mapping method and service area definitions.

The most practical approach, as decided by this committee, was to focus on the linking of the direct workforce to each service, without allocating overhead costs to any service areas. As a result, there is a service area called 'Governance and Administration' that captures all overhead costs and resources. While 'Governance and Administration' is not technically a service area, the total costs of this area is a useful component for comparison purposes so we have treated it as a standalone area.

Methodology

The starting point for this process was to develop a common set of service areas. The technical working committee worked closely with us to refine the NSW Office of Local Government's list of services (Special Schedule 1) from 56 to 32 service areas.

Participating councils then mapped their cost centres to the defined set of 32 service areas. As each employee is allocated to one or more of the council's cost centres (via their FTE status), this enabled each employee to be allocated to one or more of the defined service areas.

Using the list of mapped service areas, participating councils then compiled the specified financial data. The participating councils allocated the FY15 cost to their mapped service areas across three sub-categories of expenses: outsourced contract cost(if any); insourced staff remuneration; and insourced other expenses.

Overview (continued)

Understanding this section

Participating pilot councils

Each participating pilot council will have the ability to view a variety of metrics for their top five service areas (displayed in red) either ranked by service cost or service FTE (this is noted on each chart). In addition to the top five services, we profile the ‘governance and administration’ area and an ‘other’ category for the remaining services.

We have adjusted for the different scope of services a council provides, which means participating pilot councils will compare their metrics by service area to other pilot councils that also provide those same services. The number of councils that provided data for each of the service areas is shown in Appendix A.

To assist participating pilot councils with more valuable comparisons to the overall industry, we show these councils what the survey population result would look like if it was the same size as their council. Therefore participating pilot councils will now see relevant metrics for cost or FTE for their resident population, and the survey population result will be adjusted to reflect the total cost or FTE for your resident population.

You will notice that we have tried to allow for relevant comparisons by using a variety of components to display cost or FTE. For example: per resident; area per resident; road length per resident etc.

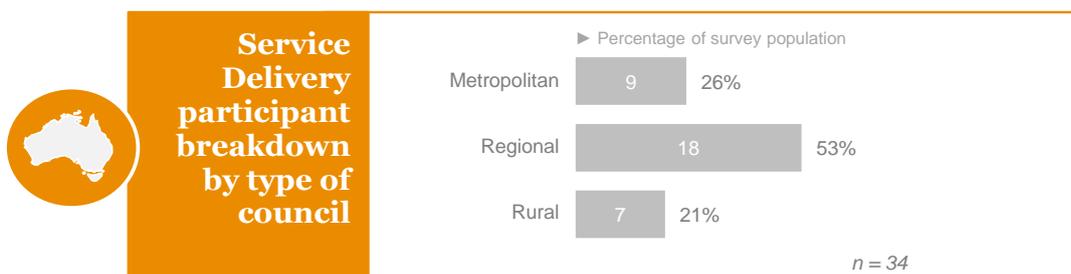
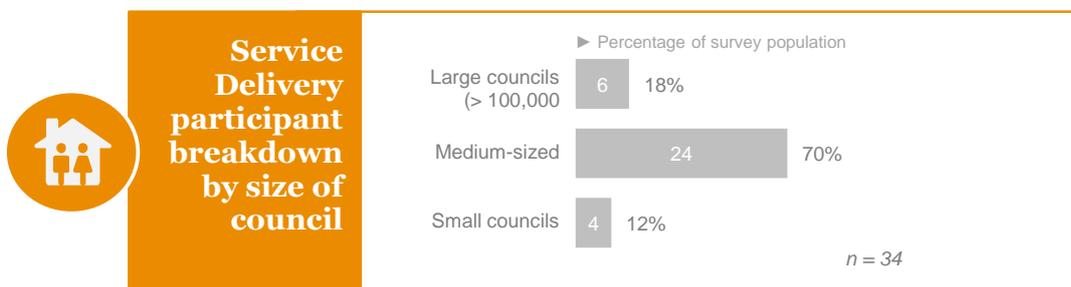
When calculating FTE and headcount, we have used the closing balance at 30 June 2015 for fixed term and permanent staff. Given the seasonal nature of some casual employees in local government, we have analysed casual staff employed across the year and then included a casual FTE component based on casual hours worked throughout the year in the relevant service areas.

Non-participating councils

Although the remaining 71 NSW and NZ councils in our operational effectiveness study did not participate in the service delivery pilot, we have included the results for the survey population’s top five service areas plus ‘governance and administration’ and an ‘other’ category for the remaining services. As no data was collected from this group of councils, the red indicator will be missing. Charts relating to cost or FTE, will be shown per 10,000 residents, rather than for the actual size of each council.

Providing standardised, comparable data on the resources employed in Service Delivery has been a prime objective of this programme since its inception. We have learnt a lot through this pilot, and have made substantial progress towards realising our vision. We look forward to further developing this in FY16, and continuing to get closer to providing informative, informed, ‘apples vs apples’ comparative analytics to councils.

Survey population



Delivering council services - cost and resourcing

Participating pilot councils

In Figure 6.1, we have shown a participating council's top five services, ranked by total service cost, as well as the category, governance and administration. The remaining services are consolidated into 'Other'.

Based on the data submitted, you will see your total cost and total full time equivalent staff (FTE) during the 2014–15 financial year, across your featured service areas.

The survey population, by service area, is represented by other participating pilot councils that also provide the same service.

For easy comparisons, we have remodelled the survey population result to represent the same size as your council. This means you can observe and compare the average equivalent resources (cost and FTE) of the survey population for each service area, as if this survey population had the same number of residents as your council.

For example, a council may have 50,000 residents and spend \$10.8m on solid waste management (\$216 per resident). The remodelled survey population result, using the total cost from the councils that also provide solid waste management, may result in an overall cost per resident of \$220, which equates to \$11m for each 50,000 residents.

This means the council in focus is spending less than the survey population to deliver this service to its 50,000 residents - the question then becomes how? Is it due to the way the service is delivered e.g.. outsourcing? Is it due to a lower number of employed FTE? Is the mix of staff different? Have procurement agreements been negotiated recently for a better price and volume of materials?

Some of these questions may be answered further in this section looking at Figures 6.8-6.10.

Non-participating pilot councils

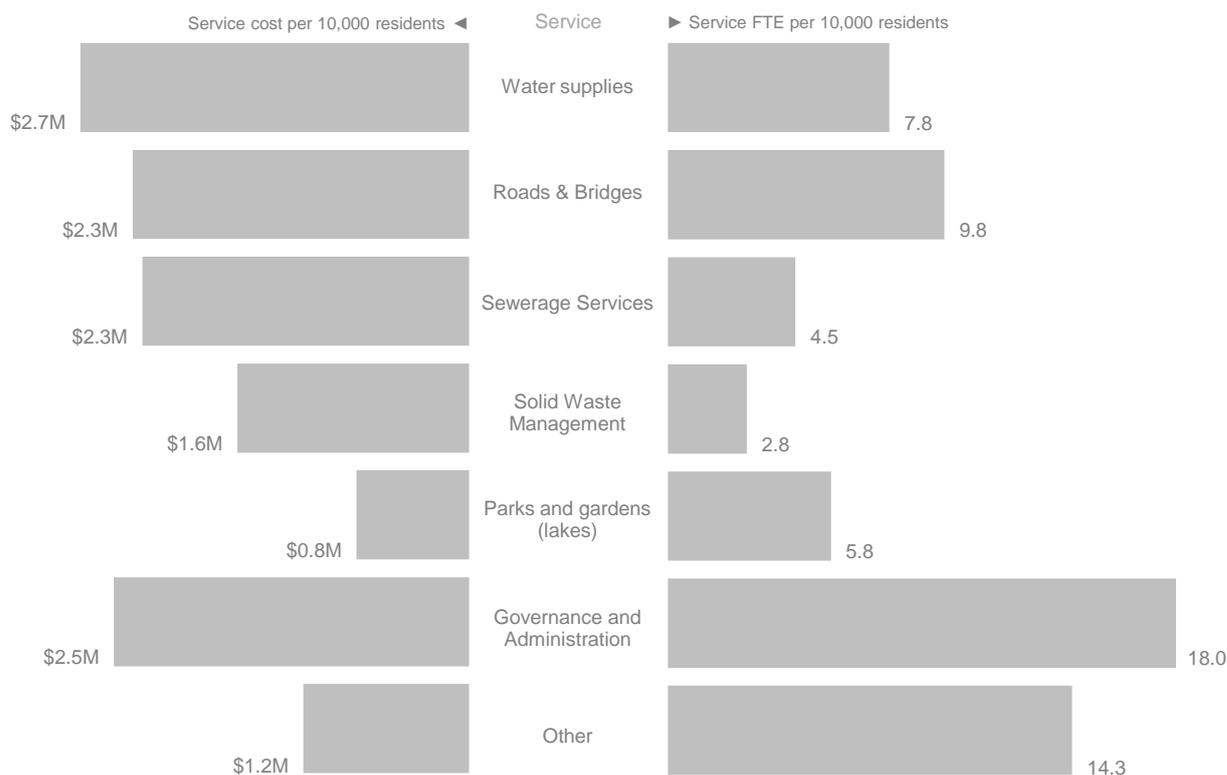
For this group of councils, we have shown the survey population's top five services, ranked by total service cost, as well as governance and administration. The remaining services are consolidated into 'Other'.

To be consistent, throughout this report, non-participating councils will see total cost and FTE per 10,000 residents for the survey population.

Definition

FTE: Total number of full time equivalent employees at 30 June 2015, including a casual FTE component based on casual hours worked throughout the year.

Figure 6.1: Total cost (\$) and FTE by service^



^ Ranked by service cost (\$) except for governance & administration and other

Note: For participating councils, we have remodelled the survey population result to be the same size as your resident population.

■ Survey population
■ Whakatane District Council

Method of delivering council services

Insourcing and outsourcing

On this page, we have shown the extent of current and future outsourcing as reported by councils in the survey population (adjusted to represent a percentage based on councils that provide the particular service). We show pilot participating councils their top five services (ranked by service cost) as well as governance and administration, with non-participating councils seeing the top five service areas (also ranked by service cost) across the survey population.

We asked the pilot participating councils to submit three financial data items for each applicable service area to reflect the total cost across the 2014–15 financial year: outsourced contract cost; insourced total employee remuneration (including oncosts); and insourced other costs (raw materials and consumables). The sum of these three expense categories represents a council’s direct total expenses in delivering a particular service.

When assessing the extent of current outsourcing, compared to insourcing of council services, we calculated the outsourced contract cost as a percentage of total direct cost, for each service area. We then grouped the pilot participating councils into two groups: those where more than 50% of total direct costs are with outsourced providers; and those with less than 50% of costs with outsourced providers.

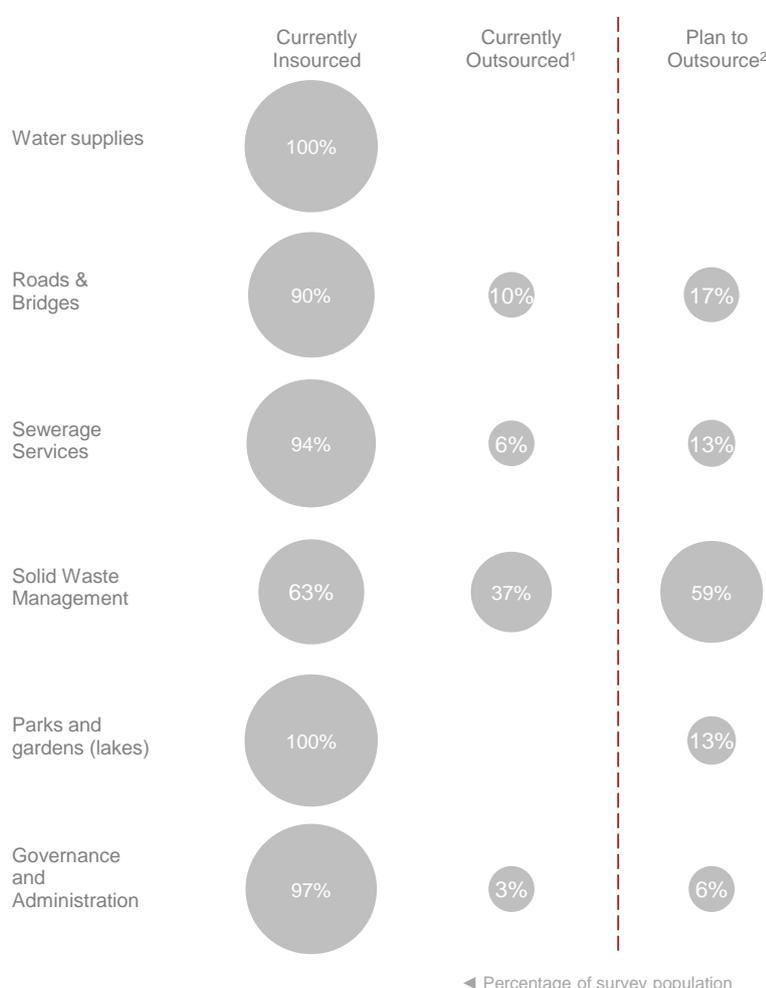
Our survey results show that during the 2014–15 financial year, solid waste management is the top service area to use an outsourced provider. Just over one third (37%) of the pilot participating councils that provide a solid waste management service (27 councils) are electing to deliver a substantial component of this service using an outsourced model (greater than 50% of their direct total expenses in solid waste management is allocated to outsourcing).

We also asked councils to indicate their plans for outsourcing in the next two years. We see that in the future, 59% of the same group of pilot participating councils operating solid waste management, are planning to commence or continue outsourcing more than 50% of their direct total expenses.

While the extent of current outsourcing in other service areas is minimal, we are seeing a slight shift in certain service areas where the relevant pilot participating councils have plans to outsource more than 50% of direct total expenses in the next two years.

The service areas with the most potential for outsourcing in the future, based on the growth in the percentage of councils planning to make this shift, are solid waste management (37%, forecast to increase to 59% by 30 June 2017), aerodromes (14%, forecast to 36%), pools (11%, forecast to 30%), camping areas and caravan parks (8%, forecast to 25%), and parks and gardens (0%, forecast to 13%).

Figure 6.2: Council insourcing and outsourcing by service[^]



[^] Ranked by service cost (\$) except for governance & administration and other

¹ Outsourced is defined as spending >50% of total expenses by service area with outsource providers

² Councils indicated if they plan to commence or continue outsourcing > 50% in the next 2 years

● Survey population
 ● Whakatane District Council

Organisational design

Span of control

In our workforce section of this report, we discuss the merits of structuring resourcing requirements with a focus on maintaining the optimal size of management. Our overall span of control metric for the survey population is 3.6 'other staff' per manager.

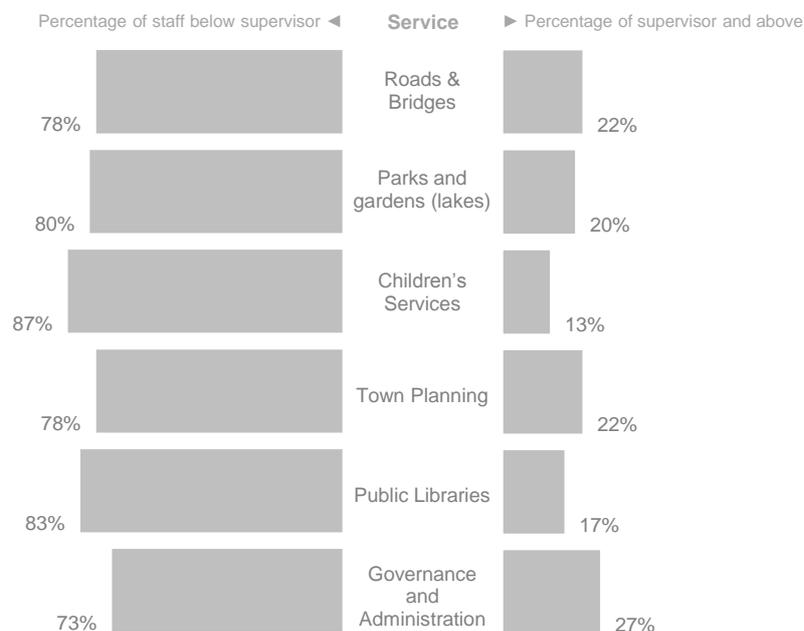
When analysing our service delivery survey results, the service areas with the highest span of control are street lighting and childrens' services (7.0 'other staff' per manager), followed by health (5.9), solid waste management (5.8), and aged care (5.4). It is interesting to note the very narrow span of control in governance and administration of 2.8 'other staff' per manager.

It is important for councils to assess whether the current workforce structure in various service areas is ideal for their operations, and consider whether there are too many layers of management. Factors to consider are manager capability, the complexity of work in the various service areas, and whether the service area is outsourced (a lower span of control is to be expected if delivery of the service has been outsourced).

Participating pilot councils without a span of control metric for a particular service may find this is due to an absence of staff above the supervisor level.

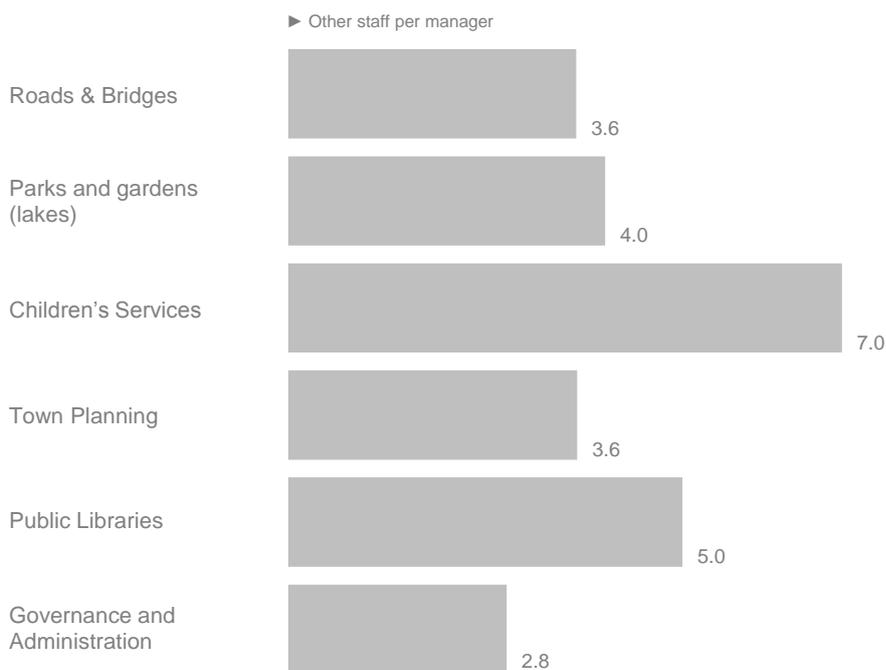
Definition
Span of control: Total number of employees (defined as other staff) per manager (defined as supervisors and above).

Figure 6.3: Closing headcount by staff level^



^ Ranked by service FTE

Figure 6.4: Span of control by service (other staff per manager)^



^ Ranked by service FTE

■ Survey population
 ■ Whakatane District Council

Talent management

Gender diversity and staff turnover

Councils can now see the extent of gender balance within the various service areas. It may not be surprising to see very low levels of female representation in traditionally male-dominated service areas, such as roads and bridges (5%), sewerage (7%) and water (8%). It might be more surprising that for the councils that provide beach control there are only 5% of the closing headcount represented by women.

Service areas with gender balance (when averaged across all participating councils) are town planning, and cultural and community services centres. This is followed by health, and governance and administration, both with 53% female representation.

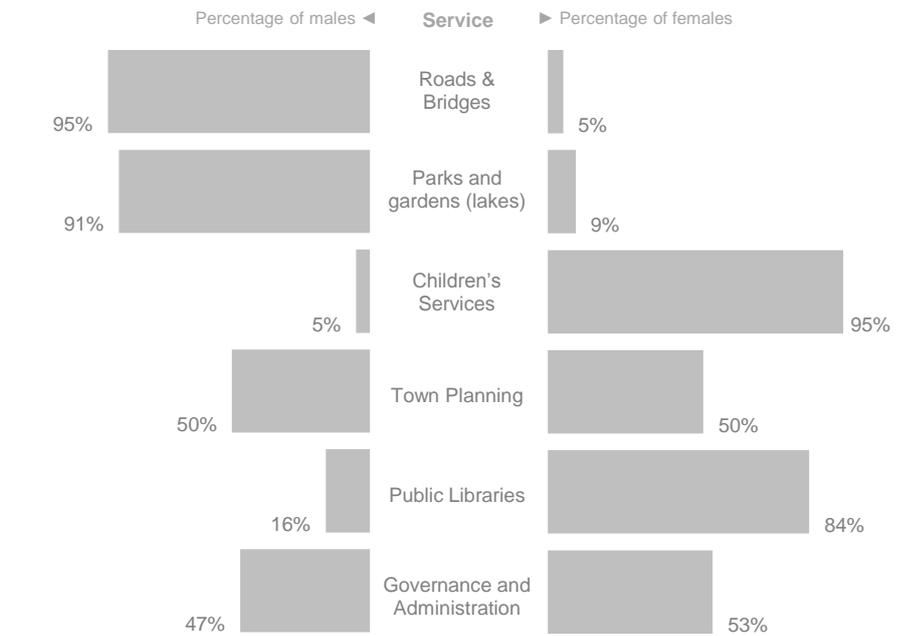
In our workforce section, we have discussed the staff turnover rate in depth and have made note of the NSW rate being 11.2% in the 2014–15 financial year. We can now provide councils with a better understanding of which service areas may be more prone to higher staff turnover levels, or alternatively service areas where the turnover rate is so low that it limits opportunities to promote key internal talent or hire employees with new or diverse skills.

The service areas with very low turnover are aerodromes (3%), street cleaning (5%), camping areas and caravan parks (5%), and emergency services (5%). On the other end of the spectrum, we see street lighting (33%), beach control (26%), and pools (22%) with the highest levels of staff turnover. These differences highlight the range of career options provided by Councils, and the diverse workforces that exist within a council. These more specific measures provide councils with the opportunity to make more meaningful comparisons.

Definition

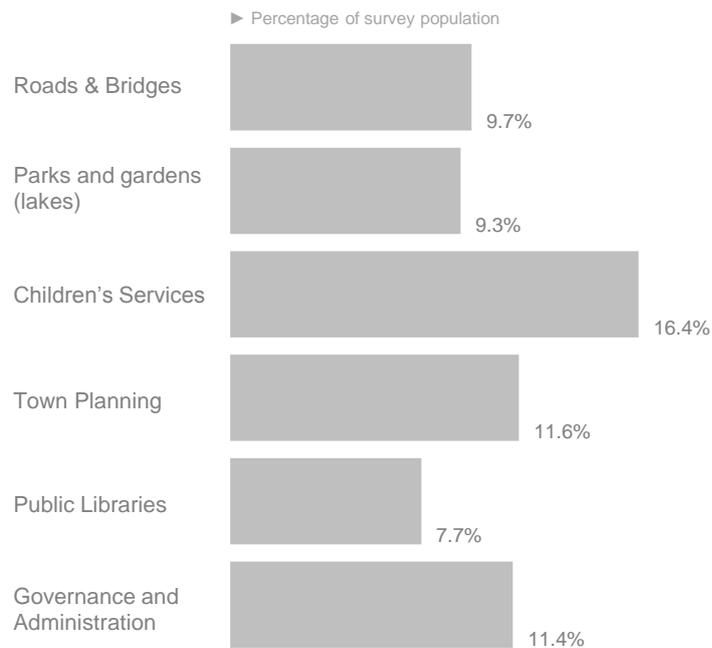
Turnover rate: Total number of leavers divided by the headcount at the start of the year (excluding casuals).

Figure 6.5: Gender split by service^



^ Ranked by service FTE

Figure 6.6: Staff turnover rate by service^



^ Ranked by service FTE

■ Survey population
 ■ Whakatane District Council

Talent management (continued)

Generational diversity

In our workforce section (refer Figure 1.26), we have discussed the fact that baby boomers dominate the workforce, comprising 45% of the workforce, followed by 33% Gen X and 22% Gen Y.

We are now able to analyse the generational mix at a service level. Figure 6.7 highlights the top service areas ranked by FTE and their associated generational headcount mix. This will allow councils to quickly identify service areas requiring a focus on succession planning.

Our results show that the following three service areas (with a high proportion of overall FTE) face a high level of potential retirements in the next 10 years given the dominance of the baby boomer cohort: public libraries (57% baby boomers), roads and bridges (53%), and parks and gardens (48%).

It is crucial for councils to focus on these areas and establish a succession planning programme to minimise the risk of losing vital talent, local government expertise and leadership skills. In addition, councils can be investigating flexible working programs that allow for a smoother transition from work to retirement.

Councils may find that some service areas will require a mix of resourcing strategies, with a need to ‘grow their own talent’, job share, or consider outsourcing to supplement in-house resourcing.

Other service areas, albeit with a lower proportion of overall FTE, that may face resourcing challenges over the years are aged care (64% baby boomers), aerodromes (56%), solid waste management (55%), drainage and stormwater management (54%), and street cleaning (54%).

It is important for participating pilot councils to analyse their own workforce generational mix and start planning now for the future and the wellbeing of your employees. We encourage councils to engage existing employees in the planning process. Those employees with extensive knowledge of their service area are likely to have good innovative ideas about how to ensure a smooth transition process.

Figure 6.7: Generational mix by service^



^ Ranked by service FTE

- Survey population
- Whakatane District Council

Focus on key service areas

Solid waste management

Figure 6.8 below shows a correlation between the solid waste management cost per resident, and the residential density of the LGA (displayed as area per resident). Among participating councils with residential densities up to around 10,000 square metres per resident (1 resident per hectare), this relationship is quite strong (as shown by the closeness/commonality of costs for the councils on the graph).

For LGAs where the density is less than one person per hectare, the relationship weakens (as evidenced by the wider scattering of the data points). This is potentially because the scope of services provided starts to differ considerably across councils. Residential density has been detected as a much stronger factor than council size in this analysis.

Councils can use this section of the report to analyse their spend components for this service area, as well as employed staff FTE by staff level and gender. For participating councils, in Figure 6.9, we have modelled the survey population result to be the same size as your council.

Figure 6.8: Solid Waste Management annual cost

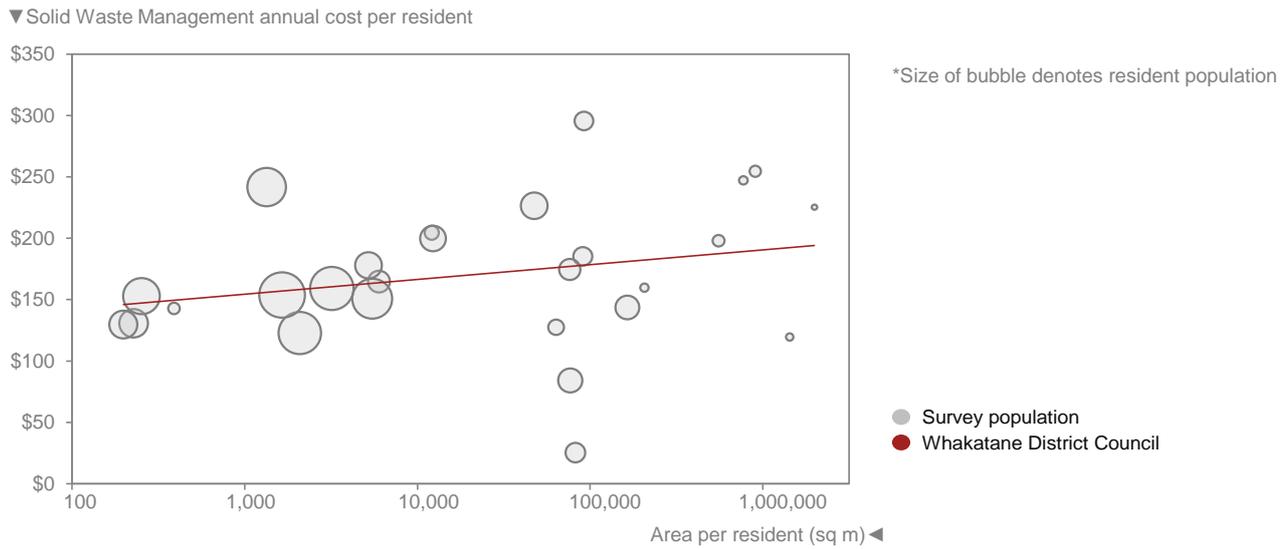


Figure 6.9: Breakdown of solid waste management cost per resident per annum

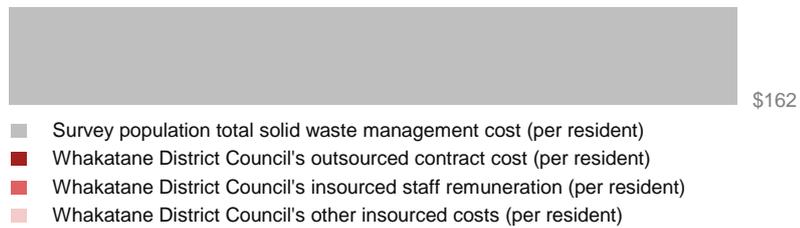
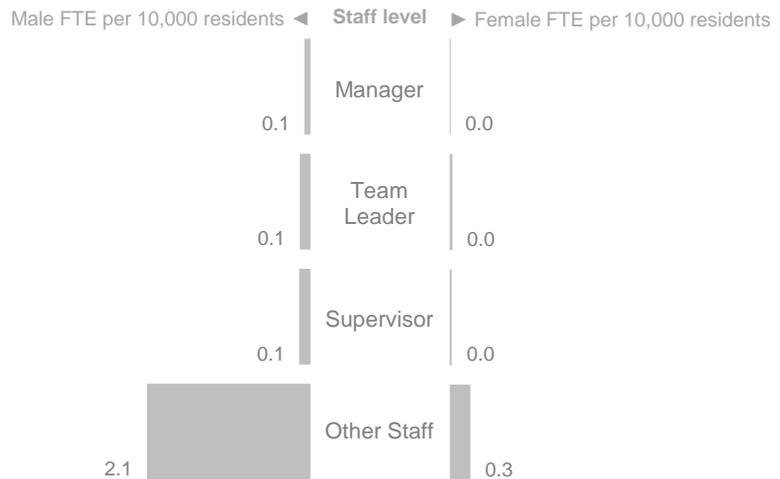


Figure 6.10: Solid Waste Management FTE by staff level and gender



Span of control for this service
-

Survey population service span of control
5.8

Staff turnover rate for this service
-

Survey population service turnover rate
9.2%

Note: For participating councils, we have remodelled the survey population result to be the same size as your resident population.

Focus on key service areas (continued)

Town planning

The charts presented together in Figure 6.11 demonstrate that once councils are determining more than 500 DAs per year, most are able to maintain their costs in this service area at an average resource input equating to around \$7,000 cost per determined DA or less (left hand chart).

There is, however no clear relationship between the resource input and the value of determined DAs (right hand chart). This suggests that across participating councils overall, the number of determined DAs is a much stronger driver of cost and activity than the value of determined DAs.

Of course, town planning functions provide a range of services beyond the determination of DAs, and some councils have a greater heritage obligation than others, so this represents a single factor for consideration. Councils should consider the results below together with other important factors to assess the efficiency and capacity of their function.

Figure 6.11: Town planning annual cost

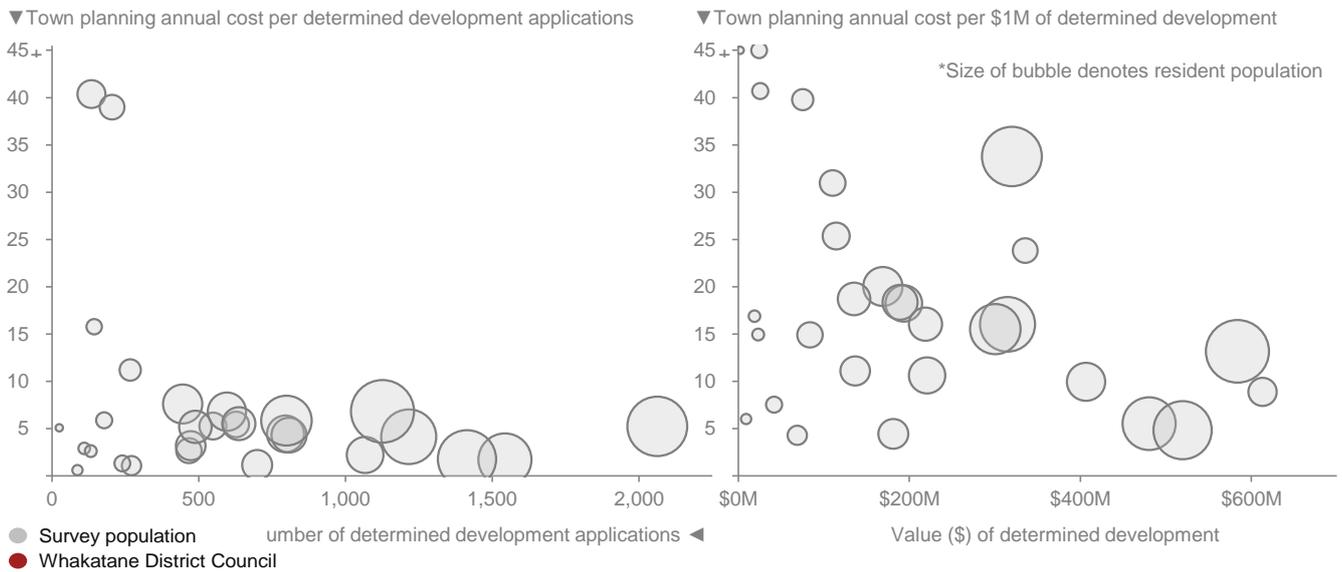


Figure 6.12: Breakdown of town planning cost per number of determined development applications per annum

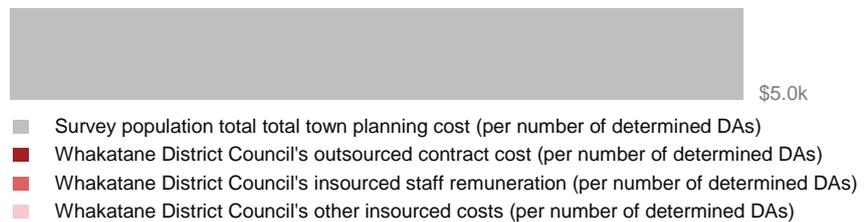
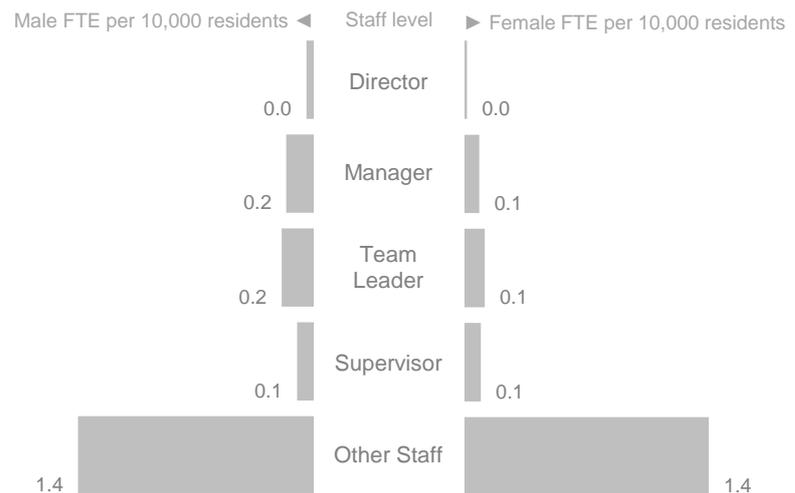


Figure 6.13: Town planning FTE by staff level and gender



Note: For participating councils, we have remodelled the survey population result to be the same size as your resident population.

Span of control for this service
-

Survey population service span of control
3.6

Staff turnover rate for this service
-

Survey population service turnover rate
11.6%

Focus on key service areas (continued)

Roads and bridges

Figure 6.14 shows a very strong relationship between the roads and bridges cost per resident, and the total road length per resident, among participating councils.

This means the cost per resident increases reliably, as the total road length per resident increases. Essentially, this analysis shows that, for many councils, there is a consistent cost per road kilometre across participating councils.

To properly interpret these results, councils should also understand the extent to which they are improving the standard of roads in their LGA, and the impact of major projects on the FY15 results.

Figure 6.14: Roads and bridges annual cost

▼ Roads and bridges cost per resident

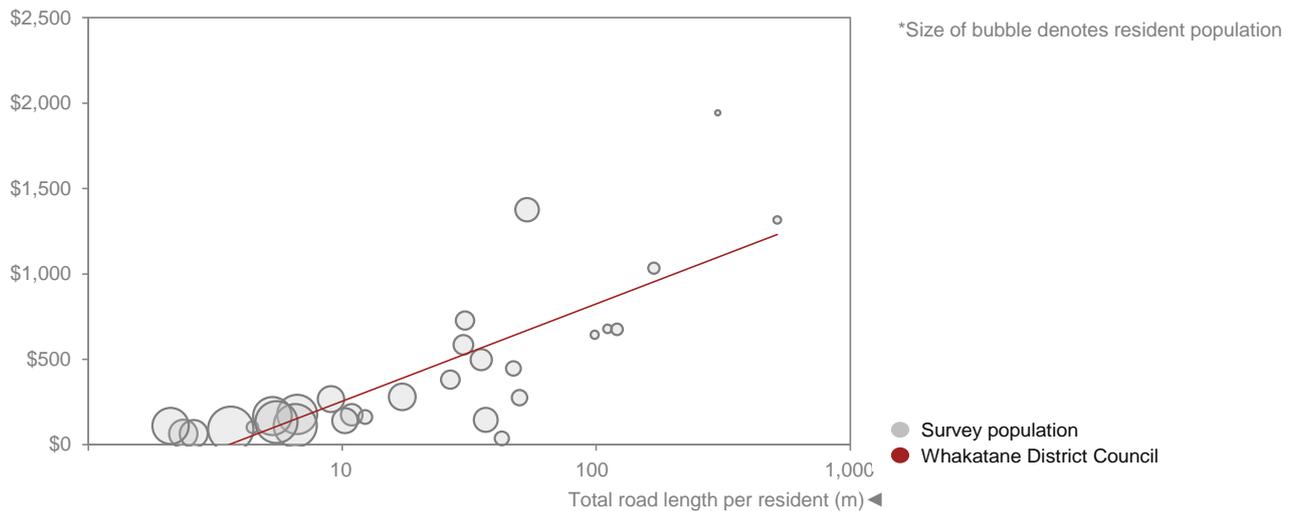


Figure 6.15: Breakdown of roads and bridges cost per resident per annum

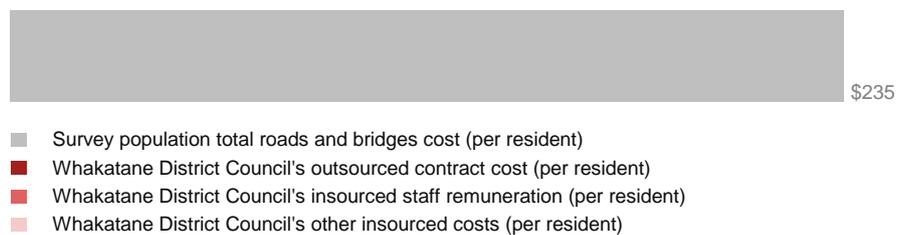
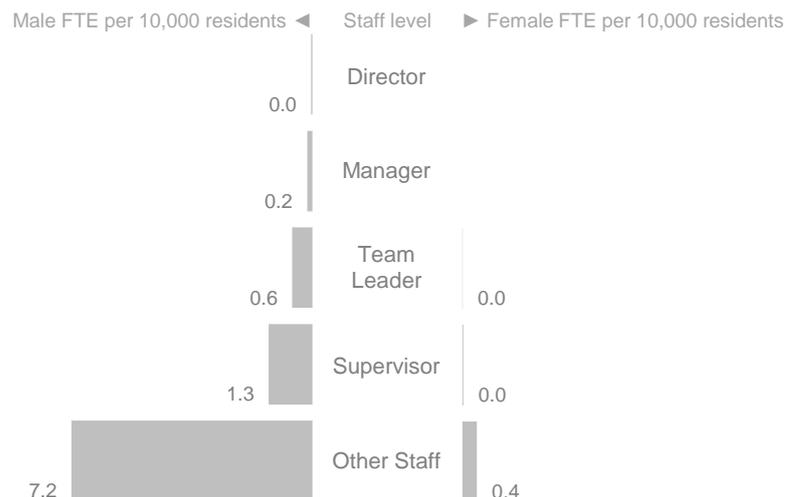


Figure 6.16: Roads and bridges FTE by staff level and gender



Note: For participating councils, we have remodelled the survey population result to be the same size as your resident population.



Focus on key service areas (continued)

Parks, gardens, and sporting grounds

Council spend on parks, gardens and sporting grounds has been analysed below, as a function of residential density. Our expected hypothesis, that councils would invest a greater amount per resident as residential density increased, has not been confirmed for the participating councils.

Our results loosely indicate that councils with low residential density are likely to spend more maintaining their parks, gardens, and sporting grounds. This is perhaps because of the large overall area of parks that are often required to be maintained, and the distance between these parks leading to a higher overall cost.

Given each council's diverse stock of public spaces, councils should consider the findings below, together with other important factors, such as the desire to invest in new parks to support a growing population, and the health and wellbeing benefits for citizens of providing highly amenable outdoor spaces for recreation.

Figure 6.17: Parks, gardens, and sporting grounds annual cost

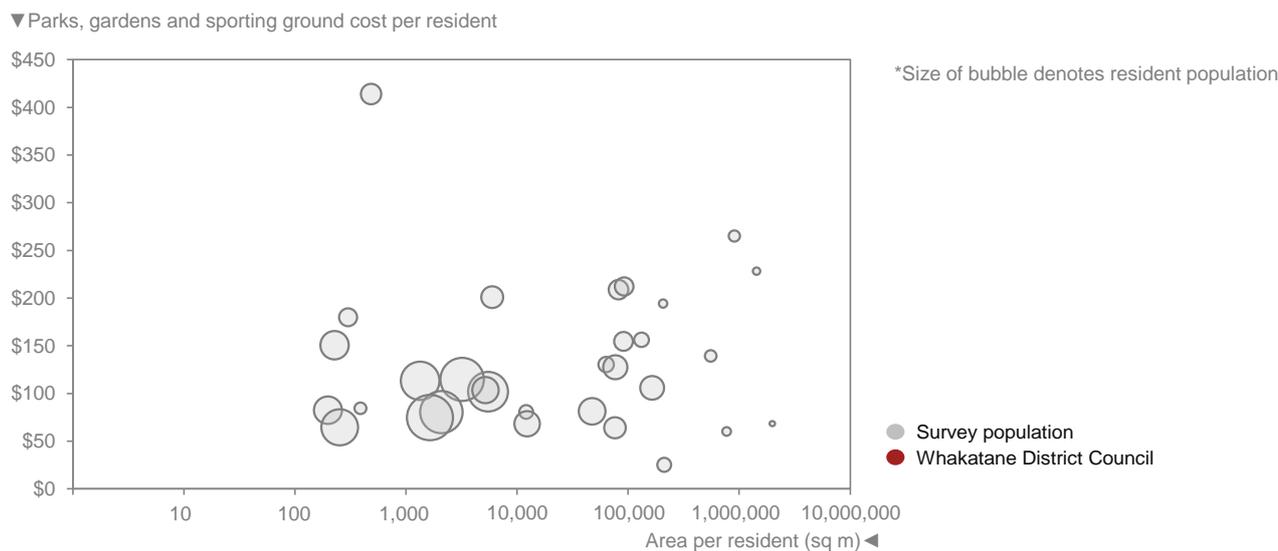


Figure 6.18: Breakdown of parks, gardens, and sports grounds cost per resident per annum

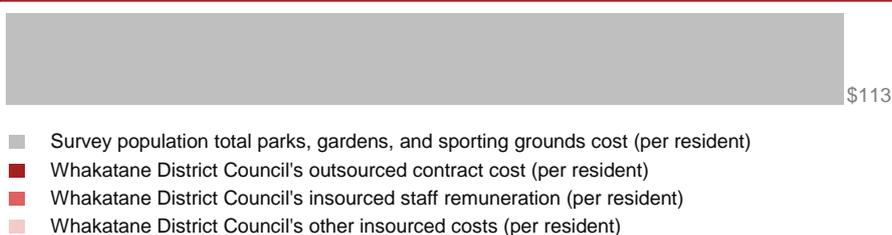
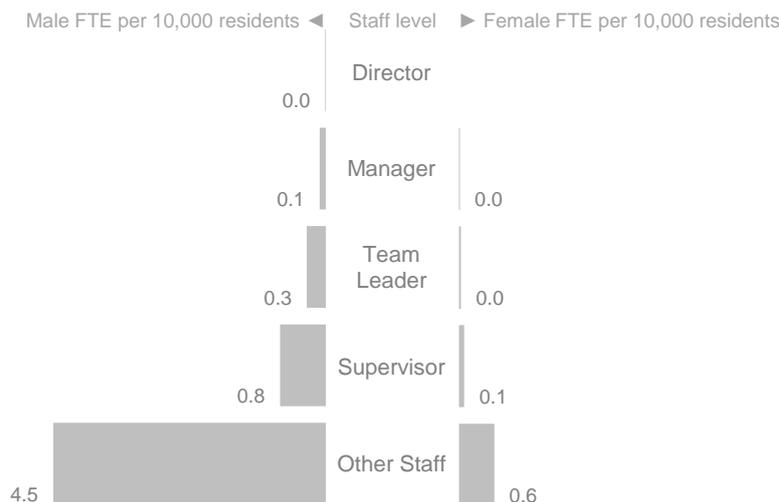


Figure 6.19: Parks and sporting grounds FTE by staff level and gender



Note: For participating councils, we have remodelled the survey population result to be the same size as your resident population.

Span of control for this service
-

Survey population service span of control
4.0

Staff turnover rate for this service
-

Survey population service turnover rate
10.5%

Focus on key service areas (continued)

Water supplies

We acknowledge that only a small proportion of NSW councils are responsible for water provision to their citizens. However, for those participating councils that do provide this service, it is an important area for consideration. Our analysis of participating councils shows that there is no relationship between the cost of providing water services and the volume of water consumed.

This demonstrates a mismatch between drivers of cost and the main basis of revenue collection. As a principally fixed-cost function, the marginal cost of water provision is dwarfed by the cost of constructing and maintaining the network of infrastructure required to provide the service. This is a situation common to virtually all utility providers.

Figure 6.20 however suggests a relationship between the water supply cost per resident, and the residential density of the LGA. Our results suggest that councils with low residential density are likely to face a greater cost burden of maintaining a large network for a smaller number of users. We plan to enhance this analysis in future years by considering the parts of the LGA covered by the supply network, rather than the entire LGA, to try to detect a stronger signal in this relationship.

Figure 6.20: Water supply annual cost

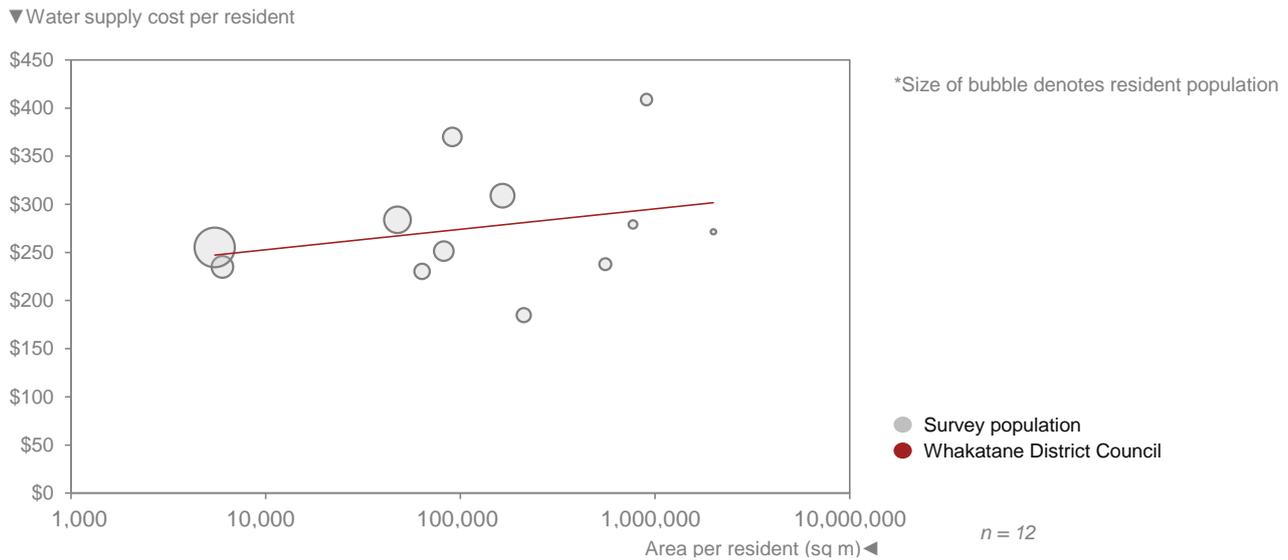


Figure 6.21: Breakdown of water supply cost per resident per annum

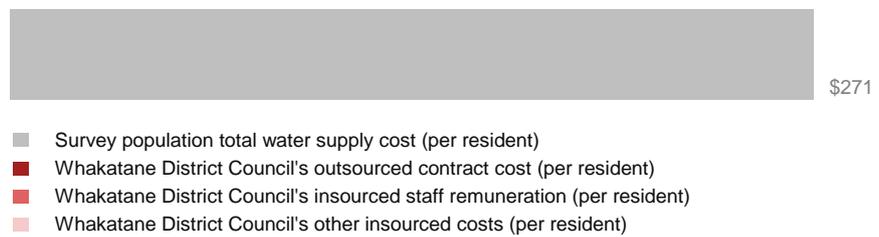
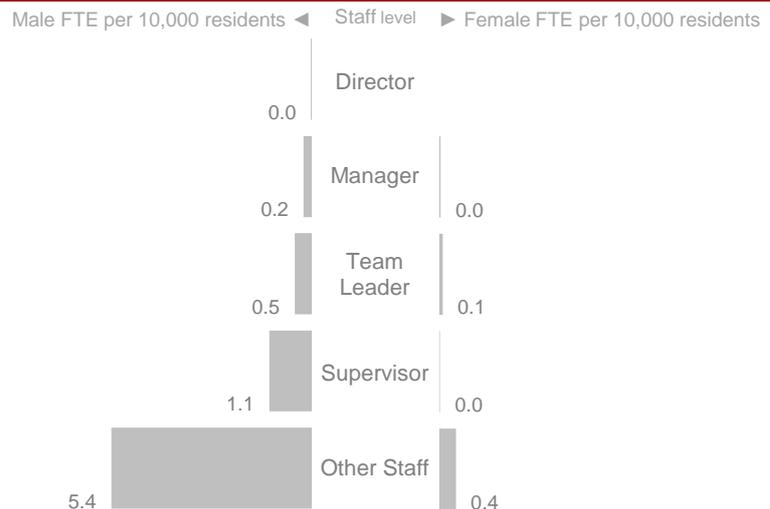


Figure 6.22: Water supplies FTE by staff level and gender



Note: For participating councils, we have remodelled the survey population result to be the same size as your resident population.

Span of control for this service
-

Survey population service span of control
2.9

Staff turnover rate for this service
-

Survey population service turnover rate
11.7%

Appendix

Breakdown of participating councils by service area

In this pilot study, there were 34 councils who provided FTE data and 31 councils that provided cost data across all services. The table below shows the number of councils that provided cost and FTE data for each individual service.

Service	Councils providing cost data	Councils providing FTE data
	n count	n count
Aerodromes	14	9
Aged Persons and Disabled	23	18
Agriculture	-	-
Beach control	10	5
Camping Areas and Caravan Parks	12	4
Children's Services	23	20
Cultural and Community Service Centres	27	23
Drainage and Stormwater Management	23	11
Emergency services, fire levy and protection	25	2
Enforcement of Regs and Animal Control	28	29
Footpaths	19	8
Fuel & Energy	-	-
Governance and Administration	31	34
Health	21	12
Mining, Manufacturing & Construction	22	17
Other community amenities	23	16
Other community services and education	19	16
Other economic affairs	28	25
Other Environment	27	24
Other public order and safety	10	5
Other transport infrastructure	20	13
Parks and gardens (lakes)	30	28
Public Libraries	31	29
Roads & Bridges	29	29
Sewerage Services	16	15
Solid Waste Management	27	25
Sporting grounds and venues	24	15
Street cleaning	21	11
Street lighting	22	2
Swimming Pools	27	18
Town Planning	29	30
Water supplies	12	13

Asset Management

(NZ only)



Asset management systems

Councils need good information about their future asset needs in order to manage maintenance, asset renewal requirements, and future asset investments.

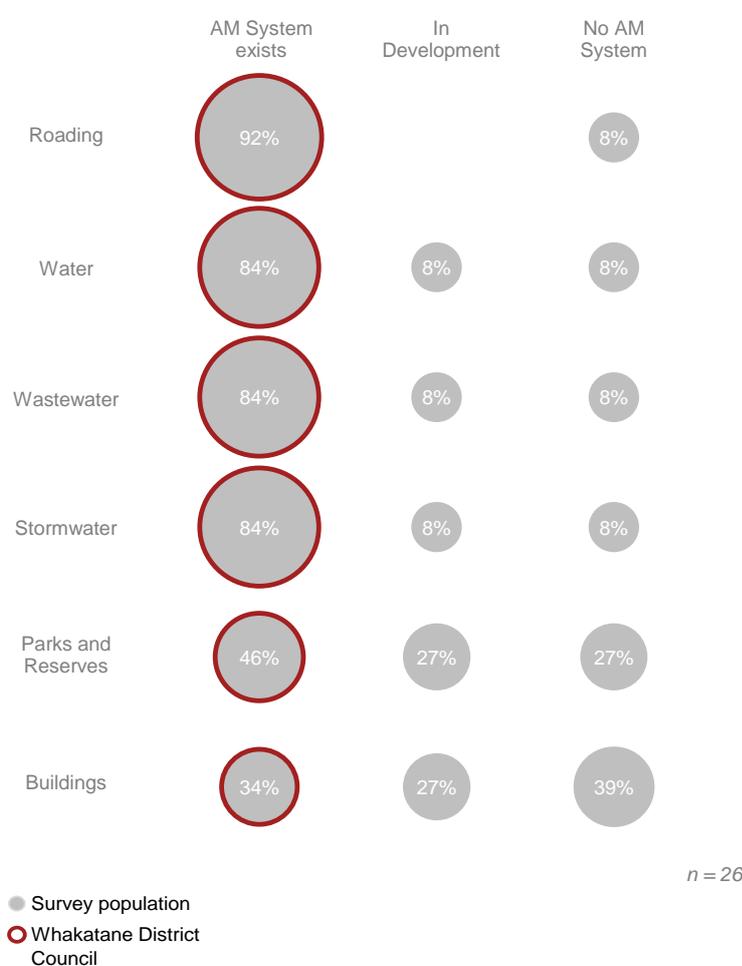
The Office of the Auditor General New Zealand advised in their 2013 Managing Public Assets report, that they consistently see the best results achieved when asset management is integrated throughout the business. In addition, an integrated management approach requires both robust information, and robust systems.

Our results indicate that roading has the highest proportion of dedicated asset management information systems, with 92% of New Zealand councils confirming this position. This is expected due to the long standing utilisation of roading asset management systems which pre-date asset management legislation.

This is followed by the other major three water infrastructure areas, with 84% of New Zealand councils having an asset management system in place in water, wastewater and stormwater.

The parks and reserves, and buildings asset areas are weaker, which is consistent with general council practice where less emphasis is placed on these soft infrastructure areas. In fact, our survey results are relatively evenly split for these areas across existing systems, systems in development and no asset management system at all. The combination of asset systems and development indicates a movement by the majority of councils to work towards the capture of assets and related data to support better asset decision-making.

Figure 7.1: Percentage of councils with data stored in a dedicated asset management (AM) system by asset class



Asset management planning is a legislative compliance requirement (LGA 2002, Schedule 10) for all local government in New Zealand.

The enactment of the LGA 2002 Amendment (No. 3) introduced new requirements relating to the development of 30 year infrastructure strategies and a tightening of the rules around the utilisation of development contributions to fund new infrastructure.

Metadata collection

Metadata is important for organisations with large and complex asset holdings, as it makes access to information easier, and readily manageable. It is recognised that consistently collecting the same metadata assists councils to better manage their assets.

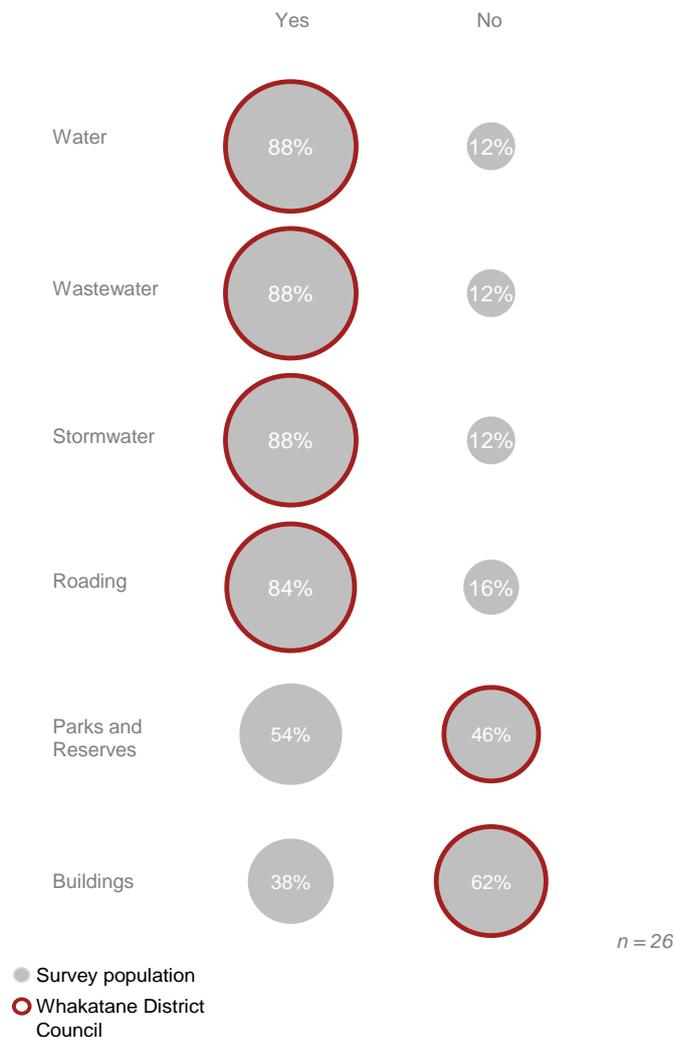
Our survey results for metadata collection are stronger in the hard infrastructure areas of water, wastewater, stormwater, and roading. Here we see more than four in five councils consistently collecting metadata.

However, when it comes to the two soft infrastructure areas of buildings and parks and reserves, we are only observing 54% of councils consistently collecting metadata at an asset ID level for parks and reserves, and only 38% of councils for buildings. Given these two areas are already underserved by asset management systems and associated data, the effectiveness of these systems will be compromised through the inconsistent collection of data. Data quality is essential to make the right decisions for the assets.

In summary, while our findings recognise the significance of metadata at an organisational level, and how council organisations are achieving consistency within aspects of their asset activities, the results across the two broad infrastructure groupings does not necessarily imply these consistencies are found across organisations.

Efforts from within the sector to create metadata standards across assets, such as the metadata project initiative¹, should further enhance these results in time.

Figure 7.2: Percentage of councils consistently collecting the same metadata at an asset ID level by 30 June 2015



30 year infrastructure strategy

The majority of councils (77%) indicated that within the 30 year infrastructure strategy, their council's depreciation expense did not match the asset renewal expense.

This is likely to be concerning. An indicator of asset sustainability, endorsed by the Office of the Auditor-General New Zealand, is where renewals expenditure is equal to depreciation over time. Potentially this result may be moderated by the fact that councils legitimately do not fully depreciate roading assets in particular, which receive a significant subsidy contribution by the New Zealand Transport Agency (NZTA).

However, these findings reinforce earlier forecasts by the Office of the Auditor-General in their Water and Roads, Funding and Management Challenges Report 2014. This report highlighted that renewals were only running at 60-70% of depreciation expense.

Councils who do genuinely have a shortfall, taking into account the transport funding exceptions, are likely to face service implications and funding needs in the future.

In the 30 year Infrastructure Strategy, at 30 June 2015, did your council's depreciation expense (income) match the asset renewal (expense)?



n = 26

¹ <http://www.linz.govt.nz/about-linz/what-were-doing/projects/metadata-shared-data-standards-project>

Funding capital expenditure

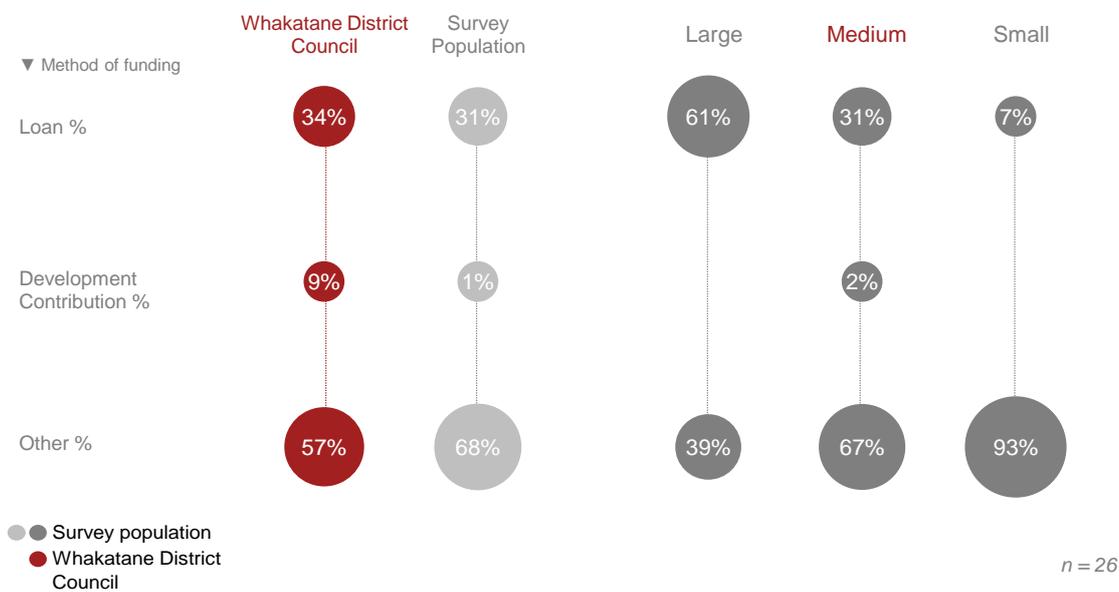
Funding capital expenditure through loans is considered good practice given it enables the cost of long term infrastructure assets to be spread over the generations utilising benefits received from those assets.

Yet our survey results indicate that more than two thirds of New Zealand councils (68%) elect to fund capital expenditure from other means. Key contributors to these other means will include grants from NZTA and other funders of capital assets, for example community trusts and contributions from year-end operating statement surplus.

If depreciation is being utilised for the creation of new assets, which we understand is the case, it will create an issue in terms of funding availability for renewal of existing assets. This may lead to a renewals and depreciation funding gap which will have to be addressed at some future point. Given we have previously highlighted a gap between depreciation collected and the funding subsequently applied to renewals, this unfavourable position may be accentuated further.

Finally, we would note that development contributions are only returning a minor portion of funding, with 1% of councils using this method to fund capital expenditure. This is likely to reflect the disparity in growth across the districts in New Zealand, with only a few councils being subject to a higher growth environment and, by association, significant private sector developments.

Figure 7.4: Method of funding capital expenditure



Contacts

Contacts

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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.

In the Service Delivery section, we calculate FTE as the total number of employees at 30 June 2015, including a casual FTE component based on casual hours worked throughout the year.

Calculating headcount or FTE at 1 July 2014

Headcount or FTE employees with the following criteria are included:

- Start date on or before 1 July 2014
- An FTE status greater than zero at 1 July 2014 (FTEs of zero or blank are NOT included)

Headcount or FTE employees with the following are excluded:

- A termination date before 1 July 2014

Calculating headcount or FTE at 30 June 2015

Headcount or FTE employees with the following criteria are included:

- Start date on or before 30 June 2015
- An FTE status greater than zero at 30 June 2015 (FTEs of zero or blank are NOT included)

Headcount or FTE employees with the following are excluded:

- A termination date before 30 June 2015

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.

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