



*cutting through complexity*

BOMBALA COUNCIL  
COOMA-MONARO SHIRE COUNCIL  
SNOWY RIVER SHIRE COUNCIL

# Shared Services Analysis

**FINAL REPORT**

27 May 2015





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### **Inherent Limitations**

This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

### **Third Party Reliance**

This report is solely for the purpose set out in the Scope Section and for Bombala Shire Council, Cooma-Monaro Shire Council and Snowy River Shire Council's information, and is not to be used for any other purpose or distributed to any other party without KPMG's prior written consent.

This report has been prepared at the request of Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council in accordance with the terms of KPMG's engagement letter dated 17 March 2015. Other than our responsibility to Bombala Shire Council, Cooma-Monaro Shire Council and Snowy River Shire Council, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.



## KEY FINDINGS

- The purpose of the Shared Services Analysis is to support Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council build a robust evidence base on opportunities for shared services in the region.
- Shared services are likely to form a key component of the NSW Government's Fit for the Future reforms to build 'scale and capacity' within the local government sector, including through the establishment of Joint Organisations as a tool for enhancing regional collaboration and State-local relations.
- The Independent Local Government Review Panel indicated there was merit in Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council joining a 'South East Joint Organisaion', and recognised there were a wide range of mechanisms available to councils to support regional collaboration and jointly deliver services.
- The analysis presented in this report is intended to support consideration by Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council of how best councils can work together to achieve deeper regional collaboration and provide the services and infrastructure communities need. This includes through the delivery of shared services.
- There are a wide range of mechanisms available to deliver shared services. While resource sharing arrangements may offer the greatest flexibility to participants they are likely to offer limited benefits, and are unlikely to provide enduring benefits that enhance the long term sustainability of council operations.
- Centralised services and the establishment of joint venture provide a more robust framework for achieving efficiencies, but are also likely to require higher start up costs and require fixed term commitments by participating councils to ensure a return on investment is secured over the medium-term.
- Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council have a track record of exploring opportunities to collaborate through the High Plains Forum and other informal mechanisms to identify opportunities to achieve efficiencies and better serve local communities. The regional library service is an example of an enduring service that has benefited all communities.
- However, a number of regional initiatives have also stalled or ceased operation. Often this is due to the geographic reach of the region that makes it difficult to provide services in a timely manner where there is a single provider. Consultations with councils also revealed concerns regarding whether resource sharing initiatives favoured some participants over others – reflecting a need to further build trust and enhance working relationships between councils.
- Overall, deeper regional collaboration and joint-initiatives have the best chance of success where there is a shared mutual interest in its success. The WBC Strategic Alliance was investigated as a target case study to identify key insights and lessons that may inform possible approaches by Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council to strengthen regional collaboration.
- The WBC Strategic Alliance has four member councils – Wellington, Blayney, Cabonne and Central Tablelands Water – serving a population of 30,000 with 379 council employees (FTE)s. These councils reported a combined operating expenditure in excess of \$76 million in 2013-14.
- Since inception in 2003, the Alliance-led initiatives have reported more than \$5.71 million in savings through regional collaboration. In 2013-14, the Alliance reported a net saving of \$0.52 million to member councils, equivalent to an 8.3 per cent bottom line impact on council's net operating results for the same period.



## KEY FINDINGS *(Continued)*

- Overall, there are three principal benefits from the WBC Strategic Alliance that Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council may seek to emulate through a similar regional mechanism,. These include:
  - improved communication and sharing of experiences and knowledge;
  - access to more specialised or higher skilled staff; and
  - efficiency savings through process improvement and joint purchasing
- However, the potential benefits (financial and non-financial) reported by the WBC Strategic Alliance should not be considered 'easy wins' or a 'soft option' to avoid alternate structural reforms and organisational improvements. There are a wide range of factors underpinning the success of the WBC Strategic Alliance, and these are not easily manufactured elsewhere.
- Support of the senior executive, managers and staff implementing the initiative has been critical to the success of the WBC Strategic Alliance. A shared commitment and alignment of decision-making by all participants is also very important. Other success factors include:
  - cooperation, trust and accountability between participants;
  - effective and regular communication, including performance reporting;
  - persistence, commitment and enthusiasm, including a willingness to 'trial' and 'error' joint initiatives;
  - establishing clearly defined and measurable outcomes for the initiative.
- A number of challenges are also likely to be encountered - a key challenge is a perceived loss of local control and autonomy – this mirrors a key challenge with respect to community perceptions on council mergers.
- Other key challenges were a lack of clarity about the benefits resulting from an initiative and concern regarding the costs of establishing and maintaining a regional initiative.
- To illustrate the potential benefits available to Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council from deeper regional collaboration and shared services, a high level financial assessment of two shared services options was undertaken. This included:
  - Option One: Water & Wastewater Services; and
  - Option Two: Centralised Corporate Services
- The high-level financial analysis included efficiency dividends of 5 per cent, 10 per cent and 15 per cent based on decreases in staffing costs. It also assumes a gradual phasing of benefits, including up to 1.5 per cent savings on materials and contracts and other expenses achieved through collaboration and reduced duplication.
- For Water & Wastewater Services, the financial analysis indicated potential efficiency savings of between \$0.69m - \$1.58m in present terms over a ten year period from 2015-16. This benefit is equivalent to between a 11 per cent and 25 per cent improvement in the aggregate net operating result reported by councils.
- For Centralised Corporate Services, the financial analysis indicated potential efficiency savings of between \$0.57m - \$1.61m in present terms over a ten year period from 2015-16. This benefits is equivalent to between a 1.9 per cent a 5.3 per cent improvement in the aggregate net operating result.
- If Councils work towards implementing both options, the financial analysis indicates potential efficiency savings of between \$1.26m - \$3.19m.



## KEY FINDINGS *(Continued)*

- However, benefits will be offset by the cost of the mechanism to deliver the shared services. These costs will increase if shared service arrangements evolve to become joint ventures or other stand-alone entities – although expected efficiencies may well increase in parallel should services be delivered under commercial settings.
- These financial assessments – although high-level – provide an indication of the potential benefits that may be available to Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council should deeper regional collaboration and shared services be considered.
- The next steps for councils to consider prior to embarking on any changes to existing operating models for regional collaboration, include:
  - the process of developing and implementing a successful and enduring shared service arrangement is a gradual process and should not be considered a ‘soft option’ to avoid alternative reforms and organisational improvements;
  - the financial benefits of shared services and other regional collaboration initiatives do not necessarily accrue immediately;
  - the driving factors of success are mutual trust and a common interest in the broader goals that shared services and deeper regional collaboration offers. These attributes cannot be manufactured – but often require time and ‘trial and error’ to become enduring qualities of regional relationships;
  - the involvement of other stakeholders, with a particular need for the NSW National Parks and Wildlife Service to participate in any regional water and wastewater service collaboration;
  - political buy-in is needed by all participants for shared services to succeed and this needs to be emulated at all levels within each council; and
- many of the factors that generate community and political opposition to council mergers are also present in successful shared service models – namely a degree of loss of council autonomy and local control over the implementation of designated services.
- The roadmap for deepening regional collaboration between councils and examining potential shared service opportunities in more detail, includes actions that can be undertaken in the short-medium term (next three years) and medium-to-long term actions (beyond five years).
- Given the experiences of other councils with shared services, it may prudent to invest time and effort in first deepening regional collaboration before embarking on shared service arrangements.
- Short-to-medium term actions include:
  - Review agreement underpinning High Plains Forum and identify opportunities to enhance governance structure and deepen regional collaboration.
  - Establish a new framework for identifying, monitoring and reporting on regional collaboration initiatives. Annual reports should be prepared and published to document results against agreed performance benchmarks.
  - Joint working groups established to identify potential regional initiatives, share experiences and best practices and enhance the relationships underpinning regional collaboration. Directors from each council would take leadership of joint working groups and drive initiatives.
  - Work to further build trust between councils through the implementation of regional initiatives, recognising the need to compromise and delegate control of projects in order strengthen regional collaboration.



## KEY FINDINGS *(Continued)*

- Medium-to-long term actions include:
  - Re-assess willingness of all councils – including at a political level – to evolve regional collaboration efforts to a new, formal level and operating structure.
  - Identify appropriate mechanism to deliver shared services, recognising the advantages and disadvantages of each mechanism and the different cost implications.
  - Identify opportunities to shift selected services to a shared service model, and invest in appropriate due diligence (including a business case) to confirm scale of net benefits available to participants.
  - Confirm legal framework for shared service delivery mechanism, noting there may be a need for councils to commit (on a legally binding basis) to shared service arrangement for a minimum period.
  - Revise governance and reporting arrangements to ensure clear lines of accountability and appropriate performance benchmarks are established prior to shared service implementation.
  - Conduct rolling reviews of shared service arrangement – expand and adjust accordingly and examine scope to incorporate new participants in order to leverage scale of operations and further enhance efficiencies.

# 1. Introduction





# 1. INTRODUCTION Local Government Reform in NSW

## Review of Local Government in NSW

The NSW Government convened an Independent Local Government Review Panel (the 'Review Panel') in April 2012. The Review Panel stemmed from the Destination 2036 summit attended by all 152 NSW local councils in 2011 with the purpose of discussing how the local government sector might evolve and adapt to meet the challenges of the next 25 years. Following the summit, the Review Panel was tasked to formulate options for governance models, structures and boundary changes:

- To improve the strength and effectiveness of local government;
- To help drive the key strategic directions set out in the Destination 2036 Action Plan; and
- To further the objectives of the NSW 2021: A Plan to Make NSW Number One.

## Revitalising Local Government in NSW

The Review Panel's final report *Revitalising Local Government* was released in January 2014 and included a total of 65 recommendations across key aspects of the structure and governance of the local government sector in NSW. The Review Panel's recommendations that garnered the most public attention related to proposed council mergers and boundary changes.

With regard to Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council, the Review Panel recommended several options including a preferred merger of Cooma-Monaro and Bombala as well as a merger of all three councils. (This aspect of the Review Panel's analysis is considered in more detail in the Merger Business Case Report – completed in parallel to this Shared Services Analysis.) However, the Review Panel also indicated one option was also for each council to remain independent but join a 'South East Joint Organisation'.

### Box 1.1 – Background on NSW Local Government Reform

#### Further insights and analysis on local government reform in NSW

The Shared Services Analysis conducted for this report has been undertaken in parallel to a Merger Business Case (separate report). To reduce duplication, the detailed analysis of the local government reform context in NSW that was completed for the Merger Business Case is not repeated in this report, however, it remains relevant. Only the background to the NSW reforms that is directly relevant to shared services is presented in this report.

The *Merger Business Case Report* should be referred to for detailed background on the NSW Local Government Reform agenda, including:

- the changing role of local government in Australia and a brief profile of local councils in NSW;
- historical perspectives of local government reform in Australia and insights from reforms undertaken in Queensland (2008) and Victoria (1993);
- analysis of the NSW Treasury Corporation (TCorp) assessment of financial sustainability of local councils in NSW;
- an overview of the NSW Government's Fit for the Future reform agenda and the submission process for each council;
- an introduction to the local government areas of Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council;
- analysis of the socio-economic features of each the councils;
- a review of the community priorities of each of the councils;
- key governance features and a brief profile of operations of each of the councils; and
- a self-assessment by each council of 'strategic capacity'.

Source: KPMG





# 1. INTRODUCTION Review Panel Recommendations

## Regional Joint Organisations

In parallel with its recommendations relating to proposed mergers of a large number of councils in NSW, the Review Panel noted that stronger regional cooperation would need to be a central pillar of local government reform.

The Review Panel identified a number of benefits from improved regional collaboration, including a key theme of enhancing State-local relations, especially in relation to strategic planning, economic development, infrastructure provision and service delivery. The potential for the delivery of shared services through regional collaboration was also recognised by the Review Panel (Box 1.2), and was a contributing factor to the Review Panel's recommendations for a new legal framework for establishing 'Joint Organisations' (JOs).

### Box 1.2 - Panel Review recommendations for JO's

#### Proposed Core Functions of a Joint Organisation

- Strategic regional and sub-regional planning
- Inter-governmental relations and regional advocacy
- Information and technical exchanges between member councils
- Activities of existing County Councils
- Regional alliances of local government water utilities
- Road network planning and major projects
- Collaboration with State & Federal agencies in infrastructure and service provision
- Strategic procurement and other joint activities specified in a proclamation, such as major infrastructure projects, regional waste and environmental management (including weeds and floodplain management), regional economic development, regional library services and 'high-level' corporate services or 'back-office' functions.

Source: Panel Review (2013)

In proposing the establishment of new regional JOs, the Review Panel's objective was to:

*"...create a robust but flexible framework within which councils can negotiate the establishment of statutory regional organisations that will undertake strategic planning and other joint activities, and provide a platform for much more extensive and effective State-local dialogue and cooperation."* (Review Panel, 2013)

The Review Panel, was also conscious of not creating a new 'fourth-tier' of government and acknowledged that many councils in NSW are already members of a Regional Organisation of Councils (known as ROCs) that facilitates regional collaboration. For example, Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council are members of the South East Regional Organisation of Councils (SEROC).

The Review Panel, however, was not satisfied that ROCs in NSW could provide the necessary platform as envisaged by JOs. In particular, the Review Panel flagged concerns with regard to the broad culture of ROCs – namely the voluntary basis of both ROC membership and participation in ROC-led joint activities. As such, the scope of ROC functions and effectiveness varied too greatly and there was a need for a stronger, statutory organisation to facilitate enhanced regional collaboration and the capacity to undertake the core functions outlined in Box 1.2.

#### Shared Services in JOs

The Review Panel proposed that each JO be established by a proclamation drafted by participating councils that set out the agreed governance structure and functions. With regard to shared services, the activities undertaken by the JO would be finalised in the proclamation at which point there would be no opting out for the life of the JO's strategic business plan – thereby enabling the planned efficiencies to be achieved. The Review Panel also proposed that some shared services could be managed by one council which would become a 'centre of excellence' for the region for specific council functions (such as IT or HR).



# 1. INTRODUCTION NSW Joint Organisation Pilots

## Fit for the Future

As part of the NSW Government’s Fit for the Future reform agenda for the local government sector, the Review Panel’s proposed JO concept is being investigated through a pilot program to examine how such statutory bodies should be established and governed. The purpose of conducting pilot JOs is to:

- Enable varying approaches and JO structures to be tested;
- Better understand the most effective ways for State and local government to work together and build relationships;
- Develop a suite of appropriate information, tools and resources that will support effective collaboration between regional councils; and
- Shape the enabling legislation and guide the implementation of JOs.

The Pilot program is designed to explore a number of key issues or barriers to JOs emerging as effective mechanisms for service and infrastructure provision and enhanced relationships with State and Federal governments. These key issues are summarised in Table 1.1 over page.

The timeframes the NSW Government has specified for the JO pilot program are:

- **Late 2014** – selection of pilot regions and co-design of pilot program with State Government.
- **January 2015** – JO pilot program to commence.
- **December 2015** – JO pilot program completed with final evaluation.
- **Early 2016** – JOs enabled through NSW legislation and other regulatory and administrative support.
- **September 2016** – JOs rolled out across regional NSW.

## Proposed JO boundaries

Proposed JO boundaries are outlined (in blue) in Figure 1.1 below, with the NSW Government indicating that all general purpose councils would be members of the governing body of one JO. The NSW Government is currently supporting pilot JOs in five regions: Central West, Hunter, Namoi and Riverina.



Source: Panel Review 2013 and Office of Local Government (2014)



## 1. INTRODUCTION NSW Joint Organisation Pilots

**Table 1.1 Key issues to be considered by JO Pilots**

<b>Boundaries</b>	<ul style="list-style-type: none"> <li>• Aligned with, or nested within, State Government Regional Growth and Infrastructure Plan boundaries.</li> <li>• Some flexibility for JO boundary changes, where aligned to State strategic planning boundaries and clearly justified.</li> </ul>
<b>Functions</b>	<ul style="list-style-type: none"> <li>• Pilot Program to determine core functions, possibly including regional strategic planning, intergovernmental collaboration and regional advocacy.</li> <li>• Flexibility for other functions such as regional joint service delivery.</li> </ul>
<b>Membership and Decision Making</b>	<ul style="list-style-type: none"> <li>• General purpose councils in regional NSW would be members of the governing body of one JO.</li> <li>• Associate membership of other JOs may be appropriate and would be explored through the Pilot Program.</li> <li>• Options for voting and decision making to be explored through the Pilot process.</li> </ul>
<b>Organisational Structure</b>	<ul style="list-style-type: none"> <li>• Pilot Program to explore flexible structures to facilitate core functions through a governing body.</li> <li>• Flexibility for other bodies to provide implementation support and technical advice, such as a General Managers Board or Expert Panel.</li> <li>• Likely to be supported by an Executive Officer with demonstrated high level skills and experience to manage critical relationships.</li> </ul>

<b>Work program of regional strategic priorities</b>	<ul style="list-style-type: none"> <li>• JOs would identify key regional priorities based on member Community Strategic Plans and other regional plans and strategies.</li> <li>• A framework for this, including minimal documentation and measurement of success, will be explored through the Pilot Program.</li> </ul>
<b>Intergovernmental collaboration</b>	<ul style="list-style-type: none"> <li>• The relevant Regional Coordinator from the Department of Premier and Cabinet (DPC) would attend JO meetings.</li> <li>• The JO Executive Officer would also attend DPC Regional Leadership Groups and other State regional bodies, as appropriate.</li> <li>• An approach of respectful transparency will be adopted</li> <li>• Other mechanisms to encourage close collaboration, such as MoUs, will be explored through the Pilot process.</li> </ul>
<b>Enabling and resourcing</b>	<ul style="list-style-type: none"> <li>• The NSW Government will provide seed funding of \$300,000 to assist each JO become established plus funding to support the Pilot process.</li> <li>• The Pilot Program will explore other mechanisms to enable JOs, including legislation, Ministerial guidelines, regional relationship managers and other support.</li> <li>• The ongoing costs of JO would be met by member councils.</li> </ul>

Source: Office of Local Government (2014)



## 1. INTRODUCTION Purpose and Scope

### Purpose

The purpose of this Shared Services Analysis was to:

- support Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council build a robust evidence base on shared services options for the region;
- understand the potential advantages and disadvantages of shared services options, drawing on the lessons and experiences of other councils; and
- enable each council to make a more informed decision on respective responses to the NSW Government's Fit for the Future reform initiatives, including with regard to joining a Joint Organisation, and complete the relevant Fit for the Future submission template.

### Scope

The scope of the Shared Services Analysis was to:

- conduct on-site consultations to leverage existing work undertaken on local government reform and understand the local context and priorities in which shared services are being considered;
- conduct background research and literature review of relevant analysis and reports, including previous and current experiences in the delivery of shared services;
- review and analyse past resource sharing experiences from Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council;
- Identify potential future opportunities for collaboration in service delivery between each of the councils;
- High level financial modelling and quantification of the potential impacts of selected shared service options;

- qualitative analysis of the potential impacts of selected shared service options; and
- consider the potential impact of selected shared service options on council's strategic capacity.

### Limitations

The scope of the Shared Services Analysis excludes some items from the project, including:

- any form of public consultations, including in relation to community attitudes and preferences for local government reform;
- any data collation (a pre-prepared data collation template was provided to each council to complete separately);
- detailed assessment of issues relating to the implementation of a proposed shared service option;
- examination of alternate structural reform options, including council merger options and associated changes in governance structures; and
- any analysis, other than Shared Services Analysis, required to complete the relevant NSW Government Fit for the Future submission.

*A separate Merger Business Case study was completed for councils in parallel with this Shared Services Analysis. The Merger Business Case report includes detailed analysis and financial modelling of an alternate local government reform option. This report supplements this analysis with regard to potential shared services.*



## 1. INTRODUCTION Report Structure

This report on the Shared Services Analysis is structured as follows;

- Chapter 2 discusses the approach to developing the Shared Services Analysis, selection of a relevant case study and high-level assessment of the potential financial impacts of shared services options;
- Chapter 3 review the development of 'shared services' as a mechanism for councils to deliver services and infrastructure to local communities, including in the context of the NSW Government's local government reform agenda;
- Chapter 4 presents the experiences and key lessons of a selected case study into regional NSW councils collaborating on service delivery and a roadmap toward implementing shared services;
- Chapter 5 provides a high level financial assessment of the potential impacts of selected shared services options;
- Chapter 6 outlines next steps for councils to consider should shared services be considered a suitable mechanism and an appropriate response to the NSW Government's Fit for the Future reform agenda; and
- Appendix A lists the references for the research and analysis that supports this Shared Services Analysis.

## 2. Approach





## 2. APPROACH Merger Business Case

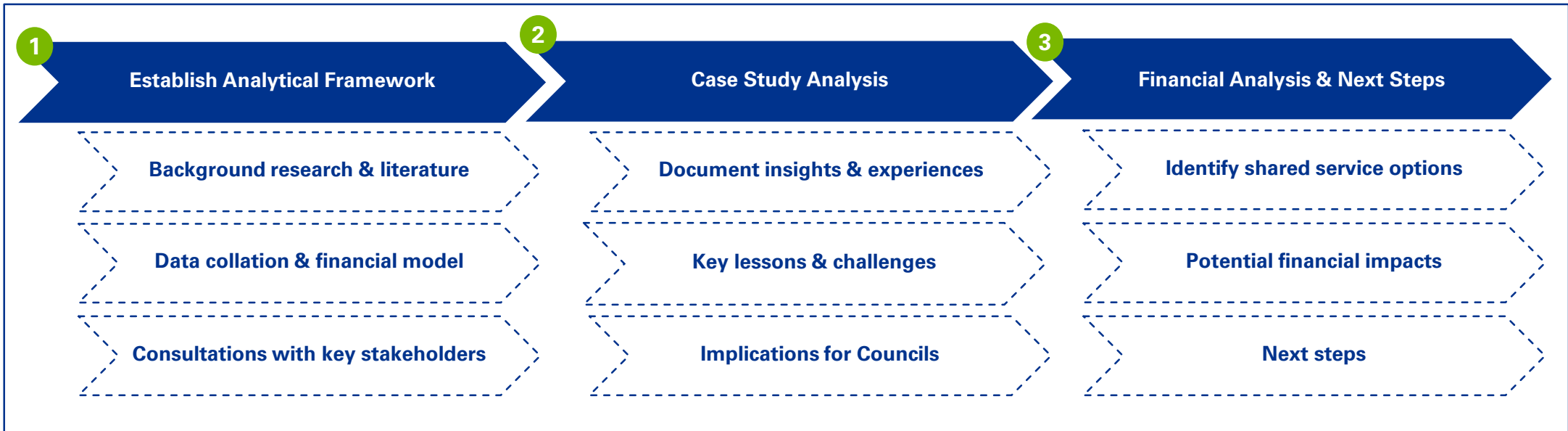
A Shared Services Analysis provides a high-level assessment of the potential options and benefits available to Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council for jointly delivering selected services to local communities. An iterative approach to conducting the Shared Services Analysis has been prepared with key input sought from each Council at key milestones.

Significantly, the approach draws heavily on the experiences of other councils in jointly delivering services to local communities and outlines a roadmap for implementing a potential shared service mechanism.

Figure 2.1 Approach to a shared service analysis

Figure 2.1 below outlines the iterative approach to building the Shared Service Analysis. The High Plains forum – including the General Managers of the three councils – have been consulted regularly for the purposes of understanding local challenges, selecting an appropriate case study, investigating potential financial impacts and finalising the report.

As the Shared Services Analysis was prepared in parallel with a separate Merger Business Case, opportunities existed to reduce duplication, leverage insights and draw on relevant financial data across each project. The following pages discuss the approach to the Shared Services Analysis in more detail.



Source: KPMG



## 2. APPROACH Establish an Analytical Framework

### Background Research & Literature Review

A brief analysis of relevant literature was undertaken to inform the approach to this Shared Services Analysis and consider the NSW context. The key insights from this literature review are outlined in Chapter 3 of this report, and focus on:

- defining 'shared services' and the likely benefits;
- alternative delivery mechanisms available to local councils for establishing and implementing shared services;
- the relationship between shared services and the NSW Government's *Fit for the Future* reform agenda with accompanying insights on the local government sector's financial sustainability; and
- past experiences of Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council in jointly delivering community services and other resource sharing initiatives.

### Data Collation

To underpin a high-level financial assessment for the Shared Services Analysis it was important to collate relevant data upon project commencement from published and unpublished sources.

Given a Merger Business Case was undertaken in parallel to this project, a pre-prepared data collation template was circulated to Bombala Council, Cooma-Monaro Council and Snowy River Shire Council with a view to generating a comprehensive financial data set that would be pertinent to the Shared Services Analysis and the Merger Business Case. This approach enabled the analysis to draw on the most current council data.

An important aspect of the data collation exercise was to separate each council's general fund financial data from utility-related financial data – namely the data relating to each council's water and wastewater services.

A data cleaning exercise was also undertaken to ensure like-for-like comparisons across councils. This is required due to the slightly differing approaches councils take to reporting and allocating staff (FTEs) to service categories

### Consultations

Regular consultations were held with the High Plains forum – representing the General Managers of the three councils – to appraise project status updates and co-ordinate feedback and input from key stakeholders. In addition, at project commencement, in-person consultations were held collectively and separately with representatives from each council.

These consultations offered an opportunity to confirm project scope as well as better understand each council's operating model, local challenges and related priorities and strategies as well as past experiences with delivering shared services in the region. These insights were important to documenting the lessons from previous shared service initiatives and local perceptions of what opportunities may exist for shared services in the future.





## 2. APPROACH Case Study Analysis

### Target Case Study

Following consultations through the High Plains forum with each of the Councils it was confirmed the 'Wellington-Blayney-Cabonne (WBC) Strategic Alliance' would be a suitable case study target for the Shared Services Analysis. The reasons for considering the WBC Strategic Alliance as an appropriate case study target include:

- it is an historic partnership between three regional councils in NSW that seeks to generate savings and efficiencies and improved service delivery for ratepayers and residents;
- the WBC Strategic Alliance was created in 2003 in response to broader state-wide deliberations (initiated by the NSW Government) regarding structural reform options for the NSW local government sector;
- the WBC Strategic Alliance has been recognised as an innovative local government sector initiative and has received a wide range of government and industry accolades since its inception; and
- a wide-range of literature and financial data has been published on WBC Strategic Alliance operations and activities that can be drawn on in the development of a robust and insightful case study.

### Document insights & experiences

To understand the performance and experiences of the WBC Strategic Alliance as a vehicle for regional collaboration and shared service delivery, a wide range of sources were reviewed and assessed to document relevant insights. These sources include:

- Annual Reports (2003-2014) published by the WBC Strategic Alliance;
- Annual Reports (2003-2014) published by each of the member organisations of the WBC Strategic Alliance;

- Local government industry seminars on regional collaboration and shared services that reference the experiences of the WBC Strategic Alliance;
- Academic papers and journals relevant to shared service analysis and experiences of the WBC Strategic Alliance;
- The Review Panel's final report and relevant recommendations and analysis on the experiences of NSW councils with regard to ROCs, regional collaboration and the WBC Strategic Alliance;
- The submissions of the WBC Strategic Alliance to the Review Panel; and
- The submissions of each of the member organisations of the WBC Strategic Alliance to the Review Panel.

### Key lessons

Based on the case study analysis of the WBC Strategic Alliance a series of key lessons will be documented to inform relevant consideration of shared services by Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council. The key lessons will be drawn from analysis of published reports and statements by the WBC Strategic Alliance, member councils and other relevant literature.

The key lessons will be presented under the following sub-sections:

- factors that have contributed to the success of the WBC Strategic Alliance;
- inherent challenges of regional collaboration and shared service initiatives; and
- implications for Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council.



## 2. APPROACH Financial Analysis & Next Steps

Drawing on the existing LTFPs of the three councils as the 'base case', the high-level financial analysis supporting the Shared Service Analysis will provide a series of quantitative and qualitative insights into the potential financial impacts of selected shared service options. This analysis is outlined below.

### Shared Service Options

The high-level financial analysis included consideration of the potential impacts of two selected shared service options. These options were selected following consultations and agreement with each of the councils, and include:

1. Consideration of incorporating each council's water and wastewater functions as a shared service; and
2. Consideration of incorporating designated corporate functions (or 'back-office' duties) of each council as a shared service.

### Financial analysis

High-level financial analysis will provide an indication of the potential efficiency savings that could be generated from each of the shared service options. Insights from the Merger Business Case – completed in parallel with this Shared Services Analysis – will provide a guide as to where there may be opportunities to achieve efficiencies and reduce duplication across corporate services. These assumptions are outlined in Table 2.1 over page.

The potential efficiencies estimated from each of the shared service options are not necessarily limited to FTE reductions, but rather reflect an opportunity to increase utilisation of existing personnel, re-invest efficiencies in specialised staff and skills, contribute to asset renewal or increased service offerings.

### Next Steps

The overall analysis of shared services – drawing on the literature review, target case study and financial assessment – will form the basis for developing a high-level roadmap on approaches to implementing enduring and sustainable shared services across Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council.

The roadmap will consider:

- the iterative process for establishing a successful shared service mechanism;
- key milestones necessary for progressing shared service initiatives;
- risks and appropriate mitigation strategies; and
- work to be undertaken prior to developing a new shared service framework for Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council.



## 2. APPROACH Shared Service Analysis – Financial Assumptions

### Detailed assumptions

The efficiencies generated by shared services are based on a number of assumptions that have been informed by the literature review and council reform initiatives domestically and internationally. Consultation were also held with the three Councils to test material assumptions.

Table 2.1: Shared services analysis – financial impact assumptions

Shared Service	Assumption Adopted	Rationale
<b>General – benefits realisation</b>	The full benefits of the shared services arrangement are not reached until 2023-24 and follow a pattern of: FY15-16: 10%, FY16-17: 25%, FY17-18: 50%, FY18-19: 65%, FY19-20: 75%, FY20-21: 85%, FY21-22: 90%, FY22-23: 95%, FY23-24: 100%.	Each year the councils achieve greater utilisation of the shared service arrangement.
<b>General – efficiency dividend</b>	Shared services provision is anticipated to generate an efficiency dividend or productivity gain that is experienced by employees. The value associated represents a 5, 10 or 15 per cent reduction in salaries and wages expenses for the shared services (depending on the scenario).	Through collaboration, increased efficiency or productivity is experienced by employees. Councils may use this 'efficiency dividend' to develop greater specialisation within their teams, invest in assets or improve overall service quality levels through some other means.  Consultations with councils noted that the level of duplication across the selected services ranged from 5 to 15 per cent. These rates have been informed by the corresponding assumptions in the Merger Business Case analysis.
<b>General – present value calculation</b>	A nominal discount rate of 9.5 per cent has been adopted. This is consistent with NSW Treasury Guidelines which suggest a real discount rate of 7 per cent (or 9.5 per cent with inflation). A lower discount rate would inflate the present value of the efficiency dividend.	The present value is the value of all capital and operational cash flows associated with the shared services arrangement in today's dollars (2014-15). The incremental savings have been evaluated over a ten year period from fiscal year 2014-15 to 2023-24.



## 2. APPROACH Shared Service Analysis – Financial Assumptions - *Continued*

### Detailed assumptions (Continued)

In addition to the general assumptions listed on the previous page (including the employee efficiency dividend), each participating council is anticipated to gain efficiencies from collaboration on materials and contracts and other expenditures. The savings are phased in as indicated on the previous page with the full 1.5 per cent saving achieved in fiscal year 2023-24.

Table 2.1: Shared services analysis – financial impact assumptions

Shared Service	Assumption Adopted	Rationale
<b>Option 1:</b> Water and Wastewater Services	A 1.5 per cent annual saving has been applied to each council’s Materials and Contracts expenditures within their Water and Wastewater Fund as a result of the shared services arrangement. This assumption is consistent with the corresponding assumption in the Merger Business Case analysis.	This assumption represents a conservative estimate of potential savings that would be generated through economies of scale in procurement of engineering-related services. These savings are limited by the size of the region and recognise that efficiencies have already been achieved collectively by the councils, including through South East Regional Organisation of Councils (SEROG).
	A 1.5 per cent annual saving has been applied to each council’s Other expenditures within their Water and Wastewater Fund as a result of the shared services arrangement.	This assumption represents a conservative estimate of potential savings that would be generated through economies of scale in other costs including overheads.
<b>Option 2:</b> Corporate Services	A 1.5 per cent annual saving has been applied to 10 per cent of each council’s Materials and Contracts expenditures within their General Fund as a result of the shared services arrangement. This assumption is consistent with the corresponding assumption in the Merger Business Case analysis.	This assumption represents a conservative estimate of potential savings that would be generated through economies of scale in procurement across the selected Corporate Services. The number of employees in the selected services represent approximately 10 per cent of the total council employees.  These savings are limited by the size of the region and recognise that efficiencies have already been achieved collectively by the councils, including through South East Regional Organisation of Councils (SEROG).
	A 1.5 per cent annual saving has been applied to 10 per cent of each council’s Other expenditures within their General Fund as a result of the shared services arrangement.	This assumption represents a conservative estimate of potential savings that would be generated through economies of scale in other costs including overheads.

# 3. Shared Services





### 3. SHARED SERVICES Introduction

#### Defining shared services

Sharing delivery of similar services across neighbouring local councils can reduce cost, enhance efficiency and improve quality. However, it requires careful consideration of both the structure and governance to ensure the partnership achieves the level of cooperation required to implement an effective shared services model.

Shared services' are typically where two or more local councils jointly provide:

- **external services** — services that councils provide to the local community, such as Meals on Wheels, waste collection and community and library services;
- **back office functions** — functions that support external services, such as information technology, finance, legal, payroll, and human resources; or
- **procurement** — purchase of goods and services.

Shared services may also include one or more councils partnering with other organisations outside of local government for the delivery of specific services (ACELG 2014).

Many councils explore the possibilities of shared services with the goal of reducing costs, increasing service quality and providing better community outcomes. In addition to cost savings, there are other financial and non-financial benefits associated with shared services, including:

- increased efficiency through the reorganisation and sharing of assets;
- improved service delivery and consistency across regions;
- economies of scale;
- reduced duplication of processes;
- improved quality of service through a larger and more skilled resource pool; and
- support of local economies by sustaining local employment.

#### Evaluating shared services

While there is significant evidence of many NSW councils participating in a wide-range of shared services – either through formal or informal mechanisms – there is relatively little evidence of the achievement of outcomes. For example, while cost savings are invariably sighted as the key driver of shared services, an absence of baseline data and other relevant information make it difficult to assess the extent to which the intended financial benefits are being realised.

Given shared services are likely to be given a renewed focus in light of the NSW Government's local government reform agenda, there is significant scope to enhance the monitoring, evaluation and reporting of shared service initiatives state-wide.

This chapter provides a brief overview of:

- the Review Panel's commentary on shared services;
- the opportunities presented by shared services to local councils;
- the varying delivery mechanisms for providing shared services to local communities (and associated advantages and disadvantages); and
- recent experiences of Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council in resource sharing (and associated lessons for future initiatives).



### 3. SHARED SERVICES Review Panel’s Commentary

#### Council Submissions to the Review Panel

A large number of council submissions to the Review Panel highlighted that most councils already undertake regional collaboration and shared services and acknowledged there may be scope to further increase these activities in the future. Submissions noted the benefits of regional collaboration could be significant – including through achieving enhanced economies of scale and increased capacity to attract specialist knowledge. A number of submissions also highlighted the challenges of implementing shared services, with the WBC Strategic Alliance submission stating:

*“Shared services is NOT a soft option alternative – it will require strong leadership commitment and behaviour change to achieve the desired outcomes. It is just as big a transformative change as amalgamation can be.”*

#### Review Panel

The Review Panel considered the insights offered by the Australian Centre for Excellence in Local Government (ACELG) Report *Consolidation in Local Government: A Fresh Look* and the varying structural reforms options available and the potential benefits offered. Table 3.1 below is drawn from the Review Panel’s assessment of the ACELG analysis and reflects the Review Panel’s conclusions that council mergers provide the clearest pathway for achieving efficiency and economies of scale, service improvements and strategic capacity.

The Review Panel determined that while stronger regional collaboration and shared services organisations may support these reform principles, the outcomes are less certain (Review Panel 2014).

**Table 3.1 – Attributes of Different Reform Options**

Reform Principle	Mergers	Boundary Change (to create a larger, higher capacity council)	Shared Services (assumes more robust, statutory regional organisations)	Regional Collaboration (along the lines of a regional organisation of councils)
Efficiency & Economies of Scale	Strong link	Potentially strong link subject to size / disposition of re-shaped councils	Strong Link	Weak link
Strategic Capacity	Strong link	As above – benefits will flow to larger ‘new’ council(s)	Potential medium-strong link subject to organisation structure and governance	Weak link
Service Improvement & Innovation	Strong link	As above	Strong link (but limited to services that are effectively shared)	Potential link subject to nature and scope of collaboration
Potential Diminution of Local Democracy	Distinct risk, but can be managed	Some risk depending on nature of ‘new’ councils – can be managed	Risk where extensive decision-making is ceded to joint authority – may be difficult to manage.	Little or no risk

Source: Extract from Review Panel Report (2014)



### 3. SHARED SERVICES Delivery Mechanisms

Embarking on shared service arrangements is a complex, and potentially costly, exercise and should not be viewed by councils as simply a means of avoiding other structural reform options and continuing with the ‘status quo’. There are a wide range of potential delivery mechanisms available for shared services for councils to consider:

- **Resource sharing** – contractual arrangements between local councils to share key resources (plant, equipment or personnel) to achieve efficiencies and lower costs. Typically one council employs resource and hires out to others on a ‘time and materials’ basis.
- **Centralisation of services** – relocation of multiple delivery sites or services to one centre which then serves the whole region.
- **Joint venture** – establish stand-alone entity to share costs and risks of providing community services and infrastructure.
- **Outsourcing** – Key functions outsourced to organisations typically from outside the local government sector. Regional areas do not always have sufficient scale to generate benefits, and often has adverse net employment impact that often generates community opposition.

While councils in NSW often participate in resource sharing arrangements for selected activities. However, the net benefits of ad hoc, project specific, resourcing sharing arrangements are often limited and are not of an enduring nature to support the long-term financial sustainability of council operations.

Table 3.2 provides a comparative summary of the attributes of each of the shared service delivery mechanisms available to councils. Each delivery mechanism is examined in further detail over page, with the exception of ‘outsourcing’ which was not considered in further detail at the request of councils.

**Table 3.2– Attributes of Shared Services Delivery Mechanisms**

	Resource sharing	Centralised services	Joint venture	Outsourcing
<b>Start up costs</b>	Low	Low-Medium	Medium-High	Medium-High
<b>Enduring nature of arrangement</b>	Short-term	Medium-term	Medium-Long-term	Medium-Long-term
<b>Savings potential</b>	Low-medium	Medium-High	Medium-High	Medium-High
<b>Time required for net benefits to accrue</b>	Short-term	Short-Medium-term	Medium-term	Medium-term
<b>Scale of structural change (i.e. disruption)</b>	Low	Medium	High	Very High
<b>Exit costs</b>	Low	Medium	High	Medium-High

Source: KPMG analysis





### 3. SHARED SERVICES Delivery Mechanisms

#### Resource Sharing

Resource sharing refers to arrangements between local councils to share financial, human or physical resources to achieve common objectives. The main drivers behind resource sharing are efficiency and reduced costs. One council may own a resource and hire it to another council during off peak periods. Alternatively, two or more councils may jointly own a resource and share it on an agreed basis.

For Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council, many resource sharing arrangements are informal agreements based on the quality of relationships between councils. There may be an opportunity to formalise the process of resource sharing to gain greater savings as well as to ensure the highest utilisation of an asset. A contractual arrangement can agree for example, when and for how long, each partner will have access to the resource.

Resource sharing opportunities are available across a range of operational and capital works areas as well as:

- Environmental services and waste management;
- Specialised plant and equipment (e.g. road sealing equipment); and
- Specialised staff (e.g. training officers and project management officers).

While such resource sharing arrangements offer significant flexibility, they are typically more ad hoc (i.e. project based) and less enduring than other shared service models.

#### Centralisation of services

Centralisation of services requires the relocation of multiple delivery sites to one centre (such as a 'centre of excellence' envisaged by the Review Panel) which then serves the whole region. It tends to generate efficiencies from increased specialisation and improved infrastructure. Services where the marginal cost of delivering one task (such as a planning approval) is low but the fixed costs (information systems) are high may also generate economies of scale.

Literature reviews suggest that the back office functions are best suited to centralisation. Most back office or administrative services can be delivered electronically and the volume of digitised data is expected to grow in the future. External services (e.g. community services, maintenance, etc.) are less likely to improve from centralisation as the cost of delivering on additional service may vary significantly and requires significant travel.

Some of the back office functions that may be candidates for centralisation include:

- Professional services such as legal, internal audit, financial accounting, information technology (IT);
- Administration such as rates, development assessments; and
- Human resources and payroll.



### 3. SHARED SERVICES Delivery Mechanisms & Local Context

#### Joint venture or regional authority

Local councils may overcome revenue constraints through the creation of private companies whose purpose is to undertake critical infrastructure or projects that are judged to be in the best interests of the community. The council is often not a contracted party itself but rather it establishes a company, with potentially other council joint venturers, through which the enterprise is conducted.

Joint ventures have many benefits, including the opportunity to share costs and risk. They have proven to deliver value for money for ratepayers as well as a consistent and responsive private entity to complement council operations. Parties often gain from the different expertise and perspective brought by other parties to the project.

Joint ventures are among some of the potential options for delivering:

- Waste services;
- Water supply and sewerage services; and
- Engineering and works services.

It is important to acknowledge that certain joint venture structures can allow employees to be engaged on terms and conditions outside local government enterprise agreements. Depending on the legal structure of the organisation, different taxation and regulatory reporting functions may vary from typical local council entities.

#### Local context for shared services

In the recent past, Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council have demonstrated a commitment to exploring opportunities to collaborate through the High Plains Forum and have sought to identify opportunities to achieve efficiencies that better serve local communities.

Table 3.3 on the following pages summarises recent examples of collaboration that the three councils have pursued. A brief description of the initiative is provided, followed by its status (e.g. whether it is on-going or has ceased) and any lessons learned from the experience.

In summary, key lessons from these resource sharing experiences include:

- Initiatives have the best chance of success where there is a shared mutual interest in its success (such as regional committee and associated planning);
- Opportunistic savings have been achieved where council needs are similar and the financial benefits of collaboration are easily identified by participants (such as joint procurement of goods and services);
- The relatively large distances involved in travelling between key towns and villages across the region can create perceptions that the benefits of resource sharing initiatives are not being fairly shared between participants;
- Travelling time between regional centres may mean that council's view local needs as sometime being better (or more quickly) met locally;
- Collaboration has enhanced councils' collective access to State and Federal grants (such as for health services); and
- A lack of trust that resource sharing initiatives are mutually beneficial to all participants will lead to a breakdown in the initiative.



### 3. SHARED SERVICES Local Experiences

Table 3.3 – Local experiences in shared services

Function	Description	Status	Lesson
<b>Regional library services</b>	Library services are delivered to the region through a collaboration between the three Councils. While both Cooma-Monaro Shire Council and Bombala Council own their own static libraries a mobile library delivers books to communities across the three local government areas.	<b>On-going</b>	The partnership between the councils is underpinned by a contractual arrangement renewed every four years that outlines the sharing of costs based on utilisation of the service by community members from each council area.
<b>Community transport</b>	The Snowy River Cooma Monaro (SRCM) Community Transport service provides transport to older people, people with disability, carers and people needing to access mainstream health services, who are geographically or socially isolated	<b>On-going</b>	The regional communities are highly inter-related, with many instances of council employees living and working in different Shires. Where basic needs such as access to health services are similar, the community may drive the desired level of collaboration to ensure a complete service.
<b>Emergency planning committee</b>	Bombala Council and Cooma-Monaro Shire Council have reciprocal resource sharing arrangements to respond to emergency events and have representatives on a joint emergency planning committee. The chair rotates annually to reduce overlap in duties.	<b>On-going</b>	Emergencies often involve the whole regional community and are often infrequent or non-recurrent expenses. Reducing overlap will save money and resources in the long term. Due to the success of the model, there is now discussion to merge the Emergency Management Committee with Snowy River's.
<b>Weeds management committee</b>	The Monaro Weeds Management Committee includes members from the three councils as well as local agriculture industry and community associations. The collaboration advocates for funding and allocates resources across the three communities to address noxious weed outbreaks and continually inspect at-risk areas.	<b>On-going</b>	The committee coordinates effectively with the NSW Government for funding and has established sound practices for environmental management across the region. Councils were generally positive about the arrangement but expressed some concerns about ensuring preventative efforts were consistently employed by all members.
<b>Joint contracting and tendering</b>	The three councils all suggested that joint contracting and tendering were used where appropriate to reduce duplication of effort and share best practices. They have also occasionally achieved volume discounts on the purchase of certain services (though a consistent joint procurement team has not been established).	<b>Ad-hoc</b>	Where needs are similar, collaboration on contracting or tendering services can achieve savings on professional services and save time in going to market for larger services. In many cases, the needs of the three communities can be quite similar. For example, the combined purchase of website design and content management infrastructure provided significant savings (estimated ~\$25k).

Source: Consultations with Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council



### 3. SHARED SERVICES Local Experiences *(cont'd)*

Function	Description	Status	Lesson
<b>Risk management resource sharing</b>	Snowy River Shire Council and Bombala Shire Council shared the cost of a risk management professional for a period. The arrangement would send the individual (based in Snowy River) to Bombala two days a week but this did not always occur.	<b>Ceased</b>	The commute times between Monaro councils is a frequent barrier to sharing resources. Driving through the major towns of Cooma-Monaro, Snowy River and Bombala (ending in Delegate) is over 200 kilometres one way and can make human resource sharing impractical.
<b>Regional waste services</b>	The possibility of providing regional waste services between Snowy River Shire Council and Cooma-Monaro Shire Council was discussed however negotiations broke down due to uncertainty around the future autonomy of each local government area.	<b>Ceased</b>	Both councils noted this area as a potential opportunity for future cooperation but acknowledged that timing and trust will continue to play an important role in any future successful ventures.
<b>Youth services</b>	Youth counselling services, based out of Cooma-Monaro Shire Council, were jointly funded by and provided to the three councils. The support workers were expected to spread their time equally across the three councils but were often occupied by a larger youth population in Cooma.	<b>Ceased</b>	All councils identified the tyranny of distance as a factor in the success of any shared services. It was also noted that any contracts should stipulate, how much time is spent in each area to ensure that smaller and more remote areas are not marginalised.
<b>Rural health services</b>	The Monaro Rural Health Service Project was in effect from 2002 to 2011 with grant support from the Commonwealth Department of Health and Aging. With an initial grant of \$52,000, a needs analysis of community health and wellbeing on the Monaro, titled the "Monaro Regional Community Plan" was conducted in 2001. The resulting programs received over \$1.7 million in grants to family outreach services, in particular, paediatric occupational and physiotherapy services to small children living in small towns, and specialist support for preschools and primary schools in the region. The initiative included other innovative projects such as the 'Pit Stop' for health screening, youth arts programs and men's health awareness.	<b>Ceased</b>	The project highlights the strength of the community in partnering with the Greater Southern Area Health Service, local councils and other organisations to deliver a NSW-leading project. 'Fit for the Future' councils will be expected to maintain these types of programs independent and therefore the sustainability of any future collaborative projects cannot be based on federal or state grants.
<b>Animal control and parking</b>	In the past, Cooma-Monaro Shire Council provided staff to assist with animal control and parking in the other two councils when local capacity was insufficient or non-existent. As the community and local capacity grew, the other councils decided to deliver these services independently.	<b>Ceased</b>	Where capacity exists, the tendency to operate locally may better serve residents due to the speed of action and understanding of local context.

Source: Consultations with Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council

## 4. Case Study

### WBC Strategic Alliance





## 4. WBC STRATEGIC ALLIANCE Introduction

### The Strategic Alliance

The WBC Strategic Alliance was formed in August 2003 as a voluntary partnership between three rural councils – Wellington Council, Blayney Shire Council and Cabonne Shire Council. A key catalyst for the establishment of the WBC Strategic Alliance in 2003 was the broader policy debate at the time on the future of local government in NSW, including the potential for forced amalgamations. The Central Tablelands Water (CTW) subsequently joined the Alliance in 2005.



The 2013-14 Annual Report for the WBC Strategic Alliance acknowledged the 10-year anniversary of the Alliance and re-stated the organisations goals, namely:

- to reduce costs to Member Councils through joint procurement;
- to reduce costs to Member Councils by sharing knowledge, skills and methods;
- to increase services to Member Councils by accessing larger amounts of grants funding;
- to facilitate staff development and retention by offering opportunities to staff across Member Councils; and
- to increase employment opportunities.

### Governance Arrangements

The WBC Strategic Alliance is established by a 'Constitution' and governed by a Board consisting of Mayors, Deputy Mayors, the Chairman of CTW, and General Managers of each of the Member Councils and convenes on a quarterly basis (or more frequently if required). The responsibilities of the Board include:

- setting the strategic direction of the Alliance;
- identifying opportunities for collaboration through the Alliance;
- raising public awareness of the Alliance and benefits to local communities; and
- oversight and reporting on Alliance-led initiatives;

The Chair of the WBC Board and supporting Secretariat function rotates to a new Member Council each year. A WBC Executive Manager is employed by the Alliance – and hosted by Cabonne Shire Council – and is responsible for coordinating Alliance-led activities and projects and reporting on the strategies and decisions set by the WBC Board. The WBC Executive Manager is supported by a Strategic Planner – both roles are funded by WBC Member Councils. The future directions and strategies of the WBC Alliances are established in a rolling four-year Delivery Plans which seek to map the Community, Delivery and Operational Plans of each of the Member Councils.

### Decision Making

The WBC Board is only able to make recommendations to respective Member Councils for approval, with each Member Council having the discretion to participate in any joint initiatives. WBC Strategic Alliance initiatives, therefore, do not require the unanimous support of all Members and this parameter reflects the 'voluntary partnership' framework that underpins the Alliance.



## 4. WBC STRATEGIC ALLIANCE Introduction

### WBC Professional Team

The day-to-day projects and Alliance-led initiatives are overseen by WBC Professional Team – consisting of Directors of Corporate, Technical and Engineers Services and General Managers from each of the Member Councils. The Professional Team convenes on a quarterly basis to:

- discuss joint projects and initiatives;
- share experiences and best practices; and
- network and enhance the relationships between Alliance Members.

Alliance-led initiatives are monitored by the WBC Professional Team and documented in the WBC Action Status Report. Directors on the WBC Professional Team typically take on project management roles with Alliance-led joint projects.

Activities and projects initiated by the Alliance are wide-ranging and target both frontline services and corporate functions of Member Councils, including:

- IT systems and record keeping;
- Fleet management and asset management;
- Human resources, workforce planning and training;
- Internal audit and business process improvement
- Integrated planning and reporting;
- Global information systems
- Issue-based regional strategies (such as climate change);
- Procurement of goods and services; and
- General resource sharing (on an ad hoc basis).

**Table 4.1 Timeline of WBC Strategic Alliance evolution**

Date	Milestone
2003	WBC Strategic Alliance established with Wellington Council, Blayney Shire Councils and Cabonne Shire Council as founding members.
2005	Central Tablelands Water (CTW) County Council joins WBC Strategic Alliance, with the Chair to sit on the WBC Board.
2007	The Daley Review recommended the Alliance enter a second stage of development and reach agreement on functions to be delivered in the form of shared services. The Alliance appoints a full-time Executive Manager to support initiatives
2011	Major R&D project completed investigating how to move the Alliance to a legal shared service entity. Options for shared services were identified as well as suitable legal structure
2012	NSW Government convenes an Independent Local Government Review Panel to investigate how to strengthen the local government sector. WBC Strategic Alliance actively contributes to Review through submissions and consultation forums.
2013	WBC Strategic Alliance considers future options and commissions analysis of options for structural change and shared service delivery.
2014	NSW Government launches Fit for the Future in response to the Review Panel's recommendations to reform the local government sector. The WBC Strategic Alliance puts on hold any subsequent decisions on organisational change pending NSW Government's reform outcomes.

Source: KPMG analysis of WBC Strategic Alliance reports



## 4. WBC STRATEGIC ALLIANCE Member Profiles

### Snapshot of Alliance Members

- The WBC Strategic Alliance services a population of approximately 30,000 residents.
- The Alliance covers a geographic region of 11,400 sq km. in the central west plains of NSW.
- The scale of the road network exceeds 4,300 km.

- The aggregate operating expenditure of the Alliance members was approximately \$76.86 million in 2013-14.
- The aggregate net operating results of the Alliance members was approximately \$6.27 million in 2013-14.
- The Alliance members collectively employed 379 FTEs in 2013-14.

Table 4.2 Selected indicators of WBS Strategic Alliance Members

Selected Indicators	Wellington Council	Blayney Council	Cabonne Shire Council	CTW
<b>Population</b>	9,200	6,985	13,481	13,050 (including Weddin Shire Council)
<b>Size (sq km)</b>	3,200 sq km	1,800 sq km	6,400 sq km	n/a
<b>Rates Assessments</b>	4,760	3,899	7,126	Residential: 4,240 Non-residential: 1,531
<b>Road Network</b>	1,459 km	747 km	2,052 km	585 km (Water mains)
<b>Financial Sustainability Rating</b>	Rating: Outlook:	Rating: Outlook:	Rating: Outlook:	n/a
<b>Council FTEs</b>	125	63	172	19
<b>Operating Expenditure (2013-14)</b>	\$ 24,420,000	\$ 14,901,000	\$ 32,285,000	\$ 5,150,000
<b>Net Operating Result (2013-14)</b>	(\$ 1,606,000)	\$ 306,000	\$ 7,287,000	\$ 284,000

Source: Annual Reports of WBC Strategic Alliance Members





## 4. WBC STRATEGIC ALLIANCE Key Achievements

### Key Initiatives and Achievements

The available literature and recent reviews of the WBC Strategic Alliance point to three principal benefits to the Alliance members and local communities:

- improved communication and sharing of experiences and knowledge;
- access to more specialised or higher skilled staff; and
- efficiency savings through process improvement and joint purchasing.

More than 60 major projects have been undertaken by the WBC Strategic Alliance since its inception in 2003. Some of the largest financial savings have been generated by the implementation of common internal systems (including IT), development of joint DA kits, fleet management and procurement arrangements, asset management and joint-training.

Specific examples of projects that reflect the Alliance's key achievements are outlined below.

#### *Road re-sealing*

- In 2013 a joint tender for a road-sealing contract was commissioned with a single \$8.3 million contract awarded to EDI Downer, with road-sealing works to be scheduled on a needs basis on regional and local roads across the three councils. The tender process was led by Blayney Council, saving a further \$10,000 by removing the need for Wellington and Cabonne to undertake individual tendering processes.
- The estimated savings generated by this initiative was \$440,000 over two financial years.

#### *IT implementation*

- In 2010, the four Alliance member committed to the largest single project undertaken by the WBC Strategic Alliance – the implementation of new IT systems. The initiative was opportunistic as each of the Alliance members' IT systems were in need of upgrading at the same time. The WBC Strategic Alliance initiated and coordinated the project, achieving significant efficiencies by managing the tender process across all four councils and obtaining a discounted purchase price.
- In addition to the reduced purchase price that was negotiated with the provider, the initiative produced savings on administration, advertising and legal fees. A contractor was also engaged to work with an in-house team to develop the evaluation methodology and selection framework.
- Total savings generated from the initiative were estimated at \$440,000.
- In engaging a single IT provider, the Alliance members were also able to develop a common general ledger and common processing for key functions such as creditors and debtors, opening an opportunity to develop shared services in the future.

#### *Advocacy initiatives*

- The WBC Strategic Alliance has developed a track-record of working collegiately on a wide-range of initiatives and local government issues. The Alliance prepared two submissions to the Review Panel and is an active participant in local government conferences and committees.
- This advocacy role is a key driver of the improved communication and knowledge sharing that underpins the broader success of the WBC Strategic Alliance.



## 4. WBC STRATEGIC ALLIANCE Financial Savings

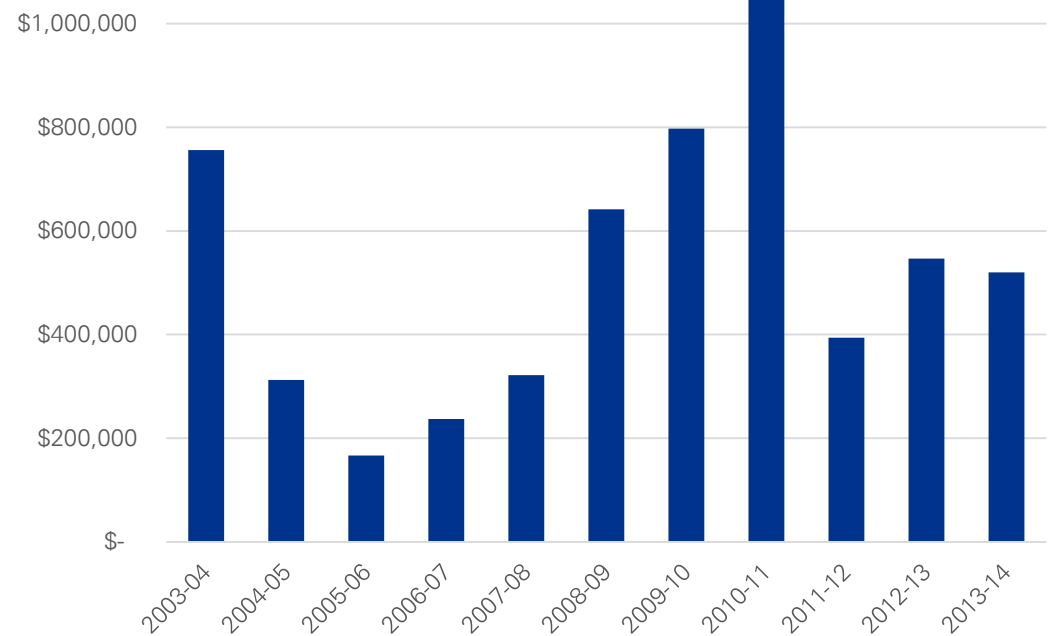
### Summary of Financial Savings

Each year the WBC Strategic Alliance issues an annual report that consolidates the key initiatives implemented over the preceding year and the status of ongoing initiatives. The annual reports also include a summary of estimated financial savings generated from the initiatives implemented over the course of the year.

Figure 4.1 illustrates the reported annual savings from WBC Strategic Alliance initiatives over the period 2003-04 to 2013-14. Key insights on the Alliance's financial reports, include:

- For the most recent financial year (2013-14), the reported annual savings were estimated at approximately \$520,000.
- Almost half of this estimated saving (or \$227,000) accrued from a joint tender relating to a road re-sealing project.
- The annual report also states that through the co-ordination of joint bids the WBC Strategic Alliance was awarded more than \$67,000 across a series of state grants.
- The annual saving reported for 2013-14 of \$520,000 is equivalent to a 8.3 per cent bottom-line impact on the four Alliance members' combined net operating results for the same period.
- Based on an analysis of the WBC Strategic Alliance annual reports since inception in 2003, the reported aggregate savings generated by Alliance-led initiatives exceeds \$5.71 million (not adjusted for inflation).
- The highest reported saving in a single financial year was \$1.05 million in 2010-11, with the procurement and installation of a new IT system generating an immediate \$400,000 saving to Alliance members with further on-going savings reported in subsequent years.

Figure 4.1 Annual savings generated by WBC Strategic Alliance initiatives



Source: KPMG Analysis of WBC Strategic Alliance Reports 2003-04 to 2013-14



## 4. WBC STRATEGIC ALLIANCE Financial Savings

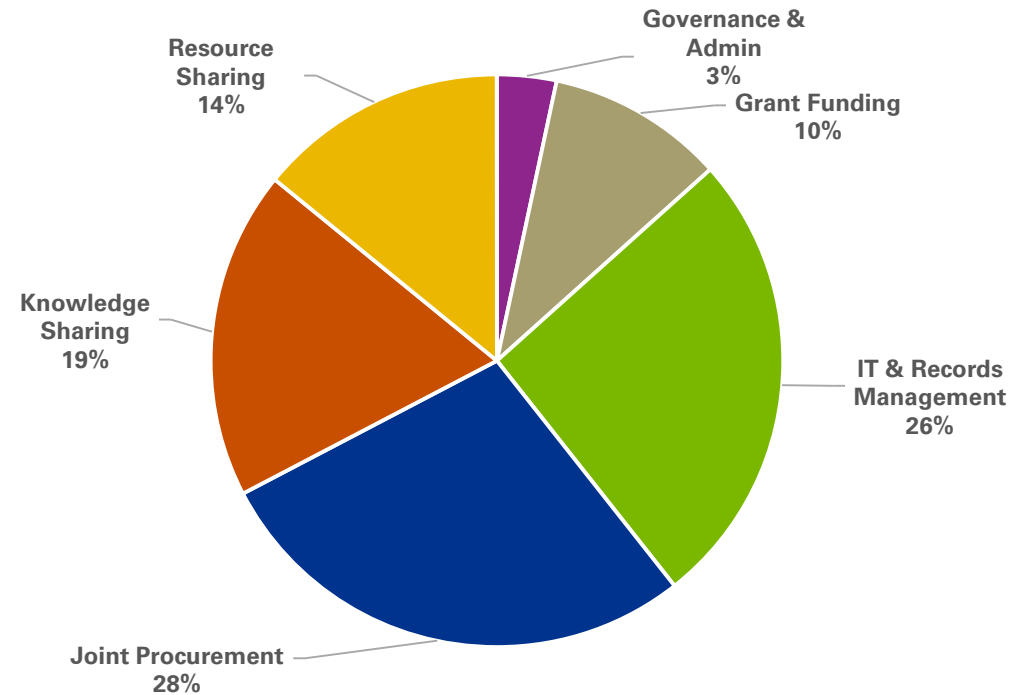
### Nature of Financial Savings

In assessing the scale of the financial savings generated by WBC Strategic Alliance activities, it is also important to consider the nature of the savings. Figure 4.2 provides a snapshot of the type of savings generated in the most recent four year period from 2010-11 to 2013-14.

Key insights include:

- approximately \$2.55 million in savings were reported over this four year period;
- the 2010-11 to 2013-14 reporting period captures the joint-IT project launched in 2010 (in previous reporting periods IT-generated savings are not as significant);
- no supporting evidence is provided to explain the nature of savings generated through 'knowledge sharing'. While it is recognised that 'knowledge sharing' is a key benefit of the Alliance (and other regional collaboration initiatives), it is not possible to ascertain how such benefits were quantified for the purposes of inclusion in the WBC Strategic Alliance annual reports;
- over the four year reporting period, more than \$255,000 in grants have been awarded to Alliance members through joint grant funding applications;
- joint procurement activities are wide-ranging, from engagement of expert consultants, to purchase of road re-sealing materials and software licences;
- resource sharing activities predominantly relates to sharing of plant and equipment between Alliance members, or sharing of expert personnel on a 'time and materials' basis; and
- governance and administrative savings relating to coordinated IP&R reporting and relating planning activities.

Figure 4.2 Nature of savings from WBC Strategic Alliance initiatives (2010-11 to 2013-14)



Source: KPMG Analysis of WBC Strategic Alliance Reports 2010-11 to 2013-14



## 4. WBC STRATEGIC ALLIANCE Key Lessons

The following analysis identifies key lessons from the WBC Strategic Alliance that may be relevant to consideration of shared services by Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council. The analysis has been drawn from published reports and statements by either the WBC Strategic Alliance or member organisations.

The key lessons are presented under the following sub-sections: success factors, challenges, and implications for councils.

### Success Factors

- The Member Councils are of broadly similar profiles, with a common rural focus, enabling the Alliance to focus on enhancing service delivery to the same type of local communities.
  - Neighbouring councils with major regional centres (such as Bathurst, Dubbo and Orange) are not Alliance members. While these councils have not been deliberately excluded from the Alliance they typically have divergent priorities and focal areas and hence do not necessarily see opportunities of mutual interest from participating in the Alliance.
  - The Alliance has been an 'organic' process involving 'trial' and 'error' with a willingness of participants to make mistakes and learn from them.
  - Importance of building trust from the outset rather than seeking immediate financial dividends through major projects and initiatives – such as IT consolidation projects that are often expensive, complex and high-risk.
  - An acceptance that, at the end of the day, the Alliance is a voluntary partnership and each participant is accountable to its own Member Council and local community. On this basis, it is not reasonable to expect every opportunity to achieve increased efficiencies will be supported by every Council.
- Collaboration between employees of each council at all levels working together on individual projects has built a strong professional network and harnessed confidence in each Member Council's commitment and motivation for participating in Alliance-led initiatives.
  - A key lesson has been to engage council employees 'below management level' in the decision making process so there is a shared understanding and common interest in the rationale for pursuing specific joint projects. Elected representatives of each council also need to be supportive of the Alliance and recognise that joint projects do involve a degree of disempowerment – or shared decision making with other Member Councils – but ultimately are aimed at enhancing the long-term sustainability of each council.
  - In this context, it is important to accept compromise is often required on joint projects – while there is always an opportunity to contribute to the decision-making process and the general direction of Alliance-led initiatives, it is also necessary to forgo some control in the way decisions and projects are implemented.
  - Each local council is involved in a large number of partnerships (such as through ROCs) and there are 'blurred' lines where a WBC Strategic Alliance opportunity may risk over-reaching or replicating an existing arrangement.
  - A Strategic Alliance has its limitations and there may be an end-point where the number of voluntary joint projects has been exhausted. At this point an alternate structure or operating model may be required to generate further efficiencies.



## 4. WBC STRATEGIC ALLIANCE Key Lessons

### Key Challenges

- Some of the Alliance's objectives – such as maintaining local employment and maximising efficiencies – can be inherently contradictory, and require Member Councils to compromise and forgo potential benefits to maintain an appropriate balance between competing priorities.
- A key challenge of engaging in shared services is a perceived loss of local control and autonomy – this mirrors a key challenge with respect to community perceptions on council mergers.
- Other key challenges were a lack of clarity about the benefits resulting from an initiative and concern regarding the costs of establishing and maintaining an initiative.
- Delays to decision-making by individual member councils also presents an ongoing risk to the potential success of joint initiatives, particularly where the potential benefits are not as clear. For example, joint procurement initiatives can be easily assessed to quantify expected financial benefits. However, more complex joint initiatives that require some form of re-design of internal processes and loss of control by an individual council is invariably more difficult to quantify and the benefits may not accrue in the short-term.
- Further, shared service models often involve a complete redesign of processes, which may involve significant cost associated with new processes, systems and change management. It is therefore vital that any form of shared services is properly designed and evaluated to ensure the benefits exceed costs.

### Implications for Councils:

Based on the WBC Strategic Alliance case study a number of factors have been identified that can inform how Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council may approach potential shared services. These factors include:

- the need for leadership and commitment at the senior level of all councils and passionate advocates for shared services within each council;
- a phased approach to implementation of shared services is critical – it is not realistic to expect an immediate windfall of financial benefits, and there is a need to first build trust and mutual understanding between participants;
- a willingness to forgo some loss of autonomy and control and the potential trade-off of losing local staff to gain regional efficiencies;
- successful shared services requires a preparedness to provide the resources and funding to investigate potential options;
- an acceptance of the complexity of some shared services processes and uncertainty around the potential benefits – 'trial and error' is a nature of the process, particularly in the initial phases of development;
- gaining timely commitment of participating councils and aligning council decision-making with the objectives of any regional alliance;
- strong strategic direction supported by an outcomes-oriented business plan with clear reporting guidelines and benchmarking to facilitate evaluation of the performance of any shared service initiative; and
- strong and effective project management is required – preferably through a dedicated full-time project manager that is jointly funded by participating councils;

# 5. Financial Analysis

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## 5. FINANCIAL ANALYSIS Shared Services Options

### Option One: Water & Wastewater Services

In NSW, a large number of regional councils are responsible for delivery of water supply and sewerage networks to local communities. Council-owned water utilities are intended to be business enterprises and with costs recovered from water rates and user charges. In practice, however, many regional councils are not in a position to impose sufficient rates and user charges to recover associated costs of service delivery – particularly when asset management and renewal is factored into cost of supplying these water and wastewater services.

The Review Panel noted that there was a state-wide \$1billion infrastructure backlog in regard to bringing all water supply and sewerage systems to acceptable minimum standards. However, the NSW Office of Water also advised the Review Panel that, overwhelmingly, local government water utilities are performing very well. Importantly, these utilities also provide regional councils with critical financial mass and the ability to recruit and retain professional staff with specialist skills.

For Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council, the provision of water supply and wastewater services is an important aspect of council operations, with each council employing dedicated staff to manage and maintain these functions. As such, there are likely to be synergies between each of the council's water and wastewater functions that would enable some efficiencies to be achieved should the services be managed and maintained collectively.

Following consultations with each of the councils, it was agreed that a high-level financial assessment of the potential benefits of including water and wastewater functions should be considered as a possible shared service scenario. The financial analysis did not take into consideration the addition of Kosciuszko National Park water and wastewater management function as part of the broader collaboration. However, it is noted the involvement of the National Park will be imperative for any shared water and wastewater arrangement to be effective.

### Option Two: Centralised Corporate Services

Extensive literature on shared services indicates that targeting selected corporate services (or 'back office' functions) provides opportunities for more efficient use of resources and economies of scale. These corporate services – such as procurement, human resources, finance and information technology – are often well suited to a shared arrangement as they are 'transactional' in nature.

Such services involve relatively less tailoring or customisation, enabling the shared service arrangement to be more streamlined, less costly and comparatively faster to implement. However, a recent Victorian Auditor-General report found that where IT shared services have involved high-levels of customisation, the desired cost savings of the shared service arrangement has not been achieved.

For Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council, it was agreed that a high-level financial assessment of the potential benefits of including select corporate services should be considered as a possible shared service scenario. The corporate service functions that were selected for shared services analysis included:

- Human resources (HR);
- Information technology (IT);
- Corporate finance; and
- Administration.



## 5. FINANCIAL ANALYSIS Option One – Water and Wastewater Services

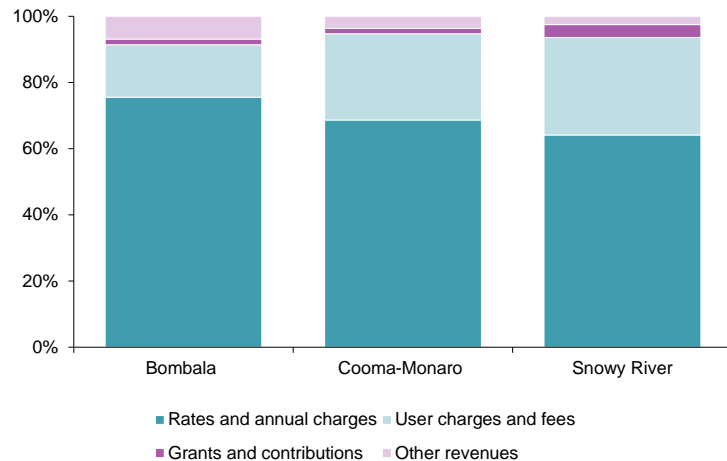
### Overview

Water and waste water services are significant responsibilities and outlays for the three councils. Each council devotes between 14 per cent to 27 per cent of its consolidated expenditures on water and waste water services (based on FY 2014-15 expenditures).

In aggregate the three councils earn a net operating profit on water and waste water services – in contrast to their General Funds. Councils earn more than 90 per cent of their revenue from rates, charges (both annual and user-related) and other fees. In return, councils own and maintain a number of dispersed assets to provide quality water and waste water services to the community.

Bombala, Cooma-Monaro and Snowy River all anticipate these funds to improve their net operating results over the next ten years, however there are high costs associated with asset renewal that will require additional funding.

Chart 5.1: Water and Wastewater Fund sources of revenue (2014-15)



Source: KPMG analysis based on LTFP (2014-15) - Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council

The three councils employ close to 40 individuals (on a FTE basis) to service water and waste water assets at an annual consolidated wage expense of \$2.4 million.

Table 5.1: Employee key statistics

Status quo – Employees and salaries	FTE
<b>Bombala</b>	
Water and Wastewater Staff	4
Water Services	2
Wastewater Services	2
Water and Wastewater - Total salary and wages	<b>\$0.3m</b>
<b>Cooma-Monaro</b>	
Water and Wastewater Staff	19
Water Services	9
Wastewater Services	10
Water and Wastewater - Total salary and wages	<b>\$1.2m</b>
<b>Snowy River</b>	
Water and Wastewater Staff	16
Water Services	12
Wastewater Services	4
Water and Wastewater - Total salary and wages	<b>\$0.9m</b>
<b>Combined</b>	
Water and Wastewater Staff	39
Water Services	23
Wastewater Services	16
Water and Wastewater - Total salary and wages	<b>\$2.4m</b>





## 5. FINANCIAL ANALYSIS Option One – Water and Wastewater Services

### Status quo

Table 5.2 demonstrates each council's projected net operating position over a ten

year period. All three Councils anticipate growth in revenues due to rates and additional fees but must control expenditure growth to maintain financial sustainability.

Table 5.2: Water and Wastewater Fund - Long Term Financial Plan

WATER AND WASTE WATER FUND – LONG TERM FINANCIAL PLAN ['\$'000]											
	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	CAGR
<b>Bombala Council</b>											
Operating Revenue	1,187	1,297	1,379	1,457	1,529	1,592	1,658	1,719	1,782	1,848	4.5%
Operating Expenses	1,318	1,335	1,367	1,400	1,434	1,468	1,503	1,540	1,577	1,616	2.1%
Net Result	(131)	(38)	12	57	95	124	154	179	205	233	
<b>Cooma-Monaro Shire Council</b>											
Operating Revenue	6,448	6,639	6,839	7,047	7,259	7,481	7,709	7,946	8,192	8,448	2.7%
Operating Expenses	5,653	5,766	5,887	6,024	6,146	6,341	7,026	7,234	7,335	7,862	3.4%
Net Result	795	873	952	1,023	1,113	1,140	684	712	857	586	
<b>Snowy River Shire Council</b>											
Operating Revenue	7,280	7,404	7,769	8,012	8,276	8,674	9,135	9,623	10,180	10,770	4.0%
Operating Expenses	7,084	7,309	7,437	7,591	7,735	7,436	7,995	8,582	9,048	9,313	2.8%
Net Result	196	95	331	421	541	1,237	1,140	1,040	1,132	1,457	
<b>Total aggregated net operating results for the three councils</b>	<b>859</b>	<b>930</b>	<b>1,295</b>	<b>1,501</b>	<b>1,749</b>	<b>2,501</b>	<b>1,978</b>	<b>1,931</b>	<b>2,193</b>	<b>2,275</b>	

Source: KPMG analysis based on LTFF (2014-15) - Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council



## 5. FINANCIAL ANALYSIS Option One – Water and Wastewater Services

### Utilisation of shared services

As shared service provision is a gradual process, involving trust and experimentation, the utilisation of the shared services starts at a low base (10 per cent) in FY 2015-16 before reaching its full potential benefits in FY 2023-24. The years indicated in the table (FY16-17, FY17-18, FY19-20 and FY23-24) were chosen to illustrate the annual benefits achieved at 25 per cent utilisation through to 100 per cent utilisation. The financial analysis did not consider the involvement of Kosciuszko National Park for this option and this may understate the potential benefits associated with the arrangement.

### Efficiency dividend

The results are presented under three different scenarios. Each scenario assumes a different level of efficiency or productivity gains that are experienced by employees through the sharing of resources or through developing a joint service delivery strategy. Councils may use this 'efficiency dividend' to develop greater specialisation within their teams, invest in assets or improve overall service quality levels through some other means.

### Potential costs of shared service provision

The costs associated with this shared services arrangement have not been quantified. This assumes that the employees collaborating on Water and Wastewater Services would still be attached to their respective Councils and the inherent overhead cost of supporting these employees and their work would still be covered by the respective council.

One council indicated that they charged the Water Fund and Wastewater Fund for these overhead costs. Based on their figure, annual overheads associated with the shared services arrangement may range from \$30,000 to \$90,000.

If the level of partnership between councils increases, other additional costs may include legal fees associated with binding agreements and IT system harmonisation.

Table 5.3: Efficiency savings from shared services: Water and Wastewater

Efficiency savings achieved by shared services in water and waste water services				
(\$'000s)	FY16-17	FY17-18	FY19-20	FY23-24
<b>Efficiency dividend of 5 per cent</b>				
Annual savings	38	90	157	260
Improvement on aggregate net result (%)	3%	6%	6%	11%
Present value of savings (FY2015-16 to 2023-24)				688
<b>Efficiency dividend of 10 per cent</b>				
Annual savings	69	155	261	413
Improvement on aggregate net result (%)	5%	10%	10%	18%
Present value of savings (FY2015-16 to 2023-24)				1,136
<b>Efficiency dividend of 15 per cent</b>				
Annual savings	101	220	364	567
Improvement on aggregate net result (%)	8%	15%	15%	25%
Present value of savings (FY2015-16 to 2023-24)				1,583
<b>Utilisation of shared services</b>	<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>

Source: KPMG analysis



## 5. FINANCIAL ANALYSIS Option Two – Corporate Services

### Overview

Annual expenditure on administration services in the three councils ranges from 17 to 36 per cent of total council cost of services (based on 2012-13 net cost of service data). It includes corporate services including Finance, Administration, Human Resources and Information Technology.

The three Councils have already explored ways to address these costs through resource sharing exercises with neighbouring councils on IT-related services and through regional collaboration on procurement and joint tendering. However, it remains an area with potential duplication across the three Councils.

The three councils employ close to 44 individuals in Administration, Finance, Human Resources and IT at an annual consolidated wage expense of \$2.7 million.

Table 5.4 outlines the current staffing establishment and salaries and wages expenditure found in each of the three Councils.

Table 5.4: Employee key statistics

Status quo – Employees and salaries	FTE
<b>Bombala</b>	
Finance	5
Administration	3
HR	1
IT	1
Total salary and wages	<b>\$0.6m</b>
<b>Cooma-Monaro</b>	
Finance	2
Administration	9
HR	2
IT	2
Total salary and wages	<b>\$1.0m</b>
<b>Snowy River</b>	
Finance	6
Administration	8
HR	2
IT	3
Total salary and wages	<b>\$1.1m</b>
<b>Combined</b>	
Finance	13
Administration	20
HR	5
IT	6
Total salary and wages	<b>\$2.7m</b>

Source: KPMG analysis based on LTFP (2014-15) - Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council



## 5. FINANCIAL ANALYSIS Option One – Corporate Services

### Status quo

Each council is forecasting an annual operating loss in their General Fund LTFP. The aggregated net operating results for the three councils are calculated in the bottom line of Table 5.5 below.

**Table 5.5: General Fund - Long Term Financial Plan**

GENERAL FUND – LONG TERM FINANCIAL PLAN [\$'000]											
	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	CAGR
<b>Bombala Council</b>											
Operating Revenue	7,766	7,935	7,579	7,749	7,916	8,083	8,254	8,447	8,626	8,827	1.4%
Operating Expenses	8,102	8,221	8,365	8,508	8,688	8,857	9,085	9,260	9,423	9,686	2.0%
Net Result	(336)	(286)	(786)	(759)	(772)	(774)	(831)	(813)	(797)	(859)	10.0%
<b>Cooma-Monaro Shire Council</b>											
Operating Revenue	19,396	19,998	20,623	21,270	21,937	22,627	23,342	24,081	24,847	25,640	3.1%
Operating Expenses	24,385	24,990	25,668	26,426	27,271	28,214	28,892	29,592	30,313	31,058	2.7%
Net Result	(4,989)	(4,993)	(5,046)	(5,156)	(5,334)	(5,587)	(5,551)	(5,510)	(5,466)	(5,418)	0.9%
<b>Snowy River Shire Council</b>											
Operating Revenue	15,298	16,130	15,948	15,021	15,229	15,481	15,941	16,416	16,905	17,409	1.4%
Operating Expenses	19,338	18,878	19,473	18,725	19,105	19,636	20,063	20,578	21,157	21,740	1.3%
Net Result	(4,040)	(2,748)	(3,525)	(3,704)	(3,876)	(4,155)	(4,122)	(4,162)	(4,252)	(4,331)	0.8%
<b>Total aggregated net operating results for the three councils</b>	<b>(9,365)</b>	<b>(8,027)</b>	<b>(9,357)</b>	<b>(9,619)</b>	<b>(9,982)</b>	<b>(10,516)</b>	<b>(10,503)</b>	<b>(10,486)</b>	<b>(10,515)</b>	<b>(10,608)</b>	

Source: KPMG analysis based on LTFP (2014-15) - Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council



## 5. FINANCIAL ANALYSIS Option One – Corporate Services

### Utilisation of shared services

As shared service provision is a gradual process, involving trust and experimentation, the utilisation of the shared services starts at a low base (10 per cent) in FY 2015-16 before reaching its full potential benefits in FY 2023-24. The years indicated in the table (FY16-17, FY17-18, FY19-20 and FY23-24) were chosen to illustrate the annual benefits achieved at 25 per cent utilisation through to 100 per cent utilisation.

### Efficiency dividend

The results are presented under three different scenarios. Each scenario assumes a different level of efficiency or productivity gains that are experienced by employees through the sharing of resources or through developing a joint service delivery strategy. Councils may use this 'efficiency dividend' to develop greater specialisation within their teams, invest in assets or improve overall service quality levels through other means.

### Potential costs of shared service provision

The costs associated with this shared services arrangement have not been quantified. This assumes that the employees collaborating on Corporate Services would still be attached to their respective Councils and the inherent overhead cost of supporting these employees and their work would still be covered by the respective council.

If the level of partnership between councils increases, other costs may include legal fees associated with binding agreements and IT system harmonisation.

**Table 5.3: Efficiency savings from shared services: Corporate Services**

Efficiency savings achieved by shared services in water and waste water services				
(\$'000s)	FY16-17	FY17-18	FY19-20	FY23-24
<b>Efficiency dividend of 5 per cent</b>				
Annual savings	38	81	132	202
<i>Improvement on aggregate net result (%)</i>	0.4%	0.8%	1.3%	1.9%
Present value of savings (FY2015-16 to 2023-24)				572
<b>Efficiency dividend of 10 per cent</b>				
Annual savings	75	156	251	380
<i>Improvement on aggregate net result (%)</i>	0.8%	1.6%	2.4%	3.6%
Present value of savings (FY2015-16 to 2023-24)				1,136
<b>Efficiency dividend of 15 per cent</b>				
Annual savings	112	232	371	557
<i>Improvement on aggregate net result (%)</i>	1.2%	2.4%	3.5%	5.3%
Present value of savings (FY2015-16 to 2023-24)				1,605
<b>Utilisation of shared services</b>	<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>

Source: KPMG analysis

## 6. Next Steps

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## 6. NEXT STEPS Roadmap for Regional Collaboration and Shared Services

### Fundamental Principles

The shared services analysis presented in this report highlights a number of key factors that are directly relevant to Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council. The existing High Plains Forum may offer an appropriate vehicle for pursuing deeper regional collaboration and shared service delivery, however, governance and accountability structures may need to be strengthened to support project delivery and reporting.

Prior to councils embarking on any changes to existing operating models for regional collaboration, it is important to consider:

- the process of developing and implementing a successful and enduring shared service arrangement is a gradual process and should not be considered a 'soft option' to avoid alternative reforms and organisational improvements;
- the financial benefits of shared services and other regional collaboration initiatives do not necessarily accrue immediately;
- the driving factors of success are mutual trust and a common interest in the broader goals that shared services and deeper regional collaboration offers. These attributes cannot be manufactured – but often require time and 'trial and error' to become enduring qualities of regional relationships;
- political buy-in is needed by all participants for shared services to succeed and this needs to be emulated at all levels within each council; and
- many of the factors that generate community and political opposition to council mergers are also present in successful shared service models – namely a degree of loss of council autonomy and local control over the implementation of designated services.

### Note: National Parks as a stakeholder

Water and wastewater services in the alpine resort villages are managed by Kosciusko National Park. As a result, any further consideration of establishing shared regional water and wastewater services (refer page 39) will need to include collaboration with the NSW National Parks and Wildlife Service.

### Roadmap to Deeper Collaboration

*Short-to-medium term actions (up to 3 years)*

1. Review agreement underpinning High Plains Forum and identify opportunities to enhance governance structure and facilitate regional collaboration with a view to achieving efficiencies in service delivery. Alternatively, identify an alternate forum or establish a new regional mechanism for this purpose.
2. Establish a new framework for identifying, monitoring and reporting on regional collaboration initiatives. If the High Plain Forum is considered the appropriate mechanism, a full-time project officer should be employed (funded by all participating councils) and tasked with these functions. Annual reports should be prepared and published to document results against agreed performance benchmarks.
3. Joint working groups are established to identify potential regional initiatives, share experiences and best practices and enhance the relationships underpinning regional collaboration. Directors from each council would take leadership of joint working groups and endeavour to drive initiatives from the concept phase to implementation. It is acknowledged that in the short-term regional initiatives are likely to be focused on joint procurement, training, IP&R and related strategies and project-specific resource sharing.



## 6. NEXT STEPS Roadmap for Regional Collaboration and Shared Services

### *Short-to-medium term actions (up to 3 years) (continued)*

4. Work to further build trust between councils through the implementation of regional initiatives, recognising the need to compromise and delegate control of projects in order to strengthen regional collaboration and support the long-term financial sustainability of councils.

### **Roadmap to Shared Services**

#### *Medium-to-long term actions (over 5+ years)*

1. Assess willingness of all councils – including at a political level – to evolve regional collaboration efforts to a new level.
2. Identify appropriate mechanism to deliver shared services, recognising the advantages and disadvantages of each mechanism and the different cost implications.
3. Identify opportunities to shift selected services to a shared service model, and invest in appropriate due diligence (including a business case) to confirm scale of net benefits available to participants.
4. Confirm legal framework for shared service delivery mechanism, noting there may be a need for councils to commit (on a legally binding basis) to shared service arrangement for a minimum period.
5. Revise governance and reporting arrangements to ensure clear lines of accountability and appropriate performance benchmarks are established prior to shared service implementation. This will ensure councils can have confidence in the shared service framework.
6. Conduct rolling reviews of shared service arrangement – expand and adjust accordingly and examine scope to incorporate new participants in order to leverage scale of operations and further enhance efficiencies.

### **Checklist for Shared Services**

The following checklist is intended to guide future discussions of potential shared service options by councils. The checklist reflects the foundations for a successful shared service.

- ✓ Cost benefit analysis establishes a clear business case for change and transition to designated shared service.
- ✓ Will target identified capability and capacity gaps across council participants.
- ✓ Enhances ability to attract and retain key staff and skills base.
- ✓ The service utilises standard systems and processes (i.e. is transaction based) and therefore able to be transitioned quickly to a single shared service.
- ✓ There is scope to extend the shared service to others to leverage scale and efficiencies of operations.
- ✓ Existing formal or informal shared arrangements are in place and are well-suited to formalising through a shared service initiative.
- ✓ The shared service initiative will not compromise councils' ability to deliver other services.
- ✓ Preserves local employment opportunities and respects council's role as a major local employer.
- ✓ Political and managerial endorsement of shared services as a regional priority.

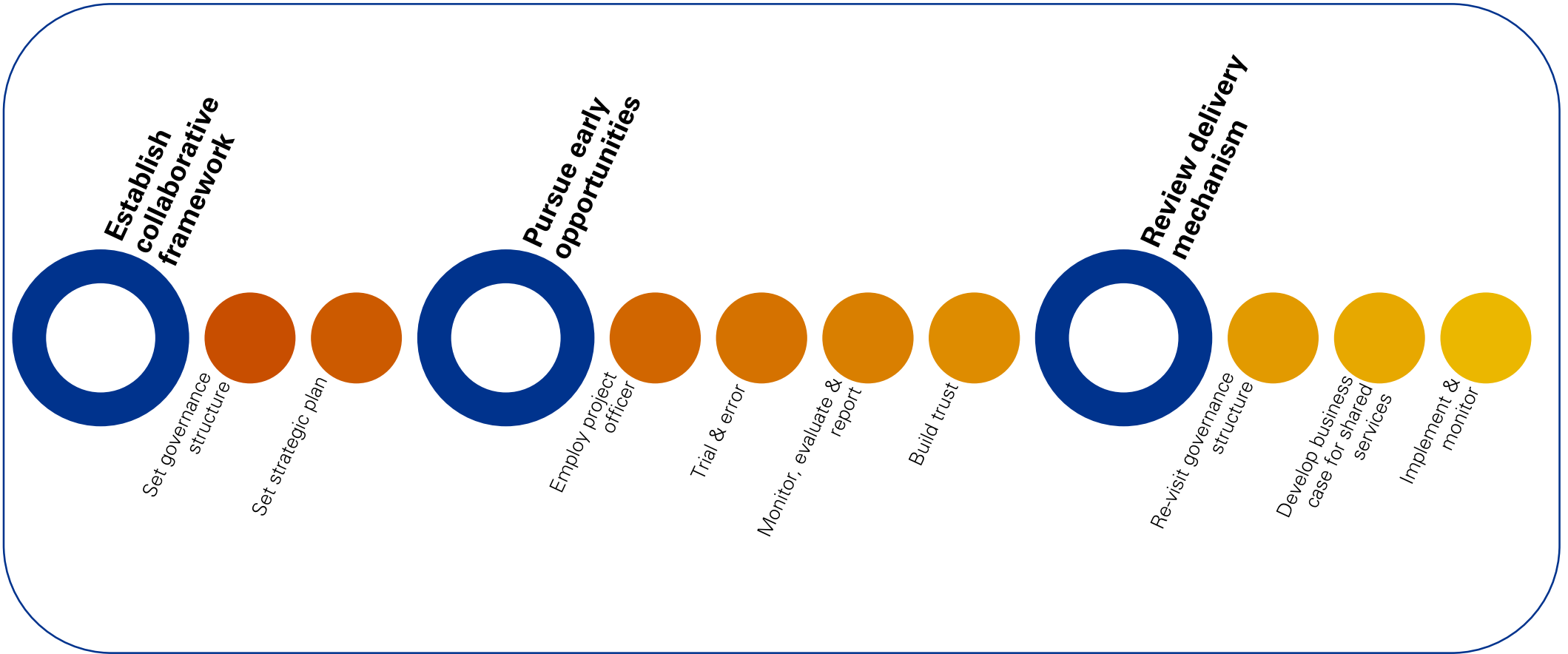
Source: KPMG analysis





## 6. NEXT STEPS Key considerations and risks

Figure 6.1 Illustration of regional collaboration maturing to shared services



Source: KPMG analysis

# Appendices





## APPENDIX A References

- Blayney Shire Council (2014), Annual Report and Financial Statements.
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