

# Shared services in local government

21 JUNE 2018



NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

PERFORMANCE AUDIT

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GPO Box 12  
Sydney NSW 2001

The Legislative Assembly  
Parliament House  
Sydney NSW 2000

The Legislative Council  
Parliament House  
Sydney NSW 2000

In accordance with section 421B of the *Local Government Act 1993*, I present a report titled  
**'Shared Services in local government'**.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

**Margaret Crawford**

Auditor-General  
21 June 2018

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# contents

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## Shared services in local government

### **Section one – Shared services in local government**

Executive summary	1
Introduction	4
How councils assess and evaluate shared service arrangements	7
How councils manage shared service arrangements	12

### **Section two – Appendices**

Appendix one – Response from agency	23
Appendix two – Survey findings	24
Appendix three – About the audit	26
Appendix four – Performance auditing	28

## **Section one**

Shared services in local  
government



# Executive summary

Councils provide a range of services to meet the needs of their communities. It is important that they consider the most effective and efficient way to deliver them. Many councils work together to share knowledge, resources and services. When done well, councils can save money and improve access to services. This audit assessed how efficiently and effectively councils engage in shared service arrangements. We define 'shared services' as two or more councils jointly managing activities to deliver services to communities or perform back-office functions.

The information we gathered for this audit included a survey of all general-purpose councils in NSW. In total 67 councils (52 per cent) responded to the survey from 128 invited to participate. Appendix two outlines in more detail some of the results from our survey.



## Conclusion

**Most councils we surveyed are not efficiently and effectively engaging in shared services. This is due to three main factors.**

First, not all surveyed councils are assessing the performance of their current services before deciding on the best service delivery model. Where they have decided that sharing services is the best way to deliver services, they do not always build a business case which outlines the costs, benefits and risks of the proposed shared service arrangement before entering into it.

Second, some governance models used by councils to share services affect the scope, management and effectiveness of their shared service operations. Not all models are subject to the same checks and balances applied to councils, risking transparency and accountability. Councils must comply with legislative obligations under the *Local Government Act 1993* (NSW), including principles for their day-to-day operations. When two or more councils decide to share services, they should choose the most suitable governance model in line with these obligations.

Third, some councils we surveyed and spoke to lack the capability required to establish and manage shared service arrangements. Identifying whether sharing is the best way to deliver council services involves analysing how services are currently being delivered and building a business case. Councils also need to negotiate with partner councils and determine which governance model is fit for purpose. Planning to establish a shared service arrangement involves strong project management. Evaluating the arrangements identifies whether they are delivering to the expected outcomes. All of these tasks need a specialised skillset that councils do not always have in-house. Resources are available to support councils and to build their capability, but not all councils are seeking this out or considering their capability needs before proceeding.



## 1. Key findings

**Councils do not always analyse their existing services nor build a sound business case before deciding to enter into shared service arrangements**

Not all surveyed councils are reviewing their current services before deciding whether sharing services will be beneficial. At a minimum, councils should assess:

- costs of service delivery
- resources needed to deliver them
- community needs and expectations
- possibility of cost savings and increased efficiency
- alternative service delivery models (e.g. outsourcing, shared services).

They are also not always building a sound business case for sharing services involving a formal assessment of costs and benefits. Councils should base their shared service arrangements on thorough assessments or evaluations of services, with a clear analysis of the costs, benefits and risks involved.

## **Governance models for sharing services should be fit for purpose, efficient, transparent and accountable**

Each council is an independent, statutory body responsible for the administration of its local government area. Councils have specific responsibilities in providing services to their communities. The *Local Government Act 1993 (NSW)* includes principles to guide councils. For example, councils should:

- provide the best possible value for residents and ratepayers
- work cooperatively with other councils and the state to achieve desired outcomes for their local community
- ensure that their decision-making is transparent and decision-makers are accountable.

Councils should determine how to address these principles when sharing services.

Councils identified ineffective governance models as one of the main barriers to successful shared services. There are several governance models councils use to share services. These include:

- informal arrangements supported by memoranda of understanding
- committees of council under the *Local Government Act 1993*
- incorporated associations under the *Associations Incorporation Act 2009*
- council-owned companies under the *Corporations Act 2001*.

For each model, councils need to determine shared services membership, decision-making processes, reporting lines, and delegations. Some models are not subject to the standard checks and balances which are required under the *Local Government Act 1993* unless councils structure their shared service arrangements to include them. For example:

- incorporated associations and council-owned companies are not obliged to follow rules for public meetings or voting procedures, unless their constitutions specifically include these rules
- operations and decisions of incorporated associations and council-owned companies are not subject to Office of Local Government (OLG) inspections, Ombudsman and ICAC investigations or audits by the Auditor-General.

This results in risks to transparency and accountability of the use of public resources.

## **Councils can seek support to build their capability**

Shared service arrangements can involve complex planning and negotiations to be successful. Professional associations, local government experts and councils we spoke to reported that councils' capability have an impact on the efficiency and effectiveness of their shared service arrangements. Councils do not always have the capability to identify which services to share, negotiate with partner councils, or plan and evaluate shared service arrangements.

We found that many councils do not seek out support or guidance for their shared service arrangements. Support for identifying, negotiating, planning and evaluating shared service arrangements is available through peer learning with other councils or by engaging with organisations such as regional organisations, peak bodies, professional associations, universities and the private sector.

Part of the role of OLG is to work with the sector on policy and programs intended to strengthen local government, including councils' service delivery. OLG does not provide specific support or guidance to councils about effectively sharing services, despite this being a widely used delivery model across the sector. Guidance or principles to help councils decide on effective and transparent governance models would benefit the sector.



## 2. Recommended practices for efficient and effective shared services

1. Councils should base their decision to engage in shared services on a sound needs analysis, a review of service delivery models and a strong business case, which clearly identifies the expected costs and benefits. This should align with councils' Delivery Program and Community Strategic Plan.
2. Councils should collect baseline information, monitor and evaluate services that will be shared. They should also ensure that services perform to expectations.
3. Councils should ensure that the governance models they select to deliver shared services are fit for purpose. They should ensure clear roles, responsibilities, accountability and transparency of decisions.
4. Councils should build the capability of councillors and council staff in the areas of assessing and managing shared services, leading to better understanding of opportunities and management of risk.



## 3. Recommendation

### **The Office of Local Government should, by April 2019:**

Develop guidance which outlines the risks and opportunities of governance models that councils can use to share services. This should include advice on legal requirements, transparency in decisions, and accountability for effective use of public resources.



# 1. Introduction

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## 1.1 Background

Councils in New South Wales deliver a range of services to their communities. Some of these services include planning, road maintenance, waste management, street lighting, aged care, environmental services and food regulation. Under the *Local Government Act 1993* (the Act), councils must comply with principles that guide how they deliver these services, including:

- provide the best value for residents and ratepayers
- plan for the delivery of efficient and effective services
- ensure that decision-making is transparent and decision-makers are accountable
- work cooperatively with the state government and other councils.

Sharing services is one way councils can meet the needs of their communities and further the principles of the Act.

In this report, we define 'shared services' as two or more councils jointly managing the delivery of:

- council services such as waste collection, water supply services and libraries
- council functions such as back-office services like procurement, human resources (HR), information technology (IT)<sup>1</sup>.

Some services are more suitable to be shared than others. Areas of success in the local government sector and other jurisdictions include IT, HR, procurement and waste management. Services that are transactional in nature often involve less tailoring or customisation, resulting in lower costs and faster implementation.

Support to assist councils to identify, negotiate, plan, manage and evaluate shared services is available from several sources, including peak bodies, professional associations, universities and the private sector. Support includes training, reviews, networking and fee-based services.

### **Councils can achieve benefits from sharing services**

Councils engage in shared services for many reasons, often to make more efficient use of their resources. They realise benefits such as:

- economies of scale - councils combining resources to reduce the cost of a service
- economies of scope - councils combining resources to provide a wider range of services
- regional benefits - shared service enables strategic regional responses, shared knowledge of service delivery practices, and the possibility of working with other levels of government.

### **Councils can work with Regional Organisations of Councils to deliver services**

In addition to working together to deliver services, councils can also work with a Regional Organisation of Councils (ROC). ROCs are voluntary partnerships between councils on matters of common interest. They vary in structure and purpose. ROCs can undertake various activities for member councils including advocacy, regional strategic planning, service delivery, information sharing, and shared services.

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<sup>1</sup> Our definition excludes services provided by county councils.



## Councils engage in shared services through different governance models

Exhibit 1 outlines shared service arrangements used in NSW.

### Exhibit 1: Models used for shared services in NSW

Model used for shared services	How it works
Committees of council	Under section 355 of the <i>Local Government Act 1993</i> (NSW) a function of a council may be delegated to a committee of the council.
Incorporated association	A not-for-profit and non-commercial entity established under the <i>Associations Incorporation Act 2009</i> (NSW).
Contracted joint ventures	Complex arrangement for high-cost activity between joint venture partners.
Council-owned company	Councils form a Company Limited by Guarantee or a Proprietary Limited Company with Minister's consent under section 358 of the <i>Local Government Act 1993</i> (NSW). It must comply with the <i>Corporations Act 2001</i> (Cth).
County council <sup>2</sup>	A county council (sections 385–400) is a specialist council undertaking functions such as water, sewerage, noxious weed control or floodplain management.
Informal arrangement (i.e. no separate shared service entity or committee is established to govern the delivery of shared services)	Voluntary arrangement between councils or between councils and other levels of government to develop and/or manage a common initiative or service. Informal arrangements can be supported by memoranda of understanding, service-level agreements, and deed of agreements.

Source: Audit Office research 2018.

## Changes to the Act have introduced Joint Organisations

The NSW Government recently passed an amendment to the Act that allows councils in NSW to form Joint Organisations (JO). The core activities of JOs are regional strategic planning, regional advocacy, and collaboration with state and Australian Government. JOs can engage in shared services as an optional additional function to these core activities. JOs will begin in regional NSW in mid-2018. JOs are not part of the scope of this audit.

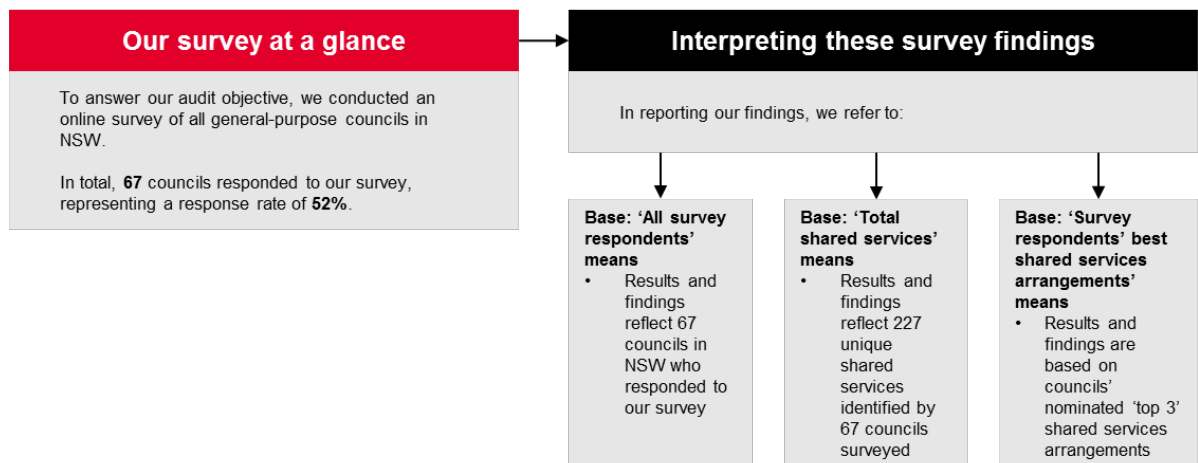
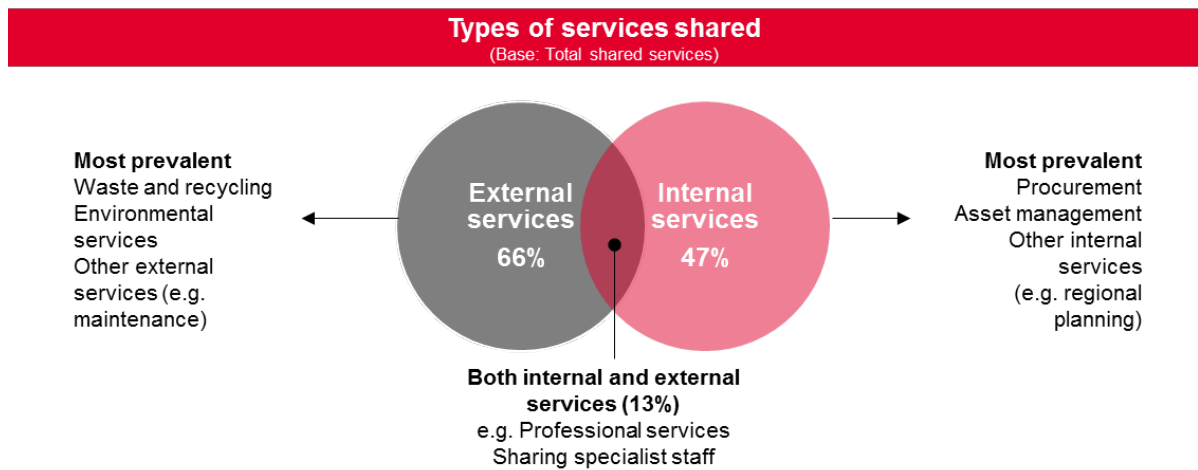
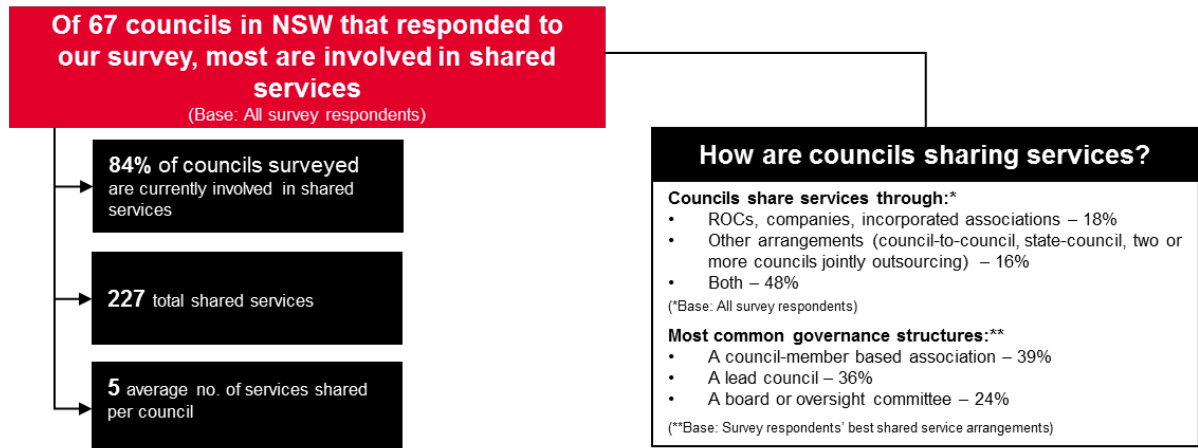
## 1.2 Snapshot of shared services across NSW Local Government

As part of this audit, we conducted a survey of all general-purpose councils in NSW. In total 67 councils (52 per cent) responded to the survey from 128 invited to participate. Appendix two outlines in more detail some of the results from our survey.

In addition, we identified some areas of better practice. These examples, displayed in exhibit boxes throughout this report, vary in size, location, type of services, and governance models. They are intended to inform councils of benefits and risks when engaging and managing shared service arrangements.

<sup>2</sup> Out of scope for this audit.

## Exhibit 2: Snapshot of shared services in NSW





## 2. How councils assess and evaluate shared service arrangements



Some councils are not clearly defining the expected costs and benefits of shared service arrangements. As a result, the benefits from these arrangements cannot be effectively evaluated.

Some councils are entering into shared service arrangements without formally assessing their costs and benefits or investigating alternative service delivery models. Some councils are also not evaluating shared services against baseline data or initial expectations. Councils should base their arrangements on a clear analysis of the costs, benefits and risks involved. They should evaluate performance against clearly defined outcomes.

The decision to share a service involves an assessment of financial and non-financial costs and benefits. Non-financial benefits include being able to deliver additional services, improve service quality, and deliver regional services across councils or levels of government.

When councils need support to assess and evaluate shared service arrangements, guidance is available through organisations or by peer learning with other councils.

### 2.1 Barriers and enablers to sharing services

Survey respondents identified the top reasons for entering into shared service arrangements. These include savings from economies of scale, regional collaboration and improved community outcomes. Lack of a strong business case, access to seed funding, and monitoring and evaluation are the top reasons reported by councils for not proceeding with, or withdrawing from shared services.

#### Exhibit 3: Examples of barriers and enablers to share services

Barriers	Enablers
<ul style="list-style-type: none"><li>• Uncertainty about costs and benefits, including cost overhead</li><li>• Perceived risks to autonomy and local control</li><li>• Resistance by staff and unions to change</li><li>• Legislative complexity</li><li>• Lack of community support, job losses</li><li>• Politics and relationships</li><li>• Change in council management</li><li>• Resource commitments needed to establish or maintain shared service arrangements.</li></ul>	<ul style="list-style-type: none"><li>• Appropriate governance models</li><li>• Strong business case</li><li>• Effective project management practices</li><li>• Effective monitoring and evaluation</li><li>• Support from staff and councillors.</li></ul>

Source: Audit Office research 2018.

Exhibit 4 shows examples of councils' responses to our survey on what they identified as barriers and enablers to engage in shared services.

**Exhibit 4: Barriers and enablers to engage in shared services - what councils told us**



Source: Audit Office Shared Services Survey 2018.

## 2.2 How councils initially assess their shared services

**Shared services have the potential to offer financial and non-financial benefits, and both should be considered before proceeding**

There are different drivers for councils to consider shared service arrangements, both financial and non-financial. For example, a small council may be unable to attract qualified labour, or only need a part-time employee who could be shared with another council. Some councils also need to address cross council boundary issues. For example, natural disaster prevention plans and water resource management require joint action or sharing of specialised staff.

Before councils decide to share services, they should consider potential savings and whether shared services may offer additional benefits such as:

- access to in-house expertise they would not be able to resource alone such as an internal auditor
- ready access to specialist contractors they may only have occasional need for such as planners
- delivery of services across council boundaries, for example waste management
- engagement in regional strategy and planning.

Exhibit 5 shows an example of the variety of benefits that councils can achieve by sharing services.

#### **Exhibit 5: SSROC - Street Lighting Improvement Program**

In 2003, SSROC carried out a review of street lighting in member councils, which identified challenges with obsolete technology, poor service levels and opportunities to reduce costs. SSROC identified that councils would benefit from a shared service model for street lighting due to lack of councils' expertise and financial resources. Having a regional approach would also help councils to negotiate with service providers and the NSW Government.

Based on the above, SSROC developed the Street Lighting Improvement Program (SLI Program), which now includes 30 councils in Northern Sydney, Central Coast and the Hunter, covering more than 40 per cent of street lighting in NSW.

The SLI Program aims to:

- secure improvements to technology that are of quality and are both energy and cost efficient
- secure a governance regime for public lighting in New South Wales
- ensure proper pricing and pricing oversight.

Some of the key achievements that SSROC reports are:

- savings of more than \$60.0 million in regulatory reviews
- savings of more than \$1.7 million/year through deployment of 33,000 Light Emitting Diode lights (LEDs)
- average repair times reduced by at least half
- clarification of rights and obligations between service providers and customers
- additional \$3–4 million a year in funding from the NSW Roads & Maritime Services.



Source: SSROC (unaudited); photo: SSROC Annual Report 2017.

### **Councils do not always analyse their existing services nor have a sound business case for shared services**

Councils we surveyed do not always develop a sound business case nor analyse their existing services, prior to determining whether to engage in a shared service arrangement. We found that:

- only 38 per cent of surveyed councils always conduct an in-depth review of their existing services before entering into shared service arrangements
- 37 per cent of surveyed councils' best examples of shared services did not have a formal costs and benefits assessment.

At a minimum, councils should review their existing services by analysing:

- costs of service delivery
- resources needed to deliver them
- community needs and expectations
- possibility of cost savings and increased efficiency
- alternative service delivery models (e.g. outsourcing, shared services).

Without this, councils will not have a clear understanding of the best service delivery model to address community needs. Where they decide that sharing services is the best way to meet their service delivery needs, councils need to build a clear business case. This business case should include an assessment of the costs, benefits and potential risks.

## **2.3 How councils evaluate their shared services**

### **Some shared services do not have clearly defined expected outcomes**

While most surveyed councils reported that at least some of their shared services outcomes are being achieved, not all of them had a clear description of the expected outcomes. Without a clear description of the expected outcomes, monitoring and evaluation are ineffective as results are not tracked against initial expectations or baseline information.

When councils invest in shared services that had a formal assessment, they reported that costs are consistent with expectations, and benefits can be even higher than expected. Councils can achieve expected outcomes and achieve more benefits by having a better understanding of expected costs and benefits through an initial assessment.

### **Reporting on shared services performance should be transparent to the community**

Given the complexity and risk involved in some shared service arrangements, councils should take particular care to be transparent about how effectively they are working to serve community interests. Most councils we surveyed reported that they monitor and evaluate at least some of their shared services, and that they primarily report the performance of their shared services through annual reports.

That said, our 2018 performance audit, 'Council reporting on service delivery', found that only a third of annual reports included information on service outcomes and less than 20 per cent reported on performance over time. Councils that report on the performance of their shared services primarily through their annual reports should ensure they include sufficient detail on the progress of these arrangements, and their costs and benefits.

## 2.4 Where councils can look for help with shared services

### Councils can build their own capability by engaging with other councils and organisations

Local government sector organisations and councils we consulted highlighted the need to build staff and councillor capability, focusing on skills that will assist them to identify, negotiate, plan and evaluate different service delivery approaches for their communities. Several organisations provide resources that could assist councils to address these gaps, but not all councils are seeking out this support.

One possible way to build capability in the sector is by promoting peer learning, as councils are experts in their businesses. Exhibit 6 shows an example of councils collaborating to improve their capability and effectiveness.

#### Exhibit 6: Central NSW Councils (CENTROC) - Water Utilities Alliance

In 2008, CENTROC commissioned a water security study to forecast demand on water resources for the next 50 years for Central NSW. This study identified the need for councils to work cooperatively, resulting in the CENTROC Water Utilities Alliance (CWUA).

CWUA is a regional collaboration of 14 councils aimed to deliver best practice compliance, efficiencies, and cost savings across the region. CENTROC reported several achievements of CWUA such as:

- attracted over \$3.0 million of grant funding
- delivered Best Practice Management Plans
- established a working party that monitors regional compliance with Australian Drinking Water Guidelines
- developed and delivered training for water operators in partnership with NSW Health
- piloted a workforce development project with member councils for training in the water sector
- obtained NSW Health funding to develop Drinking Water Quality Management Plans for councils.

By bringing together council members, CENTROC staff reported that the Alliance delivered efficiencies beyond sharing services in the forms of training and compliance. It is also a forum to discuss common issues, resource share, standardise regional practices, and to lift the quality of drinking water in the region.

Source: CENTROC (unaudited).





## 3. How councils manage shared service arrangements



The governance models councils use for shared services can affect their scope and effectiveness. Some councils need to improve their project management practices to better manage issues, risks and reporting.

Shared services can operate under several possible governance models. Each governance model has different legal or administrative obligations, risks and benefits. Some arrangements can affect the scope and effectiveness of shared services. For example, some models do not allow councils to jointly manage services, requiring one council to take all risks and responsibilities. In addition, some models may reduce transparency and accountability to councils and their communities.

Regardless of these obligations and risks, councils can still improve how they manage their shared services operations by focusing on project management and better oversight. They would benefit from more guidance on shared service governance models to help them ensure they are fit for purpose.

### Recommendation

**The Office of Local Government should, by April 2019:**

Develop guidance which outlines the risks and opportunities of governance models that councils can use to share services. This should include advice on legal requirements, transparency in decisions, and accountability for effective use of public resources.

### 3.1 How councils govern their shared services

**Councils face challenges to choose governance models that are fit for purpose and meet the principles of the Act**

Each council is an independent, statutory body responsible for the administration of its local government area. Councils have a range of responsibilities and must comply with principles under the *Local Government Act 1993*. Councils are obliged to consider these principles whether they are delivering services through shared arrangements, or alone.

Shared services can operate under several possible governance models. Models vary from informal agreements to more complex models where councils opt to create an association, a committee or a company. These models include:

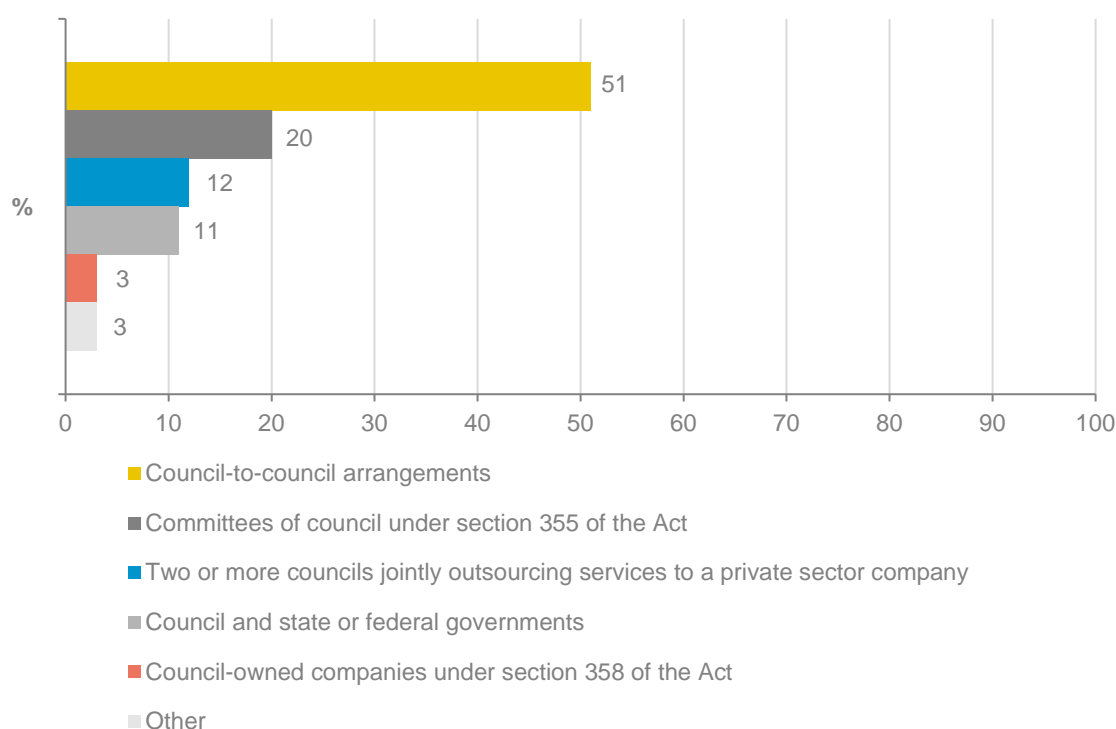
- informal arrangements supported by memoranda of understanding
- committees of council under the *Local Government Act 1993*
- incorporated associations under the *Associations Incorporation Act 2009*
- council-owned companies under the *Corporations Act 2001*.

We found that more than half of councils' shared services are council-to-council arrangements supported by a memoranda of understanding (refer to Exhibit 7). Only three per cent of shared service arrangements are operated under a separate council-owned company<sup>3</sup>.

<sup>3</sup> Councils must obtain the consent of the Minister for Local Government to establish a company or have a controlling interest in a corporation (section 358, *Local Government Act 1993*).



## Exhibit 7: Parties involved in current shared service arrangements



Note: Percentages calculated based on current shared services (n=227 shared services).

Source: Audit Office Shared Services Survey 2018.

Each governance model requires councils to consider membership, decision-making, reporting lines, and delegations. When analysing different governance models, councils should demonstrate which one is best suited to the proposed shared service arrangement.

Each model has different implementation costs. Costs should be carefully assessed against potential benefits to maximise gains from the shared service arrangement. When negotiating the arrangement, councils should agree on costs and benefits for all participating councils.

When councils choose a governance model, they must ensure the shared service arrangement is compliant with the principles and obligations under the Act and other relevant legislation. For example, councils must demonstrate how transparency, accountability and the needs of their community are met.

Exhibit 8 shows an example of councils sharing resources to address gaps by improving their access to skills.

## Exhibit 8: SSROC - Sharing of internal auditor services

Some councils have established arrangements to share internal auditors. Since 2010, SSROC has made internal auditors available to member councils on a cost recovery basis. SSROC member councils requested this service due to the limited number of skilled individuals available and their relatively high-cost. Sharing of skilled professional resources such as internal auditors gives councils access to expertise and services on a part-time or program basis.

Being employed by SSROC means that shared internal auditors are accountable to the SSROC General Manager, strengthening their objectivity and independence. They can also facilitate collaboration and information sharing between councils. Some councils, however, prefer not to share internal auditors because of logistics, conflicting priorities and risks to confidentiality.

OLG issued an Internal Audit Guideline in 2010 suggesting that councils incorporate an internal audit function as a good governance framework for all councils. However, as recommended by our 'Report on Local Government 2017', OLG should update the guidelines and introduce the requirement for councils to establish internal audit functions as an important element of an effective governance framework.

Source: SSROC (unaudited).

## **Governance models affect how councils manage their shared services**

Councils can form a committee of council, an incorporated association, or a company to share services. We found that the choice of option affects the management, scope and effectiveness of shared service arrangements, for example:

- committees of council require one 'host council' to take on the risks and liabilities for all participating councils. Councils indicated that in some circumstances they have opted out of shared service arrangements due to the risk this poses
- committees of council require one 'host council' to employ staff on behalf of the committee, taking on the industrial relation risks on behalf of participant councils
- incorporated associations have a financial cap on their operations, limiting their potential size and scope. Incorporated associations cannot operate with an income, assets or expenditure above \$2.0 million
- council-owned companies are private companies and operate as commercial entities. Potential conflict may arise between the commercial direction of a company and councils' consideration of their local community needs.

Councils must take into account the characteristics of each governance model, and have a clear understanding of how each model affects the shared services operation. Councils should then choose the most appropriate model for their shared service arrangement.

Councils recognise a lack of effective governance as a key area of concern and report that they would benefit from guidance in this area. Councils are also interested in sharing best practices and reviews of exiting shared services.

Part of the role of OLG is to work with the sector on policy and programs aimed to strengthen local government, including on service delivery. OLG does not provide specific guidance to councils about effectively sharing services, despite this being a widely used delivery model across the sector. Guidance materials to help councils decide on effective and transparent governance models would be of benefit to the sector.

Exhibit 9 shows how some governance models councils use to share services can affect the management, scope and effectiveness of shared service arrangements.

#### Exhibit 9: Legislative and governance models available for councils to share services

	Committees of Council (section 355 of the Act)	Incorporated Association	Council-owned Company (section 358 of the Act)
<b>Operating under the <i>Local Government Act 1993</i></b>	✓ With limits on delegations (sections 377–381).	✗ <i>Associations Incorporation Act 2009</i> .	✗ <i>Corporations Act 2001 (Cth)</i> as per Ministerial approval (section 358).
<b>Transparency</b> Public meetings and Transparency of decisions	✓ May be public with public notice and meetings.	n/a Meetings as per Constitution, according to each association.	n/a Meetings as per Constitution, according to each company.
<b>Tender</b> Able to accept joint tender on behalf of council members	✗	✗	✗
<b>Liability</b> Representatives subject to OLG inspections (section 430), Ombudsman and ICAC investigations and audits by the Auditor-General of NSW	✓	✗ Offences can be enforced by NSW Fair Trading taking court proceedings against the association or its committee members.	✗ Failure of directors/officers to comply with some Corporations Act provisions can constitute civil/criminal offences.
<b>Governance</b> Separate legal entity	✗	✓ One council ('host council') assumes the risks to employ staff, sign contracts, accept tenders. Reporting lines can be confusing.	✓
<b>Ceiling on income, assets and expenditures</b>	n/a Inability to receive funding.	✓ \$2.0 million	✗

Source: OLG research 2018.

#### There are barriers to jointly procuring shared services

Councils face challenges to efficiently jointly procure because of legal restrictions in available governance models, as displayed in Exhibit 9. Recent amendments to the legislation allow councils to delegate the acceptance of tenders as long as these services are not currently provided by council staff. Where services are currently provided by council staff, councils can only accept tenders by resolution of the individual council. By doing so, the council's governing body is accountable for decisions that affect council staff.

However, these restrictions have operational implications for joint tendering. For example, an incorporated association cannot provide end-to-end shared procurement services for their members. By not being able to accept tenders on behalf of the council members, each participant council must individually accept a tender and individually sign a contract. Council meetings are held on different dates in different councils. This results in longer timelines to procure and increased complexity to manage multiple contracts.

Despite these challenges, joint tendering arrangements can be very beneficial to councils. Some ROCs have been negotiating joint contracts for years to obtain a successful outcome. Exhibit 10 illustrates an example of joint procurement in advanced waste treatment services. Although the opportunity was identified in 2008, the contract was only signed in 2013.

#### **Exhibit 10: SSROC - Advanced Waste Treatment Services project**

In 2008, SSROC identified that some of its member councils' waste disposal contracts were ending in 2010. SSROC carried out an industry consultation on the best way to approach market services. Through discussions with council members, SSROC identified that the opportunity to combine waste volume of councils would provide the industry with incentive to invest in new infrastructure, reducing councils' costs with sending waste to landfill.

A group of eight councils entered into a joint agreement to contract the services of a private waste treatment company. The contract, signed in 2013, aimed to maximise resource recovery, protect local environment, minimise costs, and reduce waste to landfill. The contract also established a new transfer station<sup>4</sup> in Banksmeadow (opened in 2016) and the Woodlawn mechanical biological treatment<sup>5</sup> facility.

Because of negotiations and different end-of-contract timing, SSROC took more than nine years of planning, procurement and development to deliver this joint contract. With this project, instead of sending waste to landfill, some of the waste will be processed through the new plants that will separate out metal and produce organic compost. Councils will reduce the amount of landfill, potentially saving over \$9.5 million in the first year of operation.



Source: SSROC (unaudited); photo: Mechanical Biological Treatment Facility in Woodlawn. SSROC Annual Report 2017.

<sup>4</sup> Transfer stations are buildings or processing sites for the temporary deposition of waste by collection vehicles.

<sup>5</sup> Mechanical biological treatment facility is a type of advanced waste technology facility in which residual waste is separated in its various components (gas cylinders, batteries, glass, metal, and plastics).

### Some governance models risk reduced transparency and accountability

Councils can opt to share services through an incorporated association under the *Associations Incorporation Act 2009* or a council-owned company under the *Corporations Act 2001*. These two governance models are not subject to the standard checks and balances applied to councils. For example:

- they are not obliged to follow council rules for public meetings or voting procedures, unless their constitutions specifically include these rules
- their operations and decisions are not subject to OLG inspections, Ombudsman and ICAC investigations or audits by the Auditor-General.

OLG should develop guidance materials to help councils identify risks to transparency and accountability in some of the governance models.

Exhibit 11 shows an example of a council-owned company running shared services on behalf of councils.

#### Exhibit 11: Hunter Councils Inc. and Strategic Services Australia Ltd.

Councils in the Hunter region have two separate structures: an incorporated association (Hunter Councils Inc.) and a commercial council-owned corporation (SSA). Hunter Councils Inc. promotes regional advocacy and delivers shared services to member councils in the areas of environmental management and a regional film office. SSA provides shared services to councils (members and non-members) in the areas of aggregated procurement, training, consultancy services and legal services through a wholly owned legal firm. General Managers report on the performance of the company to the owners (Mayors) during bimonthly 'shareholder' meetings, when councils provide direction to the company. SSA is not allowed to issue dividends to member councils. SSA reinvests either in the company or at the regional level to Hunter Councils Inc.

Having a council-owned self-funding commercial entity allows councils to separate commercial shared service decisions from strategic regional planning and advocacy deliberations. Depending on the business case and the governance models, these entities may extend the reach of their services beyond the member council regions thus contributing to economies of scale and financial sustainability. A separate entity may also set clearer boundaries and rules in terms of contestability, pricing, governance and conflict of interest.

The Act restricts councils in forming or participating in the formation of a corporation or other entity without obtaining the consent of the Minister for Local Government. Considering that there is no 'one-size-fits-all' approach, several risks must be considered by councils prior to starting a council-owned company. For example, issues related to multi-council decision-making, governance models, reporting, planning, transparency, accountability, risk assessment and risk management. Councils must, therefore, have clear arrangements, measurable outputs, a robust governance model to ensure accountability and transparency, and strong leadership based on trust, evidence and mutual benefits for council members.

Source: Strategic Services Australia Ltd (unaudited).

## 3.2 How councils manage their shared services

### Council weaknesses in resolving issues and managing risks

Councils reported that for their best shared service arrangements only around 60 per cent have formal project management practices in place for resolving issues and managing risks.

Governance models that do not have clearly defined responsibilities of member councils can result in a reduced ability of councils to problem solve and effectively manage risks.



### Annual reporting does not allow for timely management of issues

Most surveyed councils receive reports on shared services planning, budgeting, managing risks and performance on an annual basis. Annual reporting is not sufficient to discuss and promptly resolve issues. Yearly reporting should be primarily used to inform councils on shared services progress rather than as management tools to resolve issues.

## 3.3 Barriers and enablers for success in shared services

Realising benefits, good governance and support from internal stakeholders are key for successful shared services. Councils reported support from council staff and councillors, cost savings, agreement on objectives and good governance as their top reasons for successfully implementing shared services. When councils were asked about barriers to shared services implementation, they cited resource commitments, perceived risks to autonomy, politics and lack of effective governance. Uncertainty about the costs and benefits was also cited as a barrier.

Exhibit 12 shows examples of councils' responses to our survey on what they identified as barriers and enablers for success in shared services.

### Exhibit 12: Barriers and enablers to successful shared services - what councils told us



Source: Audit Office Shared Services Survey 2018.

Exhibit 13 outlines where the barriers we have identified have an impact on the success of a shared service, including assessment and management.

### **Exhibit 13: New England Strategic Alliance of Councils (NESAC)**

In 2003–04, the Vardon Report and the NSW Local Government Boundaries Commission recommended the amalgamation of Armidale Dumaresq, Guyra, Uralla and Walcha Councils into the New England Regional Council. As an alternative to council amalgamation, these councils proposed the New England Strategic Alliance of Councils (NESAC).

NESAC received Ministerial approval to trial the alliance for a 12 month period. The alliance carried out a review to identify potential areas for shared services. The Ministerial approval included a review of NESAC in 2005 that was only conducted in 2009.

Council staff reported that the threat of amalgamation was the key driver for the Alliance and that after the state decided that mergers would not proceed the Alliance soon ended. In 2009, Walcha Council withdrew from the Alliance and later that same year Uralla Shire Council resolved not to renew its membership, effectively ending the Alliance.

The reasons why NESAC ended were complex and interrelated. The key issues were the following:

#### **Issues related to assessing shared services:**

- councils failed to agree on the nature and extent of reform required at the outset of the Alliance
- lack of trust, fear of loss of autonomy and loss of control of core services and key staff
- NESAC was created as an alternative to amalgamation.

#### **Issues related to managing shared services:**

- failure to address important governance issues (e.g. legal liability, assets, and termination)
- no agreed timeline or targets to implement and measure shared arrangements
- convoluted decision-making processes
- lack of formal, well-structured service level agreements to provide accountability
- ineffective performance management arrangements
- complex and confusing organisational structure, lack of accountability
- absence of project and operational plans to guide the implementation of business cases.

Although NESAC ended in 2009, some of its arrangements continued either in the form of shared services or of service delivery to other councils. After Uralla and Walcha councils left NESAC, they continue to use the New England companion animal shelter to date. Armidale Dumaresq and Guyra Shire councils shared services for their back-office functions, including finance, IT, HR, stores, payroll, and plant and fleet until prior to amalgamation.

Source: Audit Office research 2018.

## **Section two**


### Appendices





## Appendix one – Response from agency

Strengthening local government



**Office of  
Local Government**

5 O'Keefe Avenue NOWRA NSW 2541  
Locked Bag 3015 NOWRA NSW 2541

Our Reference: A599062  
Your Reference: PA6604  
Contact: Melissa Gibbs  
Phone: 02 4428 4174

Mr Ian Goodwin  
Deputy Auditor General of NSW  
GPO Box 12  
SYDNEY NSW 2001

By Email: [mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

Dear Mr Goodwin

Thank you for your letter of 8 June 2018 and for the opportunity to respond to the Performance Audit Report on Shared Services in Local Government.


The Office of Local Government (OLG) welcomes the Audit Office's observations on strengthening local government performance in shared service delivery.

In particular, OLG notes and supports the report's recommended practices for councils to efficiently and effectively undertake shared services. Additionally, the recommendation that OLG develop guidance on the risks and opportunities of shared service governance models will provide valuable support to councils.


I am also pleased to advise that the Government has recently introduced a further initiative to support council collaboration and provide a robust governance framework for councils to undertake shared services. The establishment of 11 new Joint Organisations (JOs) provides new opportunities for councils in regional NSW to address existing challenges and improve their service delivery. This initiative is the result of four years of collaboration with the local government sector. The observations provided by the Audit Office will be of great assistance in supporting councils who choose to share services through JOs.

The Office of Local Government looks forward to working with the Audit Office to implement the findings of the report, as we continue to support local councils to deliver high quality, value for money services for their communities.

Yours sincerely

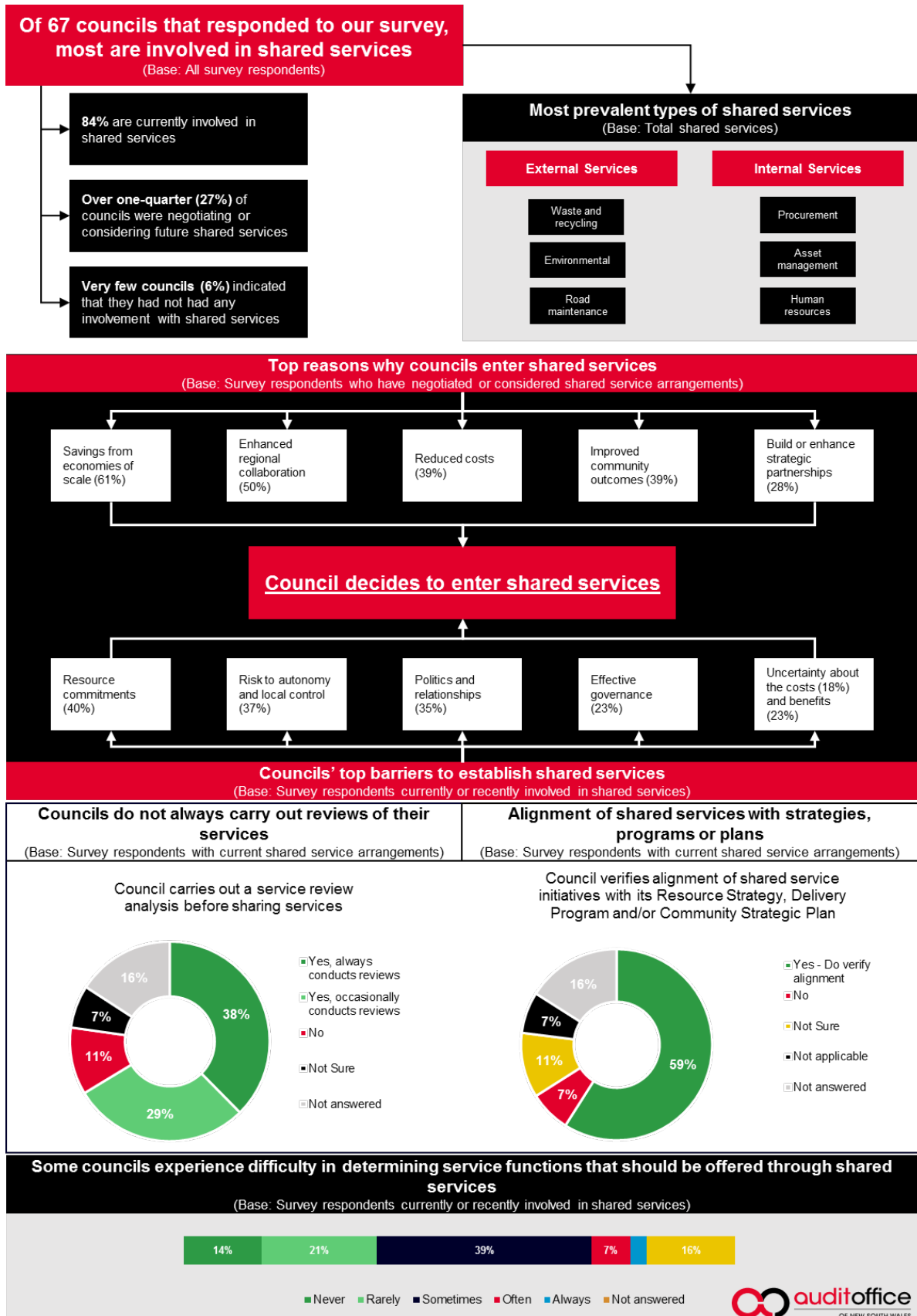
  
**Tim Hurst**  
Acting Chief Executive  
Office of Local Government  
14/6/18

T 02 4428 4100 F 02 4428 4199 TTY 02 4428 4209  
E [olg@olg.nsw.gov.au](mailto:olg@olg.nsw.gov.au) W [www.olg.nsw.gov.au](http://www.olg.nsw.gov.au) ABN 44 913 630 046

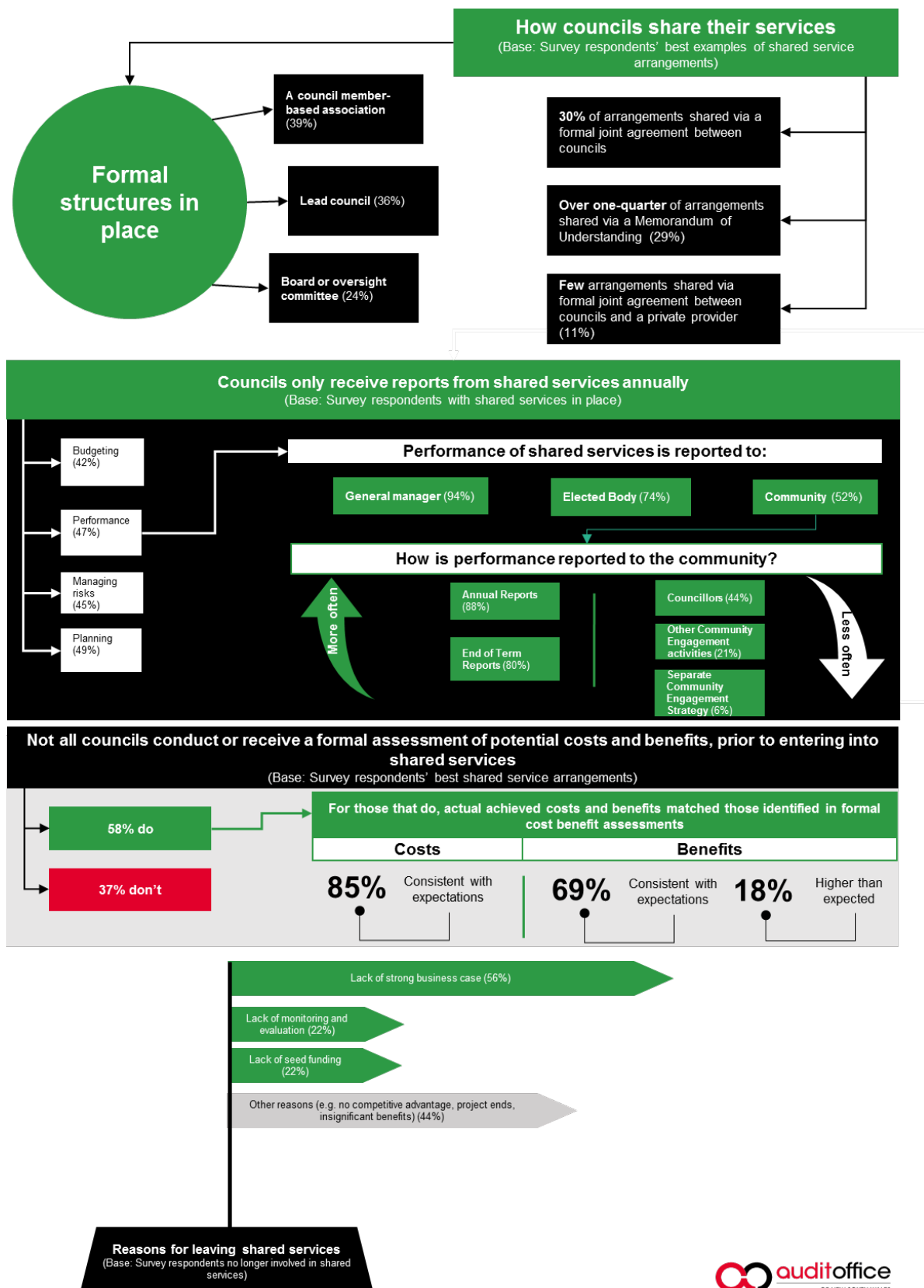




## Appendix two – Survey findings



Source: Audit Office Shared Services Survey 2018.



Source: Audit Office Shared Services Survey 2018.



## Appendix three – About the audit

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### Audit objective

To determine how efficiently and effectively councils engage in shared service arrangements.

### Audit criteria

We addressed the audit objective with the following criteria:

Are local councils efficiently and effectively engaging in shared service arrangements?

1. Councils have a sound understanding of the benefits and costs of a shared service arrangement.
2. Shared service arrangements have good governance in place, including transparency and accountability in decision-making.
3. Shared service arrangements have effective project management practices, including planning, budgeting, scheduling, managing risks and resolving issues.
4. Councils have effective monitoring, evaluation and reporting to demonstrate the achievement of expected shared services outcomes.
5. Councils engage with organisations for support and guidance.

### Audit scope and focus

In assessing the criteria, we carried out:

- interviews with the Office of Local Government and other NSW Government agencies involved in shared services
- interviews with relevant staff in NSW councils, Regional Organisations of Councils and a council-owned company
- survey of all general-purpose councils in NSW
- review of documents, best practices, relevant policies and procedures, interviews, and data analyses.

### Audit exclusions

The audit did not assess:

- the amalgamation process
- in-depth assessment of Joint Organisations
- outsourcing of services by one council
- activities of a county council
- the effectiveness and efficiency of shared services in place
- public-private partnerships
- service delivery other than shared service arrangements.

## Audit approach

Our procedures included:

- interviews with more than 100 stakeholders, including 48 current or former council staff, Office of Local Government staff and local government sector organisations
- 5 case studies of different shared service arrangements, including three Regional Organisation of Councils, one council and one company
- consultation with a group of eight selected councils in various locations of NSW
- data collected from survey of local councils (52 per cent of council participation rate)
- review and analysis of documents.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards and technical advice from an expert consultant.

## Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing. The Standard requires the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

## Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by local councils, the Office of Local Government, Central NSW Councils, Southern Sydney Regional Organisation of Councils Inc., Strategic Services Australia, Armidale Regional Council, and others who participated in interviews and discussions held during the audit.

We would also like to thank other stakeholders that spoke with us and provided insights into the topic.

## Audit cost

Including staff costs, travel and overheads, the estimated cost of the audit is \$501,000.



## Appendix four – Performance auditing

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### What are performance audits?

Performance audits determine whether State or local government entities carry out their activities effectively, and do so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole local government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983* for State government entities, and in the *Local Government Act 1993* for local government entities.

### Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and local government entities, other interested stakeholders and Audit Office research.

### What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

### Who checks to see if recommendations have been implemented?

After the report is presented to the NSW Parliament, it is usual for the entity's audit committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

## **Who audits the auditors?**

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

## **Who pays for performance audits?**

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

## **Further information and copies of reports**

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au) or contact us on 9275 7100.

## OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

## OUR PURPOSE

To help parliament hold government accountable for its use of public resources.

## OUR VALUES

**Purpose** – we have an impact, are accountable, and work as a team.

**People** – we trust and respect others and have a balanced approach to work.

**Professionalism** – we are recognised for our independence and integrity and the value we deliver.