Shared Services in Local Government
Dear Presiding Officers


The audit assessed whether selected councils’ shared service initiatives are soundly based and have appropriate governance arrangements, effective project management practices and effective monitoring, evaluation and reporting to demonstrate the achievement of intended objectives. It also examined the support and guidance provided to councils in developing, implementing and managing these initiatives.

The report identified that initiatives are generally soundly based, with appropriate governance and effective project management arrangements. However, the majority of councils find it challenging to quantify the impact of shared services due to a lack of baseline data and other information. This is a significant weakness of current shared service activity in the state and makes it difficult to measure the full extent of both financial and non-financial benefits from shared services being realised by Victorian councils.

Councils should develop and implement effective monitoring, evaluation and reporting on shared services to clearly identify expected costs and benefits, supported by reliable baseline data and clear and measurable outcomes. It will be important that they receive support and guidance from Local Government Victoria to address this shortfall in management information.

Yours faithfully

John Doyle
Auditor-General
28 May 2014
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Victoria’s 79 local councils play an important role in delivering a wide range of services to their local communities, as well as building and maintaining community assets and infrastructure, and enforcing various laws. As part of ensuring their long-term sustainability, councils should look for opportunities to reduce expenditure or operate more efficiently—particularly as they face cost pressures and other challenges, such as renewal and replacement of assets and increases in service delivery costs.

As councils carry out similar functions and common activities, shared services are one way they can achieve greater efficiency in service delivery, improve service quality and deal with various challenges. Shared services involves councils working together and/or with other organisations to share costs and resources, and may include delivering external services to the community, such as libraries and waste collection, or providing back office functions, such as human resources and payroll, or the procurement of goods and services.

Surprisingly, I found that there is limited information available on the nature and extent of shared service activity by the Victorian local government sector. To address this gap, I undertook a statewide survey of local councils to establish baseline information. I was pleased that 58 of Victoria’s 79 councils participated in the survey—representing a 73 per cent response rate and providing a solid basis for understanding current and future shared service activity.

My survey found that most councils undertake some form of shared services—with the key reasons including to reduce costs, increase service quality and improve community outcomes. While most activity is related to procurement and the delivery of external services, the survey results suggest significant projected growth in new shared services for back office functions.

Given the anticipated growth in back office shared services, I have recommended that councils ensure future initiatives are soundly based, and that Local Government Victoria (LGV) provides direction to councils by identifying back office functions most suitable for shared services, and potential cost savings and other benefits.

I have also recommended that LGV assist councils by investigating key challenges and barriers to implementing shared services and identifying strategies to address these to further encourage the use and successful implementation of shared services by local governments.
Based on an examination of selected initiatives that the six audited councils are involved in, it was pleasing to find that initiatives were generally soundly based, have appropriate governance arrangements and effective project management practices. However, despite the significance of expected financial benefits from many shared service initiatives, the measurement of outcomes for initiatives is generally poor, and this is a significant weakness of current activity in the sector. Therefore, I have recommended that councils develop and implement effective processes for monitoring, evaluating and reporting outcomes to assess the extent to which these are being realised, and to drive continuous improvement. I have also recommended that LGV assists councils to improve in this area.

It is positive that LGV has provided a range of support and guidance to the sector to facilitate shared services and promote collaboration among councils. I have recommended that LGV continues to improve its program evaluation and information sharing, and develops new guidance materials to assist councils to develop their own initiatives.

It will also be important for LGV to consider the impact a potential shift to back office shared service activity might have on its existing and future policies and programs, and to target its support and guidance to reflect this potential change. Since data on shared service activity in the sector is currently not collected, it will be valuable for LGV to gather information on an ongoing basis to better understand trends and inform the development of policy, programs and guidance materials. In other jurisdictions, such as the United Kingdom, trend data about shared services in the local government sector is publicly available.

I am pleased that LGV and the audited councils have accepted the recommendations I have made, and I am confident that adopting these will maximise opportunities that exist to benefit from shared services in the future.

I would like to thank LGV and the Colac Otway, Hepburn, Hume, Hobsons Bay, Latrobe and Stonnington councils for their assistance and cooperation during this audit. I would also like to acknowledge the Municipal Association of Victoria’s assistance and extend a special thank you to the councils who participated in my survey.

John Doyle
Auditor-General
28 May 2014
Audit summary

Victoria’s 79 local councils deliver a wide range of services to their communities including child and family day care services, Meals on Wheels, waste collection, planning, and recreational services. Councils also build and maintain community assets and infrastructure—including roads, footpaths and drains—and enforce various laws.

As councils share many common statutory responsibilities and carry out similar functions and activities, there are opportunities to work together to jointly deliver services and share costs and resources. Shared services provide an opportunity to efficiently use resources and/or improve service offerings, and shared service arrangements in various forms have been implemented across government and the private sector in Victoria and other jurisdictions.

In this audit, we have defined shared services as 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
- **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.
The audit assessed whether councils' shared service initiatives:
- are soundly based and include identification of the expected costs and benefits
- have appropriate governance arrangements
- have effective project management practices
- have effective monitoring, evaluation and reporting, which demonstrate the achievement of intended objectives.

It also examined whether councils have been provided with appropriate support and guidance by Local Government Victoria (LGV), in partnership with the sector.

**Conclusions**

Most Victorian councils undertake some form of shared services, although their use is evolving and relatively immature. Existing initiatives relate primarily to procurement or external services, such as library services, waste management and aged care. While there is limited growth expected in external initiatives, there is likely to be continued growth in shared procurement and in new shared services for back office functions, such as information and communications technology, payroll and human resources. This provides a significant opportunity for the sector to realise cost savings and other benefits.

Implementing shared services has been a key aspect of councils’ response to dealing with cost pressures and other challenges. Reasons for pursuing shared services were related to reducing costs, increasing service quality and providing better community outcomes. Despite cost savings being a key driver for shared services, councils are generally not able to demonstrate the achievement of intended outcomes. A lack of baseline data and other information makes it difficult to quantify the full extent of both financial and non-financial benefits from shared services being realised by Victorian councils, and there is significant scope for improvement in monitoring, evaluation and reporting.

Shared service initiatives vary in size, financial investment and complexity. The extent of work underpinning initiatives prior to their implementation also varies, with larger initiatives appropriately having had feasibility studies undertaken and business plans developed prior to their implementation, compared to less formal and detailed work for smaller initiatives. There are a range of governance arrangements in place for shared service initiatives, and these are generally appropriate, with the most common being boards or a lead council or agency. Initiatives examined had a designated project manager to plan and implement initiatives.

LGV provides a range of support and guidance to the sector, primarily in relation to shared procurement. This includes providing grants to councils and developing and disseminating guidance and other resources. These positive initiatives have promoted collaboration among councils and demonstrated the benefits of shared services in several areas.
LGV has the opportunity to build on its existing work to assist the sector to more fully realise the benefits of shared services. It should consider how the expected growth in shared services for back office functions might impact on its future policies and programs and the support and guidance required by the local government sector. There are also a range of challenges and barriers to councils undertaking shared services which LGV should investigate, as well as encouraging collaboration and knowledge sharing. LGV should continue to improve the evaluation of its programs and the collection and sharing of information.

Findings

Involvement in shared services

Ninety-one per cent of the 58 surveyed councils are currently involved in shared service initiatives, and 64 per cent reported they were either considering, or engaging in negotiations towards, a total of 86 future shared service initiatives.

The number of initiatives in which individual councils are currently engaged varies widely. Some councils are participating in more than 20 or 30 initiatives, with the largest reported number being 42, and an average of seven initiatives across councils.

Current and proposed shared services cover a wide range of service areas. Sixty-two per cent of current initiatives are externally focused services delivered to the community, such as library services, aged care services and waste collection. Over 25 per cent of current initiatives relate to shared procurement, which has been shown to result in significant cost savings for councils, and the rest are related to back office functions.

The survey results show that shared service activity in relation to back office functions is projected to significantly increase, while the growth of shared services in some external service delivery areas—for example library services, aged care and waste collection—is slowing. However, some further growth is expected in the external service delivery areas of disability, children and families, recreation, and health. There may also be expansion into largely new areas of activity, such as animal management, construction and planning.

Councils report that implementing shared services has been a key aspect of their response to cost pressures and other challenges. While the main reasons councils gave for pursuing shared services were related to reducing costs, other reasons related to improving service quality and achieving better community outcomes, and these were rated as almost as important. Other important factors cited were the sharing of skills, expertise and best practice, and the enhancement of strategic partnerships with partners.
Management of shared service initiatives

It is important that shared service initiatives are soundly based and have appropriate governance arrangements, effective project management and robust methods of measuring outcomes.

The extent of work underpinning initiatives prior to their implementation is generally appropriate to their size and financial investment. Larger initiatives have had feasibility studies undertaken and business plans developed prior to their implementation, compared to generally less formal and detailed work for smaller initiatives.

Initiatives we reviewed for this audit were planned and implemented by a designated project manager, and these arrangements were generally considered to be effective by councils involved. For a smaller initiative, a council officer may take on this role, a larger initiative may have a business manager, and initiatives led by LGV are generally managed either directly by LGV, a private contractor or the Municipal Association of Victoria.

A range of governance arrangements are in place for shared service initiatives, which are generally appropriate to the scale and complexity of the initiatives. The majority are formal arrangements. These include complex multi-level structures overseen by boards, simpler committee structures, or the existence of a lead council or agency.

The range of management arrangements reflects the varied nature of initiatives, with some involving the formation of companies and others a simple memorandum of understanding or the more straightforward process of undertaking shared procurement.

Challenges of implementing shared services

There are a number of common challenges and reasons for initiatives stalling that need to be overcome for shared services to be implemented.

Councils reported that the most significant challenge of engaging in shared service activity is a perceived loss of autonomy and local control. Other key challenges were a lack of clarity about the benefits resulting from an initiative and concern about the costs of establishing and maintaining an initiative.

Key strategies surveyed councils reported they had used to address challenges included:

- cooperation, trust and accountability between partners
- effective and regular communication between all partners
- persistence, commitment and enthusiasm
- establishing clearly defined and measureable benefits for the initiative.
Success factors in the delivery of initiatives

There are a number of factors involved in the successful delivery of shared service initiatives. Surveyed councils indicated that support of the chief executive officer, senior staff, and staff implementing the initiative is important to the success of shared services. A shared commitment and alignment of decision-making by all partners is also very important.

Despite the audit's finding that many councils were unable to quantify either expected or actual benefits, clarity about expected benefits was viewed as moderately important.

Outcomes of shared services

The most commonly identified approaches to quantifying or measuring the resulting financial and non-financial benefits of implementation were evaluation or review, cost analysis and satisfaction survey.

It is concerning that for around a quarter of initiatives, surveyed councils reported they did not know how benefits were to be measured, and for 5 per cent of initiatives, councils stated that benefits had yet to be measured or quantified.

Councils surveyed were also asked to quantify the expected cost savings, and the cost savings achieved so far, for each initiative. Even though most councils identified cost savings as an expected benefit for most of their initiatives, they often could not quantify the expected cost saving, or the cost saving actually delivered. They were unable to set a benchmark for delivery, or measure whether this benchmark had been met.

Councils also found it difficult to demonstrate the achievement of non-financial benefits from shared services, such as improved quality of Meals on Wheels or library services. For example, while audited councils surveyed users and found they were satisfied with the quality of services, surveys were not undertaken until after initiatives had started, and therefore there was no baseline data with which to compare the results.
Support and guidance

Providing councils with support and guidance to develop shared services is important to drive the take-up of shared services, share knowledge and better practices and realise the potential benefits across the sector.

LGV provides a range of support and guidance to the sector to encourage greater use of shared service initiatives, including delivering programs that provide grant funding for councils to implement shared service initiatives, and developing and disseminating guidance and resources. These positive initiatives have promoted collaboration among councils and demonstrated the benefits of shared services in several areas, particularly procurement.

Evaluations of LGV’s more recent programs have improved, and there are opportunities for LGV to expand on the information about these evaluations that it provides on its website to enhance information sharing with the sector. Evaluations were not undertaken for earlier shared service projects, and therefore the opportunity to identify lessons to inform future programs and the sector has been lost.

Data on shared service activity in the sector is currently not collected to assess trends, demonstrate the costs and benefits of shared services, assist in informing policy and program development, and target future activities and the development of appropriate support and guidance materials. LGV should continue to focus its work on shared procurement activities. It should also consider how the expected growth in, and change in direction of, shared service activity for back office functions might impact its future policies and programs.

Future directions and opportunities

A significant number of councils report they are currently planning, negotiating or considering future shared service initiatives, suggesting there is considerable momentum towards the expansion of shared service activity, particularly in back office functions and procurement.

Given the anticipated growth in back office shared services, LGV should provide direction by identifying back office functions most suitable for shared services and potential cost savings and other benefits for these initiatives. It should also investigate key challenges of establishing and implementing shared services, and identify strategies that can be used to address these to further encourage the use and successful implementation of shared services.

Before embarking on new initiatives, councils should ensure they are soundly based, including clearly identifying expected costs and benefits. Councils should also develop and implement effective monitoring, evaluation and reporting on shared services, including demonstrating the achievement of expected costs and benefits.
Recommendations

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<tr>
<th>Number</th>
<th>Recommendation</th>
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<tr>
<td></td>
<td>That councils:</td>
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<tr>
<td>1.</td>
<td>ensure future initiatives are soundly based, including clearly identifying expected benefits and costs and how they will be measured</td>
<td>24</td>
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<tr>
<td>4.</td>
<td>develop and implement comprehensive monitoring, evaluation and reporting on shared services, supported by reliable baseline data and clear and measurable outcomes.</td>
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<td>That the Department of Transport, Planning and Local Infrastructure:</td>
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<td>2.</td>
<td>identifies back office functions most suitable for shared services and the potential cost savings and other benefits that could result from these initiatives</td>
<td>24</td>
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<td>3.</td>
<td>investigates key challenges to implementing shared services and identifies strategies that can be used to address these</td>
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<td>5.</td>
<td>assists councils to improve their monitoring, evaluation and reporting of financial and non-financial benefits of shared services</td>
<td>30</td>
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<td>6.</td>
<td>continues to improve the evaluation of its shared service programs to gain knowledge to share with the sector and inform the development of future programs</td>
<td>44</td>
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<td>7.</td>
<td>develops better practice guidance and templates to assist councils to plan, implement and manage their own shared service initiatives, including with a focus on likely new areas of shared service activity, such as back office functions</td>
<td>44</td>
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<tr>
<td>8.</td>
<td>gathers data on existing shared services in the sector to assess trends, inform the sector and guide the development of future programs, support and guidance</td>
<td>44</td>
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<td>9.</td>
<td>reviews the scope for greater sharing of back office functions, including identifying functions most appropriate for shared services, potential cost savings and other benefits, and key barriers and risks.</td>
<td>44</td>
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Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the Audit Act 1994 a copy of this report was provided to the Department of Transport, Planning and Local Infrastructure and to the following six councils, with a request for submissions or comments:

- Colac Otway Shire Council
- Hepburn Shire Council
- Hobsons Bay City Council
- Hume City Council
- Latrobe City Council
- Stonnington City Council.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments are included in Appendix A.
1 Background

1.1 Shared services

1.1.1 Victoria's councils

Victoria's 79 local councils deliver a wide range of services to their communities including child and family day care services, Meals on Wheels, waste collection, planning and recreational services. Councils also build and maintain community assets and infrastructure—such as roads, footpaths and drains—and enforce various laws.

As councils share many common statutory responsibilities and carry out similar functions and activities, there are opportunities for them to work together to jointly deliver services and share costs and resources.

1.1.2 Shared services defined

Shared services provide an opportunity to use resources efficiently and to realise other benefits, such as improved service quality. Various forms of shared service arrangements have been implemented across government and the private sector in Victoria and other jurisdictions, and these have often been driven by efficiency and reform programs.

Shared services are one way that councils can potentially achieve greater efficiency in the delivery of services to the community. Shared services are defined as 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 landfill operations, community and library services
- **back office functions**—functions that support external services, such as information and communications technology (ICT), finance, legal, payroll, human resources, internal audit and asset management
- **procurement**—purchase of goods and services.

While procurement is a type of back office function, it is categorised separately here since the processes involved in sharing procurement tend to be much simpler compared to other shared service arrangements. Procurement activities can also often be of a short-term nature, although there can be ongoing arrangements.

Shared services may also include one or more councils partnering with other organisations outside of local government for the delivery of specific services.
1.1.3 Types of shared services

While there is potential to share almost all services, some are better suited to a shared arrangement. Implementations of shared services across public and private sectors globally have focused more on back office functions, which are often transactional in nature. These include procurement, finance and ICT. The reason for the focus on these services is that they involve relatively less tailoring or customisation, which means the shared service arrangements can be more streamlined, less costly and comparatively faster to implement. However, where ICT shared services have involved high levels of customisation, the sharing of services has had the opposite effect to what was intended.

Shared services literature indicates that targeting back office or transactional services, where there is mutual benefit, provides opportunities for more efficient use of resources and potential for economies of scale. Needs-driven shared service arrangements, as opposed to a mandated approach, provide some flexibility in the design or model of shared service arrangements. Meaningful and readily available data in relation to the local government sector in the United Kingdom has enhanced the ability of local government to identify service areas where shared arrangements would offer benefits.

1.1.4 Shared services models

No single model for shared services works better than others in all contexts. The design of shared service models has been based on the intended aims, the preferences of the parties involved and the existing legislative requirements. In some instances, legislative amendments have been sought to accommodate existing restrictions or meet desired reform structures. A Productivity Commission review of local government coordination and consolidation in Australia identified the following categories of approaches to local government coordination:

- **Joint activities between local governments**—these include resource sharing, joint projects and mutual recognition.

- **Regional organisations of councils (ROCs) and other coordinating bodies of local government**—ROCs are voluntary ‘partnerships between groups of local government entities that agree to collaborate on matters of common interest.’

- **Joint local government entities**—joint local government entities can be created to undertake the legislative responsibilities of individual local governments. These entities differ from other groups of local governments such as ROCs and other regional groupings in that legislation plays an essential role in their establishment, objectives and governance, and these entities are delegated legislative responsibilities by their constituent local governments. They are usually created to provide services and manage facilities involving waste management, water, vermin control or land development.

More broadly, other models of shared services have been based on clustering or centralisation of designated shared services.
1.1.5 Benefits of shared services

Councils may consider adopting shared services for a variety of reasons. While increasing efficiency is usually an objective, cost reduction may not always be the key driver for councils. Other reasons may include improving the quality of service delivery, gaining access to skilled resources and/or needing to meet new statutory obligations.

The benefits of shared services are mostly resource driven and centred on efficiency. A benefit of gaining efficiencies in back office functions is the ability to redeploy staff from the back office to the delivery of external services to the community. Benefits have been identified from the implementation of shared services in the public sector in other jurisdictions. For example, the National Audit Office in the United Kingdom found that while savings targets had not always been met, there were benefits through improved efficiency. These included:

- more systematic collection of management information, providing the opportunity to identify scope for further service improvements and financial savings
- moves towards paperless transactional processing
- improved processing times
- procurement savings.

Where savings or efficiency targets were not met, the United Kingdom National Audit Office found the intended benefits and estimated savings to be overly optimistic. In order to determine if shared service arrangements result in benefits, baseline data also needs to be available. Assessments of shared service initiatives have shown this to be an area of weakness.

1.1.6 Challenges and success factors

There are a number of common challenges and success factors in establishing shared service initiatives that have been identified in shared services literature. These are described in Figure 1A.

Figure 1A
Common challenges and success factors

<table>
<thead>
<tr>
<th>Challenges:</th>
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<tbody>
<tr>
<td>• loss of autonomy or control and the threat of losing local staff</td>
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<td>• reluctance or a lack of resources and funding to investigate options</td>
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<td>• complexity of the process and uncertainty around the benefits</td>
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<td>• gaining timely commitment of partner councils and aligning council decision-making.</td>
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<table>
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<th>Success factors:</th>
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<tr>
<td>• leadership and commitment at the senior level</td>
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<td>• passionate advocates within each council</td>
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<td>• a phased approach to implementation</td>
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<td>• strong strategic direction supported by a business plan</td>
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<td>• effective project management.</td>
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</table>

Source: Victorian Auditor-General’s Office based on review of shared services literature.
1.2 Legislation, sector support and guidance

Local Government Act

The Local Government Act 1989 sets out a range of legislative provisions that could apply to entering into shared service arrangements, as shown in Figure 1B.

**Figure 1B**
Legislative provisions that could apply to shared services

<table>
<thead>
<tr>
<th>Sections of the Local Government Act 1989—summarised</th>
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<tbody>
<tr>
<td>Section 3C—Objectives of a council</td>
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<tr>
<td>A council is to endeavour to achieve the best outcomes for the local community, having regard to the long-term and cumulative effects of decisions.</td>
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<tr>
<td>In seeking to achieve its primary objective a council must have regard to a number of matters, including efficient and effective use of resources in accordance with section 208B—Best Value Principles, promotion of business and employment opportunities, and accessible and equitable services and facilities.</td>
</tr>
<tr>
<td>Section 3D—The role of a council</td>
</tr>
<tr>
<td>The role of a council includes (among other things) providing leadership, responsible and accountable management of resources, and acting as a responsible partner in government by taking into account the needs of other communities.</td>
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<tr>
<td>Section 3E—Functions of a council</td>
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<tr>
<td>A council may perform its functions inside and outside its municipal district.</td>
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<td>Section 186—Restriction on power to enter into contracts</td>
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<tr>
<td>Usual tendering provisions do not apply if the contract is entered into with a council acting as the agent for a group of councils or in accordance with arrangements approved by the minister. Wherever practical, a council must give preference to contracts for the purchase of goods, machinery or material manufactured or produced in Australia or New Zealand.</td>
</tr>
<tr>
<td>Section 193—Entrepreneurial powers</td>
</tr>
<tr>
<td>A council may:</td>
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<tr>
<td>• form and operate a corporation, trust, partnership or other body</td>
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<tr>
<td>• become a member of a company limited by guarantee</td>
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<tr>
<td>• acquire and dispose of shares or other securities.</td>
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<tr>
<td>A council must assess the total risk exposure of forming or operating a company. If the risk exposure is greater than $500 000, or 5 per cent of the council's revenue from rates and charges, the approval of the minister is required.</td>
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<tr>
<td>If the risk exposure exceeds $5 million, the council must consider a risk assessment report and obtain the approval of the minister and the Treasurer.</td>
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<tr>
<td>Section 203—Transport plan</td>
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<td>A council may prepare a transport plan jointly with one or more councils.</td>
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<tr>
<td>Section 208B—Best Value Principles</td>
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<tr>
<td>A council must comply with Best Value Principles, which are that:</td>
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<tr>
<td>• council services must meet quality and cost standards, be responsive to the needs of the community and be accessible</td>
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<tr>
<td>• a council must achieve continuous improvement with service provision, develop a program of regular consultation with its community and report on its achievements.</td>
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</table>

Sector support and guidance

Sector support and guidance is available to councils from a range of sources. This includes grant programs, better practice guides and collaborative networks. These programs and initiatives have been developed by Local Government Victoria (LGV) and the Municipal Association of Victoria (MAV). Key programs and initiatives are set out in Figure 1C.

<table>
<thead>
<tr>
<th>Program/Initiative</th>
<th>Type and Description</th>
<th>Sponsor</th>
</tr>
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<tbody>
<tr>
<td>Councils Reforming Business (CRB) program</td>
<td>A program that ran from 2007 to 2011 aimed at supporting councils to improve services and reduce costs, and reducing red tape for businesses working with councils. One of the CRB’s five key priority areas was to encourage greater use of shared services.</td>
<td>LGV and MAV</td>
</tr>
<tr>
<td>Local Government Reform Fund (LGRF) program</td>
<td>A program, which ran from 2010 to 2012 to build on the CRB program, that aimed to assist councils to improve their financial and resource management capabilities and business practices. It provided opportunities for council collaboration.</td>
<td>LGV</td>
</tr>
<tr>
<td>Local Government Reform Strategy (LGRS)</td>
<td>A strategy, launched in 2012 to continue the reform program that aims to deliver a range of initiatives, including collaboration on procurement.</td>
<td>LGV</td>
</tr>
<tr>
<td>Victorian Local Government Best Practice Procurement Guidelines</td>
<td>Guidelines that include some advice on initiating collaborative procurement projects.</td>
<td>LGV</td>
</tr>
<tr>
<td>MAV Procurement</td>
<td>The MAV Procurement unit facilitates group purchasing for councils.</td>
<td>MAV</td>
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<tr>
<td>Procurement eHub</td>
<td>A centralised procurement resource facility developed under the CRB program. It includes standardised documentation, templates, training opportunities, case studies, links and discussion boards.</td>
<td>LGV</td>
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<tr>
<td>Regional Procurement Excellence Networks (RPEN)</td>
<td>Nine RPENs operate across the state. They have a representative from every council and work together to establish collaborative opportunities and further shared service initiatives in procurement.</td>
<td>LGV</td>
</tr>
</tbody>
</table>

Source: Victorian Auditor-General's Office.

Previous work by MAV identified shared services as a priority area for local government under its Future of Local Government project. MAV worked in collaboration with mayors and council chief executive officers to identify key areas of local government business that would benefit from shared services. Shared service projects identified were funded under LGV’s CRB program. MAV has also initiated a number of shared service initiatives in the sector, including the Swift Library Consortium.
1.3 Examples of shared service initiatives

Recent Australian and international examples of councils working together and with other organisations are shown in Figure 1D.

**Figure 1D**

Examples of shared services

<table>
<thead>
<tr>
<th><strong>Community Chef—Victoria</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>In 2004, 15 councils investigated the feasibility of constructing and operating a food manufacturing facility for their Meals on Wheels service. Previously, councils had individually contracted the supply of meals through tenders, often to commercial providers, or operated their own kitchens. The main drivers of this initiative were cost containment, improving meal quality and supply certainty and reduction of risk to councils previously supplying meals from their own kitchens. The production of meals commenced in 2010. Twenty-one councils are involved as joint venture partners and shareholders in one or both of two companies. The facility, located in Hobsons Bay, is not yet running at full capacity and is seeking further business to support sustainability in the long term. It recently expanded its supply of meals to include five hospitals and three aged care facilities.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Swift Library Consortium (Swift)—Victoria</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>In 2004, four regional library corporations developed a memorandum of understanding to work towards a shared integrated library management system. The initiative is jointly sponsored by the MAV and the Public Libraries Victoria Network, formerly Viclink. It has been operating since March 2007 and has grown to 26 public library services with 150 branches, involving 40 Victorian and six New South Wales councils. The aim of Swift is to improve the efficiency and quality of library services and provide library users with resources and collections they may not otherwise be able to access, as well as the cost-effective implementation of innovative technology. Swift has a combined collection of around three million items, servicing 800 000 library users. It has resulted in cost savings for participating councils and other benefits in comparison to operating a stand-alone library.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Eastern Health Authority—South Australia</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>This is a regional subsidiary that comprises five councils. The authority provides environmental health services, such as immunisation and food safety, on behalf of its member councils. It employs around 17 staff and buys in corporate services from one or more of its constituent councils without having the administrative costs of running these services itself. It has demonstrated cost and quality advantages in providing joined up health service activities. For example, bulk purchasing for immunisation drugs has reduced costs compared to councils delivering it as a stand-alone service.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Wellington, Blayney, Cabonne (WBC) Strategic Alliance—New South Wales</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>WBC is a voluntary cooperative alliance of four councils and Central Tablelands Water. It provides benefits to member councils, including savings mostly derived from procurement activities. Purchases include fleet, information technology (IT) software, fuel, audit services and heavy plant.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Local Government Shared Services—United Kingdom</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>In 2010, a partnership comprising six councils, the East of England Local Government Association, and a number of schools and academies was established. It delivers over a dozen services, including:</td>
</tr>
<tr>
<td>• professional services</td>
</tr>
<tr>
<td>• front-line services, such as social care financial assessments</td>
</tr>
<tr>
<td>• back office functions, including payroll, IT and finance.</td>
</tr>
<tr>
<td>The partnership is expanding its service delivery to third parties and has begun providing services to two other councils. The partnership has achieved both financial and non-financial benefits.</td>
</tr>
</tbody>
</table>

Source: Victorian Auditor-General’s Office based on publicly available information, from the Municipal Association of Victoria and audited councils.
1.4 Roles and responsibilities

1.4.1 Councils
Local government is recognised under the Victorian Constitution Act 1975 as a discrete and essential tier of government consisting of democratically elected councils having the functions and powers necessary to ensure peace, order and good governance of each municipal district. Victoria has 79 local councils.

1.4.2 Local Government Victoria
LGV is a division of the Department of Transport, Planning and Local Infrastructure. It supports and advises the Minister for Local Government in administering the Local Government Act 1989. Part of its role is to provide advice and support to councils in relation to their roles and responsibilities under the Act, including such matters as governance, elections and resource management.

1.4.3 Municipal Association of Victoria
MAV is the peak body for Victoria’s 79 councils and is governed by the Municipal Association Act 1907. The role of MAV includes advocating for local government interests, building the capacity of councils and providing guidance and support in a range of areas, including group procurement. MAV’s latest strategic plan includes an objective of pursuing reforms that achieve whole-of-sector productivity gains. An action item against this is to ‘improve regional collaboration through shared service opportunities identified, and support councils to develop their implementation plans.’
1.5 Previous audits

1.5.1 Organisational Sustainability of Small Councils, June 2013

This audit found that shared service initiatives identified at the councils was limited to the sharing of a component of an activity or service rather than the full delivery of a service. Specific shared service arrangements the councils were participating in included:

- **back office functions**—business improvement, ICT, payroll and procurement
- **external services**—aged care and disability, building services, child/family/youth services, environment, emergency management, health, libraries, roads and transport.

With some exceptions, such as libraries, these arrangements were not mature or undertaken on a large scale. As no evaluation of these arrangements had occurred, the extent to which savings and efficiencies were achieved was unknown. Therefore, it was not clear that sharing these services was improving the sustainability of these councils.

1.6 Audit objective and scope

The audit objective was to assess the effectiveness, efficiency and economy of shared service initiatives undertaken by local councils. The audit also sought to identify common barriers to the take-up and implementation of shared services by councils and how effectively these have been addressed, and to better understand the success factors and reasons for initiatives stalling. It also assessed support and guidance provided by LGV.

The audit focused on LGV and six local councils:

- Colac Otway Shire Council
- Hepburn Shire Council
- Hobsons Bay City Council
- Hume City Council
- Latrobe City Council
- Stonnington City Council.

The audit assessed whether selected councils’ shared service initiatives:

- were soundly based and included identification of the expected costs and benefits
- had appropriate governance arrangements
- had effective project management practices in place to plan and implement initiatives
- had effective monitoring, evaluation and reporting, which demonstrated the achievement of intended objectives.
It also examined whether councils have been provided with appropriate support and guidance by LGV, in partnership with the local government sector, in developing, implementing and managing shared service initiatives.

A survey of Victoria’s 79 councils was undertaken to establish baseline information on the nature and extent of shared services in the sector. In total, 58 of the 79 councils responded, representing a response rate of 73 per cent. This provides a sound basis for understanding the extent and nature of engagement with shared services in local government across Victoria.

A small number of initiatives were selected for further examination, based primarily on information from the audited councils involved.

1.7 Audit method and cost

The audit was conducted in accordance with section 15 of the Audit Act 1994 and Australian Auditing and Assurance Standards. Pursuant to section 20(3) of the Audit Act 1994, any persons named in this report are not the subject of adverse comment or opinion.

The cost of the audit was $420 000.

1.8 Structure of report

The report is structured as follows:
- Part 2 discusses shared service activity at local councils.
- Part 3 discusses the expected benefits and outcomes from shared services.
- Part 4 discusses support and guidance provided to local councils by Local Government Victoria.
Shared service activity at councils

At a glance

Background

Shared services are one way that councils can potentially achieve greater efficiency in the delivery of services and deal with cost pressures and other challenges. Initiatives should be soundly based and have appropriate governance arrangements and effective project management. An understanding of current and likely future shared services can provide insights and knowledge to inform future activities and programs.

Conclusion

Most Victorian councils undertake some form of shared services. Existing initiatives are primarily related to procurement or external services, such as libraries, waste management and aged care. Continued growth is expected in shared procurement and in relation to back office functions, such as human resources, information systems and finance. Initiatives generally have appropriate governance arrangements and effective project management practices. There are a number of common challenges to the take-up and implementation of initiatives. Reasons for pursuing shared services include cost reduction and increased service quality.

Findings

- Ninety-one per cent of the 58 councils surveyed are involved in shared services.
- Sixty-four per cent of the councils are planning, negotiating or considering future initiatives.
- Governance arrangements were appropriate in relation to the scale and complexity of initiatives.
- Initiatives that we reviewed for this audit had a designated project manager for planning and implementation.

Recommendations

That councils:
- ensure future initiatives are soundly based, including clearly identifying expected benefits and costs and how they will be measured.

That the Department of Transport, Planning and Local Infrastructure:
- identifies back office functions most suitable for shared services
- investigates key challenges related to implementing shared services.
2.1 Introduction

Shared services are one way that councils can potentially achieve greater efficiency in the delivery of services to the community and deal with cost pressures and other challenges. It is important that shared service initiatives are soundly based and have appropriate governance and project management arrangements.

Limited information on the nature and extent of shared services in the sector prompted the audit team to undertake a survey of the sector to capture the extent of participation in shared services. VAGO also obtained information from audited councils through the examination of selected initiatives.

2.2 Conclusion

Most Victorian councils undertake some form of shared services, although the use of shared services is evolving and relatively immature. Existing initiatives are primarily related to procurement or external services, such as library services, waste management and aged care.

While there is limited growth expected in external initiatives, there is likely to be continued growth in shared procurement and new shared services for back office functions, such as information management and information communications technology (ICT), payroll and human resources (HR). This indicates a significant shift in the use of shared services for the local government sector and is in contrast to the literature, which suggests that the first services usually subject to shared service arrangements are back office functions.

Local Government Victoria (LGV) should investigate the range of challenges and barriers councils face when undertaking shared services and encourage collaboration and knowledge-sharing.

The extent of work that underpins initiatives prior to their implementation varies and is generally appropriate, with larger initiatives having had feasibility studies undertaken and business plans developed prior to their implementation, compared to less formal and detailed work for smaller initiatives.

Governance arrangements are generally appropriate, with the most common being boards and a lead council or agency. Initiatives examined had a designated project manager to plan and implement initiatives, and these arrangements were viewed as effective by participating councils.

2.3 Shared services

2.3.1 Involvement in shared services

Ninety-one per cent of the 58 surveyed councils are currently involved in shared service initiatives, and 64 per cent reported they were either considering, or engaging in negotiations towards, a total of 86 future shared service initiatives.
The number of initiatives in which individual councils are currently involved varies widely. Some councils are participating in more than 20 or 30 initiatives, with the largest reported number being 42 and the average across councils being seven initiatives.

There was no evident relationship between the amount of shared services activity and either council size or location. Therefore, the key issues that determine whether or not a council engages in this activity are likely to be more local, and may relate more to the needs and the style, culture and leadership of the organisation.

Current and proposed future shared services cover a wide range of service areas, as shown in Figure 2A.

**Figure 2A**

*Current and proposed future shared service areas of activity—survey responses*

Source: Victorian Auditor-General's Office.
Current focus of shared services

Sixty-two per cent of initiatives are externally focused services to the community, such as library services, aged care services and waste collection, with over 25 per cent of current initiatives being procurement related, and the rest related to back office functions. Approximately a third of the shared procurement initiatives were ongoing, with a little over one in 10 being one-off procurement activities.

Current shared service activity is in contrast to the literature, which suggests that the first services that are usually subject to shared service arrangements are back office functions. The lack of activity in this area may be due to a range of reasons, such as perceived loss of autonomy and local control. This factor was identified as a major barrier to shared services and is discussed further later in this Part.

Most initiatives were partnerships with other Victorian councils—81 per cent. Other common partnerships included:

- Victorian Government departments—15 per cent
- Municipal Association of Victoria (MAV)—10 per cent
- non-governmental organisations and non-profit organisations outside the public sector—10 per cent.

Future shared service activity

The survey results indicate future expected growth in shared services is likely to focus more on back office functions, such as information management and ICT, finance, HR and legal and payroll functions, along with a continued increase in shared procurement. This reflects the activity at the audited councils, with most initiatives being externally focused and procurement related, and two of the audited councils either considering or engaging in negotiation towards back office shared services with neighbouring councils. Potential shared functions at these councils include accounts payable, payroll, rates, ICT, HR, local laws, compliance and disaster recovery.

Another reason for lack of shared service activity in back office functions is likely to be that existing external shared service arrangements have largely been needs driven, and related to external service delivery, or the result of initiatives led by third parties, such as MAV or LGV.

While sharing of back office functions is projected to increase, the growth of shared services in some external service delivery areas—for example, library services, aged care and waste collection—is expected to slow down. However, based on the survey results some growth is expected in the service delivery areas of disability, children and families, recreation and health. There may also be expansion into largely new areas of activity, such as animal management, construction and planning.

Figure 2B sets out a case study of two rural councils sharing a back office function. While this initiative was not subject to this audit, as an example it highlights that councils are undertaking these types of arrangements and expect significant potential benefits.
Case study: Sharing of rates function—Indigo and Towong shire councils

When the rates officer at Indigo Shire Council resigned, the council sought an alternative solution and negotiated a shared service arrangement with a neighbouring council, Towong. Towong is responsible for providing core property and rates services, including rates notices, technical rates-related queries and the recovery of unpaid rates. Indigo deals with initial enquiries but can decide to forward those that are more complex to Towong.

Costs of delivering the service are shared on a pro-rata basis. While this is a relatively new arrangement, reported benefits identified include:

- reduced operational risk through increasing the number of rates staff across the service
- expanded customer service coverage across the week for the rates department
- increased capacity to develop service improvements, including the planned implementation of electronic rates notices in 2015
- reduced costs for Indigo from not having to recruit and train a new staff member.

The expected cost savings in relation to producing rates notices are 25 per cent, with the forecast price reduction being a drop from $13.12 to $9.98 per assessment. Staff costs are expected to reduce further as staff increase their skills and experience and become more efficient.

Source: Victorian Auditor-General’s Office, based on information provided by Towong Shire Council.

Costs and potential for back office shared services

We asked audited councils to provide the costs associated with back office functions and to identify which of their activities have shared service potential. Due to different organisational structures, not all audited councils have the same back office functions, and the size of councils and number of staff varies between councils. However, there are common functions across all audited councils. Figure 2C highlights the cost of back office functions and whether they are considered suitable for shared service activity across the six audited councils.
Shared service activity at councils

Figure 2C
Common back office functions at audited councils

<table>
<thead>
<tr>
<th>Back office functions</th>
<th>Number of full-time equivalent staff</th>
<th>Total cost ($)</th>
<th>Considered suitable for shared services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council corporate support—risk and records management, councillor and mayor support, governance, insurance</td>
<td>62</td>
<td>9 929 962</td>
<td>×</td>
</tr>
<tr>
<td>Financial services—accounts, accounting, valuations and procurement</td>
<td>89</td>
<td>9 818 963</td>
<td>✓</td>
</tr>
<tr>
<td>Service and contact centre—in person and phone based</td>
<td>85</td>
<td>6 920 142</td>
<td>×</td>
</tr>
<tr>
<td>Information services—service desk, projects, network, business analysis, Geographic Information System (GIS)</td>
<td>66</td>
<td>6 552 169</td>
<td>✓</td>
</tr>
<tr>
<td>Marketing and communications—events and festivals, media communications</td>
<td>40</td>
<td>5 004 511</td>
<td>×</td>
</tr>
<tr>
<td>Human resources—training, development, WorkCover and occupational health and safety</td>
<td>40</td>
<td>4 641 943</td>
<td>✓</td>
</tr>
<tr>
<td>Capital works planning</td>
<td>16</td>
<td>1 634 293</td>
<td>×</td>
</tr>
<tr>
<td>Payroll</td>
<td>14</td>
<td>1 259 051</td>
<td>✓</td>
</tr>
<tr>
<td>Planning—council and service planning</td>
<td>9.5</td>
<td>628 848</td>
<td>×</td>
</tr>
<tr>
<td>Contract management</td>
<td>7.3</td>
<td>562 837</td>
<td>×</td>
</tr>
<tr>
<td>Research</td>
<td>3.6</td>
<td>531 466</td>
<td>×</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47 484 185</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Victorian Auditor-General’s Office based on information provided by audited councils.

There were varied views across the audited councils on which back office functions were suitable for shared services. One audited council raised concerns about loss of control of critical services and the management of priorities. Another council stated that its main concern with shared back office functions would be maintaining the council’s quality of services. However, in general most councils expressed the view that the following back office functions would be suitable for shared service arrangements:

- payroll
- some accounting functions
- information services
- valuations
- human resources.

Some back office functions are considered unsuitable for shared service arrangements, including event and festival organisation, in-person service centres and council planning and capital planning, as they require local knowledge of communities, which presents a barrier to the implementation of shared service arrangements.
2.3.2 Drivers of adoption of shared services

Cost pressures and other challenges facing local government create an imperative for councils to identify opportunities to reduce expenditure and/or improve service delivery to ensure their long-term sustainability.

Surveyed councils indicated that the most common cost pressures and challenges were:

- increases in the cost of service delivery
- replacement or renewal of assets
- cost shifting by other levels of government
- population growth—a key issue for a minority of councils but of high importance when cited
- community expectations
- limited opportunities to raise revenue
- declining government grants
- the defined benefit superannuation funding call-in.

Councils identified a range of strategies that they had either considered or implemented to address cost pressures and other challenges, as shown in Figure 2D.

While the main reasons councils pursued shared service initiatives were related to cost, and almost all councils cited some aspect of cost reduction or economies of scale as being part of their motivation to pursue shared services, issues of improving service quality and better community outcomes were almost as important as the financial imperatives. This aligns with the literature on shared services—that the best shared service initiatives focus not just on financial issues but also on service delivery outcomes.
Other important issues relate to the sharing of skills, expertise and best practice, and the enhancement of strategic partnerships with partners, as shown in Figure 2E.

Figure 2E
Reasons for councils undertaking shared services—survey results

Source: Victorian Auditor-General's Office.

The following comments by surveyed mayors reflect a recognition of the strategic importance, and the potential benefits, of working together:

- ‘...necessary for long-term sustainability.’
- 'Working together can make savings in service delivery costs.'
- 'We are a small rural city and we do not have the critical mass that provides viable access to services.'

Many comments revealed an enthusiasm for and a commitment to shared services:

- ‘...keen to partner with organisations that are enthusiastic and committed.’
- ‘...prepared to give a little for the good of the group.’

Commentary by surveyed mayors provided some further insights. A number of mayors indicated that they see potential in partnerships between dissimilar organisations—between larger and smaller, or urban and rural councils, and also between councils and organisations in other sectors.
2.3.3 Management of shared service initiatives

Planning and project management

The extent of work underpinning initiatives prior to their implementation varies, with larger initiatives having had feasibility studies undertaken and business plans developed prior to being implemented, compared to generally less formal and detailed work for smaller initiatives. The amount of work undertaken is generally appropriate for the size and financial investment.

Initiatives that we reviewed for this audit had a designated project manager for planning and implementation, including the coordination and dissemination of information to partners. Literature on shared services identifies having a designated project manager as an important factor in successful initiatives. Councils also indicated having dedicated resources for driving collaboration and shared service activities as being critical to their success.

Project management arrangements vary depending on the size and nature of the initiative. For instance, for a smaller initiative, it is appropriate that a council officer may take on this role, whereas a larger initiative may have a business manager. Initiatives led by LGV are generally managed either directly by LGV, a private contractor or MAV. Overall, audited councils reported that they found these arrangements to be effective.

Governance arrangements

There are a range of governance arrangements in place for shared service initiatives, and the majority of these are formal arrangements. In the survey, councils reported that the most common governance structures comprised of a board (35 per cent), lead council or agency (31 per cent) or a governing committee (17 per cent), while 10 per cent had no formal governance structure.

Governance arrangements of initiatives reviewed as part of this audit reflected the survey results, and were generally appropriate in relation to the scale and complexity of initiatives. They included complex multi-level structures overseen by boards, simpler committee structures and lead council arrangements.

The survey also revealed a range of management arrangements put in place for different initiatives. Management arrangements, alone or in combination, included:

- a formal joint agreement—45 per cent
- memorandum of understanding—20 per cent
- private company in which the council concerned and other partners are shareholders—15 per cent
- agreement with MAV—around 15 per cent
- incorporated associations—8 per cent
- tender process—3 per cent
- agreement with Procurement Australia (a procurement company)—2 per cent
- informal arrangement—2 per cent.
The range of management arrangements reflects the varied nature of initiatives, with some involving the formation of companies and others a simple memorandum of understanding or the more straightforward process of undertaking shared procurement.

### 2.3.4 Challenges of establishing and implementing shared services

When considering whether or not to enter into or continue shared service activity, councils weigh up the benefits and challenges. There are a number of common challenges in establishing and implementing shared services and reasons that initiatives stall that need to be overcome. The challenges surveyed councils identified as most significant are shown in Figure 2F.

![Figure 2F](image)

**Figure 2F**

Challenges of planning and implementing initiatives—survey results

Perceived risks to autonomy and local control: 42
Uncertainty about the benefits: 37
Resource commitments required: 33
Merging or standardising different systems and processes: 26
Establishing effective governance: 25
Managing cultural change or resistance: 16
Effective monitoring and measurement of impact: 15
Resistance by staff or unions to change: 13
Insufficient political will: 11
Insufficient leadership/support from senior management: 10
Movement of jobs outside the council area: 9
Legislative or legal constraints: 8
Job losses: 6
Cooperation between councils: 4
Insufficient political leadership: 3
Equalising pay and conditions of staff from different employers: 3
Timing: 2
Cost shifting to other parts of the council: 1
No business case: 1

Source: Victorian Auditor-General’s Office.

In the survey, councils reported that the most significant challenge of engaging in shared service activity is a perceived loss of autonomy and local control, and comments by mayors also reflected this finding. This finding is supported by the shared services literature.
Some of our consultations with councils reflected this view. They raised concerns over which council would get priority in situations where issues arise, for example, within a particular back office service, such as in the case of a payroll malfunction. However, a range of views were expressed, with two councils either considering or engaging in negotiation towards back office shared services and one being concerned about the loss of autonomy and considering this to be a significant barrier. There are clearly differing views across the sector about the risks associated with shared services. Further work is required to examine how risks and challenges can be managed or overcome, and to which type of shared services they are most relevant.

Other key challenges included a lack of clarity about the benefits that would result from an initiative and concern about the resource commitments involved in establishing and maintaining an initiative. In connection to this last finding, comments from mayors also referred to the specific resourcing and cost burdens that fall on a council that acts as the lead agency, as well as the amount of responsibility and risk taken on.

One of the initiatives that we examined at Latrobe City Council, which illustrates the challenges that councils can encounter when they attempt to establish an initiative and how these may be dealt with, is shown in Figure 2G.

### Figure 2G

**Case study: Geographic Information System IntraMaps**

In 2011, Latrobe presented a proposal to all councils in the Gippsland region to share GIS data and make this information available to the general public through councils' websites. Latrobe's proposal set out the limitations of the councils' systems and potential benefits of adopting a shared service. Limitations included growing demands of councils and communities and limited functionality of the systems, such as in terms of web-enabled technologies.

Potential benefits included sharing data for cross-council work and business analysis, reducing duplication, economies of scale in shared purchasing of aerial photographs and resource efficiency savings through a reduction in public enquiries. A more advanced GIS system could be jointly purchased at a lower price than if each council went out on its own.

The initiative did not proceed, primarily due to a lack of uptake by councils. Latrobe identified the main barriers for the councils it approached as:

- reluctance to share information and relinquish control
- timing issues, such as budgets already allocated, or contractual obligations with current providers
- not being ready for this type of arrangement.

When the proposal failed to gain traction, Latrobe and East Gippsland entered into a shared procurement arrangement for a GIS service. While this provided the benefit of purchasing the system at a lower price, data is currently not shared between councils.

**Source:** Victorian Auditor-General's Office based on information provided by Latrobe City Council.

When surveyed councils were asked what advice they would give to others on how they had addressed challenges related to shared services, the following key themes emerged:

- the need for cooperation, trust and accountability between partners
- the need for effective and regular communication between all partners
- the value of persistence, commitment and enthusiasm
- the importance of establishing clearly defined and measurable benefits.
While a lack of political will is reported as a challenge by only a minority of councils, it was considered a significant challenge. Some comments by mayors indicate a degree of caution around shared services. This suggests both that shared services are not considered the only solution to addressing the challenges that councils face and that shared services are not without significant difficulties or risks.

Comments included:
- ‘The challenge of balancing perceived benefits with the perceived loss of local control and autonomy.’
- ‘Loss of control over the outcome and employment.’
- ‘The reporting requirements at each council (meant that) the decision-making process was slow.’

Reasons for initiatives not proceeding

Councils involved in shared services that have ceased to operate, or from which they have withdrawn, reported that the primary reason for initiatives ceasing was that they did not deliver the necessary or expected financial benefits. Those that reported they have engaged in planning or negotiation of initiatives that did not proceed to implementation indicated the primary reasons that shared service proposals did not progress were that the financial benefits were not sufficiently compelling, that other partners withdrew from the process and that start-up costs were too great.

Figure 2H is a case study of a shared service initiative that did not proceed past the planning and negotiations phase. It describes the main challenges reported by the two audited councils that were involved, Colac Otway Shire Council and Hepburn Shire Council.

Figure 2H

Shared Services Information Communications Technology Program

This project was led by MAV in 2008–10 under LGV’s Councils Reforming Business program (See Part 4.3). It was open to all councils and aimed to establish a company, with MAV and councils as shareholders, to deliver ICT services to the member councils. The project involved councils jointly purchasing ICT hardware and software to create common information technology (IT) platforms with access to improved, more integrated systems. A detailed business case, options paper and audit of IT services of the 24 councils that had an expressed interest in the project had been undertaken when both Colac Otway and Hepburn withdrew from the initiative. Their reasons included:
- other partners withdrew from the process
- the financial and non-financial benefits were not sufficiently compelling
- the project was not going to deliver the expected financial benefits
- there were significant risks and the costs were too great
- there was insufficient political support.

Source: Victorian Auditor-General’s Office based on information from Local Government Victoria, Colac Otway and Hepburn Shire Councils.
2.3.5 Success factors in the delivery of initiatives

There are a number of factors involved in the successful delivery of shared service initiatives. Surveyed councils provided views on the importance of various factors, as shown in Figure 2I.

Surveyed councils indicated that support of the chief executive officer, senior staff and staff implementing the initiative is important to the success of shared services. A shared commitment and alignment of decision-making in relation to all partners are also very important.

Despite the finding that many councils were unable to quantify either expected or actual benefits, clarity about expected benefits was viewed as moderately important.
2.4 Future directions and opportunities

A significant number of councils report they are currently planning, negotiating or considering future shared service initiatives, suggesting there is considerable momentum towards the expansion of shared service activity, particularly in back office functions and procurement.

Given the anticipated growth in back office shared services, LGV should provide direction by identifying back office functions most suitable for shared services and the potential cost savings and other benefits that could result from these initiatives. It should also investigate key challenges of implementing shared services and identify strategies that can be used to address these challenges to further encourage the use and successful implementation of shared services.

Recommendations

That councils:

1. ensure future initiatives are soundly based, including clearly identifying expected benefits and costs and how they will be measured.

That the Department of Transport, Planning and Local Infrastructure:

2. identifies back office functions most suitable for shared services and the potential cost savings and other benefits that could result from these initiatives

3. investigates key challenges to implementing shared services, and identifies strategies that can be used to address these.
3 Expected benefits and outcomes from shared services

At a glance

Background
Effective processes for monitoring, evaluation and reporting of outcomes are important for assessing whether the benefits of shared service activities at councils have been realised and for driving continuous improvement.

Conclusion
The measurement of outcomes for shared service initiatives is generally poor, and there is scope for improvement in this area. While the main reasons councils pursued shared service initiatives were related to cost reduction, and clarity about expected benefits was cited as a reasonably important factor for the success of initiatives, councils are generally not able to fully demonstrate whether the intended benefits are being achieved.

Findings
- Councils reported that expected benefits were achieved in around 40–50 per cent of shared service initiatives.
- In the case of 68 per cent of initiatives, councils could not quantify the expected cost savings, and in 71 per cent could not identify the cost savings realised.

Recommendations
That councils:
- develop and implement comprehensive monitoring, evaluation and reporting on shared services, supported by reliable baseline data and clear and measurable outcomes.

That the Department of Transport, Planning and Local Infrastructure:
- assists councils to improve their monitoring, evaluation and reporting of financial and non-financial benefits of shared services.
3.1 Introduction

Effective processes for the monitoring, evaluation and reporting of outcomes of shared services are important for councils to assess the extent to which benefits have been realised and to drive continuous improvement.

3.2 Conclusion

Despite the significance of financial issues in driving shared service activity, the majority of councils still find it challenging to quantify the impact of shared services, both financially, and by other measures. Most councils appear unable to provide quantitative evidence of impact, and this is a significant weakness of current shared service activity in the state. A lack of baseline data and other information makes it difficult to quantify the full extent of both financial and non-financial benefits being realised by Victorian councils from shared services. The inability to measure or quantify impact may undermine otherwise effective partnerships, since without evidence of impact, those making financial or other resource contributions may either withdraw support from current initiatives or avoid committing to new ones.

Before embarking on new initiatives, councils should develop and implement effective monitoring, evaluation and reporting on shared services, including demonstrating the achievement of expected costs and benefits. It will be important for councils to receive support from Local Government Victoria to address this shortfall in management information.

3.3 Outcomes of shared services

In our survey of councils, the most commonly identified approaches to quantifying or measuring the resulting financial and non-financial benefits of implementation were:

- **evaluation or review**—47 per cent
- **cost analysis**—26 per cent
- **satisfaction survey**—15 per cent.

It is concerning that for around a quarter of initiatives, councils reported they did not know how benefits would be measured, and for 5 per cent of initiatives, councils stated that benefits had yet to be measured or quantified.

Where a benefit was expected from an initiative, councils were asked to indicate whether the benefit had exceeded expectations or met expectations either fully, partly or not at all. As Figure 3A indicates, there was only modest variation in the achievement rates for each of these benefits. The most likely benefit to exceed or fully meet expectations was accessing skills or expertise not available in the organisation, which indicates the expectation most likely to be met is knowledge transfer.
Expected benefits and outcomes from shared services

Councillors surveyed were also asked to quantify the expected cost savings, and the cost savings achieved so far, for each initiative. Even though most councils identified cost savings as an expected benefit, they often could not quantify the expected cost saving, or the cost saving actually delivered. They were unable to set a benchmark for delivery, or measure whether this benchmark had been met. For example:

- In the case of 68 per cent of initiatives where cost savings were expected, councils could not quantify the level of expected benefits, and for 12 per cent of initiatives, answers other than a monetary figure were provided.

- In quantifying the cost savings realised so far through the implementation of an initiative, in the case of 71 per cent of initiatives, councils did not know, and for 12 per cent of initiatives, again gave an answer which was other than monetary.

Our assessment of the realised benefits for audited councils for a selection of their shared service initiatives was broadly consistent with the survey results. While councils could identify the expected benefits, they generally did not collect baseline data so that they could determine whether the introduction of a shared service arrangement had resulted in cost savings or improvements to service delivery.
Expected benefits and outcomes from shared services

Literature on shared services identifies that this is a common issue. For example, customer satisfaction surveys were identified by audited councils as a way of monitoring benefits, such as in relation to library services and delivered meals. However, the surveys only commenced after the introduction of shared services, so there is no baseline data pre-shared services for comparison purposes.

Figure 3B sets out the expected and achieved benefits as reported to us by the audited councils in relation to a selection of initiatives they are involved in. In a number of cases benefits were considered to have been achieved, but they could not always be reliably quantified. A lack of adequate baseline data was a common issue.

**Figure 3B**

<table>
<thead>
<tr>
<th>Council</th>
<th>Expected benefits</th>
<th>Assessment of achieved benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Chef</td>
<td>Provision of high quality nutritious meals</td>
<td>Unknown</td>
</tr>
<tr>
<td>Hobsons Bay</td>
<td>Provision of high quality nutritious meals</td>
<td>Unknown</td>
</tr>
<tr>
<td>Hume</td>
<td>Provision of high quality nutritious meals</td>
<td>Unknown</td>
</tr>
<tr>
<td>Hobsons Bay</td>
<td>Cost containment and even a potential for a reduction in meal costs as future markets open up</td>
<td>Unknown</td>
</tr>
<tr>
<td>Hume</td>
<td>Cost containment and even a potential for a reduction in meal costs as future markets open up</td>
<td>Unknown</td>
</tr>
<tr>
<td>Hobsons Bay</td>
<td>Certainty of supply</td>
<td>Achieved</td>
</tr>
<tr>
<td>Hume</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hobsons Bay</td>
<td>Creation of 50–70 jobs, mostly within the municipality</td>
<td>Achieved</td>
</tr>
<tr>
<td>Stonnington</td>
<td>Shareholders have some influence in the strategic direction of the company</td>
<td>Achieved</td>
</tr>
<tr>
<td>Geographic Information System IntraMaps</td>
<td>Cost savings resulting from shared procurement</td>
<td>Achieved</td>
</tr>
</tbody>
</table>

Council advised it surveyed residents after the initiative commenced and while users are satisfied with meal quality, there is no baseline data with which to compare the results.

Council advised it surveyed residents after the initiative commenced and while users are satisfied with meal quality, there is no baseline data with which to compare the results.

An analysis of the cost of meal provision both with and without Community Chef has not been undertaken.

Council advised that the prolonged shelf life of the meals contributes to this benefit.

Given its Hobsons Bay location, the facility mainly employs members of the community, and 50–70 jobs have been created.

Shareholder representatives attend annual general meetings and operational meetings.

Collaboration achieved a 5 per cent cost saving—approximately $8,000—for councils compared to what councils would have paid if they upgraded to a superior product on their own.
Expected benefits and outcomes from shared services

Figure 3B
Benefits expected and achieved by audited councils – continued

<table>
<thead>
<tr>
<th>Council</th>
<th>Expected benefits</th>
<th>Assessment of achieved benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swift Library Consortium (Swift)</td>
<td>Cost-effective implementation of innovative technologies</td>
<td>Unknown</td>
</tr>
<tr>
<td>Hepburn</td>
<td>Cost-effective implementation of innovative technologies</td>
<td>achieved</td>
</tr>
<tr>
<td>Latrobe</td>
<td>Improved efficiency and quality of library services</td>
<td>Unknown</td>
</tr>
<tr>
<td>Hepburn</td>
<td>Improved efficiency and quality of library services</td>
<td>Achieved</td>
</tr>
<tr>
<td>Latrobe</td>
<td>Improved efficiency and quality of library services</td>
<td>Achieved</td>
</tr>
<tr>
<td>Latrobe</td>
<td>Access to a larger number of resources and collections</td>
<td>Achieved</td>
</tr>
<tr>
<td>Hepburn</td>
<td>Access to a larger number of resources and collections</td>
<td>Achieved</td>
</tr>
<tr>
<td>Latrobe</td>
<td>Access to a larger number of resources and collections</td>
<td>Achieved</td>
</tr>
</tbody>
</table>

Source: Victorian Auditor-General's Office, based on information from audited councils.

From the survey data, the most common financial and non-financial benefits expected from shared service initiatives by councils are shown in Figure 3C. The two most common were financial, being cost savings in the delivery of the service and economies of scale. The next four most common expected benefits are related to each other and also important, being better outcomes for the community, improvements in the efficiency of service delivery, improvements in the quality of service delivery, and greater responsiveness to community needs.

Around a fifth—11 out of 58—of surveyed councils reported cost savings ranging between $6 000 to $1.3 million in relation to shared service activity. While these figures have not been verified by audit, these findings point to the potential for cost savings. Most of the savings were from shared procurement arrangements, while others were from external service delivery, such as regional library corporations, waste management and immunisation services. Savings reported from initiatives included through sharing of council officers, such as a municipal building surveyor or an environmental officer. Almost half of all councils that identified cost savings were small shire councils, while inner metropolitan councils were the only council group that did not report savings.
Expected benefits and outcomes from shared services

The Local Government Association in the UK has developed a map of shared service activities throughout England, which provides the number of arrangements in each region and summary data on the financial benefits and reported savings, where available, over the previous three years. This demonstrates that it is possible to measure cost savings from shared service initiatives.

Recommendations

That councils:

4. develop and implement comprehensive monitoring, evaluation and reporting on shared services, supported by reliable baseline data and clear and measurable outcomes.

That the Department of Transport, Planning and Local Infrastructure:

5. assists councils to improve their monitoring, evaluation and reporting of financial and non-financial benefits of shared services.
Support and guidance provided to councils

At a glance

Background
Local Government Victoria’s (LGV) role includes overseeing, supporting and encouraging local government and providing advice and support to councils in relation to their roles and responsibilities under the Local Government Act 1989. Providing councils with support and guidance to develop shared services is important to drive the take-up of shared services, share knowledge and better practices, and realise the potential benefits across the sector.

Conclusion
LGV has delivered shared services grant programs and provides a range of support and guidance to the sector to facilitate shared service initiatives, primarily in relation to procurement. These activities have generally been positive and have promoted collaboration among councils. There is an opportunity for LGV to build on its existing work to assist the sector to more fully realise the potential benefits of shared services. It should continue to improve the evaluation of its programs and the collection and sharing of information.

Findings
- LGV has funded a number of shared service initiatives since 2007.
- LGV has developed better practice guidance and resources that provide assistance in undertaking collaborative procurement activities.
- There is limited formal support to assist councils in planning, implementing or managing non-procurement related and council-initiated shared services.
- Data on shared service activity across the sector is currently not collected.

Recommendations
That the Department of Transport, Planning and Local Infrastructure:
- continues to improve the evaluation of its programs
- develops better practice guidance and templates to assist councils to run their own initiatives, taking into account likely new areas of activity
- gathers data on shared service activity in the sector to assess trends
- reviews the scope for greater sharing of back office functions.
4.1 Introduction

Local Government Victoria’s (LGV) role includes supporting and advising the Minister for Local Government in administering the Local Government Act 1989. It is also responsible for overseeing, supporting, and encouraging local government and providing advice and support to councils in relation to their roles and responsibilities under the Act.

Providing councils with support and guidance to develop shared services is important to drive the take-up of shared services, share knowledge and better practices and realise the potential benefits across the sector.

4.2 Conclusion

LGV provides a range of support and guidance to the sector to encourage greater use of shared service initiatives, primarily in relation to shared procurement. This includes delivering programs that provide grant funding for councils to implement shared service initiatives, and developing and disseminating guidance and resources. These have been positive initiatives that have promoted collaboration among councils and demonstrated the benefits of shared services in several areas. There is an opportunity for LGV to build on its existing work to assist the sector to more fully realise the benefits of shared services.

Evaluations of LGV’s more recent programs have improved. However, evaluations were not undertaken for earlier projects, so the opportunity to gather information that could inform future programs and the sector has been lost. LGV should continue to improve the evaluation of its programs and the collection and sharing of information.

Currently data on shared service activity in the sector is not collected to:
- assess trends
- demonstrate the costs and benefits of shared services
- assist in informing policy and program development
- target future activities and the development of appropriate support and guidance materials.

LGV should continue to focus its work on shared procurement activities and consider how the expected growth and change in direction to shared service activity for back office functions might impact its future policies and programs, and the support and guidance required by the local government sector.
4.3 Shared service programs

LGV has led the following shared service programs since 2007:

- Councils Reforming Business (CRB) program
- Local Government Reform Fund (LGRF) program
- Local Government Reform Strategy (LGRS).

4.3.1 Councils Reforming Business program

The $7.52 million CRB program ran from 2007 to 2011 and aimed to support councils to improve services and reduce costs and reduce red tape for businesses working with councils. This program was delivered in partnership with the Municipal Association of Victoria (MAV). It included $4.1 million funding for the Future of Local Government project, a partnership with the MAV that aimed to identify further ways councils could cut red tape to reduce the cost of doing business and identity opportunities for shared services.

Councils Reforming Business shared service projects

One of the CRB’s five key priority areas was to encourage greater use of shared services. Projects were designed to help councils explore how they could save time, cut costs and improve services delivered to their communities.

Work undertaken as part of the Future of Local Government project identified shared services as a priority area for local government. The MAV worked in collaboration with mayors and council chief executive officers to identify key areas of local government business that would benefit from shared services. This work identified that in order to improve external service delivery to the community; the focus should be on transforming councils’ internal or back office service delivery through council collaboration.

Core back office services that would benefit from shared service arrangements were identified, including:

- information and communications technology (ICT)
- procurement
- records and content management.

LGV provided $500 000 in funding to MAV in 2007–08 to test projects and determine their viability with stakeholders and then develop the recommended project proposals. Six shared service projects were subsequently provided funding totalling $885 000, including $400 000 for project development and management, under the CRB program in 2008–10. These projects were led by MAV, supported by LGV, and are shown in Figure 4A.
### Figure 4A
Councils Reforming Business Program shared service projects

<table>
<thead>
<tr>
<th>Title</th>
<th>Funding ($)</th>
<th>Description</th>
<th>Service area</th>
<th>Total councils involved</th>
<th>Key project outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared service ICT program</td>
<td>260,000</td>
<td>Establishment of a company with MAV and council shareholders to deliver ICT services to the member councils, including shared purchasing of ICT hardware and software to create common information technology (IT) platforms to provide access to improved, more integrated systems.</td>
<td>Back office—ICT</td>
<td>24</td>
<td>Development of a business case, options paper and audit of IT services of the 24 councils was undertaken before project stalled.</td>
</tr>
<tr>
<td>Enterprise content management (ECM) project</td>
<td>50,000</td>
<td>To improve the way that councils capture, manage, store, retrieve and share information and documents to address concerns about compliance and capacity in records management.</td>
<td>Back office—records management</td>
<td>52</td>
<td>ECM good practice framework developed, which councils measure themselves against on an annual basis. Program is ongoing.</td>
</tr>
<tr>
<td>Maternal and child health (MCH) systems project</td>
<td>45,000</td>
<td>Developing a system to provide statewide access to information relating to MCH data to improve planning of health and family services. It was developed in partnership with the Department of Education and Early Childhood Development (DEECD).</td>
<td>Back office—IT</td>
<td>–</td>
<td>Proposal developed with DEECD. Project stalled when Victorian Government did not proceed due to cost.</td>
</tr>
<tr>
<td>Property data project</td>
<td>50,000</td>
<td>Developing a common property model to ensure consistent and accurate property information to address widespread inconsistencies in the definition and management of property between councils.</td>
<td>Back office—planning</td>
<td>79</td>
<td>Developed common property data model, which was signed off by Department of Environment and Primary Industries, Australia Post and utilities.</td>
</tr>
</tbody>
</table>
**Figure 4A**

**Councils Reforming Business Program shared service projects – continued**

<table>
<thead>
<tr>
<th>Title</th>
<th>Funding ($)</th>
<th>Description</th>
<th>Service area</th>
<th>Total councils involved</th>
<th>Key project outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victorian census of land use and employment (VicCLUE) project</td>
<td>50 000</td>
<td>Gathering data on land use, employment and economic activity across municipalities. It included 23 councils piloting the City of Melbourne's VicCLUE program, which provides information about land use, employment and economic activity across municipalities.</td>
<td>Back office—planning</td>
<td>23</td>
<td>Pilots conducted with 23 councils over four years. Withdrawal of funding from the Victorian Government has slowed the project roll out.</td>
</tr>
<tr>
<td>Front of house services project</td>
<td>30 000</td>
<td>Exploring opportunities for the regional sharing of council officers, such as environmental health and building services. It aimed to provide a mechanism for councils to collaborate in identifying regional resource needs and collectively plan how to share and/or procure resources.</td>
<td>Back office—resourcing</td>
<td>12</td>
<td>Initial scoping work was undertaken in the Hume Region but project stalled since it relied on the Shared Service ICT program to proceed.</td>
</tr>
</tbody>
</table>

*Note: Municipal Association of Victoria is currently working on a leaner version of the maternal and child health systems project and 65 councils have expressed interest.*

*Source:* Victorian Auditor-General’s Office based on information from Local Government Victoria and Municipal Association of Victoria.

**Victorian Local Government Procurement Strategy**

The Victorian Local Government Procurement Strategy was developed under the Procurement Excellence Program, a procurement reform initiative of the CRB program. The strategy was developed with the aim of improving council procurement practices and increasing council collaboration.

The strategy identified that Victoria’s councils spent more than $2.7 billion on goods and services each year. This expenditure was largely on the procurement of goods and services in similar categories, regardless of the location and size of the council. The major areas of expenditure identified were:

- roads and associated infrastructure
- facilities, including building, construction and maintenance
- waste management
- plant and equipment.

The strategy identified that potential annual savings of $180 to $350 million were available to the sector through improved strategic procurement practices.

Research findings from this strategy supported the benefits available to local government through a collaborative approach to local government procurement, and LGV has appropriately focused on this area under its shared service programs.
Support and guidance provided to councils

Councils Reforming Business collaborative procurement projects

Grants for 13 projects totalling $830 000 were awarded in 2008, primarily focusing on collaborative procurement. The 13 completed projects encouraged councils to work together on a range of procurement projects and involved councils electing an area of potential collaboration and joining with councils in their region to develop the project. Some projects involved developing frameworks and models for future collaboration.

Three projects that involved councils participating in shared delivery of after-hours services or collaborative procurement are shown in Figure 4B, including key project outcomes.

**Figure 4B**

**Councils Reforming Business collaborative procurement projects**

<table>
<thead>
<tr>
<th>Title</th>
<th>Funding ($)</th>
<th>Description</th>
<th>Service area</th>
<th>Total councils involved</th>
<th>Key project outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner south mayor’s group after-hours shared communication services project</td>
<td>30 000</td>
<td>Commissioned research into an after-hours service to improve service delivery to communities by using existing council systems and infrastructure.</td>
<td>External: after-hours service</td>
<td>5</td>
<td>Research into the current and future needs of the municipalities. Developing a project that can potentially benefit all councils.</td>
</tr>
<tr>
<td>Regional after-hours service collaboration project</td>
<td>40 000</td>
<td>Aligned councils to one service provider to deliver after-hours contact services.</td>
<td>Shared procurement</td>
<td>5</td>
<td>Developed standardised scripts and protocols for after-hours service provision. Aligned five councils to one service provider.</td>
</tr>
<tr>
<td>Central regional procurement cluster development project</td>
<td>100 000</td>
<td>Developed a regional procurement cluster, including procurement profiles, analysis of procurement category spend and identification and development of collaborative opportunities. The cluster went out to tender on stationary.</td>
<td>Shared procurement</td>
<td>7</td>
<td>Produced a combined category spend analysis to highlight the cluster’s similar procurement spend. Highlighted new areas for collaboration.</td>
</tr>
</tbody>
</table>

Councils Reforming Business program evaluation

LGV commissioned an independent evaluation of CRB to measure the savings in regulatory costs to business and other entities that deal with local government, to identify outcomes and to recommend possible next steps for LGV. This was completed in October 2012 and was intended to cover all aspects of CRB, other than the Building Site Management project, which was still in progress. While potential savings of $180 to $350 million had been identified in the procurement strategy and some projects might have realised savings, no cost/benefit assessment was undertaken as part of the evaluation.

While the evaluation included the 13 collaborative procurement initiatives, there was no mention of the first six shared service initiatives. Evaluations of the 13 projects mainly consisted of reporting of project outcomes.

In 2010, LGV released a final report on the CRB program, which stated that all of the allocated funding had been expended. At the same time, it reported that the six original projects had not yet been completed, with some experiencing slight delays due to an opportunity to increase the scope of activity, and that MAV was continuing to collaborate with councils to develop business cases to implement the projects. MAV advised that three of the projects—shared service ICT program, maternal and child health systems and the front of house services project—had stalled. The status of the other three projects is shown in Figure 4A.

The conditions of the $500 000 funding LGV provided to MAV included the development of an evaluation framework for the first group of CRB projects, however, neither MAV nor LGV has provided evidence of an evaluation of these. Therefore the opportunity to capture lessons to inform future programs and the sector has been lost. In addition, significant funding has been expended with limited outcomes.

Knowledge gained by undertaking detailed reviews of all of the shared service projects funded under the CRB program could be applied by LGV to the development of future programs, used to inform appropriate support and guidance to councils, and shared with the sector to assist councils seeking to establish similar initiatives.

While one of the aims of the procurement strategy was to encourage collaboration throughout the sector, the evaluation found only very modest evidence of further collaboration between councils initiated outside of the program, and this was predominantly through regional networks.

However, LGV has established nine Regional Procurement Excellence Networks (RPEN) that operate across the state. Representatives from each council in a network work together to identify opportunities to collaborate and for further shared service procurement initiatives. LGV advised that these networks continue to operate and that it provided seed funding to Local Government Professionals—the peak organisation representing council officers—to form a Special Interest Procurement Group that includes representatives of each RPEN. This funding enabled the development of a local government procurement and contracting training course, which has been made available across the state.
4.3.2 Local Government Reform Fund program

The $1.6 million LGRF program, which ran from 2010 to 2012, built on the CRB program and aimed to assist councils to improve their financial and resource management capabilities and business practices. It was designed to deliver a broad range of outcomes, including:

- cost savings and process improvements that make a positive contribution to the financial viability of councils
- alignment with local government better practice processes
- investigation of alternate service delivery models and an improved understanding of the benefits of collaboration across Victorian local government
- delivery of lessons learnt to government and the sector to inform future policy making and planning
- capacity building of people and resources, particularly in regional and rural councils.

LGV developed four projects under the LGRF program, and all Victorian councils were invited to participate. Three of these projects encouraged collaboration, and 20 councils participated in these. These projects were fully funded by LGV and included project management, technical support and costs associated with backfilling council officer roles of those who were participating in the projects.

Completed projects saw councils collaborating on procurement in a range of areas, including bituminous road resealing, internal audit and undertaking best value service reviews, as shown in Figure 4C.

**Figure 4C**
Local Government Reform Fund collaborative procurement initiatives

<table>
<thead>
<tr>
<th>Title</th>
<th>Description</th>
<th>Service area</th>
<th>Total councils involved</th>
<th>Key project outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bituminous road reseal collaborative procurement initiative</td>
<td>Five regional and rural councils combined their bituminous road resealing expenditure, which was in excess of $4.6 million a year.</td>
<td>Shared Procurement</td>
<td>5</td>
<td>Delivered projected combined savings of $1.9 million over three years. Developed templates/tools for other collaborative projects.</td>
</tr>
<tr>
<td>Value-adding through internal audit</td>
<td>Fostering a collaborative approach to internal auditing across five rural councils, fleet management policies and frameworks were reviewed, producing both individual and group audit reports.</td>
<td>Shared Procurement</td>
<td>5</td>
<td>Highlighted the benefits of council collaboration in internal audits. Facilitated feedback and knowledge sharing of project experiences across the sector.</td>
</tr>
<tr>
<td>Building best value capacity</td>
<td>Two groups of five councils undertook best value service reviews of records management and customer service.</td>
<td>Back office—service reviews</td>
<td>10</td>
<td>Increased capacity within councils to understand and manage a best value review. Identified operational efficiencies within councils.</td>
</tr>
</tbody>
</table>

The three projects were completed in 2011–12 and evaluations prepared in July 2012. These evaluations documented outcomes, lessons, success factors, cost savings and other benefits, and recommendations. Feedback from participating councils through questionnaires and project acquittals informed the evaluations.

Limited information from these project evaluations is currently available on LGV’s website, but it has the capacity to provide more detailed information on the lessons from these projects to improve knowledge sharing with the sector. While cost savings was one of the aims of the LGRF program, savings were only identified for the bituminous road reseal collaborative procurement initiative. However, LGV advised that one council had reported considerable cost savings from the building best value capacity project.

Local Government Reform Strategy

Since 2012, LGV has continued its reform program under the LGRS to deliver a range of initiatives, including in relation to collaborative procurement. Six projects were launched under the LGRS program in 2013, which are primarily focused on collaborative procurement. Thirty-one councils are participating.

LGV has developed a status report that sets out the expected outcomes of these projects, which includes details of any projected cost savings, standardised documentation and models that are transferable across the sector. These projects were awarded total grant funding of $400 000 and are shown in Figure 4D.
Support and guidance provided to councils

40

Shared Services in Local Government

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Figure 4D
Local Government Reform Strategy collaborative procurement initiatives

<table>
<thead>
<tr>
<th>Title</th>
<th>Description</th>
<th>Service area</th>
<th>Total councils involved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared services governance model/building inspection shared services</td>
<td>Develop a governance model for shared services in rural Victoria and implement a shared service arrangement for building inspection services.</td>
<td>External</td>
<td>5</td>
</tr>
<tr>
<td>Collaborative procurement roadmap for major works and services</td>
<td>Review of procurement processes and practices in a number of selected services, which may include collaborative purchasing.</td>
<td>Shared procurement</td>
<td>10</td>
</tr>
<tr>
<td>Bituminous road resealing</td>
<td>Collaborative procurement of bituminous road resealing programs for three to five years.</td>
<td>Shared procurement</td>
<td>5</td>
</tr>
<tr>
<td>Category management—parks services</td>
<td>Undertake a collaborative review of councils’ major parks services contracts to identify and deliver collaborative opportunities and better practice contract management.</td>
<td>Shared procurement</td>
<td>3</td>
</tr>
<tr>
<td>WorkCover agency provider</td>
<td>Collaboratively procure WorkCover agent service provider contract.</td>
<td>Shared procurement</td>
<td>5</td>
</tr>
<tr>
<td>Conversion of heavy fleet vehicles to biodiesel</td>
<td>Feasibility study into the conversion of councils’ heavy fleet vehicle to biodiesel, with potential sharing of bulk fuel supplies/arrangements.</td>
<td>Feasibility study/</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Shared procurement</td>
<td></td>
</tr>
</tbody>
</table>

Source: Victorian Auditor-General’s Office.

4.3.3 Long-term outcomes

The majority of the CRB, LGRF and LGRS shared service projects focus on one-off collaborative pilot procurement projects. These may be quicker and easier to scope and implement in comparison to ongoing shared service initiatives. LGV’s approach is to undertake small pilot projects to encourage participation by the sector and gather information, rather than attempting large, ambitious initiatives that may pose a greater risk of failing. However, LGV has identified that the CRB program has not delivered ‘cultural change’ in the sector or outcomes that can be sustained over time. LGV is of the view that cultural change will be achieved by demonstrating the application of shared services and their benefits. This is a key part of driving change and contributing to a sustained long-term commitment to shared services by the sector.
4.3.4 Support and guidance for councils

LGV has developed better practice guidance and resources to assist in implementing shared procurement initiatives.

The following better practice guides support procurement:

- The *Victorian Local Government Best Practice Procurement Guidelines* (2013) include a small amount of guidance on collaborative procurement and use the LGRF’s bituminous road reseal project as an example.

- *Social Procurement: A Guide for Victorian Local Government* (2010) is part of the CRB’s Procurement Excellence Program. This guide is designed to encourage councils to produce positive social outcomes for their communities through the purchase of goods and services, such as generating local employment opportunities and reducing crime in the municipality. While it includes examples of collaborations on procurement between councils and agencies to achieve value for money—and includes an example of the shared service initiative, Community Chef, which is described as a social enterprise—it does not provide guidance on implementing and managing shared service projects.

LGV’s Procurement eHub (eHub) is an outcome of one of the 13 CRB collaborative procurement projects, and is a collaboration between 14 metropolitan councils. It is a centralised procurement resource facility, which includes standardised documentation, templates, training opportunities, case studies, links and discussion boards. An aim of eHub is to enable councils to collaborate with one another, share information and conduct procurement projects. The website also aims to enable shared tendering.

A suite of templates developed through the bituminous road reseal project are available on LGV’s website for use by the sector. These include tender documents and a strategic procurement plan that can be used for most procurement initiatives as a guiding document for a business case or implementation plan.

LGV provides the sector with progress updates of shared service projects under its programs through its fortnightly newsletter. LGV also provides support to councils in gaining the relevant ministerial approvals related to shared service initiatives.

LGV’s programs encourage and support selected shared service projects, and there is guidance and resources to assist in implementing collaborative procurement initiatives. Nevertheless, there is limited formal support and guidance to assist councils to plan, implement and manage non-procurement related shared service projects or projects that councils wish to implement of their own initiative. However, LGV advises it also provides advice and support to councils seeking to explore shared service opportunities.
Support and guidance provided to councils

Survey results—support and guidance from LGV
Councillors surveyed as part of the audit rated the assistance they received from LGV positively, with 61 per cent of councils rating it as good or very good.

More than 60 per cent of surveyed councils had participated in shared service initiatives through the CRB and the LGRF programs. Councils reported receiving several kinds of guidance and support from LGV, much of which would have been gained through participation in LGV’s programs. Councils reported:

- 38 per cent had received advice
- 36 per cent had received written guidance
- 16 per cent had received seed funding
- 9 per cent had received support in gaining the relevant ministerial approvals
- 24 per cent had either not used LGV support or guidance or did not know whether or not they had received such support or guidance.

When asked to identify the support and guidance from LGV that would be most useful in the future, councils identified:

- **seed funding**—63 per cent
- **advice**—54 per cent
- **written guidance**—48 per cent
- **participation in programs and initiatives**—45 per cent
- **support in gaining ministerial approvals**—29 per cent.

These findings indicate that, in contrast to patterns of current engagement with LGV, in terms of future engagement councils are more interested in seed funding and advice. Although it is not surprising that many councils selected seed funding as a preferred form of support, many councils are seeking to establish their own shared service initiatives in the future and resources needed to establish or maintain arrangements were commonly identified as a barrier.

The survey revealed that 64 per cent of councils had also received support from organisations other than LGV in relation to shared service initiatives. These organisations included:

- **MAV**—69 per cent
- **Victorian Government departments**—22 per cent
- **Procurement Australia** (a procurement company)—22 per cent
- **Commonwealth Government departments**—11 per cent
- **other councils**—17 per cent
- **other sources**—14 per cent.

The support received from these organisations was varied, but comprised primarily of advice—56 per cent, written guidance—36 per cent, participation in shared service programs and initiatives—36 per cent, and support in gaining the relevant ministerial approvals—17 per cent.

This finding provides some indication of the involvement of other organisations and indicates that councils are seeking and receiving guidance and support from a broad range of sources.
4.3.5 Future directions in shared services

Given that the survey results suggest further growth in shared procurement and a shift toward an increasing number of shared service initiatives for back office functions, LGV should consider what impact this shift in focus might have on its existing and future policies and programs. It should target its support and guidance to reflect this potential change in activity focus and assist councils to maximise any potential benefits.

Specifically, it should examine opportunities for potential cost savings and other benefits to local government through sharing back office functions, such as payroll and human resources. This type of analysis would assist councils to identify areas where the greatest cost savings or other benefits could be achieved, address some of the key issues and barriers, and identify potential success factors.

LGV advised that its review of opportunities in the local government system to contain the costs identified in the Victorian Government’s strategy, Securing Victoria’s Economy: Planning, Building, Delivering, released in December 2012, is yet to commence. This review is intended to include consideration of the scope for greater sharing of back office functions. However, a time frame for completion has not been identified.

Given the potential growth in back office shared services, this review would be timely. It should investigate the specific services where the most gains could be made in sharing back office functions, the expected benefits, effective methods of measuring actual benefits and approaches to managing challenges and risks.

4.4 Trend data on shared service activity

Data on shared service activity by Victoria's councils is not currently collected or reported. There is therefore limited information on the nature and extent of shared services in the sector. It was this information gap that prompted VAGO to undertake a survey of the sector to capture the extent of participation in shared services.

Gathering data on shared service activity in the sector on an ongoing basis would allow LGV to better understand trends. In other jurisdictions, such as the United Kingdom, trend data about shared services in the local government sector is publicly available, and includes the number or councils sharing services, the number of arrangements, the types of shared services and the financial benefits realised to date.

Collection and dissemination of sector trend information may inform policy development, targeting of future program areas and the development of other support and guidance materials. It may also support sharing of information with the sector, thereby providing councils with a better understanding of the area, including how to:

- identify challenges, success factors and opportunities for cost savings
- improve service delivery
- realise other benefits from adopting shared services.
Recommendations

That the Department of Transport, Planning and Local Infrastructure:

6. continues to improve the evaluation of its shared service programs to gain knowledge to share with the sector and inform the development of future programs

7. develops better practice guidance and templates to assist councils to plan, implement and manage their own shared service initiatives, including with a focus on likely new areas of shared service activity, such as back office functions

8. gathers data on existing shared services in the sector to assess trends, inform the sector and guide the development of future programs and support and guidance

9. reviews the scope for greater sharing of back office functions, including identifying functions most appropriate for shared services, potential cost savings and other benefits, and key barriers and risks.
Appendix A.

Audit Act 1994 section 16—submissions and comments

Introduction

In accordance with section 16(3) of the Audit Act 1994, a copy of this report was provided to the Department of Transport, Planning and Local Infrastructure and to the following six councils:

- Colac Otway Shire Council
- Hepburn Shire Council
- Hobsons Bay City Council
- Hume City Council
- Latrobe City Council
- Stonnington City Council.

The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

- The Department of Transport, Planning and Local Infrastructure ........................................46
- Colac Otway Shire Council ........................................................................................................48
- Hepburn Shire Council ...........................................................................................................50
- Hobsons Bay City Council .......................................................................................................52
- Hume City Council .................................................................................................................53
- Latrobe City Council ................................................................................................................55
- Stonnington City Council ........................................................................................................57
RESPONSE provided by the Executive Director, Local Government Victoria for
the Secretary, Department of Transport, Planning and Local Infrastructure

Department of Transport,
Planning and Local Infrastructure

Ref. CSEO29894

Mr John Doyle
Auditor General
Victorian Auditor General’s Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Doyle:

PROPOSED PERFORMANCE AUDIT REPORT SHARED SERVICES IN LOCAL GOVERNMENT

Thank you for your letter of 8 May 2014 providing me an opportunity to respond to the Proposed Audit Report Shared Services in Local Government.

In accordance with the provisions of section 16 (3) (b) of the Audit Act 1994, I take this opportunity to respond to your report.

I congratulate you on the breadth of engagement with all council Mayors and Chief Executive Officers as the results provided valuable context to the report and will assist us in the planning of future reform agendas.

The report accurately reflects not only the diversity of implemented programs, but also the complexities inherent to the implementation of shared services agreements.

In reference to the specific recommendations for the Department of Transport, Planning and Local Infrastructure located on page xiii, I make the following comments:

Recommendation 2:
Local Government Victoria (LGV) will continue to identify a range of back office functions that have the potential for, and would benefit from, an appropriate shared services model. The identification of services will also be informed by evaluation of the ‘Shared Services Project: North East Victoria’ which is currently funded under the Local Government Reform Strategy (LGRS) and will be completed in the first quarter of 2015.

Recommendation 3:
LGV is currently producing guidance to councils based on the experience of currently funded projects and the challenges faced in their implementation. This information paper will be released in September 2014.

Recommendation 5:
Recent reforms to the Performance Reporting and Accountability arrangements for all councils and the implementation of the mandatory performance reporting framework will strengthen the standard of financial and non-financial reporting of all councils. This would include the impact of shared services initiatives undertaken in that period.
RESPONSE provided by the Executive Director, Local Government Victoria for
the Secretary, Department of Transport, Planning and Local Infrastructure –
continued

Recommendation 6.
The detailed evaluation of shared services programs is standard practice for all Local Government
Reform Strategy projects with regular reporting of results to the LGRS Reference Group. Project
summaries are provided on the LGV website and promoted through the Local Government
Newsletter. LGV will continue to examine the most effective manner in which to disseminate this
information.

Recommendation 7.
Guidance material (as per response 3 above) will be made available to the sector in September
2014. The development of better practice guidelines and templates will be developed in
conjunction with the sector and LGV will seek the input of the Australian Centre of Excellence for
Local Government (ACELG) who continues to gather considerable research data and evidence on
reform initiatives such as shared services. The release of better practice guidelines will occur in the
first quarter of 2015.

Recommendation 8.
LGV will continue to encourage all councils and peak associations to contribute to the collection
of data and the evaluation of shared services projects and work with LGV to inform the broader
sector. This process will be similar to that adopted for the South West Rural Councils Fleet and
Heavy Plant Management project. The original findings of a ‘Shared Services Internal Audit’
program funded by the Local Government Reform Fund have been further developed to the point
that Rural Councils Victoria will shortly release the ‘Fleet Management Toolkit: RCV Regional
Collaboration in Fleet Management’. This toolkit will be made available to all Victorian Rural
Councils.

Recommendation 9.
The identification of other shared services opportunities for back office function will be the
culmination of a number of the activities referred to above. It is expected that learning’s from the
direct project participation will continue to inform future planning in the area of shared services.
LGV will consult closely with the sector in developing this agenda.

The contribution my Department can make to future shared services initiatives in local government
is significant and I am confident that through further refinement of current reporting and
information sharing practices that this contribution will continue to grow.

Yours sincerely

Dean Yates
Secretary
20/5/2014
EXECUTIVE DIRECTOR’S OFFICE
LOCAL GOVERNMENT VICTORIA

Department of Transport, Planning and Local Infrastructure
RESPONSE provided by the Chief Executive Officer, Colac Otway Shire Council

Dear Mr Doyle

Performance Audit – Shared Services in Local Government

I refer to your letter dated 8 May 2014 concerning the Proposed Performance Audit Report on Shared Services in Local Government.

Please find attached Council’s Proposed Action Plan in response to the recommendations in the Audit Report.

I would like to thank the Victorian Auditor General’s Office for the opportunity to provide comment on the report and for being one of the six Victorian Councils involved in the Audit.

Council agrees that Shared Services is important when considering the cost pressures and other challenges that are facing Local Government.

The Audit Report provides Council with guidelines for consideration when pursuing possible Shared Services which will be beneficial when analysing various options.

It should be noted that even though regional organisations of Councils were not considered part of the Audit, Colac Otway is a member of both G21 and Great South Coast Groups of Councils. Colac Otway has been involved in a number of strategies and other projects and studies that have been jointly undertaken.

The relationship has provided many benefits for Colac Otway and assisted in undertaking work that we would not have been able to achieve by ourselves.

Yours sincerely,

Rob Small
Chief Executive Officer

Attach: Action Plan
**RESPONSE provided by the Chief Executive Officer, Colac Otway Shire Council**

– continued

<table>
<thead>
<tr>
<th>No</th>
<th>VAGO Recommendation</th>
<th>Proposed Action/Council</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>That Councils ensure future initiatives are soundly based, including clearly identifying expected benefits and costs and how they will be measured.</td>
<td>The VAGO’s report provides guidance for Council where Shared Services are being considered in the future.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>4</td>
<td>That Councils will develop and implement comprehensive monitoring, evaluation and reporting on Shared Services, supported by reliable baseline data and clear and measurable outcomes.</td>
<td>The need to better monitor, evaluate and report on Shared Services is recognized as an area that needs to be improved. Further analysis will be undertaken of the Audit Report to establish guidelines for the future when considering Shared Services. Assistance from the Department of Transport, Planning and Local Infrastructure and the development of guidelines would be beneficial.</td>
<td>30/6/2015</td>
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RESPONSE provided by the Chief Executive Officer, Hepburn Shire Council

File Ref: FOL/14/437
15 May 2014

Mr John Doyle
Auditor-General
Level 24
35 Collins Street
MELBOURNE VIC 3000

Dear Mr Doyle,

Performance Audit – Shared Services in Local Government

Thank you for the opportunity to provide comment on the Proposed Performance Audit Report – Shared Services in Local Government.

The Hepburn Shire Council is pleased to be one of the six Victorian Councils to participate in the Performance Audit – Shared Services in Local Government. We recognise the importance of shared services in Local Government and the benefits that can be derived.

Hepburn Shire Council supports the findings of the Proposed Audit Report and recognises that Local Government interest in shared services is only going to increase due to cost pressures, desire for improved service quality and the need for better community outcomes.

In order to facilitate the growth of shared services in Local Government support, guidance and funding is required to ensure real quantifiable benefits are delivered.

There are many good examples of shared services in Local Government and the intellectual property gained from these needs to be shared to encourage others to participate.

Hepburn Shire Council participated in a very successful bituminous road reuse collaborative procurement initiative that delivered real savings to all councils involved. The learnings from this shared procurement activity were that a dedicated funded resource was required to support the councils involved to develop standardised analysis, templates and tools.

The recommendations contain two improvement opportunities for councils and seven for the Department of Transport, Planning and Local Infrastructure. I would like to confirm that Hepburn Shire Council accepts all nine improvement opportunities.

Hepburn Shire Council has commenced discussions with neighbouring councils and is working with the Grampians Region Mayors and CEOs forum to stimulate interest in shared services.
RESPONSE provided by the Chief Executive Officer, Hepburn Shire Council – continued

-2-

I am confident that with the recommendations of this Proposed Audit Report and with the support of the Department of Transport, Planning and Local Infrastructure that Hepburn Shire Council and the Grampians region can work together to implement shared services that deliver real cost savings and improved service delivery.

Yours sincerely,

AARON VAN EGIMOND
Chief Executive Officer

enc: Attachment 1 – Proposed Action Plan

Attachment 1

Proposed Action Plan – Shared Services in Local Government

<table>
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<th>No</th>
<th>Recommendation</th>
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<tbody>
<tr>
<td>1</td>
<td>Ensure future initiatives are soundly based, including clearly identifying expected benefits and costs and how they will be measured</td>
<td>To be implemented through detailed business cases for all proposed shared services initiatives</td>
<td>Ongoing</td>
</tr>
<tr>
<td>3</td>
<td>Develop and implement comprehensive monitoring, evaluation and reporting on shared services, supported by reliable base line data and clear and measurable outcomes</td>
<td>To be developed and implemented as part of all proposed shared services initiatives</td>
<td>Ongoing</td>
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RESPONSE provided by the Chief Executive Officer, Hobsons Bay City Council

22 May 2014

Mr John Doyle
Audit-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Doyle

AUDIT REPORT SHARED SERVICES IN LOCAL GOVERNMENT

Thank you for the opportunity to comment on the audit report into Shared Services in Local Government.

Hobsons Bay has been involved in a number of shared services initiatives over recent years, most noticeably the Regional Kitchen, located in Hobsons Bay. For Hobsons Bay there have been clear benefits in relation to certainty of meal supply and local employment, but Council acknowledges the report findings that more comprehensive monitoring and evaluation of the benefits in terms of cost and customer satisfaction has been inadequate.

Council agrees with report recommendations 1 and 4 that any shared services initiatives need to be soundly based and appropriately monitored and evaluated. Council is also pleased that further recommendations in relation to the Department of Transport, Planning and Local Infrastructure have been made. The Department has an opportunity to provide councils with the necessary assistance to guide and influence decisions in relation to shared services.

Hobsons Bay will ensure that it complies with your recommendations in relation to future initiatives it is involved with and looks forward to the Department assistance that you propose.

Yours faithfully

Chris Doyle
CHIEF EXECUTIVE OFFICER
RESPONSE provided by the Chief Executive Officer, Hume City Council

Wednesday, 21 May 2014

Mr John Doyle
Auditor-General
Level 24, 35 Collins Street
MELBOURNE 3000

Dear Mr Doyle

RE: PERFORMANCE AUDIT – SHARED SERVICES IN LOCAL GOVERNMENT

Thank you for the opportunity to provide comment on the Proposed Performance Audit Report on Shared Services in Local Government.

Council acknowledges the challenges of implementing shared services in Local Government as highlighted in the audit report.

I note the recommendations require councils to ensure future initiatives are soundly based, comprehensively monitored, evaluated and supported by reliable baseline measures. I confirm that Council accepts both of the report’s recommendations.

A proposed action plan addressing the recommendations is included at Attachment 1.

Once again, thank you for the opportunity to comment on the proposed report.

Yours faithfully

DOMENIC ISOLA
CHIEF EXECUTIVE OFFICER
**RESPONSE provided by the Chief Executive Officer, Hume City Council – continued**

**Attachment 1: Proposed Action Plan – Shared Services in Local Government**

<table>
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<tr>
<th>Recommendation</th>
<th>Proposed Action</th>
<th>Target date</th>
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<tbody>
<tr>
<td>Ensure future initiatives are soundly based, including clearly identifying expected benefits and costs and how they will be measured.</td>
<td>Agree with Recommendation Council as part of the significant Community Chef Shared Service initiative ensured that a rigorous Business Case and due diligence process was followed however acknowledges that greater clarity must be provided for the benefits and costs and their measurement.</td>
<td>As required with future initiatives</td>
</tr>
<tr>
<td>Develop and implement comprehensive monitoring, evaluation and reporting on shared services, supported by reliable baseline data and clear and measurable outcomes.</td>
<td>Agree with Recommendation Council will ensure that all future Shared Services initiatives include reliable baseline data as part of a robust Business Case.</td>
<td>As required with future initiatives</td>
</tr>
</tbody>
</table>
RESPONSE provided by the Mayor, Latrobe City Council

20 May 2014

Mr John Doyle
Auditor-General
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Doyle

PERFORMANCE AUDIT – SHARED SERVICES IN LOCAL GOVERNMENT

Thank you for the opportunity to provide comment on the Proposed Performance Audit Report on Shared Services in Local Government.

Latrobe City Council is pleased to be one of the six Victorian Councils to be audited on this matter. We recognise the importance of identifying opportunities for council to reduce costs and to maintain or improve services.

I am pleased that the audit has identified opportunities and future directions for shared services in Local Government. I would like to confirm that Latrobe City Council accepts these recommendations and will continue to work toward implementing efficiencies within all of our services, particularly where shared services apply. I note that we also welcome any opportunity to work with the Department of Transport, Planning and Local Infrastructure to support them in implementing the recommendations that your office has identified which are specific to them.

Within our Council Plan 2013-2017, I note that one of our Council's strategic directions is to continuously review our policies and processes to increase the efficiency and quality of the services we provide.

A proposed action plan addressing each of the recommendations is set out in Attachment 1.
RESPONSE provided by the Mayor, Latrobe City Council – continued

Once again, I thank for the opportunity to comment on the proposed report.
If you require further information please contact Allison Down, Manager Risk and Compliance on (03) 5128 6190 or via email allison.down@latrobe.vic.gov.au.
Yours sincerely

CR SHARON GIBSON
Mayor

Attached: Proposed Action Plan – Shared Services in Local Government

Attachment 1 – Proposed Action Plan – Shared Services in Local Government

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ensure initiatives are soundly based, including clearly identifying expected benefits and costs and how they will be measured</td>
<td>Latrobe City Council will undertake a review of relevant project planning and procurement documentation to identify opportunities to amend and update these to identify provisions relevant to shared services within Local Government.</td>
<td>31/03/2015</td>
</tr>
<tr>
<td>2</td>
<td>Develop and implement comprehensive monitoring, evaluation and reporting on shared services, supported by reliable baseline data and clear measurable outcomes</td>
<td>Latrobe City Council has implemented cost and quality KPIs in line with Best Value Principles to measure all existing services. We understand that Recommendations 5 and 7 of this report is for the Department of Transport, Planning and Local Infrastructure (DTPLI) to develop and implement comprehensive monitoring, evaluation and reporting on shared services. In this regard, Latrobe City Council will assess any guidance material provided by DTPLI and will continue to identify opportunities to improve and achieve efficiencies in services delivery, including shared service arrangements.</td>
<td>To be reviewed 30/02/2015</td>
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RESPONSE provided by the Chief Executive Officer, Stonnington City Council

21 May 2014

Mr Andrew Evans
Victorian Auditor-General’s Office
Level 24
35 Collins Street
Melbourne 3000

Dear Mr Evans

Re: PROPOSED PERFORMANCE AUDIT REPORT ‘SHARED SERVICES IN LOCAL GOVERNMENT’

I refer to your letter of 8 May 2014 inviting submissions or comment on the above draft report by 22 May 2014.

There are two recommendations which appear to be applicable to Council (refer page xii of the draft report).

1. ensure future initiatives are soundly based, including clearly identifying expected benefits and costs and how they will be measured.

4. develop and implement comprehensive monitoring, evaluation and reporting on shared services, supported by reliable baseline data and clear and measurable outcomes.

Council does not object to either recommendation.

Recommendation 1 is supported and considered an important aspect in the establishment of shared services. This will be achieved by defining key benefits through an appropriate business case and establishing benefits and outcomes that can be readily measured to determine success of the initiatives. It is accepted that the development of measures can be challenging.

With respect to recommendation 4, it would be helpful if Local Government Victoria could provide a standardised reporting framework for each shared service in order to ensure consistency of reporting across all Councils. This matter may be covered in recommendation 5 of your report.

Yours sincerely

Warren Roberts
Chief Executive Officer

Copy via email to: janet.wheeler@audit.vic.gov.au
# Auditor-General’s reports

## Reports tabled during 2013–14

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<tr>
<td>Developing Transport Infrastructure and Services for Population Growth Areas (2013–14:2)</td>
<td>August 2013</td>
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<tr>
<td>Asset Confiscation Scheme (2013–14:3)</td>
<td>September 2013</td>
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<tr>
<td>Oversight and Accountability of Committees of Management (2013–14:20)</td>
<td>February 2014</td>
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<tr>
<td>Report title</td>
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