



## **Shared Services Project**

### Final Report

8 September 2017

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## AN EXECUTIVE SUMMARY

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### AN OVERVIEW

For over two decades the local councils in the Cradle Coast have been collaborating in various forms. Although some sharing exists, and there are instances of broader regional and sub-regional sharing, there is not a whole of Cradle Coast shared service strategy or model in place. Third Horizon's assessment concludes that significant benefits can be realised through a broader application of shared service arrangements across the Authority councils.

Third Horizon was engaged to provide an objective and independent point of view on whether benefits existed for further sharing arrangements across the nine Cradle Coast Authority Councils. This took the form of identifying functions which are suitable for sharing and making a recommendation on which shared services model would best suit each functional area. Third Horizon applied a range of high-level quantitative and qualitative assessments on the functions performed by Cradle Coast Councils. A series of recommended shared service model options and high level implementation strategies were developed for shared services candidates.

The completion of this engagement, however, proved to be challenging on multiple levels. From the beginning there was frank recognition of the tension between the different councils and that this tension would come into play and limit agreement on possible sharing arrangements. Furthermore, the level and usability of data provided by councils varied. Some councils provided minimal data, others expressed little confidence in their data, while some councils had limited participation in interviews and meetings.

As a result two truths need to be acknowledged. First, many service areas would benefit from shared services arrangements. Second, it may be difficult for any party to let go of local interest on behalf of a shared vision and shared action for the Cradle Coast region as a whole.

### THIRD HORIZON'S RECOMMENDATIONS

Third Horizon's evaluation indicates that an increase in sharing arrangements across Cradle Coast Councils could provide significant qualitative and quantitative gains. We assessed the high level financial benefits that the councils could collectively realise through shared services and evaluated the expected complexity of implementation. A list of priority functions and indicative benefits<sup>1</sup> is outlined in the table below:

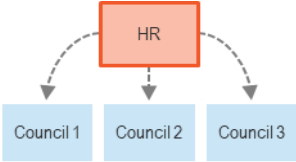
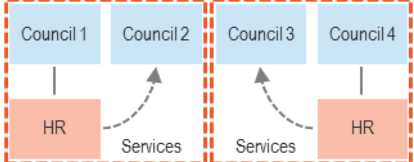
Function	Potential Qualitative Benefits	Potential Quantitative Benefits (millions)
Procurement	> Standardising processes increases efficiency and reduces procurement cycle time > Increased sharing can provide a capability uplift in procurement	\$2.5+

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<sup>1</sup> These benefits are high level indicators of potential cost reductions in selected functions, based on Third Horizon's analysis. These benefits do not factor in investment costs. It is recommended that the following phases conduct detailed analysis of financial benefits.

Information Technology	<ul style="list-style-type: none"> <li>&gt; A shared IT environment enables process standardisation across councils</li> <li>&gt; Shared IT services can provide an IT capability uplift</li> </ul>	34% avoided cost on regional IT upgrade scenario (\$1+)
Finance	<ul style="list-style-type: none"> <li>&gt; Reduction in duplication and inefficiencies</li> <li>&gt; An increased scale can enable capability uplift and help attract and retain specialist talent</li> </ul>	\$1.5+
Human Resources Management	<ul style="list-style-type: none"> <li>&gt; Reduction in duplication and inefficiencies</li> <li>&gt; An increased scale can enable capability uplift and help attract and retain specialist talent</li> </ul>	\$0.5+
Waste Management	<ul style="list-style-type: none"> <li>&gt; Optimise waste management infrastructure</li> <li>&gt; Sustained operational efficiency and benefits realisation</li> </ul>	\$3.5+
Total		\$9+

Based on the operational nature of each service and how benefits could be realised, our final recommendations took the form of two shared services models: independent shared services and sub-regional arrangements.

INDEPENDENT SHARED SERVICES	SUB-REGIONAL ARRANGEMENTS
	
<ul style="list-style-type: none"> <li>&gt; A shared services entity provides the service to all other councils.</li> <li>&gt; Services levels are established.</li> <li>&gt; Fees are incurred based on service levels</li> </ul>	<ul style="list-style-type: none"> <li>&gt; A sub-set of councils share a service</li> <li>&gt; A shared resource provides the service to more than one council, with agreed service parameters.</li> <li>&gt; A cost sharing model is established (e.g. service fees, cost sharing).</li> </ul>

Third Horizon recommends that an independent shared services model and sub-regional arrangements are considered as part of the Cradle Coast strategy to enable sharing across Cradle Coast Councils. The specific model recommendation for each function is based on several factors, such as potential for standardisation and local knowledge requirements. The recommended model for some of the assessed functions is illustrated in the below diagram.

SHARED SERVICE	
GENERAL	
	Procurement
CORPORATE SERVICES	
	Information Technology
	Finance
	Human Resource Mgmt.
	Communications
	Economic Dev.
	Other Corporate

SUB-REGIONAL SHARING	
WORKS & SERVICES	
	Waste Management
	Emergency Services
	Transport Works
	Parks & Reserves
	Other W&S
PLANNING AND REGULATION	
	Parking
	Animal Control and Regulation
ENVIRONMENTAL HEALTH	

**Recommendation: Establish a shared service model**

A shared services model would consolidate provision of standardised services to the councils. Standardising these functions into a shared service model would deliver cost efficiencies and improve the quality of outcomes. A shared services model could potentially include strategic and advisory services such as planning and economic development. Removing responsibility for execution of these activities from individual councils, will also allow them to focus on core strategic activities.

**Recommendation: Establish / expand sub-regional sharing arrangements**

We recommended that councils work on establishing more structured sharing arrangements for high-potential functions selected for inter-council arrangements. Commencing with higher value functions, councils could either expand or replicate existing sharing arrangements. Once sub-regional sharing has been successfully implemented for prioritised services, councils could seek to expand the sharing across other high-potential functions.

To implement these recommendations Third Horizon suggests a three phased approach. Phase 1 should focus on standing up a shared service model for the area with the highest potential (based on size of opportunity and ease of implementation) in order to realise short term benefits and build trust among the councils. It is also recommended that Information Technology be addressed in Phase 1 for it would be a key enabler to broader sharing. Phase 2 and 3 would then focus on medium potential opportunities. A phased strategy would address councils' objectives and maintain focus on longer term possibilities. Proposed phasing is outlined below:

Model	Phase 1 High Potential Opportunities	Phase 2 Medium Potential Opportunities	Phase 3 Medium-Low Potential Opportunities
Shared Services	<ul style="list-style-type: none"><li>&gt; Procurement</li><li>&gt; Information technology</li></ul>	<ul style="list-style-type: none"><li>&gt; Finance</li><li>&gt; Human Resource Mgmt.</li></ul>	<ul style="list-style-type: none"><li>&gt; Economic Development and Communications*</li><li>&gt; Other Corporate*</li></ul>
Sub-Regional Sharing		<ul style="list-style-type: none"><li>&gt; Waste Management (Works and Services)</li></ul>	<ul style="list-style-type: none"><li>&gt; Other Works and Services</li><li>&gt; Community Services*</li></ul>

\* Note that some functions with medium-low potential value are included in Phase 3, which nevertheless could deliver qualitative benefits and cohesion to the region. Third Horizon recommends that Cradle Coast councils consider and revisit this list based on the results of the first two phases.

## IMPLICATIONS

The Cradle Coast Councils must be mindful of a number of factors which enable sharing but also present risks which will need to be adequately monitored and managed, notably technology requirements and political support.

Information and communication technologies are critical enablers of inter-organisation sharing, without which most of the potential benefits cannot be realised. In addition, digital innovation is disrupting the way ratepayers experience the council services and will potentially transform the parameters of council operations. Any sharing initiative will need to account for the development of a coherent ICT platform that support current and future operational demands.

While at no point did this study consider or suggest amalgamation of councils, the potential for political discourse touching on potential amalgamations may arise in the future. In February 2016, Peter Gutwein, the Minister for Planning and Local Government, stated that “the Government is committed to ensuring that ratepayers are receiving the best possible services for the lowest possible rates and it is important that we look at voluntary amalgamations and resource sharing as part of that”. While the Minister noted several factors that work against these, the rhetoric signals the political will to demonstrate action is taken to improve efficiency. Local councils are therefore encouraged to take proactive leadership in realising shared services benefits for their ratepayers and stakeholders.



## INTRODUCTION

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Over two decades, local councils in the Cradle Coast have been collaborating in various forms. During this period the Cradle Coast Councils have established a wide range of sharing arrangements in response to specific resource needs and efficiency opportunities. This level of collaboration has arguably increased and became more open in the past two years as evidenced in regular meetings between Mayors, General Managers, and professional officers, respectively. Resource sharing is a key topic for Cradle Coast Councils.

This report was commissioned by the Cradle Coast Authority to review current levels of resource and/or service sharing among Cradle Coast Councils, and to explore opportunities for greater strategic resource sharing/shared services. At this point in time there are already a number of creative and effective sharing arrangements in place at different levels for statutory and discretionary services.

## HISTORY OF CRADLE COAST SHARING

A historical review provides a perspective on the ability of councils to establish agreements for resource and service sharing, as well as evidence of their capability to operate jointly.

The forced amalgamation in 1993 from 47 to 29 councils was a watershed in inter-council relationships. New sharing arrangements between the councils have since been explored and implemented across a number of operational areas:

1. In 1993 Kentish and Latrobe councils established a joint authority scheme that lasted until 2001.
2. In 1993 Kentish, Latrobe, Central Coast and Devonport created the Dulverton Waste Management to provide waste disposal and organic compost services.
3. In 1996, Burnie, Waratah-Wynyard and Circular Head councils entered into a shared IT arrangement, later this included West Coast. Circular Head and West Coast determined to move away from the arrangement in the early 2000's. There remains an arrangement between Burnie, Waratah-Wynyard and Latrobe with Tas Communications Pty Ltd, a fully owned subsidiary of Burnie Council.
4. In 1999 the Cradle Coast Authority (CCA) was established to represent and advocate the needs of the nine councils in the North West region of Tasmania.
5. In 2000 the Premier's Local Government Council (PLGC) was established to discuss relevant issues between State and Local Governments.
6. In 2002 Burnie and Waratah-Wynyard studied workforce integration and voluntary amalgamation schemes. The recommendations have not been fully implemented.
7. In 2004 the Cradle Coast Waste Management Group was created to facilitate regional conversations on recycling and waste management opportunities.
8. In 2008 Waratah-Wynyard and Circular Head signed a cross-functional sharing arrangement.
9. In 2010 collaboration between Kentish and Latrobe revived by appointing a shared General Manager.
10. In 2013 a study evaluated joint delivery of visitor services across the region. The recommendations have not been fully implemented.
11. In 2014 a study evaluated the opportunities in the coordination of governance and management of waste infrastructure. The recommendations have not been fully implemented.
12. In 2016 Kentish/Latrobe and Waratah-Wynyard/Circular Head reviewed their resource sharing arrangements.
13. In 2016 the five westernmost councils signed the Sustainable Murchison 2040 plan that delineates a regional vision for their interconnected economies.

## PROJECT OVERVIEW

### REQUIREMENTS

This project focused on providing an objective point of view for the nine Cradle Coast Councils to holistically consider shared services options in the region. The project brief set the following four primary principles to guide and shape any outcome:

- > Be in the interest of ratepayers.
- > Improve the level of services for communities.
- > Preserve and maintain local representation.
- > Ensure the financial status of the entities is strengthened.

The project was tasked with achieving the following desired outcomes:

1. Critically examine the current status of resource sharing / shared services in the region; and
2. Determine whether a broader and more effective model can be developed.

Therefore Third Horizon's study shaped itself around answering a number of key questions:

- > What functions and services are currently shared?
- > How well are these arrangements working?
- > What functions and services are best suited to shared arrangements, both generally speaking, and particularly in the Cradle Coast context?
- > For each possible shared service or resource, what is the evidence for considering a shared arrangement?
- > What models of sharing would be highly effective and respectful of regional, sub-regional or neighbouring aspirations and differences?
- > Where there is a clear case for new shared arrangements, how do we get there?

Sitting above these questions was a practical one:

- > How can political will of individual councils be factored in a pragmatic roadmap to capture regional, sub-regional or neighbouring opportunities for sharing appropriate services and resources?

### STUDY LIMITATIONS

This study sought to provide a holistic view of current state sharing arrangement and an indication of future possible sharing arrangement. However there are a few key limitations to this study:

- > Third Horizon conducted a series of benchmark analysis of the Cradle Coast Councils which included external entities, however this report does not seek to explain the relative positions of these entities in relation to the Cradle Coast.
- > Councils were encouraged to actively engage and participate throughout the engagement. The information contained in this report best reflects the information provided, but conclusions are based on the extent to which each council provided information, participated and engaged.
- > It should be recognised that quantitative implications are indicative and are based on the quantity and quality of both financial and non-financial information, provided by the Cradle Coast Councils.
- > It is to be noted that this study provides a strategic direction to shared services based on a high-level view of services across the region. It is expected that these recommendations be taken into a planning phase in which detailed operational evaluations and service-specific business cases are developed.

## CURRENT STATE & FEASIBILITY

### CATALOGUE OF SERVICES

The Cradle Coast Councils are positioned in a fundamental role to serving local communities. They are responsible for providing their constituents with services, facilities and infrastructure that enable them to develop and improve the quality of life. This includes determining the strategy and allocating resources in a fair, inclusive and sustainable manner. As the third tier of government, councils also carry out the powers and functions of local government. The diagram below illustrates the scope of services currently offered by the councils<sup>2</sup>.

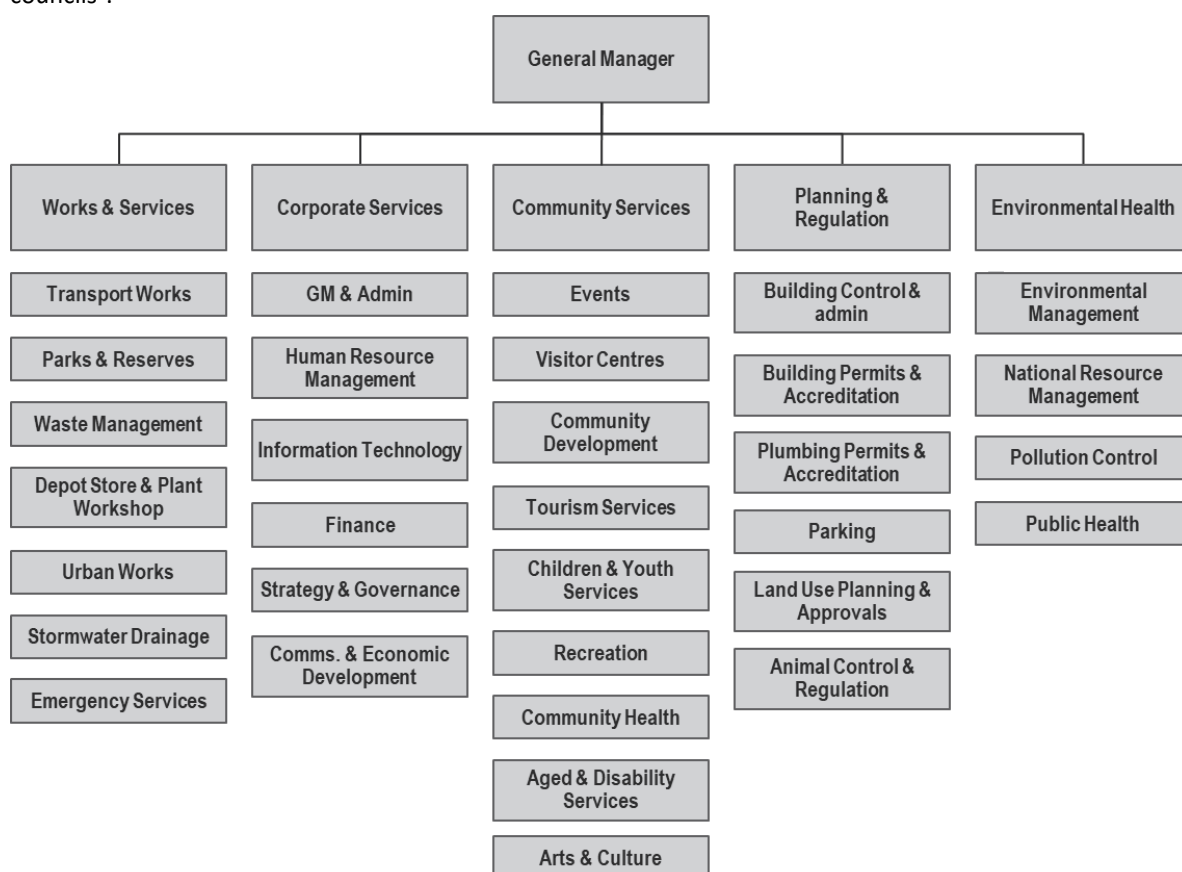


Diagram 1. Overview of Council Services

<sup>2</sup> The functional overview is indicative and non-comprehensive. Not all councils provide every service depicted

## Works and Services

Works and Services accounts for approximately 62% of council expenditure.<sup>3</sup> This area is predominately responsible for constructing and maintaining council assets such as roads, parks, buildings as well as providing waste management services. The majority of work completed within Works and Services requires physical on-site delivery and has low levels of face-to-face community interaction. The diagram below illustrates the breadth of functions within Works and Services.

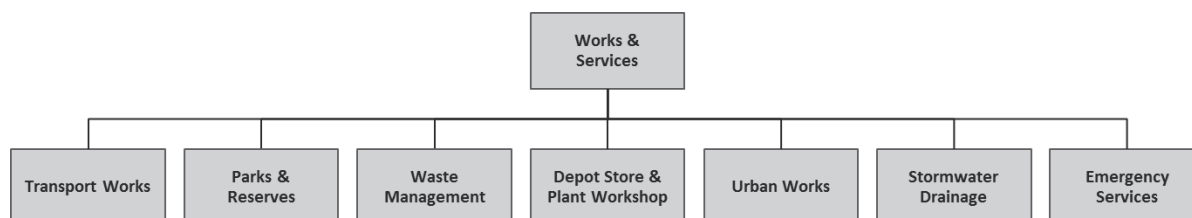


Diagram 2. Works and Services Functional Breakdown

For each of the functions illustrated above, we have provided a high level overview of sample activities offered by the councils.

FUNCTION	ACTIVITIES (sample)
Transport Works	> Construction and maintenance of roads, bridges, carparks, footpaths, roundabouts, traffic islands etc.
Parks and Reserves	> Maintenance and construction of parks, reserves and sport facilities
Waste Management	> Bin collection services > Landfill and transfer station operations
Depot Store and Plant Workshop	> Management of depot store > Maintenance of council building assets > Inventory management
Urban Works	> Construction and management of lighting, street cleaning, signage etc.
Stormwater Drainage	> Construction and maintenance of stormwater and reticulated drainage
Emergency Services	> Emergency response units > Support other state and emergency organisations (State Emergency Service, Tasmanian Fire Service, etc.)

Table 1. Works and Services – Sample Activities

## Corporate Services

Corporate Services accounts for approximately 16% of council operating expenditure.<sup>4</sup> It is an enabler for council operations providing many of the back-office functions that support frontline council activities. The functional scope of activities within Corporate Services varies from strategic level planning and governance through to more transactional activities like payroll, accounts payable and accounts receivable. The diagram below illustrates the breadth of functions and sub-functions within Corporate Services.

<sup>3</sup> Based on a sample of approximately 65% of 2014-15 expenditure data as provided by Cradle Coast Councils

<sup>4</sup> Based on a sample of approximately 65% of 2014-15 expenditure data as provided by Cradle Coast Councils

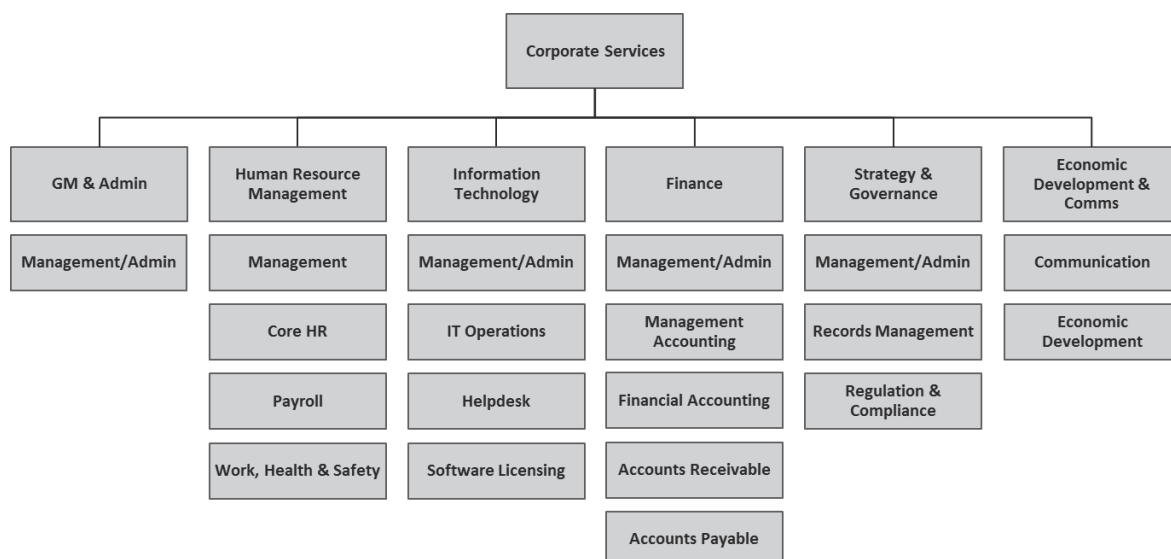


Diagram 3. Corporate Services Functional Breakdown

For each of the functions illustrated above, we have provided a high level overview of sample activities offered by the councils.

FUNCTION	ACTIVITIES (sample)
General Management and administrative	<ul style="list-style-type: none"> <li>&gt; Management and administrative activity relating directly to the general manager and councillors</li> </ul>
Human Resources Management (HRM)	<ul style="list-style-type: none"> <li>&gt; Management – management activity relating to HRM function</li> <li>&gt; Core HR – training and recruitment and HR admin, employee relations, performance management.</li> <li>&gt; Payroll – employee remuneration, managing and tracking leave, other activities relating to employee salary packaging</li> <li>&gt; Work Health and Safety (WHS) – safety audits, policies and procedures, incident reports</li> </ul>
Information Technology (IT)	<ul style="list-style-type: none"> <li>&gt; Management/Admin – management and admin activity relating to IT function</li> <li>&gt; IT Operations – maintaining the smooth functioning of council technology including software, hardware, security, network etc.</li> <li>&gt; Help Desk – enabling and supporting employees to effectively use technology</li> <li>&gt; Software Licensing – updating, running and maintaining council software</li> </ul>
Finance	<ul style="list-style-type: none"> <li>&gt; Management/Admin – management and admin activity relating to finance function</li> <li>&gt; Management Accounting – monthly reporting, budgeting, general ledger, account reconciliations, period closing activities</li> <li>&gt; Financial Accounting – statutory reporting activities such as financial reports, tax reports, ABS reports, local government reporting etc.</li> <li>&gt; Accounts Receivable – rates collection, collection and processing of other payments received, invoicing, payment receipting, reconciliations, outstanding accounts management, etc.</li> <li>&gt; Accounts Payable – purchase orders, invoice processing, payment processing</li> </ul>
Strategy and Governance	<ul style="list-style-type: none"> <li>&gt; Management/Admin – management and admin activity relating to the Strategy and Governance function</li> <li>&gt; Records Management – management and storage of records and information</li> </ul>

FUNCTION	ACTIVITIES (sample)
	<ul style="list-style-type: none"> <li>&gt; Risk Management – council governance, management of risk frameworks, identification and controlling for risk</li> <li>&gt; Regulation and Compliance – activities relating to regulatory compliance, legal, audit panel, delegations, and the local government association</li> </ul>
Economic Development and Communications	<ul style="list-style-type: none"> <li>&gt; Communications – develop internal and external communication materials</li> <li>&gt; Economic Development – activity outside of community services that is designed to strengthen the community through increased living standards, growth of employment, wealth and income</li> </ul>

Table 2. Corporate Services – Sample Activities

### Community Services

Community Services accounts for approximately 13% of council operating expenditure.<sup>5</sup> It provides the delivery of frontline services to the local community and visitors to the council area. Activities across this function health, tourism, community development and children services, among others. There is a high level of face-to-face community interaction required in this area.

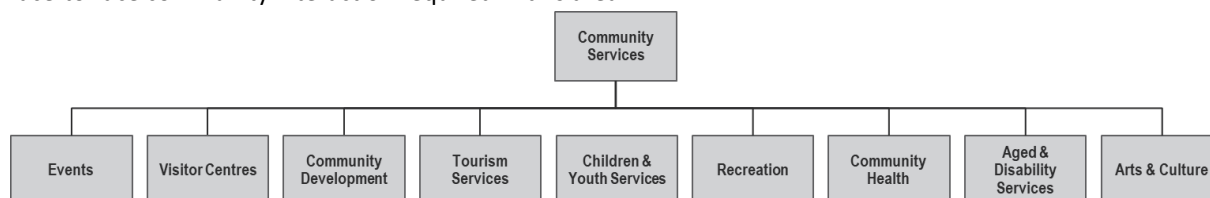


Diagram 4. Community Services Functional Breakdown

For each of the functions illustrated above, we have provided a high level overview of sample activities offered by the councils.

FUNCTION	ACTIVITIES (sample)
Events	<ul style="list-style-type: none"> <li>&gt; Planning and promotion of council events</li> <li>&gt; Service procurement and coordination</li> </ul>
Visitor Centres	<ul style="list-style-type: none"> <li>&gt; Operation of visitor information (VIC) activities</li> <li>&gt; Maintenance and facility management</li> </ul>
Community Development	<ul style="list-style-type: none"> <li>&gt; Community transportation</li> <li>&gt; Promotion of community initiatives</li> <li>&gt; Family support</li> </ul>
Tourism Services	<ul style="list-style-type: none"> <li>&gt; Promotion of council as visitor destination</li> <li>&gt; Publication of online and offline promotion material including maps, accommodation, attractions, events, art and culture</li> </ul>
Children & Youth Services	<ul style="list-style-type: none"> <li>&gt; Vacation care programs</li> <li>&gt; Childcare operation</li> <li>&gt; Youth programs</li> </ul>

<sup>5</sup> Represents approximately 65% of 2014-15 expenditure data as provided by Cradle Coast Councils

	> Youth centres
Recreation	> Operation of sports facilities > Operation of entertainment centres > Operation of museums and galleries > Maintenance of camping sites
Community Health	> Immunisation > Promotion of healthy lifestyles, food safety, healthy premises
Aged & Disability Services	> Housing provision > Disabled and disadvantaged support
Arts & Culture	> Operating museums and galleries > Public art and exhibitions

Table 3. Community Services – Sample Activities

### Planning and Regulation

Planning and regulation accounts for approximately 8% of council operating expenditure.<sup>6</sup> It is responsible for activities such as building control, accrediting and regulating builders and plumbers, providing planning approvals and regulating parking and animals. The diagram below illustrates the breadth of functions offered within planning and regulation.

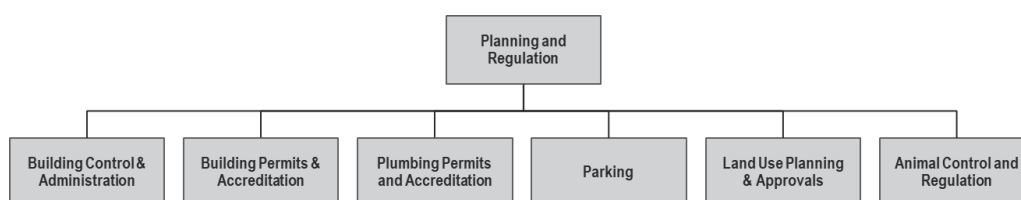


Diagram 5. Planning and Regulation Functional Breakdown

For each of the functions illustrated above, we have provided a high level overview of sample activities offered by the councils.

FUNCTION	ACTIVITIES (sample)
Building Control and Admin	> Interpretation and implementation of building acts and regulations > Administration and enforcement of building regulations
Building Permits and Accreditation	> Certification of (likely) compliance and accreditation of building permits > Collection of permit fees
Plumbing Permits and Accreditation	> Certification of (likely) compliance and accreditation of plumbing permits > Collection of permit fees
Parking	> Operation of public parking facilities > Collection of parking fees
Land Use Planning and Approvals	> Land use planning frameworks > Approval of land use

<sup>6</sup> Based on a sample of approximately 65% of 2014-15 expenditure data as provided by Cradle Coast Councils

Animal Control and Regulation	<ul style="list-style-type: none"> <li>&gt; Community education on animal management and responsible pet ownership</li> <li>&gt; Animal registration and identification</li> <li>&gt; Authorised officer training</li> </ul>
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Table 4. Planning and Regulation – Sample Activities

## Environmental Health

Environmental health accounts for approximately 1% of council operating expenditure. It is responsible for managing and monitoring ongoing environmental health such as pollution levels and air quality. It also provides national resource management, helping to ensure that activities are environmentally sustainable. The diagram below illustrates the breadth of functions offered within environmental health.

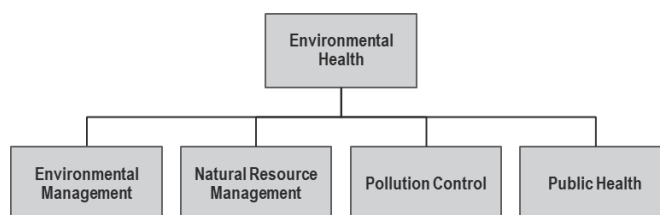


Diagram 6. Environmental Health Functional Breakdown

For each of the functions illustrated above, we have provided a high level overview of sample activities offered by the councils.

FUNCTION	ACTIVITIES (sample)
Environmental Management	<ul style="list-style-type: none"> <li>&gt; Conservation</li> <li>&gt; Sustainability measurement and reporting</li> <li>&gt; Environmental education</li> </ul>
Natural Resource Management	<ul style="list-style-type: none"> <li>&gt; Enforcement of development consent conditions, waste management and unauthorised land uses</li> <li>&gt; Land use zoning and statutory controls on freehold land</li> <li>&gt; Risk control measures (pest, plant, animal)</li> </ul>
Pollution Control	<ul style="list-style-type: none"> <li>&gt; Reception of community complaints</li> <li>&gt; Enforcement of noise, smell, smoke and garbage regulation</li> </ul>
Public Health	<ul style="list-style-type: none"> <li>&gt; Food shop registrations and inspections</li> <li>&gt; Food safety</li> </ul>

Table 5. Environmental Health – Sample Activities



## COUNCIL EXPENDITURE BREAKDOWN

The largest proportion of costs across the councils are attributed to works and services, corporate services and community services. Together these three areas account for over 90%<sup>7</sup> of aggregate council expenditure.

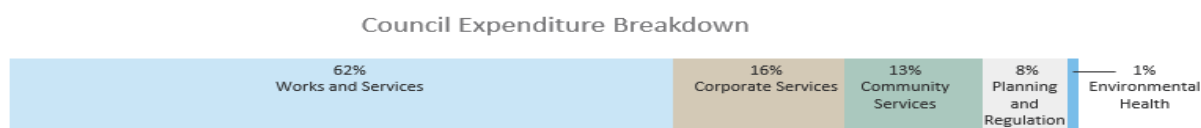
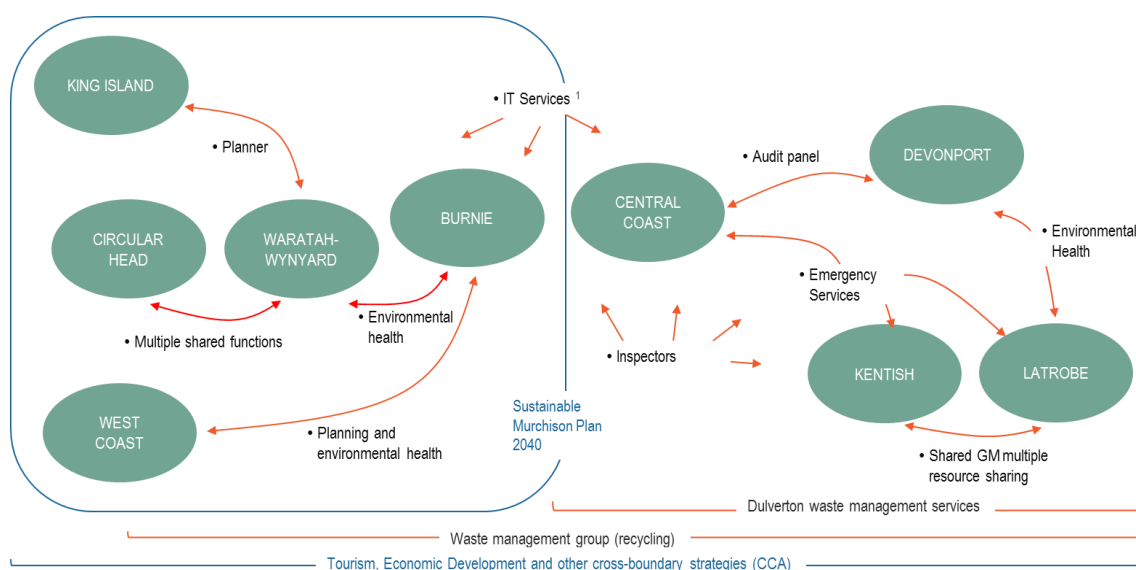


Figure 1. Council Expenditure Breakdown

## CURRENT STATE ASSESSMENT

The geographical proximity of many of the Cradle Coast Councils has enabled the creation of a number of resource sharing arrangements over time. According to Cradle Coast representatives, sharing agreements have emerged as a result of specific opportunities being identified, rather than from a sharing strategy across the region. The following diagram represents the breadth of resource sharing arrangements that Third Horizon understands currently exist within the Cradle Coast region.



Note: Diagram based on interviews and provided reports – not a comprehensive account of all sharing arrangements

<sup>1</sup>Services provided by Tas Communications.

Diagram 7. Existing Resource Sharing in Cradle Coast Councils

Three levels of cooperation can be observed in the region.

**Resource sharing** is the simplest form of sharing. A sharing agreement is established to access specific resources and reduce the need to use contractors. In establishing this type of arrangement, councils are able to increase staff utilisation and reduce contract costs. It may also allow councils to attract specialised talent. As this occurs on a resource basis, the level of cooperation required is minimal.

<sup>7</sup>Based on a sample of approximately 65% of 2014-15 expenditure data as provided by Cradle Coast Councils

**Shared service delivery** is where a coordinated approach is taken to deliver back-office services to multiple councils. This potential captures economies of scale and scope. It could also enable council management to focus on strategic and client-facing functions.

**Strategic partnerships** involve the highest level of collaboration and trust between councils as they require councils to be strategically aligned or share a systemic vision. Often they occur on cross-council projects of regional significance. They provide a broad vision of value and benefit across the region.

The table below illustrates the types of existing sharing arrangements:

RESOURCE SHARING		
<ul style="list-style-type: none"> <li>&gt; <b>Sharing arrangements</b> <ul style="list-style-type: none"> <li>– Devonport and Central Coast share an independent audit panel</li> <li>– Inspectors are utilised between Kentish, Devonport, Central Coast and Burnie</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Other ad-hoc resource arrangements</b> <ul style="list-style-type: none"> <li>– Burnie provides HR resources to King Island</li> <li>– Burnie provides a health officer and planning consultant to West Coast</li> </ul> </li> </ul>	
SHARED SERVICE DELIVERY		
<ul style="list-style-type: none"> <li>&gt; <b>Emergency Services</b> <ul style="list-style-type: none"> <li>– Established by Kentish, Latrobe, Central Coast and Devonport</li> <li>– Provides emergency-related and remediation services to all councils – proven effective in recent floods</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Tascommunications</b> <ul style="list-style-type: none"> <li>– Established by Burnie</li> <li>– Provides IT support, hosting and consulting to local governments (including Burnie, Latrobe, and Waratah Wynyard)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Dulverton Waste Management</b> <ul style="list-style-type: none"> <li>– Waste disposal operator established by 4 councils (Devonport, Latrobe, Kentish, Central Coast)</li> <li>– Provides services to Burnie</li> </ul> </li> </ul>
STRATEGIC PARTNERSHIPS		
<ul style="list-style-type: none"> <li>&gt; <b>Cradle Coast Authority</b> <ul style="list-style-type: none"> <li>– Advocates regional needs and develops regional strategies</li> </ul> </li> <li>&gt; <b>Sustainable Murchison 2040</b> <ul style="list-style-type: none"> <li>– Unified vision of North West sub-region</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Cradle Coast Waste Management Group</b> <ul style="list-style-type: none"> <li>– 7 member councils</li> <li>– Develops waste diversion opportunities for the region as well as regional planning</li> <li>– Establishes contracts that realised efficiencies</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>&gt; <b>Council partnerships</b> <ul style="list-style-type: none"> <li>– Kentish and Latrobe</li> <li>– Waratah-Wynyard and Circular Head</li> </ul> </li> </ul>

*Note: Diagram based on interviews and provided reports – not a comprehensive account of all sharing arrangements*

*Figure 2. Current modes of Resource Sharing in place between Cradle Coast Councils*

Council representatives acknowledge that sharing arrangements already in place only capture a small portion of the potential value of sharing across the region. Many strategic partnerships and shared service arrangements have proven successful but only include a sub-set of councils. Visible management duplications remain between most councils. Key functions that are clearly regional in nature, such as tourism and economic development, are often managed and operated independently by each council.

**A key challenge remains: To establish a shared and integrated understanding of how further collaborations can deliver greater value to ratepayers along with wider benefits to the region as a whole; and to select services and sharing arrangements accordingly.**

## SHARED SERVICES FEASIBILITY ASSESSMENT

Shared service arrangements between councils have the potential to not only deliver significant financial benefits but also improve the quality of services provided to constituents. However, not all services provided by councils are equally suitable for sharing.

From Third Horizon's experience and broad understanding of shared services best practice, we defined a list of characteristics to help assess suitability for sharing. Services that are best suitable for sharing are generally those that are:

- > **Homogenous activities** – services are common and uniform. These services typically occur across councils and achieve the same outcome.
- > **Process standardisation** – services can be automated or delivered in a standardised manner. These are easier to share as the process can be standardised for each council.
- > **Economies of scale** – services are repetitive and duplicated. These services can be consolidated to realise financial benefits or improvements to performance and quality.
- > **External customer contact** – service has little or no interaction with council customers. These services and the way they are delivered have minimal impact to customer service.
- > **Strategic content** – services are of non-strategic importance to local council activities. These services are not fundamental to council core management and strategic direction.

We have used the above 5 characteristics to identify functions for which sharing may be most relevant and those for which it is less relevant, to provide an initial view of shared services potential. Functions for which shared services may not be relevant are those that are viewed as fundamental to customer service, often strategic in nature at a local level or where it is important to retain control at the council level. Candidates for sharing on the other hand are transactional functions with standardised activities and highly process driven, and also include activities where councils clearly benefit from a regional focus. Functions were screened according to the below criteria. If an answer for a function is "yes", you proceed to the next question, if "no", the questions stop at that point. Only a function that has "yes" for each of the questions is considered to be a high-potential candidate for sharing.

Whilst functions were screened as a whole, there may be elements within the function that may be less suitable for sharing. These have been addressed in the evaluation of opportunities section below.

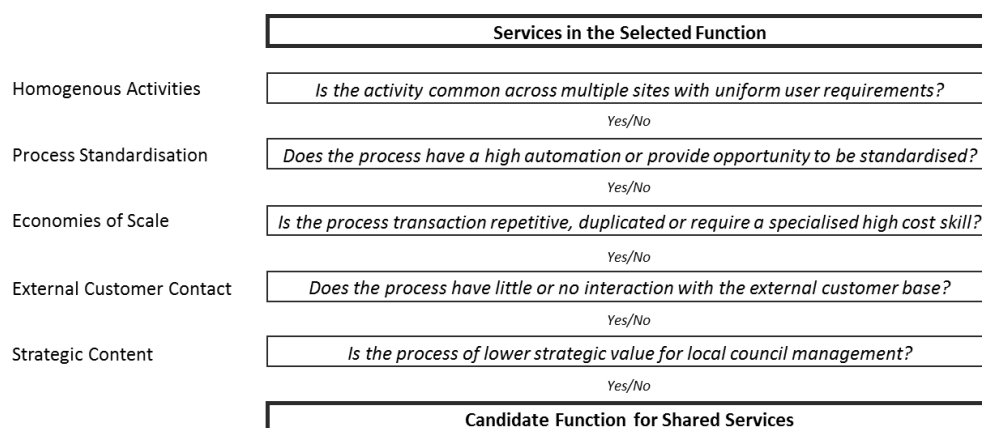


Diagram 8. Classifying Candidates and Non-Full Shared Services Candidates

## WORKS AND SERVICES

Leveraging our understanding of works and services, we have used our 5 screening criteria to classify functions into non-candidates or candidates for sharing. The diagram below illustrates this classification process.

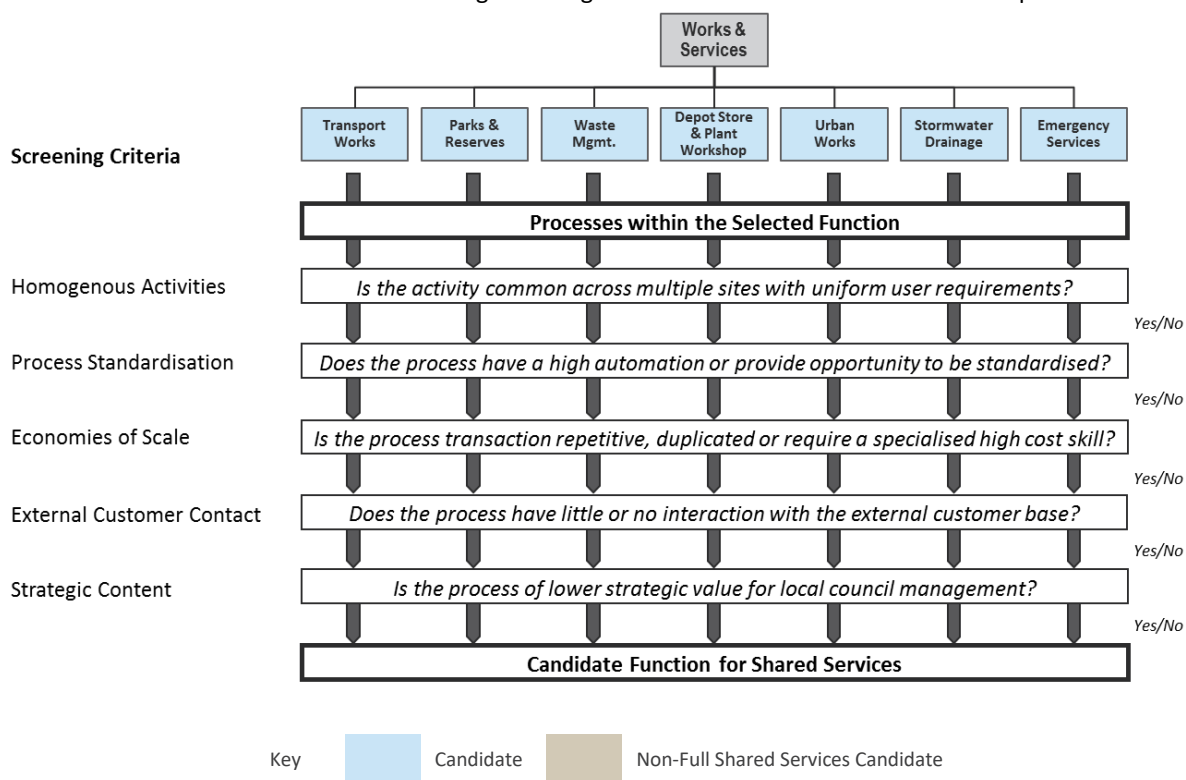


Diagram 9. Works and Services – Candidates and Non-Full Shared Services Candidates

**All of the functions within works and services were considered high-potential candidates for shared services.**

We have undertaken further analysis on the recommended level and type of shared arrangement on pages 33 to 50.

## CORPORATE SERVICES

Leveraging our understanding of corporate services, we have used our 5 screening criteria to classify functions into non-candidates or candidates for sharing. The diagram below illustrates this classification process.

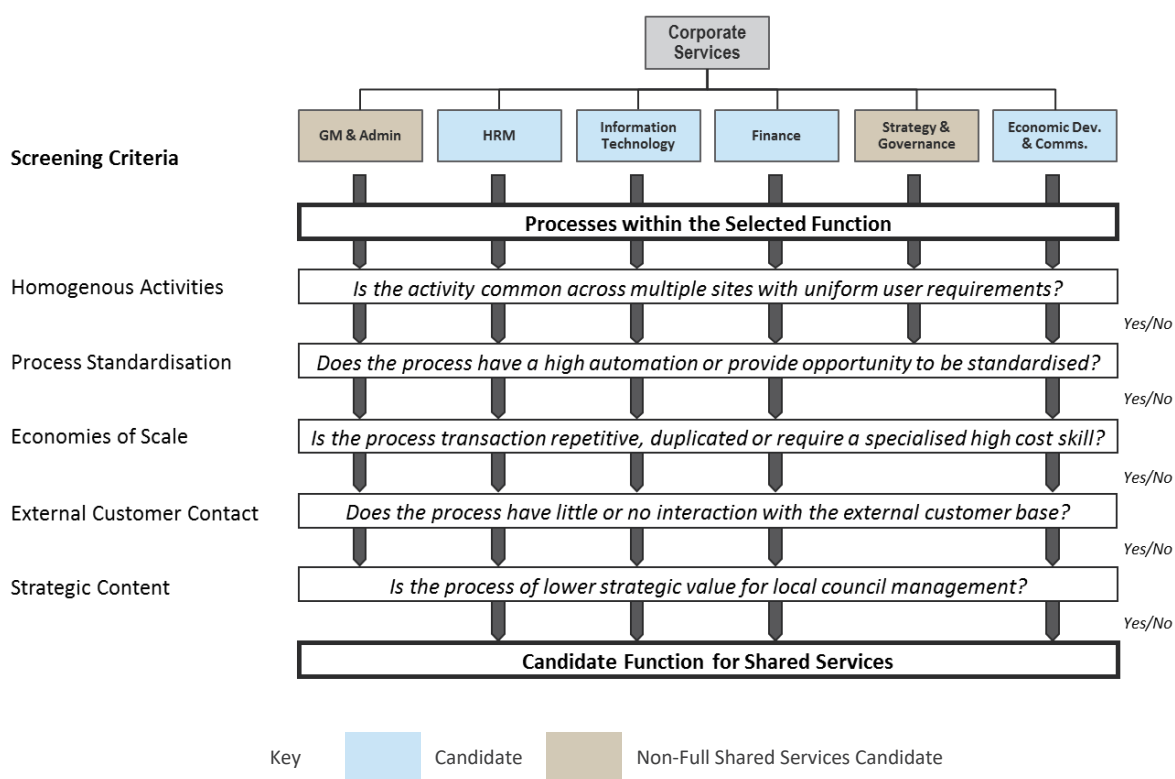


Diagram 10. Corporate Services – Candidates and Non-Full Shared Services Candidates

**With the exception of GM and Admin, and Strategy and Governance all other functions within corporate services were considered high-potential candidates for shared services.**

We have undertaken further analysis on the recommended level and type of shared arrangement on pages 33 to 53.

## COMMUNITY SERVICES

Leveraging our understanding of community services, we have used our 5 screening criteria to classify functions into non-candidates or candidates for sharing. The diagram below illustrates this classification process.

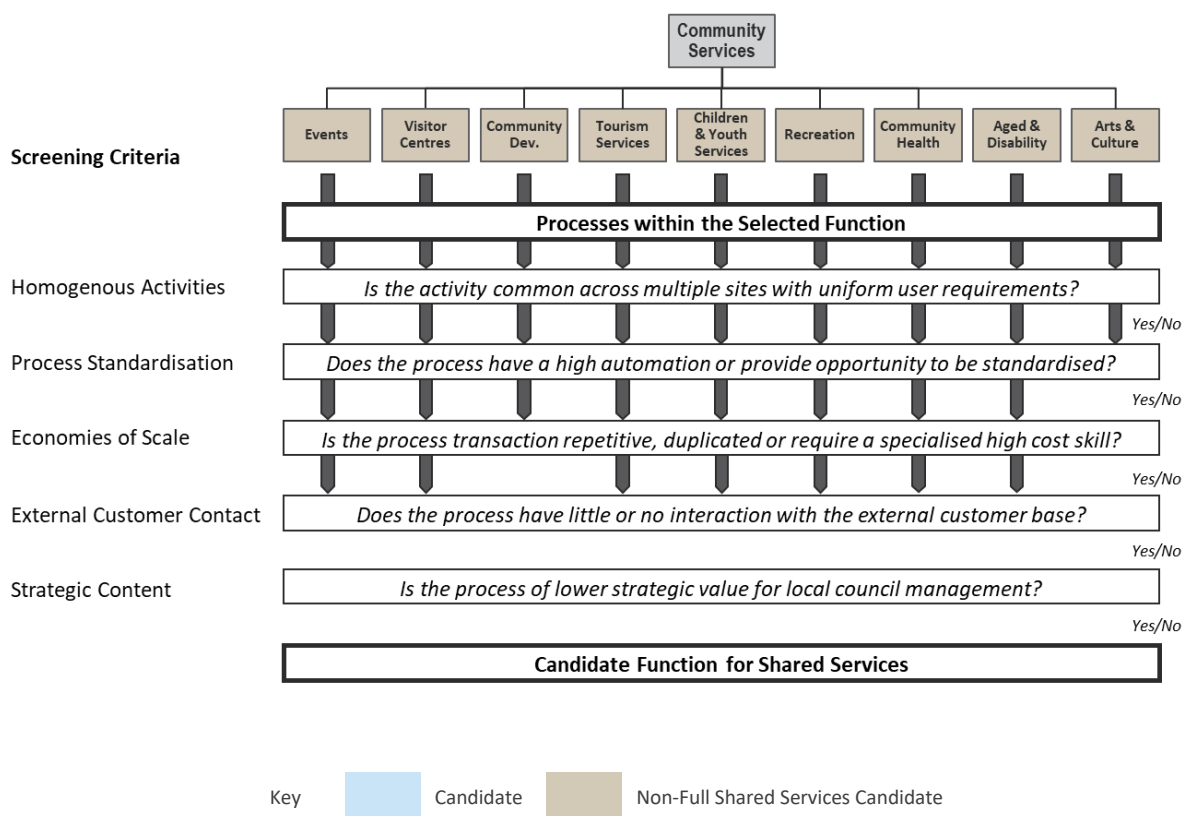


Diagram 11. Community Services – Candidates and Non-Full Shared Services Candidates

**None of the functions within community services were considered high-potential candidates for shared services.**

This is predominately based on the level of external customer contact required. Throughout our engagement, councils expressed the importance of preserving local connections for which community services are critical. Based on this principle, we have not recommended sharing arrangements across these functions. However, this does not preclude these functions from presenting opportunities and benefits that could be realised through sharing.

**We have provided some additional commentary on the potential opportunities within community services to be explored in the future.** These are detailed on page 51.

## PLANNING AND REGULATION

Leveraging our understanding of planning and regulation, we have used our 5 screening criteria to classify functions into non-candidates or candidates for sharing. The diagram below illustrates this classification process.

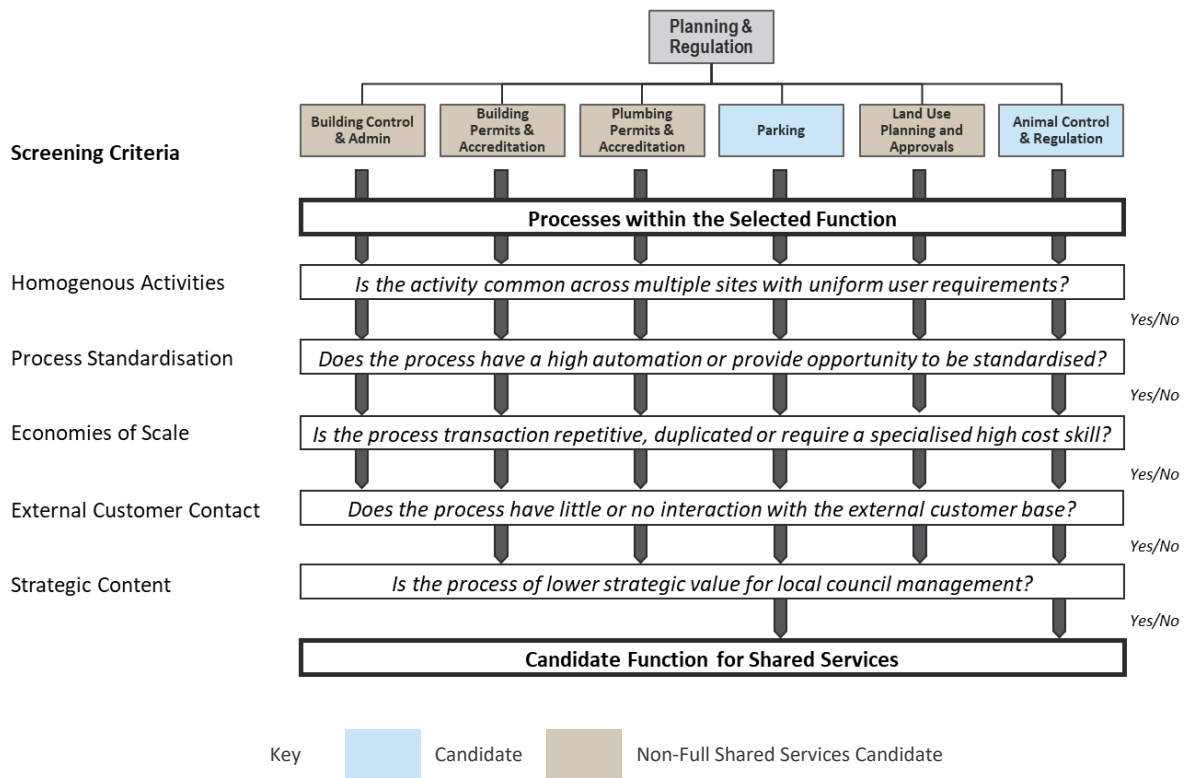


Diagram 12. Planning and Regulation – Candidates and Non-Full Shared Services Candidates

### Most functions within planning and regulation were not considered high-potential candidates for shared services.

This is predominately based on the level of sensitive customer contact and strategic content of activities, particularly related to key approvals and regulatory functions. Throughout our engagement, councils expressed a strong desire to preserve control of strategic decisions and community interactions. Based on this principle, we have not recommended sharing arrangements across these functions in first instance. However, this does not preclude these functions from presenting opportunities and benefits that could be realised through sharing in the future.

**We have provided some additional commentary on the potential opportunities within planning and regulation to be explored in the future.** These are detailed on pages 49 and 50.

### ENVIRONMENTAL HEALTH

Leveraging our understanding of environmental health, we have used our 5 screening criteria to classify functions into non-candidates or candidates for sharing. The diagram below illustrates this classification process.

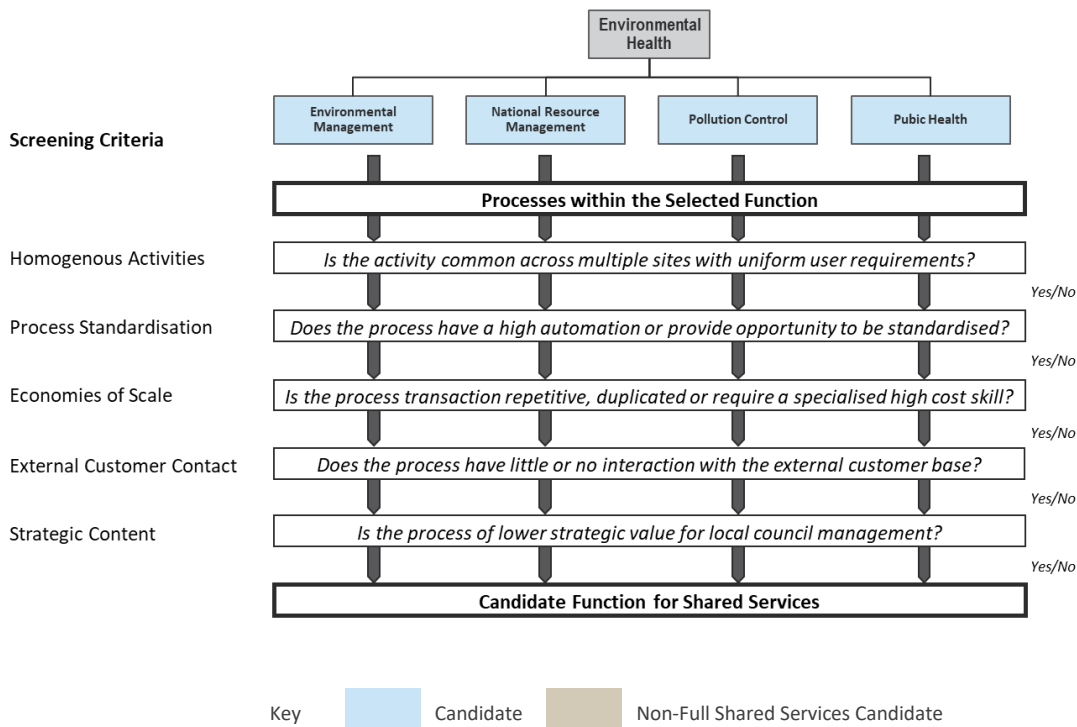


Diagram 13. Environmental Health – Candidates and Non-full shared Services Candidates

**All of the functions within environmental health were considered high-potential candidates for shared services.**

We have undertaken further analysis on the recommended level and type of shared arrangement on pages 49 and 50.



## SHARED SERVICES MODEL OPTIONS

The following shared services models were presented as options to apply to the various Cradle Coast Council functions to capture the potential benefits of sharing arrangements. Each shared service model presents a range of different types of interactions, constraints and benefits.

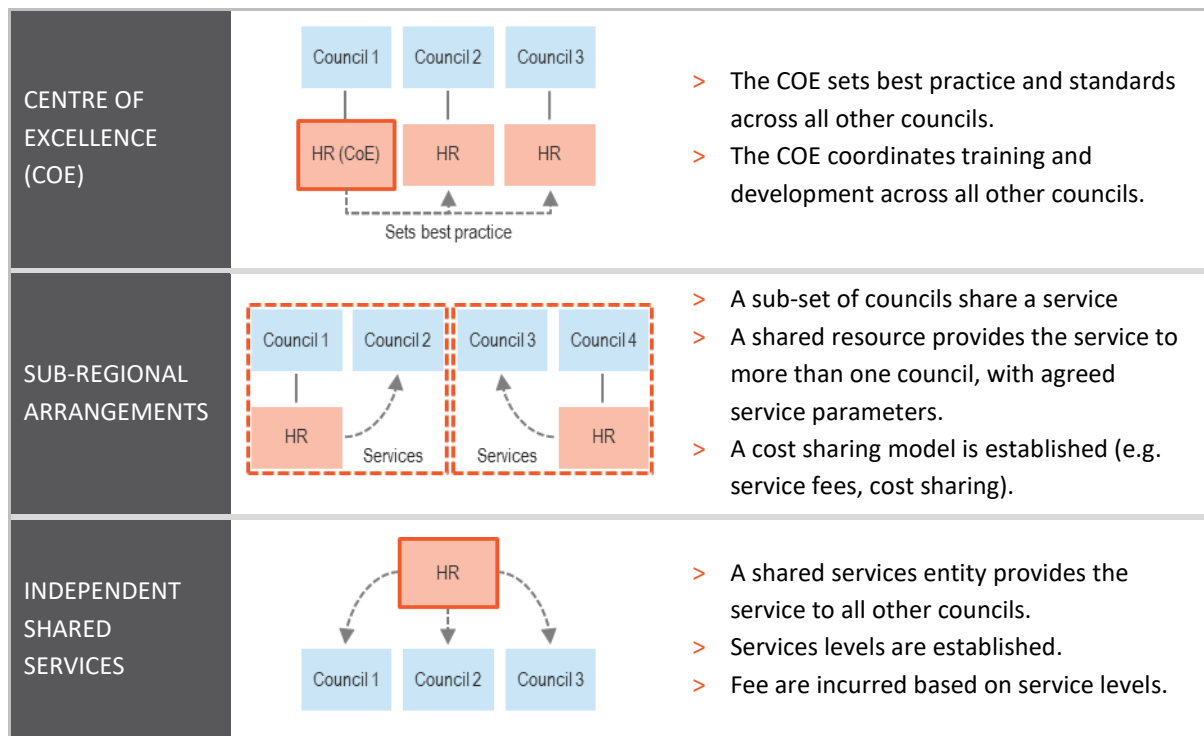


Diagram 14. Share Services Model Options

Note: Multiple different shared service arrangements may co-exist in parallel for different functions.

## CENTRE OF EXCELLENCE (COE)

The COE model option establishes the function of one council as the lead function that directs the practices of the functions for other councils. The COE sets the standards, processes and governance structures for how the function should operate and the functions in other councils follow their lead. The COE would be responsible to the other councils in ensuring the effectiveness of the function in their respective geographies. The COE would additionally provide training and development services to align the functions and collectively increase the capabilities of like functions across the Cradle Coast.

For instance, a COE could set the HR policies and employee pay bands, and the HR functions in other councils administer the directions set by the COE. Invariably the COE will be better resourced and provide guidance, specialist support and resources to the other councils as needed.

### Benefits & Limitations

Benefits	Limitations
<ul style="list-style-type: none"> <li>• Best practice and standardisation across councils</li> <li>• Consolidation of specialist knowledge</li> <li>• Improves functional maturity</li> <li>• Retains local representation</li> </ul>	<ul style="list-style-type: none"> <li>• Potential for COE and council misalignment</li> <li>• A matrix structure may cause inefficiencies when conflicts arise between COE and councils</li> <li>• Greater difficulty in upgrading standards and processes reliant on technology systems</li> <li>• Functional duplications still exist across councils</li> </ul>

Table 6. Centre of Excellence – Benefits & Limitations

### How it would work: *Matrix structure*

<i>Organisational Structure</i>	<ul style="list-style-type: none"> <li>&gt; The COE model will follow a matrix model</li> <li>&gt; The selected COE will sit under its own council but will be accountable to other councils</li> <li>&gt; The functions in other councils will sit under their respective councils but will be accountable to the COE</li> </ul>
<i>Reporting</i>	<ul style="list-style-type: none"> <li>&gt; The COE will also report its overall performance to all councils</li> <li>&gt; The function in other councils will report to both the COE and their own council</li> </ul>
<i>Scope of services</i>	<ul style="list-style-type: none"> <li>&gt; The COE establishes standards and processes for the functions in other councils</li> <li>&gt; The COE will provide value / knowledge based support services which include: knowledge of best practice, processes, templates and also knowledge support of associated technology systems</li> <li>&gt; The COE will take the lead for non-standard activities</li> </ul>
<i>Geography</i>	<ul style="list-style-type: none"> <li>&gt; The COE will be located with the council where the greatest capabilities reside</li> </ul>

Table 7. Centre of Excellence – How it would work

### Change effort: *Incremental change*

The establishment of a COE model usually requires incremental change to existing collaboration arrangements. The key challenge is a relational and behavioural change in the way that council functions coordinate, cooperate and communicate with the COE.

To ensure that the change is sustained, agreement on the authority of the COE upon the councils must be established, ensuring that the mechanism for the final say in conflict resolution scenarios is formalised.

## SUB-REGIONAL ARRANGEMENTS

A sub-regional sharing arrangement would require that a subset group of councils share services and resources based on their requirements. In a sub-regional sharing arrangement a **provider council** will provide all function related services to the **recipient councils**, in exchange for an agreed fee for service and according to agreed Service Level Agreements (SLAs) or operational parameters. The provider would be accountable to all councils within the sub-set for the performance of the function and ensure the quality and efficiency of the services provided.

An example may be that 4 of the 9 councils agree to share a HR function due to geographic proximity. The nominated provider would resource the function accordingly to ensure appropriate levels of service for itself and the other 3 councils. This arrangement may result in consolidation of skills from other councils, as needed.

### Benefits & Limitations

Benefits	Limitations
<ul style="list-style-type: none"> <li>• Standardisation of services</li> <li>• SLAs apply commercial pressures on costs</li> <li>• Uplift in quality from established Service Levels</li> <li>• Improvements in process efficiency realised</li> <li>• Defined responsibility of provider council</li> </ul>	<ul style="list-style-type: none"> <li>• Does not realise economies of scale of a regional arrangement</li> <li>• May result in conflicting technology systems and integration challenges for future shared services</li> <li>• May result in complex and overlapping functional sharing arrangements</li> </ul>

Table 8. Sub-Regional Arrangements – Benefits and Limitations

### How it would work: *De-centralised structure*

<i>Organisational Structure</i>	<ul style="list-style-type: none"> <li>&gt; The selected shared function will sit under the provider council</li> <li>&gt; Recipient councils has a contract with the provider council for the provision of services</li> </ul>
<i>Reporting</i>	<ul style="list-style-type: none"> <li>&gt; The provider council in the sub-regional arrangement will provide regular reports to each recipient council with the performance of services, amount of services provided, and the cost for consumption of services</li> <li>&gt; Both provider and recipient councils will meet at regular intervals to ensure services are being provided and SLAs are being met</li> </ul>
<i>Scope of services</i>	<ul style="list-style-type: none"> <li>&gt; A selected range of services are agreed to be shared sub-regionally between neighbouring councils</li> <li>&gt; The provider council will be responsibility for the improvement of services over time</li> </ul>
<i>Geography</i>	<ul style="list-style-type: none"> <li>&gt; Regional / sub-regional depending on the service</li> </ul>

Table 9. Sub-Regional Arrangements – How it would work

### Change effort: *Moderate change*

The establishment of a sub-regional sharing model typically requires moderate change, including operational changes for the provider council functions to deliver shared services, as well as removal of the corresponding functions in recipient councils. The key challenge would be ensuring that value is generated from cost reduction and quality improvement of the services provided. The councils in the sub-regional arrangement must collectively agree upon the governance mechanism and oversight controls of the sharing arrangement.

## INDEPENDENT SHARED SERVICES

An independent regional shared services model establishes a central entity which provides a number of functions across all councils. Under this model an agreement between the Shared Services Entity (SSE) and the councils is established, which typically provides services based on an established catalogue of functions. SLAs are contractually agreed to ensure a consistent expectation of standard at the level of quality required by recipient councils.

The SSE provides standardised functions across all councils ensuring the reduction of cost, improvement of quality and the overall improvement of functional efficiencies. The entity is accountable to the recipient councils, who may play a role in the governance and oversight of the shared service organisation.

### Benefits & Limitations

Benefits	Limitations
<ul style="list-style-type: none"> <li>• Standardisation of functions across all councils</li> <li>• Realise regional economies of scale</li> <li>• Collective uplift in quality and efficiency</li> <li>• Outsourcing of risk to the SSE</li> <li>• Centralised upgrading of technology systems</li> </ul>	<ul style="list-style-type: none"> <li>• Perception that councils lose control over how services are delivered</li> <li>• Response times may be limited by SLAs</li> <li>• May need significant process re-engineering</li> <li>• May need to standardise service offerings to realise economies of scales</li> </ul>

Table 10. Independent Shared Services – Benefits & Limitations

### How it would work: Centralised structure

<i>Organisational Structure</i>	<ul style="list-style-type: none"> <li>&gt; The SSE may be a separate entity from the 9 councils</li> <li>&gt; The councils will have a contractual agreement with the SSE</li> </ul>
<i>Reporting</i>	<ul style="list-style-type: none"> <li>&gt; The SSE will provide regular reports to each recipient council with the performance of services, amount of services provided, and the cost for consumption of services</li> </ul>
<i>Scope of services</i>	<ul style="list-style-type: none"> <li>&gt; The consolidated shared services will be provided for the whole region based on SLAs</li> <li>&gt; The SSE will be responsible service improvements over time</li> </ul>
<i>Geography</i>	<ul style="list-style-type: none"> <li>&gt; SSE is not bound by specific geography, but should remain within the Cradle Coast, in an ideal location to provide its consolidated services</li> </ul>

Table 11. Independent Shared Services – How it would work

### Change effort: Major change

The establishment of an independent shared services model requires a major transformation, with the establishment of a new SSE and arrangements with region-wide service providers. The provider must establish a standardised service catalogue and contractual arrangements with each of the recipient councils. Councils may require major change to their processes to integrate with the new independent regional shared services model. The key challenge for councils will be in establishing a governance and oversight model for the SSE, ensuring a balanced representation of each council's interest in the governance of the entity. For the Cradle Coast, it is highly likely that the Cradle Coast Authority may need to play a significant role in orchestrating the establishment and governance of such entity.

## EVALUATION APPROACH

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Once an initial screening of council services was completed, Third Horizon conducted an evaluation of these services in the context of the Cradle Coast Councils using both qualitative and quantitative analyses. The purpose of this evaluation is to prioritise the feasible functions based on potential economic gains and ease of implementation. This is an independent evaluation that takes into consideration the information provided by Cradle Coast councils, interviews, external benchmarks, and Third horizon experience in shared services design to provide an objective point of view of the specific opportunity of sharing services across the region.

### THE EVALUATION FRAMEWORK

Third Horizon independently compiled an evaluation framework for the assessment of shared services across councils. The criteria used to compile the evaluation framework centred on the parameters of *sharing complexity* and *potential economic value*. The two parameters directly address the two main questions distilled from the eight design principles. This evaluation framework was used to conduct an assessment to prioritise a list of functions to be evaluated for shared service delivery.

#### CRITERION: SHARING COMPLEXITY

To measure complexity Third Horizon developed a set of criteria to rate selected functions, between the ranges of 1 (low complexity) to 5 (high complexity), to determine a relative complexity score based on the criteria below.

- > *Physical nature*: Does it require physical on-site delivery?
- > *Difficulty / specialisation*: How difficult is it to deploy and operate as a shared activity?
- > *Local knowledge*: Is knowledge of local council characteristics relevant to perform this activity?
- > *Community interaction*: Does it require a high level of face-to-face community interaction?
- > *Trust*: Is a high level of trust required for one council to allow a third party (or other council) to perform this activity?
- > *Investment*: What is the relative level of investment required to implement a shared resource arrangement?

#### CRITERION: POTENTIAL ECONOMIC VALUE

This criterion assessed the potential economic value that would result from sharing particular functions between councils, including the reduction of cost from the consolidation of existing services and savings on future investments by leveraging economies of scale. Other benefits looked to the potential economies value from higher quality and employee efficiencies, e.g. aggregating service demand councils may enabled greater access to specialised resources and assets allowing councils to collectively plan better investments. From such measures a 5 level scoring scale was constructed to develop an indicative view of the size of potential economic impact, that ranged from marginal gains (lowest) to significant gains (highest).

## EVALUATION OF RESOURCE SHARING

Third Horizon applied the two criteria of *sharing complexity* and *potential economic value* to form the below matrix and assess the functions that were most suitable to sharing. The horizontal axis indicates the potential economic value of sharing, based on a unit-cost comparison between councils and indicative efficiency gains. The vertical axis indicates the complexity of sharing given criteria such as the physical/virtual nature of the activity, operational specialisation, need for local knowledge, community interaction, trust, and upfront investment.

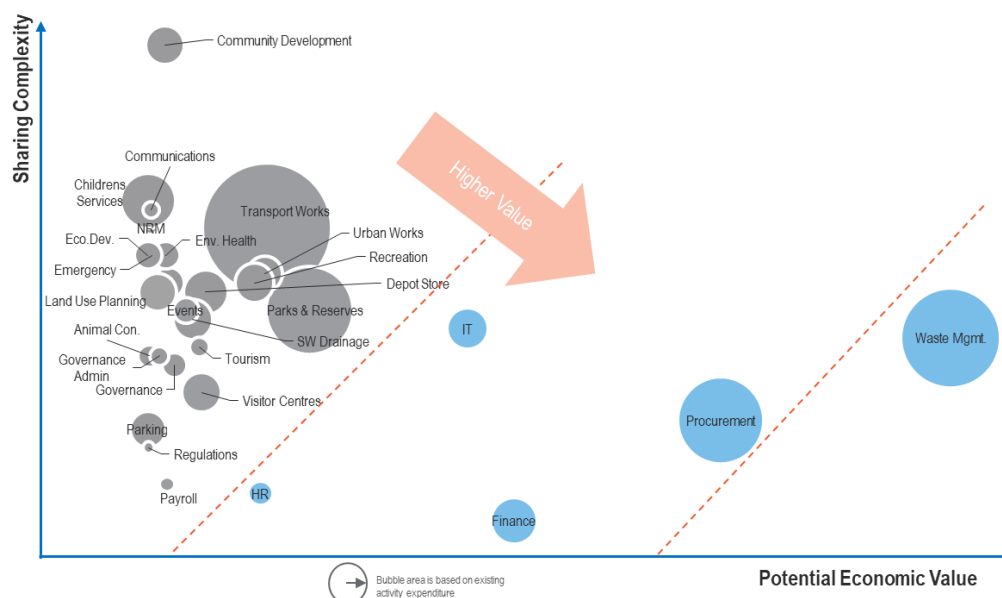


Figure 3. Indicative Evaluation of Resource Sharing

Whilst our initial screening deemed several functions to be candidates for sharing, evaluation of each function in the context of the Cradle Coast provided additional information for prioritisation, such as total activity expenditure, potential benefits and perceived complexity of implementation. Figure 4 illustrates the results of Third Horizon evaluation of functions in the Cradle Coast.

## PRIORITISATION OF FUNCTIONS

Third Horizon's prioritisation of functions is based the outcomes of the *Shared Services Feasibility Assessment* (see page 17), and the *Evaluation of Resource Sharing* (see Figure 4, above). Based on these, a list of functions was distilled and prioritised for in-depth evaluation into the following priority level categories:

- **HIGH:** Functions which have been identified by the councils as a high priority area, conform to the functions which can typically be shared and is expected to yield large benefit from sharing.
- **MEDIUM:** Functions which have been identified by the councils as a medium priority area or are functions which can typically be shared and is expected to yield reasonable benefit from sharing.
- **LOW-MEDIUM:** Other functions which make up works and services or corporate services which have some opportunity, but may yield small benefit or have greater associated complexity with sharing.

## SELECTION OF HIGH PRIORITY FUNCTIONS

Based on Third Horizon's evaluation, several functions can be categorised as high-value considering the potential to deliver collective benefits to the Cradle Coast. Out of these high-value functions, Third Horizon selected a small number of them that could produce quick wins, build trust among councils and enable further sharing of other functions. Based on these considerations, we've recommended Procurement and Information Technology to be the high priority functions. In Third Horizon perspective these are the highest priority functions considering that procurement is a key enabler to significant operational gains (e.g. works and services) and Information Technology enables the standardization and information sharing required for sharing corporate functions (e.g. Finance).

While Waste Management is also a high value function, Third Horizon has placed it in the medium priority category. Existing sharing arrangements (e.g. Dulverton Waste Management Services, Waste Management Group) are able to capture efficiencies. Further benefits can be realised through broader collaboration but considering the life-span of the key assets, these are likely to be realised in a longer term. Therefore, Third Horizon recommends that this function is categorised in medium priority.

Below is the prioritised list of functions for further evaluation.

PRIORITY LEVEL	FUNCTION
<i>HIGH</i>	<ul style="list-style-type: none"><li>• Procurement (Works and Services)</li><li>• Information Technology</li></ul>
<i>MEDIUM</i>	<ul style="list-style-type: none"><li>• Finance</li><li>• Human Resource Management</li><li>• Waste Management (Works and Services)</li></ul>
<i>LOW-MEDIUM</i>	<ul style="list-style-type: none"><li>• Economic Development and Communications (Corporate Services)</li><li>• Other Corporate Services</li><li>• Other Works and Services</li><li>• Planning and Regulation</li><li>• Environmental Health</li></ul>

Table 12. List of Prioritised Functions

## SHARED SERVICE DECISION TREE

A decision tree was developed to select the best model for each of the functions in the prioritised list. The following screening criteria was applied to help determine which model best applied to each function.

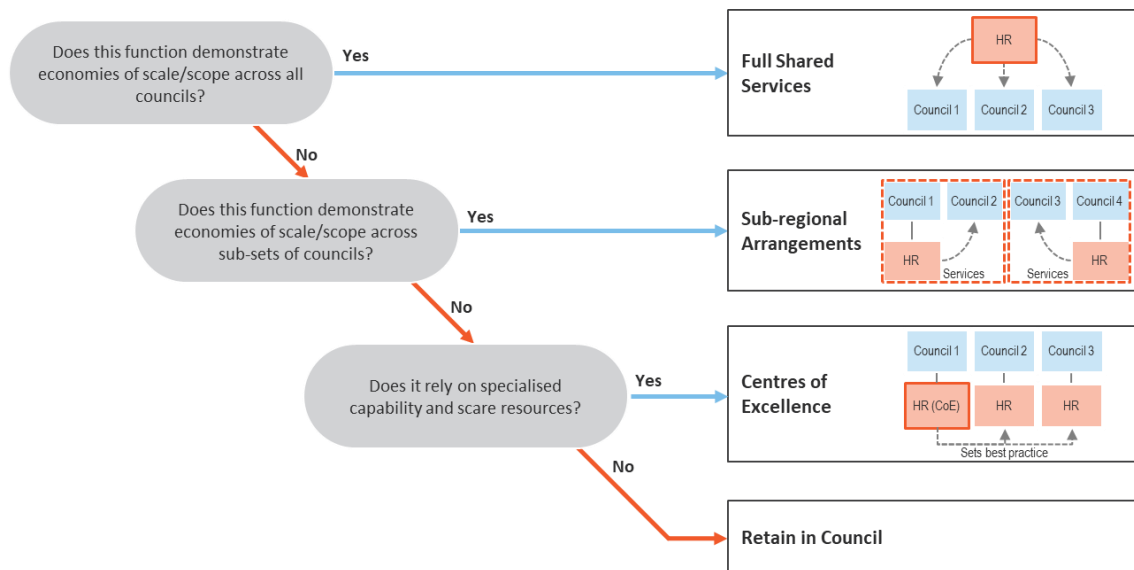


Diagram 15. Shared Service Decision Tree

Based on the above shared service decision tree, a shared service model was determined for each priority function and each evaluated to established recommendations for their respective future states.



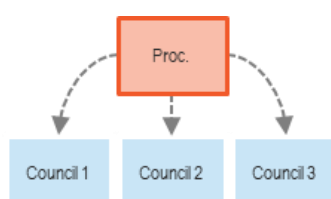
## DETAILED EVALUATION OF HIGH PRIORITY OPPORTUNITIES

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### PROCUREMENT (WORKS AND SERVICES)

#### SUMMARY

An evaluation of the Procurement function applying the Shared Service Decision Tree indicates that this function is suitable to follow an ***Independent Shared Service Model***.



Third Horizon's evaluation has identified three key factors that support the selection of this model.

- \$2,500,000+ of potential benefits from improved procurement of materials and services;
- Standardising processes increases efficiency and reduces procurement cycle time; and
- Increased sharing can provide a capability uplift in procurement and reduce exposure to key person risk.

#### EVALUATION

Procurement was identified by the councils as an area where high potential benefits could be realised through sharing. Each council provides similar services to their constituents. Close proximity and limited supply results in similar or the same suppliers being used by multiple councils. Due to the size and scope of works and services, we have limited our analysis of benefits to this area only.

#### **\$2,500,000+ of potential benefits from improved procurement of materials and services<sup>8</sup>**

An independent regional shared service model can pool all council procurement into a single function. This will enable benefits realisation through economies of scale across both materials and labour.

*An independent shared services model can drive volume efficiencies of up to \$2,370,000 in the procurement of materials.*

Consolidating the procurement of materials will allow councils to realise benefits through combined volumes and improved rates. Reducing the number of contracts and increasing the size of contracts will increase the bargaining power of councils enabling further price reductions, volume discounts or improved payment terms. Third Horizon expects a possible 5% – 10% reduction in rates, just across Works and Services procurement, which could save councils \$1.185k – \$2,370k annually. Whilst there are a number of national and state wide contracts in place, leveraging shared procurement beyond existing arrangements is still considered to be a significant opportunity.

*An independent shared services model can combine procurement of external labour to drive benefits of up to \$310,000.*

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<sup>8</sup> Additional details supporting the quantitative analysis of procurement savings are provided in the appendix (Table 13. Procurement Savings Details. Pg. Table 13. Procurement Savings Details6064)

A Procurement Shared Service Entity (SSE) will centralise the procurement of external contractor labour. This increases the scale and scope of potential engagements, allowing councils to negotiate improved commercials (rates and on-costs). The ability to spread capacity over multiple councils may enable councils to offer longer contracts, reducing both the number of contracts required and providing another driver for cost reductions. A 5% – 10% reduction in external labour rates just across Works and Services could save councils \$155k – \$310k annually.

### **Standardising processes increases efficiency and reduces procurement cycle time**

An Independent Shared Services Model can drive efficiencies through the standardisation of processes. This will reduce procurement cycle times and allow effort to be focused on more strategic activities such as Strategic Relationship Management and Category Management.

*An independent shared service model can standardise processes and leverage national procurement contracts.*

A SSE would enable efficiencies through standardised policies, processes and templates. This will reduce the procurement cycle time and help councils realise operational efficiencies. Ensuring councils leverage national contracts may provide some quick-win benefits. All Cradle Coast Councils are part of the Local Government Association of Tasmania (LGAT) and consequently the National Procurement Network (NPN). The NPN provides a program that enables councils to combine their purchasing power Australian-wide. On the NPN, there are a number of contracts available to Tasmanian councils covering areas such as; plant machinery equipment, trucks, mobile garbage bins, telecommunication, office and workplace supplies and associated products. All of these contracts are available to Tasmanian councils however the use of them is optional. Ensuring that these contracts are leveraged where possible could reduce procurement times and rates.

*Collectively investing in process re-design to move towards procurement best practice.*

Shifting to an independent regional shared service model provides an opportunity to conduct a re-design of the source to contract and purchase to pay processes and can drive operational efficiencies as the procurement function matures.

1. Source to contract:
  - Establish prequalification panels to streamline the process where national or state contracts do not exist.
  - Streamline requirements gathering process through optimising specifications across key categories.
  - Source nationally and globally where it makes sense.
2. Purchase to pay
  - Technology investment and increased automation to further reduce cycle time.
  - Process review of delegations and approval to ensure they reflect risk levels and don't result in unnecessary delays to procurement process.

*By increasing collective procurement maturity future functional effort can be directed to strategic activities*

Shifting focus to strategic activities will help drive long term benefits in procurement. Developing stronger relationships through improved supplier relationship management (SRM) can establish joint cost saving initiatives (e.g. sharing productivity gains). Category and demand management can improve forecasting and sourcing outcomes through development of specific strategies to achieve a desired goals for demand categories.

### **Increased sharing can provide a capability uplift in procurement and reduce exposure to key person risk**

An Independent Shared Services Model for procurement will foster knowledge sharing, helping to drive operational efficiencies. It will reduce the number of procurement FTEs required as well as reducing council's exposure to key person risk.

*A capability uplift through increased sharing can drive operational efficiencies.*

An independent regional shared services model can pull the procurement expertise across the councils into a central location and provide these services to all councils. It will create a focal point for procurement enabling knowledge sharing and category specialisation. Capability uplift and leveraging category expertise across councils will fast track savings delivery and realisation, helping to provide better procurement outcomes in the long term.

*An independent shared services model can provide a benefit through reducing the number of procurement FTEs.*

Councils will no longer require procurement capabilities as this will be centrally managed. Currently, each of the councils provide and manage procurement internally. Shared services will pool the capacity of procurement FTEs resources, providing a benefit through a consolidation in the number of FTEs required. Contract consolidation and vendor rationalisation will also result in a reduction in administrative requirements.

*Sharing increases the resource pool providing an increased level of flexibility and reducing key person risk.*

All of the councils currently face exposure to key person risk. Pooling resources and centralising activities will control for this risk. Rather than one person holding all the knowledge of a particular council or function, it will be shared across multiple people. This reduces the reliance on individual resources. It also provides increased flexibility to spread capacity helping to manage peaks and troughs in workload.

## **RECOMMENDATIONS**

**We recommend that the Cradle Coast Councils implement an independent shared services model for procurement.**

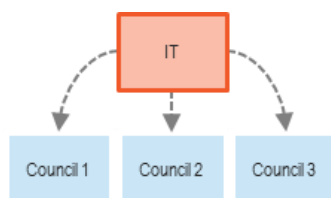
*Implications of recommendation*

- Review and standardise processes.
- Review contracts and identify shared vendors.
- Consolidate contracts.

## INFORMATION TECHNOLOGY

### SUMMARY

An evaluation of the Information Technology (IT) function applying the Shared Service Decision Tree indicates that this function is suitable to follow an **Independent Shared Service Model**.



Third Horizon's evaluation has identified three key factors that support the selection of this model.

- Councils have a similar operating environment that can be subject to process standardisation and operational efficiency;
- A regional IT strategy that addresses the requirements of a shared IT environment could deliver potential savings up to 30% - 40% in IT capital expenditure, compared to individual council investments; and
- An independent regional shared services model can provide the foundations for an overall IT strategy and more efficient IT operations.

### EVALUATION

IT is one of the key functions of Corporate Services and has been identified as an area of shared service opportunity. Third Horizon's assessment highlights the key benefits of an independent IT shared services model.

#### **A shared IT environment enables process standardisation**

Cradle Coast Councils operation is similar and, to a large extent, provide similar services to their communities through comparable operating models. Nevertheless, they have different systems and invest independently in their IT platforms.

*A common IT environment is instrumental to realise efficiency gains in technology-supported functions.*

IT-enabled standardisation will generate greater value across councils and lower the barriers to information sharing and collaboration. This in turn can enable increased levels of sharing across a broader range of services. In fact, a common IT platform will provide the base to drive long term benefit realisation across a broader range of services. Our survey results revealed that 83% of respondents thought service provision would benefit from improved technology.<sup>9</sup>

An integrated IT environment will enable the full value of IT shared services to be realised. The increased economies of scale will drive lower operating costs whilst further efficiencies will be realised through standardisation of processes, policies and reporting for all councils. Implementation of continuous process improvement will help the region streamline operations and move towards IT best practice. This will improve efficiency and reduce waste through lower error rates, shorter cycle times and an improved the quality of existing services.

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<sup>9</sup> Results taken from an initial survey completed by councils

**Investing collectively in IT platforms could provide significant savings in upfront costs, compared to investing individually.**

Whilst each of the councils undertake similar core activities, scale of operations, time and budget have led to an assortment of IT solutions.

- West Coast, Circular Head and Kentish are using the 'Brighton Solution'.
- Central Coast have been using its current system for many years
- King Island has recently install MAGIQ.

Some IT investment is occurring, however it is largely in limited partnerships or in isolation.

- Burnie, Waratah-Wynyard and Latrobe have significantly invested in Civica over 10+ years.
- Devonport has recently implemented Technology One. This is used by all staff and is partially customised to meet the specific needs of the councils.
- Kentish and Latrobe have a common IT strategy. A tender process has been undertaken to implement a combined IT system for the two councils.
- Waratah-Wynyard and Circular Head have recently undergone a joint IT review to assess their current operating environment. They are working towards a common solution.

*Potential savings up to 34% in avoided upfront costs from combined IT investments<sup>10</sup>*

Pooling expenditure and investing in a single IT system would reduce collective upfront costs by up to 34% of project implementation costs. Economies of scale will allow each of the councils to receive better value for money than if they were to invest and implement alone. Our preliminary analysis indicate that potential upfront benefits could be up to \$1,000,000+ (dependent on the type and scale of investment that need to be addressed by a regional IT strategy). Other potential long term benefits include volume discounts on software licenses, plus ongoing opex reduction (e.g. maintenance, software as a service fees).

*A regional IT Strategy and detailed business cases are required to fully assess the costs and the benefits of shared IT options.*

**An independent shared services model can facilitate the development of a regional IT strategy and enable world-class IT operations**

IT shared services enables the development of specialised IT resources that service all Cradle Coast Councils. Co-location and a focal point for all IT services will drive better collaboration and knowledge sharing of best practices between team members. This will organically drive capability uplift. Resource utilisation will also improve as capacity is pooled and duplication is eliminated.

*The Cradle Coast Councils can better leverage limited IT resources across the region.*

Third Horizon conducted a benchmark analysis of the Cradle Coast Councils IT functions against a series of comparable organisations to draw out insight from the data provided by Cradle Coast participants. Third Horizon found that there was a stark difference in internal FTE capacity in comparison to peer benchmark organisations. A difference which remained even after accounting for spend on external IT support.

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<sup>10</sup> Additional details supporting the quantitative analysis of IT savings are provided in the appendix (Table 14. Information Technology Savings Details Pg.60)

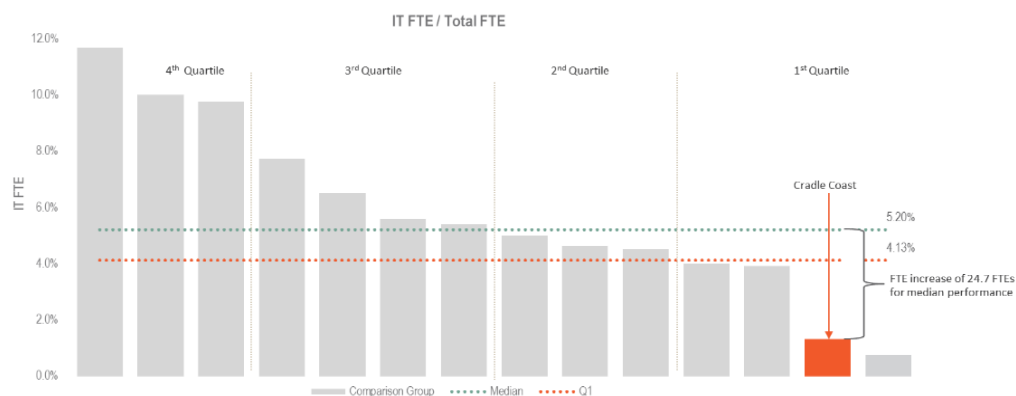


Figure 4. IT Function – FTE Benchmarking Analysis

Cradle Coast IT function has 24.7 FTE less than the benchmark median. IT accounts for 8% of Corporate Services FTEs and only 1.4% of total FTEs across the nine councils. While the 1st quartile performance may be indicative of superior performance it is more likely that it is symptomatic of an underinvestment in IT. On average there was only 1 IT FTE per council. This inhibits the quality and level of IT service provided. Even with 53% of IT labour outsourced only 3 councils have the capacity to provide Help Desk support, and these functions are already outsourced.<sup>11</sup>

#### *Sharing can improve resource specialisation, pool capacity and eliminate duplication*

A centralised IT operation through IT shared services would move processes from individual councils and centralise them. Existing resources can pool into a larger team, made up of specialised resources and placed into specific activities for all councils. This can potentially reduce duplication, increase the scale and scope of positions, and allow councils to attract and engage specialist resources. In turn, efficiency and quality of services provided can be improved.

## RECOMMENDATIONS

Third Horizon has two key recommendations for the IT function:

### **1. Develop a Cradle Coast Regional IT strategy**

We recommend that the Cradle Coast Councils work towards a common vision of their technology platform based on a shared IT strategy and ensure all future IT investment is aligned.

#### *Implications of recommendation*

- Determine the current state of all councils IT systems and operations.
- Assess current IT systems/providers available and determine the best option for the councils.
- Undertake a detailed business case to fully understand the costs, benefits and risks of a shared IT solution. The business case should also consider the digital transformation and how this may impact the provision of services to the community in the future.
- To maximise the benefits, all councils will need to partake.
- Consider investing in a shared technology system and/or a shared IT provider
- Explore the possibility to extend investment beyond Cradle Coast region to reap further benefits.

<sup>11</sup> Additional details supporting the quantitative analysis of IT savings are provided in the appendix (Table 14. Information Technology Savings Details Pg.60)

## **2. Establish an independent shared service model for IT**

We recommend that Cradle Coast Councils implement an independent regional shared services model for IT. The centralised team can form the base of the project team to run and implement the IT transformation project.

Once a shared technology platform is in place, the complete rollout of IT shared services can occur.

### *Implication of recommendation*

- Lead time for shared system integration will mean that this will only be possible in the medium term.
- Upfront investment may require a short term increase in IT FTEs before the benefits of shared services can be realised.
- A shared technology system will be integral to extract the whole value of independent regional shared services model.

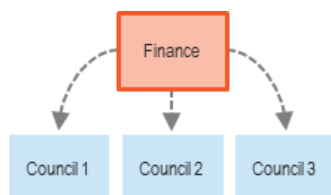
## EVALUATION OF MEDIUM PRIORITY OPPORTUNITIES

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### FINANCE

#### SUMMARY

An evaluation of the Finance function applying the Shared Service Decision Tree indicates that this function is suitable to follow an ***Independent Shared Service Model***.



Third Horizon's evaluation has identified two key factors that support the selection of this model.

- Potential annual benefit of \$1,500,000+ from the reduction in duplication inefficiencies; and
- An increased scale can enable capability uplift and help attract and retain specialist talent.

#### EVALUATION

Finance is one of the key functions of Corporate Services and has been identified as an area that is suitable for an independent shared services model. However, due to the nature of some of the finance sub-functions we recommend particular functions are critically assess for regional or sub-regional sharing arrangements.

#### **Potential annual benefit of \$1,500,000+ from the reduction in duplication and inefficiencies<sup>12</sup>**

An independent regional shared services model will provide a benefit through reducing the number of finance FTEs. Finance shared services will pool capacity providing a benefit through a consolidation in the number of finance FTEs required. This in turn will reduce the requirement for management and administrative support.

*Third Horizon's benchmarking revealed that Cradle Coast has nearly double the median internal Finance FTEs.*

A reduction to the median would drive an estimated financial benefit of up to \$1,780k p.a. The source of this benefit will be explored throughout this section. Third Horizon conducted a benchmark analysis of the Cradle Coast Councils Finance function against a series of comparable organisations to draw out insight from the data provided by Cradle Coast participants. Finance accounts for over 30% of Corporate Services FTEs (41.2) and 6% of total FTEs across the nine councils. A reduction of 20 or nearly 50% of current finance FTEs would align the combined Cradle Coast entity to the median of the comparison group.

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<sup>12</sup> Additional details supporting the quantitative analysis of finance savings are provided in the appendix (Table 15. Finance Savings Details Pg.60)



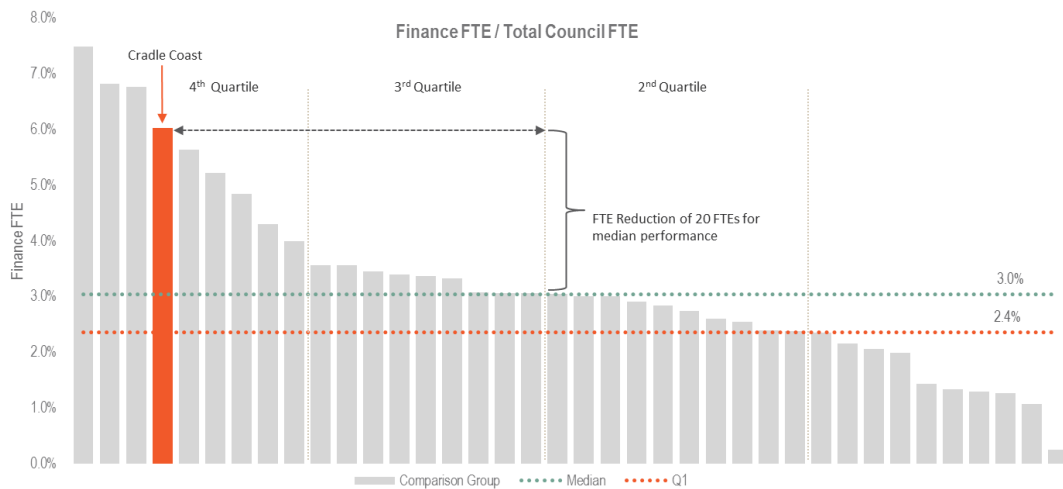


Figure 5. Finance Function – FTE Benchmarking Analysis

*Consolidation of finance FTEs could reduce the management and administrative expense by up to \$780k.*

Increased sharing could lead to a significant consolidation in finance managers. Currently there are seven finance managers across 9 councils. Creating a shared services for accounts payable and receivable functions whilst increasing the collaboration and sharing across other finance sub-functions will decrease the requirement for finance managers. A reduction in finance managers will lead to a reduction in the number of administration positions. We estimate this will drive an annual benefit of \$575k – \$780k.

*A consolidated accounts payable and receivable team could drive savings of up to \$1 million.*

An independent regional shared services model can enable a specialised team for accounts payable and accounts receivable that services all Cradle Coast Councils. We estimate that this could provide annual benefits of \$670,000 – \$1,000,000. Co-location and a focal point for transactional finance services will enable better collaboration and knowledge sharing. The increased economies of scale will drive volume efficiencies whilst further benefits will be realised through standardisation of processes, policies and reporting for all councils. Implementation of continuous process improvement will help the region streamline operations and move towards best practice over time.

#### **An increased scale can enable capability uplift and help attract and retain specialist talent**

A capability uplift through increased sharing will drive operational efficiencies and enable better decision making through more accurate data.

*The scale and scope of a full finance function helps attract and retain specialist talent like financial accounting.*

Some councils cannot support a full time financial accountant. An independent regional shared service model or a sub-regional sharing arrangement across councils helps resolve this issue. Such sharing arrangements increase the scale and scope of future positions. This will allow sharing councils to attract and engage specialist skills that individual councils may not have the capacity to support. Functions such as financial accounting are largely driven by external reporting requirements. This means that all councils must provide this service regardless of the scale of their operations.

*Sharing management accounting skills can enable better strategic decision-making.*

An independent regional shared services model or sub-regional arrangement of management accounting resources can enable better decision-making through more accurate data. Additionally it can enable a capability uplift due to standardisation of services between councils.

Currently there are very different levels of maturity in accounting and reporting practices. This was evident throughout our engagement. Several of the finance stakeholders that we engaged with did not have a high level of confidence in the accuracy of the data that they provided us. Even those confident in their data, lacked confidence in its comparability with other councils. Implementing sharing arrangements in Management Accounting can help drive an overall capability uplift in councils.

*Sharing increases the resource pool providing an increased level of flexibility and reducing risk.*

All of the councils currently face exposure to key person risk. Pooling resources and centralising activities will control for this risk. Rather than one person holding all the knowledge of a particular council or function, it will be shared across multiple people. This reduces the reliance on individual resources. It also provides increased flexibility to spread capacity helping to manage peaks and troughs in workload.

## RECOMMENDATION

**We recommend the Cradle Coast Councils implement an independent shared services model for the finance function**

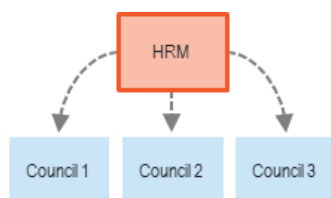
*Implications of recommendation*

- Accounts receivable and accounts payable should form part of the full shared services model.
- The Management Accounting and Financial Accounting functions may have local and strategic sensitivities, so council specific analysis should be conducted to determine why this function should not form part of the full shared services model.
- A process review should be conducted to implement standardisation across councils.
- Commercial agreements and SLAs will be required between provider and recipient councils.

## HUMAN RESOURCE MANAGEMENT

### SUMMARY

An evaluation of the Human Resource Management (HRM) function applying the Shared Service Decision Tree indicates that this function is suitable to follow an ***Independent Shared Service Model***.



Third Horizon's evaluation has identified two key factors that support the selection of this model.

- Potential annual benefit of \$500,000+ from the reduction in duplication inefficiencies; and
- An increased scale can enable capability uplift and help attract and retain specialist talent.

### EVALUATION

#### **Potential annual benefit of \$500,000+ from the reduction in duplication and inefficiencies<sup>13</sup>**

An independent shared service for HRM can pool the capacity for resources, providing a benefit through a consolidation in the number of HRM required. This in turn will reduce the requirement for management and administrative support.

*Third Horizon's benchmarking revealed a reduction of 7.9 HRM FTE to align with the median internal HRM FTE.*

A reduction to the median would drive an estimated financial benefit of up to \$645k p.a. The source of this benefit will be explored throughout this section. Third Horizon conducted a benchmark analysis of the Cradle Coast Councils HRM function against a series of comparable organisations to draw out insight from the data provided by Cradle Coast participants. With 21.0 FTEs, HRM accounts for over 17% of Corporate Services FTEs and 3.1% of total FTEs across the nine councils. A reduction of 7.9 FTEs or nearly 38% of current HRM FTEs is required to align the combined Cradle Coast Councils to the median of the comparison group.

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<sup>13</sup> Additional details in appendices

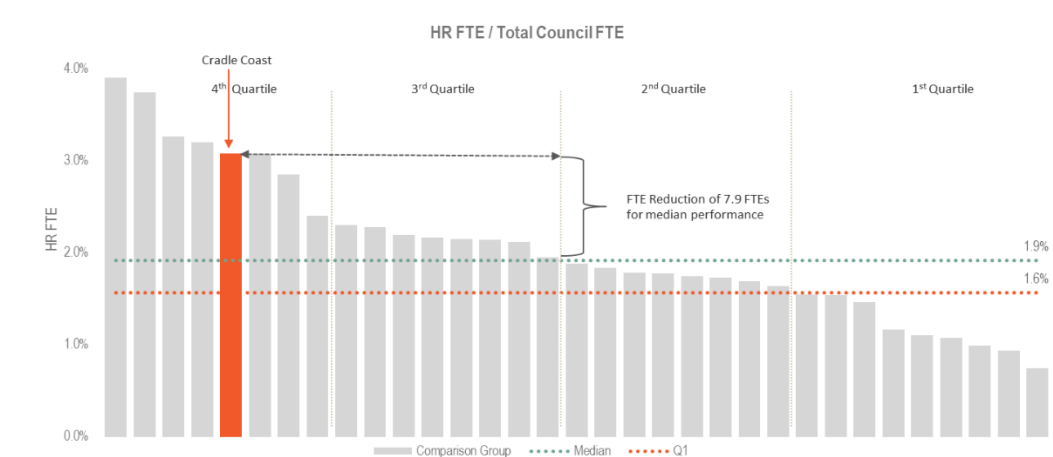


Figure 6. HRM Function – FTE Benchmarking Analysis

*Consolidation of HRM FTEs could reduce the management and administrative expense by up to \$275k.*

Increased sharing could lead to a significant consolidation in HRM managers. Nearly 19% of HRM roles are management positions. Centralising payroll and WHS and increasing the collaboration through a HR full shared service model will decrease the requirement for HRM managers. A reduction in finance managers will lead to a reduction in the number of administration positions. We estimate this will drive an annual benefit of \$180k – \$275k.

*A specialist payroll team could drive operational efficiencies of up to \$370k.*

An independent shared services model for HRM could enable a specialised team for payroll that services all Cradle Coast Councils. We estimate that this could provide annual benefits of \$275k – \$370k. Payroll salary costs are double the average for an employer of similar size. The Australian Payroll Association calculated the average payroll employee salary cost per payslip to be \$9.74 in 2015 – 2016<sup>14</sup>. The average across Cradle Coast is \$21.31. This is \$11.57 higher per payslip. A FTE reduction of 54% across payroll is required to align with the average. An independent regional shared services model will drive this increased efficiency. Co-location and a focal point for payroll will help drive better collaboration and knowledge sharing. The increased economies of scale will help drive volume efficiencies whilst further benefits will be realised through standardisation of processes, policies and reporting for all councils. Implementation of continuous process improvement will help the region streamline operations and move towards best practice over time.

### **An increased scale can enable capability uplift and help attract and retain specialist talent**

A capability uplift through increased sharing can drive operational efficiencies.

*Sharing provides additional flexibility whilst helping to attract and retain talent.*

Sharing the service provision across multiple councils increases the scale and scope of future positions. This will allow councils to attract and engage specialist skills they may not have the capacity to support without sharing, increasing the quality of services provided. Three of the councils appear to not provide WHS and four of the councils provide this service through a partnership structure. Given WHS is a legislative requirement it raises the question on whether the scale of these councils is

<sup>14</sup> Australian Payroll Association (2016). Payroll Benchmarking Report.

sufficient to meet regulatory requirements. Implementing shared services for WHS across councils helps resolve these issue.

*Sharing increases the resource pool providing an increased level of flexibility and reducing risk.*

All of the councils currently face exposure to key person risk. Pooling resources and centralising activities will control for this risk. Rather than one person holding all the knowledge of a particular council or function, it will be shared across multiple people. This reduces the reliance on individual resources. It also provides increased flexibility to spread capacity helping to manage peaks and troughs in workloads.

## RECOMMENDATION

**We recommend the Cradle Coast Councils implement an independent regional shared services model for Human Resource Management.**

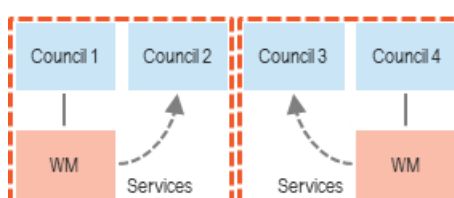
*Implications of recommendation*

- A shared IT environment will be central to enabling shared HRM.
- Process review to implement standardisation.
- Consolidation of management and administration following establishment.
- Some HR activities may need to be carried out on-site.

## WASTE MANAGEMENT (WORKS AND SERVICES)

### SUMMARY

An evaluation of the Waste Management function applying the Shared Service Decision Tree indicates that this function is suitable to follow a **Sub-Regional Arrangement**.



Waste management has been identified as a function suitable for sharing, with medium potential to deliver incremental benefits. Considering the nature of waste management, we recommend that Cradle Coast Councils pursue the expansion and/ or replication of sub-regional sharing arrangements.

Third Horizon's assessment has revealed two key benefits that can be realised through the expansion of sub-regional sharing models for waste management.

- Optimise waste management infrastructure,
- Ensure sustained operational efficiency and benefits realisation.

## EVALUATION

### Optimise waste management infrastructure

Sharing arrangements will create the conditions to develop an optimal waste management layout, with landfill and transfer stations adapted to aggregate needs of multiple councils. By pooling waste management needs, councils will be able to manage larger waste management operations and make optimal investment decisions.

*Third Horizon's review showed that a regional waste management could deliver savings between \$1.5m to \$2.0m over 16 years.*

Waste management assessment commissioned by the Cradle Coast Authority (2014, *Coordinated Governance and Management of Waste Infrastructure and Services in the Cradle Coast Region*) indicated that expected capital investment over the next 16 years would be \$15m to \$20m. In addition there are 18 transfer stations across the region, of which only 3 are able to absorb an indicative 60% materials increase.

Based on Third Horizon's experience driving operational improvements in utility organisations, a significant demand aggregation is able to gradually optimise infrastructure layout and decrease at least 10% of investment requirements. Joint planning and procurement of capital investments are key to realising these efficiencies.

### Ensure sustained operational efficiency and benefits realisation

Greater sharing arrangements will be able deliver lower cost per bin. Cost of collection, processing and other activities would potentially decrease by jointly planning and operating a larger waste management network. Additionally, benefits of scale could be realised by joint procurement and management.

*Third Horizon's analysis confirmed that shared services could deliver incremental savings of \$1.3 to \$2.3 million per year.*

Third Horizon conducted a benchmark analysis of the Cradle Coast Councils waste management function against a series of comparable councils to draw out insight from the data provided by Cradle Coast participants. With a cost per collected bin that ranges between \$3.35 and \$11.42, the variability between councils is significantly higher than other comparable councils. Further sharing could potentially reduce these differences, which would drive an estimated financial benefit of up to \$1.3 million p.a. Note that benefit calculations exclude isolated councils (e.g. King Island) for which cost of collection is structurally high. Similarly, existing arrangements are taken into account in the assessment of potential benefits. 21

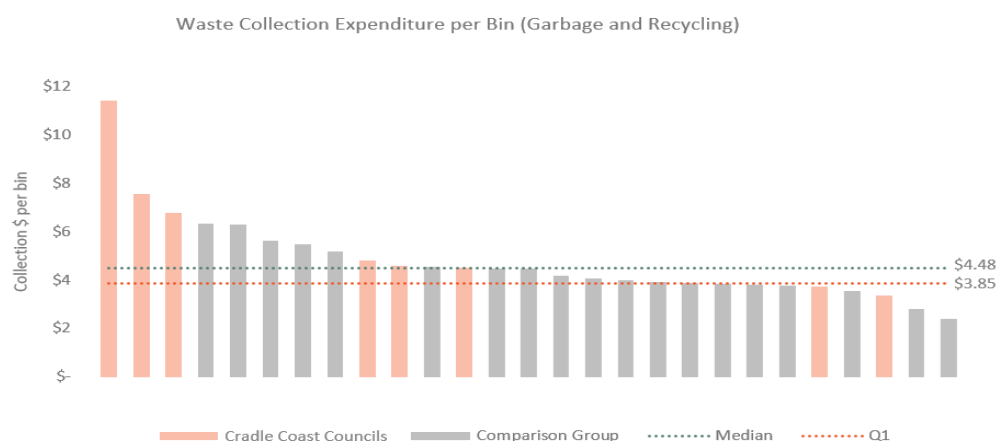


Figure 7. Waste Management Function – Waste Collection per Bin Benchmarking Analysis

*Consolidation of waste management operations can deliver sustained cost benefits through joint procurement.*

The Dulverton Regional Waste Management Authority has been able to deliver operational improvements to its participating councils, as indicated by the 2017 Landfill Excellence Award. However, the 2014 waste management assessment points out that each of the Cradle Coast Councils still uses multiple contractors for more than 8 waste management activities. In the same report, it is estimated that economies of scale through regional purchasing would result in \$1 million savings for the region. These estimates are consistent with Third Horizon's benchmark analysis.

## RECOMMENDATION

Third Horizon has two key recommendations for the Waste Management function:

### **1. Establish a joint planning and procurement model for waste management**

We recommend that the Cradle Coast Councils jointly plan and procure their waste management infrastructure and services.

#### *Implications of recommendation*

- Create or confirm entity to lead the initiative.
- Assess waste management infrastructure.
- Develop a long term waste management infrastructure plan for the Cradle Coast.
- Agree joint investment strategy.
- Assess waste management contracts and service agreements.
- Explore the possibility to extend key contracts to all Cradle Coast Councils.

### **2. Expand and replicate sub-regional operations**

We recommend that Cradle Coast Councils develop further collaboration around waste management operations by: a) expanding the scope of existing waste management partnerships and/or b) establishing new sub-regional waste management arrangements.

#### *Implication of recommendation*

- Explore the possibility to increase the scope of the Dulverton Waste Management Authority or the potential to increase the scope of the Dulverton Waste Management Authority sub-regionally.
- Identify alternatives for sub-regional operations that would deliver operational efficiencies.
- Establish service agreements and management protocols.

## EVALUATION OF LOW-MEDIUM PRIORITY OPPORTUNITIES

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### ECONOMIC DEVELOPMENT AND COMMUNICATIONS

**We recommend economic development and communications should take on centralised regional shared services model.**

*These functions will benefit from a regional perspective.*

Both economic development and communications would benefit from a unified regional strategy and approach. This will increase the magnitude of outcomes that can be achieved and reduce duplication of effort. It will help ensure there is consistency in activity and messaging for the whole region, increasing the overall effectiveness and quality of service delivery.

*They complement other centralised service offerings and will potentially increase the scale of the service.*

The majority of councils do not have the scale to dedicate a full time position to Economic Development nor Communications functions. Given the size and scope of these functions at an individual council level, sharing across all councils could allow for specialist team to be assembled and that services all councils. The increased specialisation and economies of scope of a single team will result in better outcomes for community and the region.

### OTHER WORKS AND SERVICES

**We recommend that all works and services functions be shared under sub-regional arrangements.**

Works and Services function is suitable for increased sharing. The nature of works and services means that all councils undertake the similar activities within each of the functions. The magnitude of operating expenditure in works and services means that the achievement of small operational efficiencies can result in significant long term benefits. However the geographic distribution coupled with the complexity to implement has meant that we have put this as a secondary priority.

We recommend that sub-regional sharing arrangements be established or expanded across works and services once a successful model has been developed and implemented for increased sub-regional sharing in waste management.

*Sharing may enable councils to provide a better quality service.*

Although the overall volume of work is unlikely to decrease through sharing, the quality and scale of activities would likely improve through sharing. This would enable councils to provide a better service for communities in the long run.

*Sub-regional arrangements will improve resource utilisation and reduce duplication.*

Sub-regional arrangements will pool capacity providing a benefit through a consolidation in the number of FTEs required to perform the function. Increasing the spans of control may reduce the requirement for management and administrative support. A single resource pool will enable capacity to be spread across all councils helping to manage peaks and troughs in workload that the smaller council teams may experience. This will result in a net improvement in resource utilisation.



*Increased economics of scale and process standardisation will drive operational efficiencies.*

The increased economies of scale will drive volume efficiencies whilst further benefits will be realised through standardisation of processes, policies and reporting for all councils. Implementation of continuous process improvement will help the region streamline operations and move towards best practice over time.

## PLANNING AND REGULATION

**We recommend that parking and animal control and regulation be shared under sub-regional arrangements.**

*Sharing may enable councils to provide a better quality service.*

Although the overall volume of work is unlikely to decrease through sharing, the quality and scale of activities is likely to improve. This would enable councils to provide a better service for communities in the long run.

- Creating a shared animal control team underpinned by a joint technology system could significantly reduce customer administration. Rather than each council managing a separate database, it could be centrally located, simplifying the process for customers moving between council areas. Standardised processes could streamline the collection of annual registration fees. Given the close proximity of council areas response teams could be pooled, sharing excess capacity, increasing utilisation and potentially reducing response times.
- Sub-regional sharing across parking will allow councils to pool resources and share excess capacity providing greater flexibility. A larger team may also enable councils to implement potentially more effective strategies for enforcement (e.g. target resources to focus areas for a short period). This may drive higher compliance and improving the overall service levels. Working together also allows knowledge transfer between council teams whilst providing councils greater access to talent and specialist skills.

## ENVIRONMENTAL HEALTH

**We recommend that environmental health be shared under sub-regional arrangements.**

Third Horizon considers the opportunity to realise benefits in environmental health through:

- A reduction in functional duplication across FTEs.
- Increased spans of control reducing the number of managers and administration positions required.
- Standardised processes across councils driving volume and operational efficiencies.
- Pooling volumes enabling capacity to be spread across councils, providing increased flexibility to manage workloads and drive higher utilisation.
- An increased scale can enable capability uplift and help attract and retain specialist talent.
- Economies of scope through providing more regional or sub-regional activities rather than focussed activities at a council level.

**Sharing may enable councils to provide a better quality service.**

Although the overall volume of work is unlikely to decrease through sharing, the quality and scale of activities is likely to improve. This would enable councils to provide a better service for communities in the long run.

- Shared teams across public health could drive higher levels of food safety compliance through unified standards and consistency. Resourcing pooling allows councils to share excess capacity across inspection teams and provides greater flexibility to respond to customer enquiries. This may reduce the process time, improving the overall service levels. Working together allows knowledge transfer between council teams whilst providing councils greater access to talent and specialist skills.
- A sub-regional perspective could help councils manage the interdependencies in national resource management and environmental management, providing a more consistent service to the region. Given the geographical proximity of council areas, the decisions and measures implemented in one council can have an impact on neighbouring councils. Creating a shared team and joint governance framework can provide councils a voice in decisions that may impact their area. It may also allow for more strategic decision making to occur, resulting in better outcomes for the sub-region.

## OTHER CONSIDERATIONS

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In conducting an initial feasibility assessment, we defined a list of 5 characteristics to help assess the suitability of functions and activities for sharing.

As part of this assessment, some functions such as community services were not considered to be candidates for sharing. Whilst we do not recommend sharing across these functions initially, this does not preclude these functions from presenting opportunities for sharing in the future. Third Horizon's commentary on some of this functions is provided below.

### COMMUNITY SERVICES

**We recommend that community services is retained within the councils.**

Our initial screening deemed all functions within community services to be non-candidates for sharing based on the high level of community interaction and council's expectations in that regard. Based on this, we recommend that these functions are retained within councils. However, we see an opportunity to realise benefits and recommend this be revisited in the future.

Third Horizon considers the opportunity to realise benefits in community services through:

- A reduction in functional duplication across FTEs.
- Better strategic decisions that are aligned across councils.
- Increased spans of control reducing the number of managers and administration positions required.
- Standardised processes across councils driving volume and operational efficiencies.
- Pooling volumes enabling capacity to be spread across councils, providing increased flexibility to manage workloads and drive higher utilisation.
- An increased scale can enable capability uplift and help attract and retain specialist talent.
- Economies of scope through providing more regional or sub-regional activities rather than focussed activities at a council level.

**Sharing may enable councils to provide a better quality service.**

Although the overall volume of work is unlikely to decrease through sharing, the quality and scale of activities is likely to improve. This would enable councils to provide a better service for communities in the long run.

- In 2013 the Cradle Coast Authority commissioned a review on Visitor Services for the Cradle Coast Region. This report recommended a model that would allow councils to achieve \$735-\$985k in year one and nearly \$324-\$446k in annual savings from year 2 on. The recommendations of this report were never implemented.
- Sharing in tourism services increases the scope of activity as it can take a regional or sub-regional focus. Pooling funds and capability into a single team will increase the magnitude of outcomes that can be achieved and reduce duplication of effort. Increase sharing can also help ensure there is consistency in activity for the whole region, increasing the overall effectiveness and quality of service delivery.
- The nature of activities in events management means workload is likely to fluctuate significantly depending on the council event schedule. Implementing shared teams would allow effort to be focussed on the upcoming events within the region, providing greater flexibility to manage peaks and troughs that occur at the council level. This would also decrease downtime and have a net improvement on employee utilisation.

**Whilst we do see significant benefits in sharing, we have not recommended it be pursued at this stage.**

*Councils expressed a desire to preserve local connections with the community.*

Maintaining control of community services was integral to this idea. The lower operational expenditure in community services (approximately 13% of opex compared to works and services 62%) also means that the comparative benefit of sharing is lower whilst the complexity of sharing remains.

*Throughout our engagement, we did not see strong evidence of trust and a desire to collaborate across the delivery of frontline services.*

Community Services is seen by councils as paramount to maintaining local connections. The strong sentiment that underpinned much of the engagement was that councils were reluctant to let go of local interest on behalf of a shared vision and shared action for the region. This is posing a significant barrier to future sharing.

**We recommend that sharing in community services is viewed as an opportunity to explore in the future once inter-council trust is strengthened and sharing across other services has matured.**

## OTHER CORPORATE SERVICES

### Strategy & Governance

**We recommend that the strategy and governance function is retained within councils, however both records management and risk and compliance have the potential for sharing in the future.**

Strategy and governance is predominately a strategic position so it does not make sense for this to be shared without moving to strategic sharing across all levels of council operations.

Records management is underpinned by legislative requirements. In general, this function is well-suited for shared services as it is largely process based and often provided remotely. Implementing a shared services model for records management should be only be considered once and shared technology systems have matured and strategic partnerships within councils have been embedded.

Risk management, regulation and compliance are integral to good council governance. Consequently we recommend that these be retained within the council. Whilst the size and scope of the function at a council level does mean that there would be benefit in increased sharing, we do not recommend these be considered until shared technology systems have matured and strategic partnerships within councils have been embedded.

### General Management & Administration

**We recommend that general management and administration be retained in the councils.**

This is a strategic function that is fundamental to council operations. Sharing this position does not make sense without increasing strategic sharing across all council activities. This is demonstrated by the successful sharing between the strategic partnerships of Kentish/Latrobe and Waratah-Wynyard/Circular Head. Our discussions with councils support the preposition that there is little appetite to increase sharing across general managers.

## OTHER PLANNING AND REGULATION

**Whilst we do see benefits in sharing across the other planning and regulation functions, we have not recommended it be pursued at this stage.** This includes building control and administration, building permits and accreditation, plumbing permits and accreditation, land use planning and approvals.

*Planning and regulation accounts for only 8% of council opex and benefit of sharing is not significant.*

Council expenditure associated to planning and regulation activities is low compared to other functions like finance, IT, procurement, and works and services. Efficiency gains obtained through pooling resources or optimising operations would deliver limited financial impact.

*Implementation of sharing arrangements across planning and regulation could be complex.*

Third Horizon highlighted a potential difficulty in reaching agreement to share planning and regulation functions, due to the perception among councils that this would reduce their control of some strategic regulatory activities and approvals. This was confirmed throughout discussions with council representatives, who were unable to see wider benefits of sharing in these space and called out possible impacts in their council area.

**Considering the size of potential benefits and relative complexity of sharing, we recommend that this function is retained within councils at this stage. However, we recommend that sharing in other planning and regulation activities is viewed as an opportunity to explore in the future once inter-council trust is strengthened and sharing across other services has matured.**

## RECOMMENDED FUTURE SHARED SERVICE MODEL

Third Horizon advises that the Cradle Coast Councils leverage a combination of full share services models and sub-regional arrangements. Third Horizon has categorised the functions into the sharing arrangements below, deeming them the most appropriate model to engage in sharing between the councils.

The below diagram shows the recommended sharing arrangements and the distribution of assessed functions across the shared services of the Cradle Coast Councils.

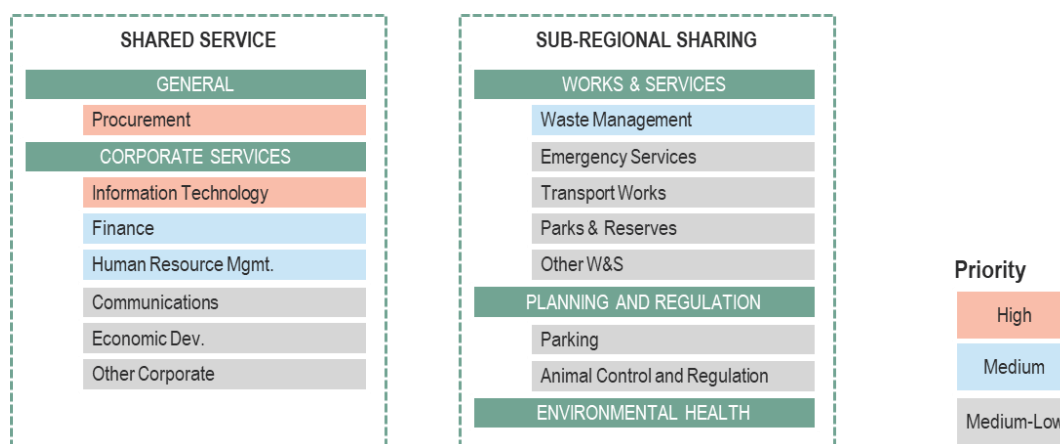


Diagram 16. Recommended Future Shared Services Model

### A New Shared Services Entity

We recommend the Cradle Coast Councils establish a new shared services entity. This will provide a range of standard corporate and procurement services to the councils. All of the services nominated for independent regional shared services model are seen as non-core and non-strategic for council operations. Standardising them into a SSE will ensure cost reductions, improvement of quality and overall improvement of functional efficiencies. Removing the control of these activities from the councils will also allow councils to focus on strategic activities and core service delivery.

The new entity can provide these functions on a contract based on a standard catalogue of services and SLAs. New commercial agreements will need to be put in place to manage the financial relationship between the councils and the new entity.

The entity can be a joint authority similar to the CCA or it can use a different model such as one that is independent of the Cradle Coast Councils. The advantage of an independent entity is that it can more easily be scaled to provide these services beyond the councils. This may present an opportunity to increase regional employment and drive lower prices in the long run. Increasing the client base will help drive continuous improvement and maintain the long term financial stability of the SSE.

Implementation of a SSE is dependent on a shared technology system. Whilst these activities could occur independently, the benefits will be lower and it will add significant complexity and costs of implementation. Many of the new processes and changes required for a SSE will occur naturally through the system change.

### **Sub-Regional Sharing Arrangements**

We recommend that sub-regional sharing arrangements are implemented for works and services functions across the councils. This recommendation is based primarily on the complexities of the physical nature and constraints of these services, however there is no fundamental reason why these functions cannot be consolidated into a sub-regional sharing arrangement or a SSE in the future.

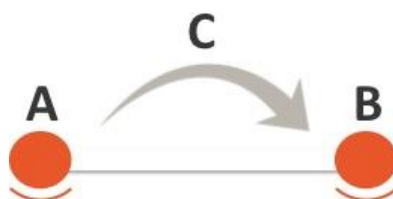
Due to the complexity in moving these functions to sub-regional sharing, we have recommended councils commence with waste management services. Dulverton Waste Management Group provides a base that can be expanded and replicated. Once sub-regional sharing has been successfully implemented across waste management, it can provide a precedent for expanding the sharing across more works and services functions.

It is advised that the councils engage in further consideration of which functions are suits to be shared sub-regionally across select councils. Furthermore the Cradle Coast Councils should consider how these can further evolve into regional sharing arrangements.

## IMPLEMENTATION PLAN & ROADMAP

### BUILDING THE CASE FOR CHANGE

In a series of workshops the councils discussed the relevance and value of being able to position any argument for greater shared services within a broader regional vision. Such a vision or narrative of cooperation would need to respect both their individual aspirations and their agreed principles of engagement. Working from their own local stories, the councils discussed how they might move ‘together’ from an initial state (A) of independent operations to a future state (B) where functions or resources are shared as reflected in the simple heuristic for strategy below:



Three foundational precepts emerged for moving from A to B:

1. Think **systematically**
2. Build and share **regionally**
3. Connect **locally**

The councils further elaborated these precepts in eight design principles based on their individual and collective objectives and aspirations. Third Horizon distilled the 8 design principles to two main questions for potential sharing, which align to Third Horizon’s two parameters.

#### *Resource sharing principles:*

1. Build on our best
2. Enhance inter-council trust but not depend on it
3. Promote equality of voice
4. Ensure regional efficiency
5. Improve value to community
6. Preserve local connection
7. Always respect the other participants
8. Allow that perceptions are our own and may not be the reality of others

#### *Two main questions:*

- > How difficult would it be to establish a sharing arrangement?
- > What value would sharing this function bring to the ratepayers?

### Views of the Cradle Coast Councils

Following Third Horizon’s preliminary evaluation of resourcing sharing opportunities the Mayors and representatives of the Cradle Coast Councils were engaged in workshops to express their individual perceptions of resource sharing in a collective evaluation of complexity and value. The output of the workshop demonstrated a high degree of alignment between the perceptions of sharing opportunities to Third Horizon’s assessment.<sup>15</sup>

<sup>15</sup> The output of the workshop exercise can be found in the Appendices on page 56



The large majority of Third Horizon’s preliminary evaluation of resource sharing was validated by the views of the Cradle Coast Councils. And where differences existed these factors were acknowledged and considered as part of the following prioritisation of functions for evaluations.

## HIGH LEVEL IMPLEMENTATION ROADMAP

Cradle Coast Councils have recognised the value of collaboration and committed to pursue sharing arrangements around key council functions, agreeing to build trust first through the early implementation of high value opportunities. A phased strategy would address councils’ objectives and maintain focus on longer term possibilities:

- > Phase 1: learn, build trust, and capture significant value from service sharing
- > Phase 2: deploy additional high-value functions and leverage existing trust
- > Phase 3: share management resources and capture long term structural benefits from asset sharing

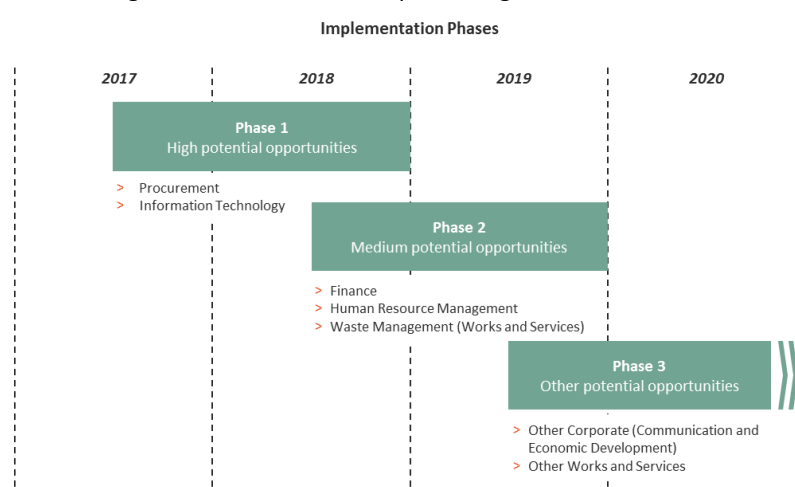


Figure 8. Implementation Strategy Overview

Sequence and timing are indicative only. We would expect councils to adjust the strategy to their capacity and further design considerations. A high-level project governance model has been designed to provide indicative support structures to help coordinate implementation efforts and ensure council engagement through the process.

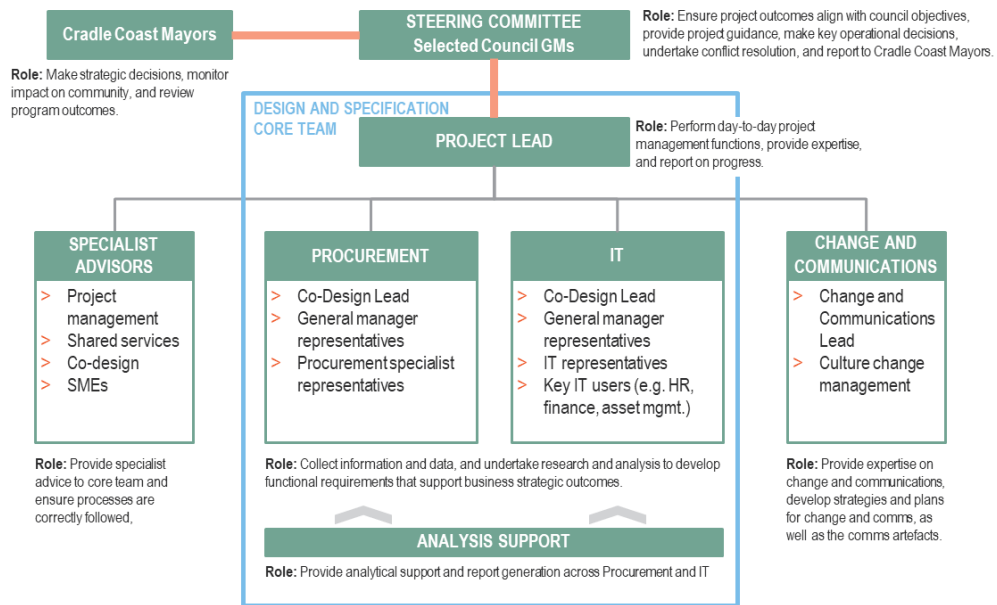
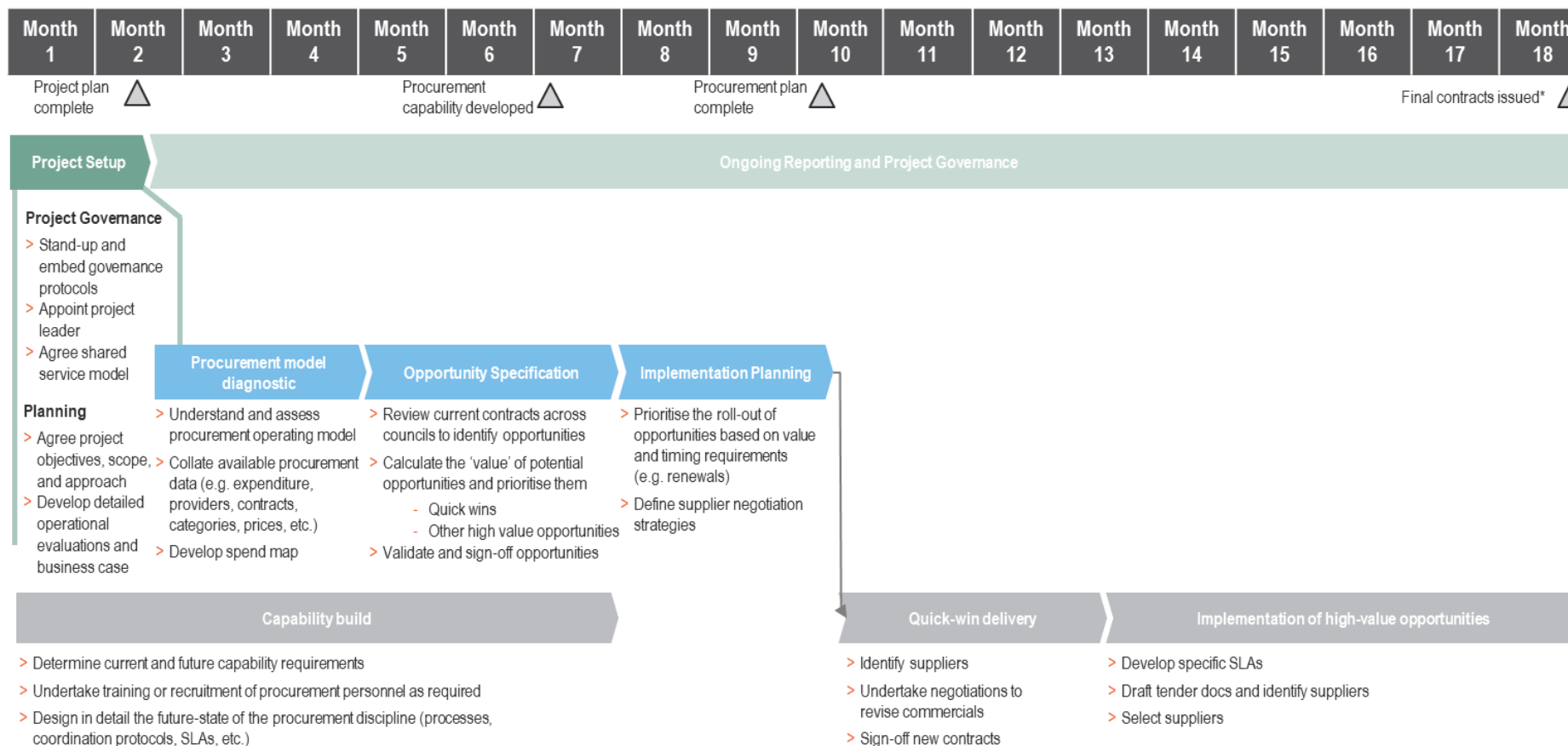


Diagram 17. Proposed Program Team Structure and Roles

## HIGH PRIORITY: PROCUREMENT IMPLEMENTATION PLAN

A detailed implementation timeline has been developed for each one of the high priority opportunities. Sequence and timing are indicative only. We suggest that councils adjust the strategy to their capacity and further design considerations.



\* Timing is indicative only. Some contracts may require longer implementation cycles and some negotiations may need to be postponed to match contract renewals.

Figure 9. Procurement Implementation Timeline

## HIGH PRIORITY: INFORMATION TECHNOLOGY IMPLEMENTATION PLAN

A detailed implementation timeline has been developed for each one of the high priority opportunities. Sequence and timing are indicative only. We suggest that councils adjust the strategy to their capacity and further design considerations.

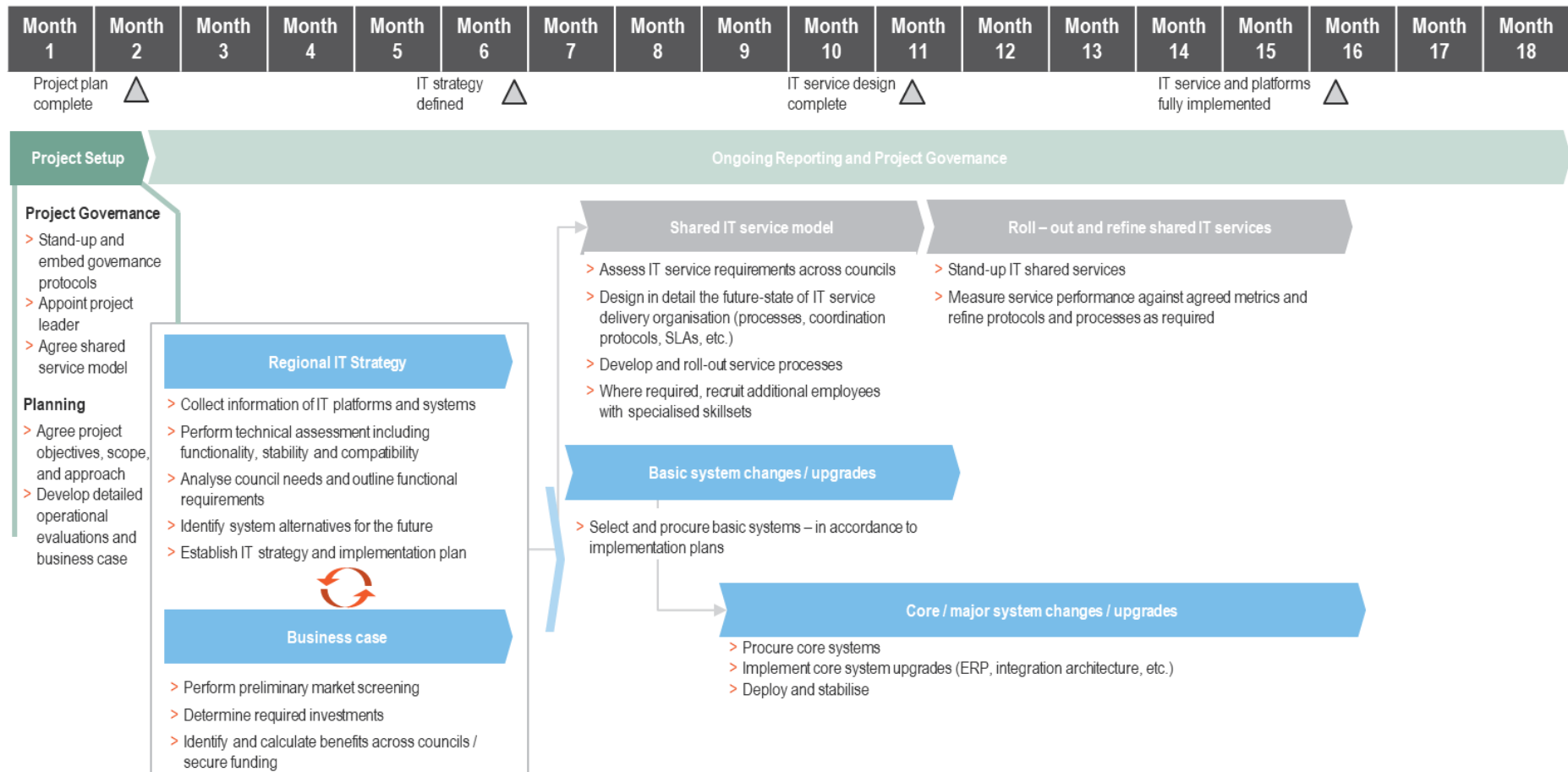


Figure 10. Information Technology Implementation Plan

## CONCLUDING REMARKS

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Third Horizon identified \$9 million p.a. in potential benefits (excluding investment costs) that could be collectively achieved by the Cradle Coast Councils by implementing shared services models. This analysis is intended to give an indication of how to proceed to a detailed design, business case and planning stage that will inform implementation. In turn, the realisation of these benefits is dependent on the next steps taken by the councils.

Throughout our engagement, we encountered many instances of successful sharing. For instance, the strategic partnerships between Waratah-Wynyard/Circular Head and Kentish/Latrobe; the establishment of the Dulverton Waste Management organisation; and most recently, the framing of the Sustainable Murchison 2040 plan seem to reflect sound strategic collaboration. These provide clear evidence that councils can collaborate to deliver real benefits to ratepayers.

On the other hand, some difficulties experienced throughout the engagement highlight potential struggles and sensitivities that would make it difficult to reach consensus and establish common goals. Through workshops and interviews, we devoted significant effort to get alignment on the value of sharing but not all councils were on board with this study, and the levels of participation throughout the engagement reflected these sentiments. In addition, the relative paucity of data made available suggests that by and large councils have not been able to assess neither how shared services would deliver greater benefits to ratepayers, nor the financial impacts of such arrangements. In turn, a perception surfaced that sharing will result in reduced service to council tenants. This is posing a significant barrier that councils will need to proactively overcome for future Authority-wide sharing arrangements to be successful.

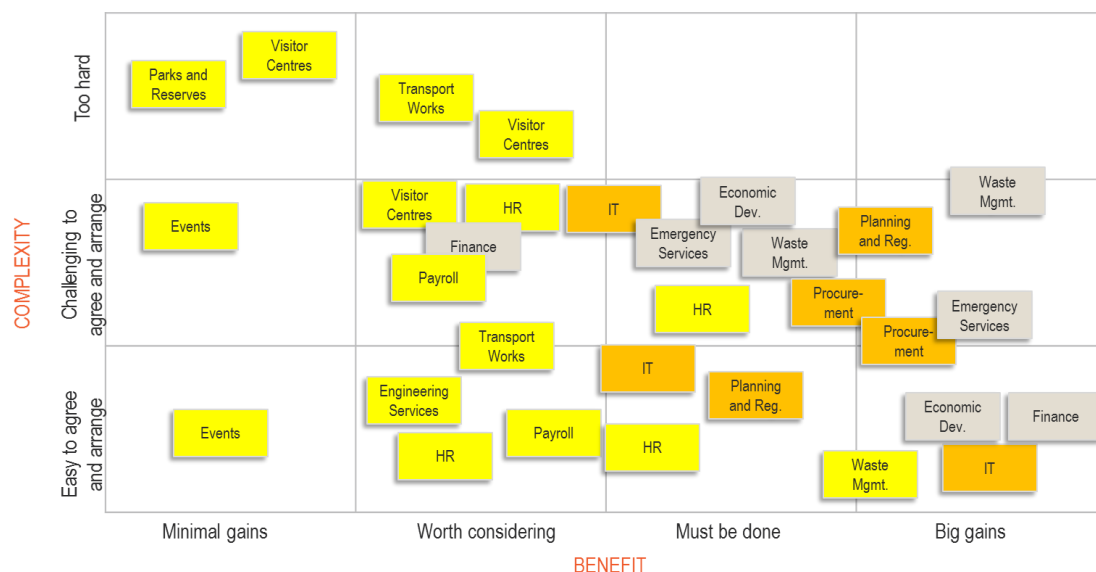
Whilst we acknowledge that the journey to implementing the recommended sharing arrangements will be challenging, we strongly recommend that the Cradle Councils use these findings as a catalyst to drive changes at both a cultural and operating levels. A proactive rather than reactive approach is likely to provide better long term outcomes to councils and their communities.

## APPENDICES

### 1. WORKSHOP OUTPUT: COUNCIL PERSPECTIVES ON RESOURCE SHARING

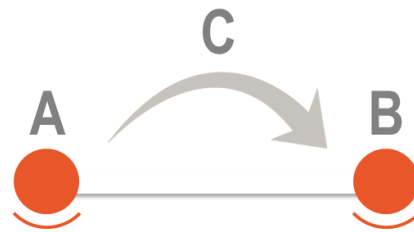
Mayors and council representatives were engaged in an interactive workshop to establish an understanding of their perceptions of potential resource sharing opportunities across Cradle Coast Councils.

Participants were asked to indicate against a matrix of complexity and value their views on top functions for sharing opportunities. The participants weighted and scored each service, expressing their individual perceptions in a collective evaluation. Their assessments were integrated into the following matrix.



Third Horizon's evaluation largely aligned with the assessment of council representatives. Similar to Third Horizon, council representatives considered Finance, Waste Management, IT and HR as priority shared service candidates. The main difference occurred around Planning and Regulation. While Third Horizon considered that sharing the activities within this function would provide limited value, some councils perceived a higher value from sharing them. The rationale of Third Horizon's independent assessment is provided in the evaluation section.

## 2. PROCUREMENT: A CASE FOR CHANGE



### 1. What is easy / challenging about sharing procurement services?

#### Relatively Easy

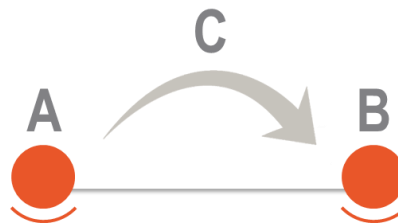
- Similar suppliers
- Purchasing policies in place
- National procurement services
- Bulk pricing

#### Challenging

- Staff acceptance
- Variations in systems
- Changing years of practices
- Ensuring support for local suppliers — messaging
- Compliance — risk
- Scale — what's in/out?
- Just-in-time / maverick purchases
- Risks, e.g.. monopolies

### 2. What is possible?

FINANCIAL GAINS  
POSITION OF STRENGTH  
EXTENDED MARKET  
REDUCE WASTE  
COMMUNITY CONFIDENCE  
DEMONSTRATE SS WORKS  
UNIFIED APPROACH  
NETWORKS  
KNOWLEDGE  
EXPERTISE



### 3. What design principles?

1. Value for money suppliers
2. Easy to access/use
3. Balance community needs [rural]
4. Spread the benefits
5. Visibility — open and transparent
6. Sound comparisons [apples for apples]
7. Assist / educate local suppliers
8. Build capacity for councils to deliver
9. Clear boundaries [in/out]
10. Flexible for local contexts (e.g. disasters)
11. Address the control tension
12. Enable expertise to emerge

### 4. What do we need to progress?

We don't know what we don't know.  
Therefore...

1. Commit to share
2. Establish a data starting point
3. Agree key metrics
4. Build common spreadsheets
5. Coordinate tendering
6. Identify expertise
7. Bring skills together
8. Grow expertise
9. Create safe place for unflattering data to emerge

### 3. PROCUREMENT: SAVINGS DETAILS

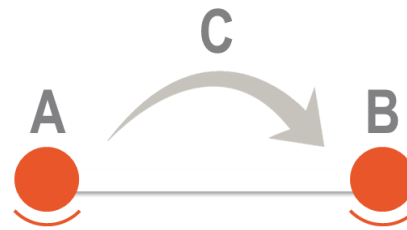
In order to calculate the procurement savings, we analysed the key cost drivers within each of the sources to determine their scalability through sharing. This analysis in conjunction with our experience in other organisations used to calculate the indicative synergy opportunity. The table below provides the detailed analysis behind the quantitative savings figures.

Source	Approximate Cost (Works and Services)	Functional Cost Drivers	Qualitative Benefits	Quantitative Benefits (000s)
Procurement of Materials	> \$23.7m	<ul style="list-style-type: none"> <li>&gt; Volume of materials</li> <li>&gt; \$ procured</li> <li>&gt; Number of suppliers</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Leverage combined volumes and improved rates</li> <li>&gt; Reduce the number of suppliers</li> <li>&gt; For major suppliers instigate SRM program to identify and drive strategic alignment and value</li> <li>&gt; Align standards, tighten specifications, leverage combined scale and re-tender and/or renegotiate contracts for councils</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 5% – 10% synergies</li> <li>&gt; \$1,185 – \$2,370</li> </ul>
External Labour	> \$3.1m	<ul style="list-style-type: none"> <li>&gt; Number of external contractors</li> <li>&gt; Daily rates</li> <li>&gt; Supply of skills required</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Longer contracts with fewer contractors as volume can be pooled across councils</li> <li>&gt; Improved commercials (rates and on-costs)</li> <li>&gt; Potential to attract more suppliers as scope of work is larger</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 5% – 10% synergies</li> <li>&gt; \$155 – \$310</li> </ul>
Internal Labour	> N/A. No cost baseline available as procurement is decentralised within each of the councils	<ul style="list-style-type: none"> <li>&gt; \$ procured</li> <li>&gt; Number of contracts (new and ongoing)</li> <li>&gt; Number of external vendors/suppliers</li> <li>&gt; Average contract term</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Increase in dollars procured but a decrease in the number of contracts</li> <li>&gt; Contract consolidation will result in lower administration levels.</li> <li>&gt; Improved process and automation</li> <li>&gt; Consolidation of suppliers</li> <li>&gt; Pooling volume to allow for a longer contract term</li> </ul>	> N/A
> Total				> \$1,340 – \$2,680

Table 13. Procurement Savings Details



## 4. INFORMATION TECHNOLOGY: CASE FOR CHANGE



### 1. What is easy / challenging about sharing IT?

#### Relatively Easy

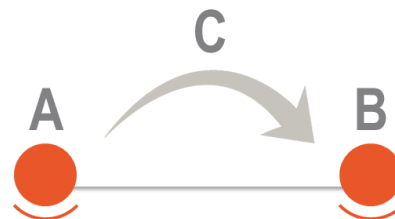
- Shared IT information
- Assessment of investments and benefits
- Common applications (e.g. MS Suite)
- Business systems

#### Challenging

- Long term IT plan
- Common enterprise software platform
- Collective bargaining
- Common cloud service
- Funding for planning, design and implementation

### 2. What is possible?

FINANCIAL GAINS  
BETTER DECISIONS  
COLLABORATION  
BETTER COUNCIL PRACTICES  
IMPROVE AND SHARE INFORMATION  
ACCESS TO BETTER SYSTEMS  
STANDARDISATION



### 3. What design principles?

1. User friendly: useful, usable, desirable
2. Customer focused
3. Adaptable for future requirements
4. Open and transparent cost allocations
5. Efficient cost and delivery
6. Wise for long term investment
7. Consider the cost of not changing
8. Share-able / compatible

### 4. What do we need to progress?

We can't share without knowing our IT systems. Therefore...

1. Commit to share
2. Establish governance protocols
3. Report and collect system data
4. Develop IT development plans
5. Assess investments and benefits
6. Secure funding
7. Implement basic system changes
8. Demonstrate wins and update plans
9. Deploy major changes to IT platforms

## 5. INFORMATION TECHNOLOGY: SAVINGS DETAILS

The table below breaks down the source of project synergies. Using our experience of IT project implementations, we have estimated the % of project implementation costs for each activity. We have subsequently analysed the key cost drivers within each of the project activities to determine the potential synergies that could be realised through running a single project across all councils.

Activity	% of Project Implementation cost	Potential Synergies	Synergy Opportunity
Project Management	20%	50%	<ul style="list-style-type: none"> <li>&gt; A single project will reduce number of project managers</li> <li>&gt; Scale and scope of the project will be larger, reducing the overall synergies</li> </ul>
Change Management	15%	20%	<ul style="list-style-type: none"> <li>&gt; Some synergies through reusing material, however the largest cost driver will be the number of people. This scales with the size of the project</li> </ul>
Design, build and test	40%	50%	<ul style="list-style-type: none"> <li>&gt; Synergies through similarities in requirements, technology architecture</li> <li>&gt; Testing a single system</li> </ul>
UAT, training and data migration	15%	5%	<ul style="list-style-type: none"> <li>&gt; This will be run separately for each council, however integrating learnings across councils will result in some synergies</li> </ul>
Project implementation support	10%	5%	<ul style="list-style-type: none"> <li>&gt; The main cost driver will be the number of users so minimal synergy opportunities</li> <li>&gt; Integrated learnings across councils will result in some synergies</li> </ul>
Total	100%	34%	<ul style="list-style-type: none"> <li>&gt; We estimate that running a single IT implementation project will reduce the upfront costs by 34% than if the councils were to separately undertake a similar project</li> </ul>

Table 14. Information Technology Savings Details

The \$1 million+ in potential benefits through a single IT implementation was based on the assumption that an IT system upgrade would cost in excess of \$3 million. Using our calculation of 34% project implementation synergies, this results in potential benefits of \$1 million+.

## 6. FINANCE: SAVINGS DETAILS

Our benchmarking analysis of the finance function revealed that Cradle Coast has nearly twice as many FTEs as the median organisation. A reduction of 20 or nearly 50% of current finance FTEs is required to align the Cradle Coast finance function to the median of the comparison group.

Leveraging our experience with other organisations, our analysis of cost drivers and understanding of the activities within the sub-functions, we have calculated the quantitative benefits that can be realised through sharing. These are shown in the table below.

For more information on how we have quantified benefits, please refer to our Quantifying Benchmark Outputs section on page 72 of the appendix.

Sub-Function	Number of FTEs	Functional Cost Drivers	Quantitative Benefit Rationale	Quantitative Benefits (000s)
Management and Admin	> 10.5	<ul style="list-style-type: none"> <li>&gt; Span of control</li> <li>&gt; number of employees managed</li> <li>&gt; Delegations and accountabilities</li> <li>&gt; \$ under management</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Increased spans of control and reduced duplication leads to a reduction in managers</li> <li>&gt; Reduction in managers allows a consolidation of administration positions</li> <li>&gt; An upskilling allowance may be required as the new positions have more responsibility and \$ under management has increased</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 60% – 80% synergies</li> <li>&gt; 6.3 – 8.5 FTE</li> <li>&gt; \$575 – \$780</li> </ul>
Accounts payable and accounts receivable	> 18.2	<ul style="list-style-type: none"> <li>&gt; Number of transactions (invoices, accounts receivable)</li> <li>&gt; \$ transacted</li> <li>&gt; Number of employees</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Number of transactions and \$ transacted will rise but increased specialisation through a single shared team will lead to volume efficiencies and cost savings</li> <li>&gt; Standardisation in processes and reporting drives further efficiencies</li> <li>&gt; Further investment in process improvement and increased automation will enable more savings to be realised in this area</li> <li>&gt; An upskilling allowance may be required to support capability uplift</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 40% – 60% synergies</li> <li>&gt; 7.3 – 10.9 FTE</li> <li>&gt; \$670 – \$1,005</li> </ul>
Financial accounting	> 3.8	<ul style="list-style-type: none"> <li>&gt; Number of reports generated</li> <li>&gt; Regulatory requirements</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Sharing will provide some synergies but the focus should be on improving quality of service rather than cost reductions</li> <li>&gt; Sharing will have minimal impact on number of reports and regulatory requirements</li> </ul>	> \$0
Management Accounting	> 8.6	<ul style="list-style-type: none"> <li>&gt; Number of budgets generated</li> <li>&gt; \$ under management</li> <li>&gt; Number of cost centres managed</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Sharing will provide some synergies but the focus should be on improving quality of service rather than cost reductions</li> <li>&gt; Sharing will have minimal impact on number of budgets, \$ under management and number of cost centres managed</li> </ul>	> \$0
TOTAL	> 41.2			<ul style="list-style-type: none"> <li>&gt; 13.6 – 19.4 FTE</li> <li>&gt; \$1,245 – \$1,780</li> </ul>

Table 15. Finance Savings Details

## 7. HUMAN RESOURCE MANAGEMENT: SAVINGS DETAILS

Our benchmarking analysis of the HRM function revealed that a reduction of 7.9 FTEs is required to align HRM to the median of our comparison group.

Leveraging our experience with other organisations, our analysis of cost drivers and understanding of the activities within the sub-functions, we have calculated the quantitative benefits that can be realised through sharing. These are shown in the table below.

For more information on how we have quantified benefits, please refer to our Quantifying Benchmark Outputs section on page 72 of the appendix.

Sub-Function	Number of FTEs	Functional Cost Drivers	Quantitative Benefit Rationale	Quantitative Benefits (000s)
Management	> 4.0	<ul style="list-style-type: none"> <li>&gt; Span of control</li> <li>&gt; Delegations and accountabilities</li> <li>&gt; Number of employees</li> <li>&gt; Size of function</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Increased spans of control and reduced duplication leads to a reduction in managers</li> <li>&gt; Minimal change to number of employees across the councils but size of HRM function will decrease</li> <li>&gt; An upskilling allowance may be required as the new positions have more responsibility than current positions</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 50% – 75% synergies</li> <li>&gt; 2 – 3 FTE</li> <li>&gt; \$180 – \$275</li> </ul>
Core HR	> 5.1	<ul style="list-style-type: none"> <li>&gt; Number of employees</li> <li>&gt; Employee turnover</li> <li>&gt; Number of people recruited</li> <li>&gt; Number of external contractors</li> <li>&gt; Performance management cycle</li> <li>&gt; Number of training events</li> <li>&gt; Number of employee grievances/discipline</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Sharing will provide some synergies but the focus should be on improving quality of service rather than cost reductions</li> <li>&gt; Reduction in managers allows a consolidation of administration positions</li> <li>&gt; Minimal change or possible reduction in employee turnover due to increase in scope of positions</li> <li>&gt; Reduction in number of contractors due to pooling capacity and requirements across councils</li> <li>&gt; Some efficiencies across recruitment and screening activities for similar positions in councils</li> <li>&gt; Leverage best practice activities and create unified templates and processes on performance management, contractor management, employee grievances.</li> <li>&gt; Shared training</li> <li>&gt; Minimal change in number of employee grievances as scales with number of employees</li> </ul>	> 0
Payroll	> 7.0	<ul style="list-style-type: none"> <li>&gt; Frequency of pay</li> <li>&gt; Number of employees</li> <li>&gt; Number of variations</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Increased specialisation through a single shared team will lead to volume efficiencies and cost savings</li> <li>&gt; Standardisation in processes, pay cycles and reporting further improves efficiencies</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 40% – 55%</li> <li>&gt; 3 – 4 FTE</li> <li>&gt; \$275 – \$370</li> </ul>

Sub-Function	Number of FTEs	Functional Cost Drivers	Quantitative Benefit Rationale	Quantitative Benefits (000s)
			<ul style="list-style-type: none"> <li>&gt; Minimal change in number of employees or number of variations</li> <li>&gt; Further investment in process improvement and increased automation will enable more savings to be realised in this area</li> </ul>	
Work Health and Safety	> 5.1	<ul style="list-style-type: none"> <li>&gt; Number of employees</li> <li>&gt; Number of incidents reported</li> <li>&gt; Number of risks identified</li> <li>&gt; Training and educations</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Sharing will provide some synergies but the focus should be on improving quality of service rather than cost reductions</li> <li>&gt; Efficiencies through standardised training, templates, policies and processes</li> <li>&gt; Synergies across risk identification and risk management plans due to similarities in council activities</li> <li>&gt; Shared training and education</li> </ul>	> 0
Total	> 21.0			> 5.5 – 7FTE > \$455 – \$655

Table 16. Human Resource Management Savings Details

## 8. BENCHMARK APPROACH

In order to conduct the benchmark analysis and provide quantitative indicators of the areas of most significant sharing opportunity. Third Horizon developed a cost framework to conduct a fair comparison between the councils and among comparable peer organisations. This framework was developed in conjunction and in collaboration with the councils, focused on the categories of Corporate Services and Works and Services.

Upon analysing the benchmarked data Third Horizon found that the expenditure information was an unreliable point of comparison amongst the other organisations around the world. This was for a number of significant reasons.

1. The quality of financial information varied significantly between the councils, and therefore made things hard to understand.
2. Many Cradle Coast Councils did not express confidence in the breakdown of their financial information. On questioning the treatment and allocations of costs, it was clear that there was significant inconsistency in how the councils understood each sub function and how they allocated costs of various managerial and shared functions.
3. Tasmania requires a very different cost assumption in comparison to their peer organisations. This is largely due to a significant differential in salaries between Tasmania, the rest of Australia and organisations in other overseas locations.

Therefore the foundations of the analysis between the Cradle Coast and the peer organisations were based around the equivalent FTEs, the functions that they served and the sub-functions they were allocated to.

## 9. BENCHMARK PEER GROUPS

Third Horizon selected a range of organisations which shared similar functions and standard activities from a pool of domestic Australian as well as international organisations, from international Third Horizon databases and trusted sources of information.

From a database of over 350 companies, we selected a peer group made up of similar sized organisations to the combined entity of Cradle Coast across a range of government departments and utility organisations from Australia and around the world (New Zealand, Scotland, and United Kingdom).

These peer groups were selected for the following reasons:

- **Government organisations and bodies**

Government organisations and bodies have been selected due the similar nature of citizen centric services they provide and budget allocation funding model from taxpayer dollars. Particular features of similarity of Cradle Coast Councils and these organisations include:

- Budget is partially or totally funded by taxpayers
- Driven by purpose of serving the community rather than profit
- Administrative, compliance and reporting driven by external Government requirements
- Does not require complex skillsets for corporate functions as they operate in simple ownership structures (e.g. no trusts, holding companies, public listings or shareholders)

- **Utility organisations**

Utility organisations, such as those in water and energy industries, have been selected due the similar infrastructure Works and Services focused nature of these organisations. Particular features of similarity of Cradle Coast Councils and these organisations include:

- They operate within highly government regulated environments with a focus on administration, governance and compliance
- Asset intensive organisations with a large outside workforce responsible for building and maintaining assets
- Often regionally based, servicing the community based on geographical location.

From the above group of organisations, a selection criteria needed to be applied to ensure the effectiveness of comparison to the combined Cradle Coast councils. Based on the size of the combined Cradle Coast entity a range criteria was applied around the number of FTEs and per annum operational expenditure. The applied constraints included:

- Organisations of size between 350-1000 FTEs
- Organisations with a range of \$60,000,000-\$300,000,000 operational expenditure per annum

## 10. QUANTIFYING BENCHMARK OUTPUTS

Benchmark outputs were quantified in order to provide greater insight to Cradle Coast Councils and provide an understanding of the benefits of recommendations from this report. Given that the benchmarking analysis for this report centred on the comparison of FTEs across peer organisations from a range of different regional areas, financial benefits were not measured on the basis of expenditure comparisons, but rather calculated specifically for the quantification of benefits in Tasmania.

Indicative financial benefits were calculated on recommended FTE savings for each function, after analysing a variety of functions including the median performance of organisations of similar size. The following approach was taken when calculating benefits:

1. **Key cost drivers were analysed to determine scalability** – a review of the sub-functional cost drivers was undertaken to assist in indicative quantification of sharing opportunities. Transactional functions where increased scale and specialisation can lead to volume efficiencies produce higher potential savings opportunities than drivers which are entity driven.
2. **Indicative sharing opportunities were assess** – All of the council FTEs were summed to form a combined baseline. Using the cost drivers as a guide, an indicative sharing reduction percentage was determined.
3. **Validating of opportunities were tested with external benchmarks** – Where external benchmarks were available and relevant, they were used to validate and refine opportunities.
4. **Financial benefits were translated into FTE expenditure savings** – percentages were translated into FTE reductions and labour expenditure. The savings calculation for each FTE used the data provided by the Cradle Coast Councils, based on salary averages across the councils.

## RECOMMENDATIONS

Third Horizon has provided a series of recommendations tailors for each functional area. These recommendations are made based on the sum of benchmark outputs, our leading understanding of corporate services best practices, our deep experience in implementing highly efficient corporate services models and the potential for the Cradle Coast Councils to realise financial benefits from the optimization of these services.



## 11. CRADLE COAST STAKEHOLDERS ENGAGED

	Stakeholder	Council	Interviewed		Workshop 1	Workshop 2
			Phone	Face to Face		
General Mayors and Representatives Managers	Alwyn Boyd	Burnie City Council		✓	✓	✓
	Anita Dow	Burnie City Council		✓		✓
	Other Representatives	Burnie City Council		✓		
	Jan Bonde	Central Coast Council		✓	✓	✓
	Daryl Quilliam	Circular Head Council		✓	✓	✓
	Other Representatives	Circular Head Council		✓		
	Steve Martin	Devonport City Council		✓	✓	✓
	Other Representatives	Devonport City Council		✓		
	Tim Wilson	Kentish Council		✓	✓	
	Other Representatives	Kentish Council		✓		
	Zoe Behrendt	King Island Council		✓	✓	
	Don Thwaites	Kentish Council		✓		✓
	Peter Freshney	Latrobe Council		✓	✓	✓
	Other Representatives	Latrobe Council		✓		
	Robert Walsh	Waratah Wynyard Council		✓	✓	
	Gary Neil	Burnie City Council		✓	✓	✓
	Sandra Ayton	Central Coast Council		✓	✓	✓
	Tony Smart	Circular Head Council		✓	✓	✓
	Paul West	Devonport City Council		✓	✓	✓
	Gerald Monson	Kentish and Latrobe Councils		✓	✓	✓
	Michael Stretton	Waratah Wynyard Council		✓	✓	✓
	Dirk Dowling	West Coast Council	✓			

## 12. GLOBAL DIGITAL INNOVATION

At a certain point, reluctance to share resources and services may be overtaken by the incongruence to ratepayers of geographical boundaries to services that in every other aspect of life are digital and hence place agnostic.

A significant amount of reform and innovation is occurring in local governments across Australia and overseas, including a major push for councils to use digital technologies to provide more customer-focused services. The

UK has been a world leader in trialling new offerings with the support of design agencies such as [Nesta](#) and [FutureGov](#). Together with the UK Public Service Transformation Network, Nesta has developed '[A Digital Vision of Local Government in 2025](#)'. The report outlines a number of key changes they expect to occur within local government over the next decade. The four major areas of change they expect to see occur before 2025 are:

1. **Seamless services:** Almost all transactions will occur online and seamless integration across all government services means that users only need to verify their identity once, through voice or thumbprint. Council websites will be replaced by interactive digital platforms that connect users with third-party apps and services with personalised content for individuals.
2. **Relational services:** Services that are about fostering connections between people still rely on face-to-face contact and cannot be digitised, but can be supported by digital technologies. New tools help individuals manage their own long term conditions and connect them to a broader support network. Predictive algorithms will revolutionise many services enabling councils to intervene in a more timely and effective way.
3. **Place-shaping:** Digital technologies will help councils take a more ambitious approach to place shaping. The pool of service providers will be increased through greater transparency and the use of challenge-based procurement that ensures more public contracts will go to high-growth SMEs. Councils will systematically engage with residents to determine how services are commissioned, delivered and evaluated and residents will help decide how money is allocated through online participatory budgeting.
4. **How councils work:** Councils will become lean, agile and data-driven. Working across councils and agencies will be the norm while teams and departments may become temporary structures that form around specific local challenges. Workforce mobility will increase while councils use digital platforms to share public space, equipment and even workforce time with other councils, businesses and residents.

A number of these changes are already beginning to take place, including:

- > Dorset County Council – Developed customer-centric websites which redesign transactional journeys.
- > London Borough of Barking and Dagenham Council – Combined multiple services and teams into a single 'front door' to improve the level of support received from the council.
- > Salford City Council – Conducted extensive quantitative and qualitative research to understand how things could be improved for young people living in the area.
- > Bexley London Borough Council – Used digital and design to reimagine services by developing dedicated spaces to house innovative approaches and provided guidance on how to create solutions at scale.
- > Surrey County Council – Undertook a three-year digital innovation partnership, including the development of an online self-assessment tool which helps individuals determine their own social care eligibility and recommends services beyond those directly managed by the council.
- > Wigan Council – Implemented 'Patchwork' with local agencies and 35 organisations which enables the provision of better, more integrated care through greater information sharing.