

City of Joondalup

Cost Optimisation Strategies: Global Perspective

June 2016

CONTENT

1. CONTEXT/BACKGROUND	Pg. 3
2. INDUSTRY EXPERT PROFILES	Pg. 4
3. INTERVIEW QUESTIONS	Pg. 5
4. KEY FINDINGS	Pg. 6
5. SUMMARY OF KEY EFFICIENCIES & COST SAVINGS INITIATIVES	Pg. 7
APPENDIX : EXPERT PROVIDED MATERIALS	Pg. 8

CONTEXT/ BACKGROUND

OVERVIEW

City of Joondalup (the City) is looking to explore what other local governments are doing or have done in terms of identifying efficiency and cost saving opportunities across a wide range of services. Specifically, the City is interested in what these initiatives are, how they were identified and prioritised for implementation, and what the outcomes of these initiatives have been.

This document outlines the research summary.

As part of the research, Deloitte leveraged the services of an external research partner (10EQS) to conduct a series of interviews with experts who are senior public servants with accountability for managing expenditure in municipalities across Australia, New Zealand, Canada and UK.

RESEARCH APPROACH & OUTPUT

A panel of industry experts were recruited by 10EQS. These experts were interviewed by a domain-experienced interviewer and were posed questions to uncover how other local governments:



Identify various types of efficiency and cost saving opportunities



Prioritise and implement the selected initiatives.

The interview transcripts, that form part of this deliverable, were reviewed in detail and the key findings are summarised in this report.

INDUSTRY EXPERT PROFILES

Deloitte's external research partner (10EQS) recruited and interviewed 10 industry experts. These experts are senior public servants with accountability for managing project expenditure and are based in municipalities across Australia, New Zealand, Canada and the United Kingdom.

CANADA

- . Director of Finance: District Municipality
- . Deputy City Manager & CFO: City Council

UNITED KINGDOM

- . Transformation Officer: City Council
- . Strategy & Transformation Manager: City Council

SWEDEN

- . Chairman of the Board: City Council
- . CFO: District Municipality

AUSTRALIA

- . Program Manager, Business Transformation: Victoria, City Council
- . Finance Manager: Victoria, Shire Council

NEW ZEALAND

- . Executive Director, Special Projects: City Council

USA:

- . Finance Director: Puerto Rico

INTERVIEW QUESTIONS

Nine key questions formed the basis of the interviews and the research

1.	What have been the best 3-5 initiatives/ projects the local government has undertaken in the last 1-3 years to deliver efficiencies/cost savings?
2.	What was your strategy for identifying these areas for cost saving?
3.	Were these cost saving initiatives managed as a program of work or were they individually identified and managed?
4.	How were these initiatives prioritised for implementation?
5.	How and who made the decision on whether a particular initiative was worth pursuing/ implementing?
6.	Who led the implementation of the initiative(s)/how did you structure your team?
7.	What have been the fiscal outcomes of these initiatives (expressed as a percentage of budget spend and indicative total budget for that particular service)?
8.	What impact has the initiative had on service delivery outcomes? Do you have an innovation program that drives efficiencies across the services you render to residents? If yes, how does this operate and how can you evidence success?
9.	Do you have any innovation program that drives efficiencies across the services rendered to residents? If yes, how does this operate and how is success evidence

KEY FINDINGS

Summary of key findings based on expert interviews



KEY INITIATIVES TO DRIVE COST & EFFICIENCY

The key efficiency and cost saving opportunities undertaken by local councils consisted of process improvement and financial efficiencies targeted across all service streams. Some examples include:

- Efficiency review study – covered every area of the organisation (refer to UK - Canterbury City Council and Ontario City Council)
- Shared services/ Business process optimisation/ consolidation
- Reclassification of “life” across asset classes to drive down depreciation (refer to Victoria Shire Council)
- Identification and disposal of under performing land/building assets (refer to Ontario City Council and UK - Canterbury City Council)



IDENTIFICATION & PRIORITISATION OF INITIATIVES

The external agenda plays a significant role in shaping cost management strategies and program efficiency initiatives:

- Understanding the political narrative of the day
- The need to be aware of community expectations, and identifying changing drivers
- Focusing on strategic vision and assessing all projects through this lens

Whilst most local governments used alignment to strategy and level of dollar savings and customer feedback as a way to prioritise initiatives, some were varied in their approach – using financial and economic impact measures, allowing each division to prioritise their respective initiatives.



PROGRAM STRUCTURE

- Most of the local governments took a holistic approach (i.e. managing initiatives as a program of work rather than individual projects). In particular one expert noted – delivering a holistic program of work significantly reduced risk of consequential impact across services.
- Independent assessment was used as a catalyst to drive change agenda. External consultants were brought into the program to provide objective analysis of the work and processes. There was strong return on investment where external support was leveraged.
- A centralised/ dedicated Project Management Office (PMO) was used to bring a co-ordinated focus on program of work and drive implementation.
- Accountability and responsibility resided where the services are delivered to enable ownership.



MEASURES OF SUCCESS

Depending on the nature of initiative, success measures used to evaluate the initiatives included both qualitative and quantitative indicators. Some examples include:

- Identified and realised savings (as a percentage of OPEX spend)
- Balancing community expectation, engagement and acceptance
- Improved customer service and service delivery effectiveness

KEY EFFICIENCIES & COST SAVING INITIATIVES

Summary table highlighting some of the key initiatives. Refer to detailed transcripts for further detail.

NO.	COUNCIL LOCATION	INITIATIVE TYPE	SUMMARY DESCRIPTION	SAVINGS IDENTIFIED
1	Victoria Shire Council, Australia	Reclassification of "life" across asset classes to drive down depreciation:	<ul style="list-style-type: none"> Remove typical 40 year asset life accounting standard Reclassify long and short term usage of asset classes 	AUD\$2M saved on depreciation level of AUD\$9M
2	Victoria Shire Council, Australia	Integrate cost saving into planning cycles	<ul style="list-style-type: none"> Council strategy mandated 10% saving in op ex spend over 3 year cycle 10% savings comprised of 5% in efficiencies and 5% in service cuts 	Transparency of planning cycle has ensured compliance across council
3	Nova Scotia, District Municipality, Canada	Online merchant solution for credit card payments:	<ul style="list-style-type: none"> Only 20% of community paid by credit card, resulting in \$50k p.a. cost to council Electronic payment vendor transition allowed a user pay model, meaning that the user pays for the credit card transaction costs 	\$50,000 CAD per annum
4	Ontario, City Council, Canada	External efficiency study	<ul style="list-style-type: none"> Applied a matrix structure to identify divisions or directorates Conducted a full assessment of processes, workflow, value chain 	CAD\$300M savings on an overall CAD\$9 Billion spend
5	Ontario, City Council, Canada	Land sale	<ul style="list-style-type: none"> Identify under utilised property holdings and rationalise Work with planning to overcome local usage objections 	CAD\$80M added to revenue line
6	Skelleftea Region, Municipality, Sweden	Lowered financial transactional costs through shared service optimisation	<ul style="list-style-type: none"> Identified costs per payslip, invoice Deliver services through single, central service delivery model 	30% reduction in payroll cost per payslip
7	City Council, Kent, United Kingdom	Capital funding to transition from leasehold arrangements	<ul style="list-style-type: none"> Analysis of rented space and utilisation Cap Ex budget utilised to purchase optimal working space 	GDP 50M over 10 years due to asset appreciation and minimised lease commitments
8	Waikato Region, City Council, New Zealand	Vendor management alignment through BPO model	<ul style="list-style-type: none"> Multiple council approach to creation of BPO centre Charging rates agreed across an 8 year cycle 	6-10% of Op Ex budget across transitioned services
9	Waikato Region, City Council, New Zealand	Shared services collaboration	<ul style="list-style-type: none"> Partnership with neighbouring councils to develop synergies and scale 	NZD\$3M per annum

APPENDIX: EXPERT PROVIDED MATERIAL

UK - Canterbury City Council : Facing the Challenge (Refer to PDF documents attached)

- Facing the challenge
- Facing the challenge – delivering better outcomes
- Canterbury to 2015 and beyond

Canada - Toronto City Council : Service Review Program including a Core Service Review, Service Efficiency Studies and a User Fee Review.

<http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=2ba485a6820c3410VgnVCM10000071d60f89RCRD>

New Zealand - Hamilton City Council

- 10 year plan 2012-22:

This is the major cost savings project I talked about where we need to save 10% of costs and created a clear financial strategy to work from. See the draft summary 10 year plan book first (a good summary of the challenge that was put to the community for public consultation), and also draft plan volume 1 (especially page 12-19 which dimensions the financial cost saving challenge, and any of the various activities such as parks which lists proposed cost savings e.g. page 26).

<http://www.hamilton.govt.nz/our-council/council-publications/10yearplan/Pages/10-year-plan-2012-2022.aspx>

- 10 year plan 2015-25

This is the latest 10 year plan - the financial strategy set in 2012 is still the cornerstone of the budget, and the budget is built around that. I refer to page 12-13 of volume one. It demonstrates the value of a robust financial strategy that any cost savings drive is built around, they ensure that the council can be financially sustainable for the long term. For the 2015 budget we were able to increase some budgets and address some services issues because of the tight fiscal approach laid down in 2012.

<http://www.hamilton.govt.nz/our-council/council-publications/10yearplan/Pages/10-Year-Plan.aspx>

- Waikato Mayoral Forum

A collaboration forum lead by the Mayors of each Council in our region. This is the forum that champions significant collaborative initiatives.

<http://waikatomayoralforum.org.nz/home/about-us/>

APPENDIX: EXPERT PROVIDED MATERIAL

New Zealand - Hamilton City Council (continued)

- Waters CCO Project

A collaborative project between 3 councils to establish a company to own and deliver water and wastewater services. This project originated from the Mayoral Forum and has been the subject of a proof of concept report, a more detailed analysis report and then a thorough business case. Savings identified of over \$450m over 28years. We are about to report back to our Councils the results of detailed governance negotiations, and are on track to consult with the public next year on a proposal to establish this company.

<http://www.waterstudywaikato.org.nz/>

- Transport Alliance between Council and a Major Contractor

Our Council entered an alliance approx. 2-3 years with a major transport/roading contractor. This has delivered significant efficiencies and service level improvements. The alliance won a national award last year. The alliance was the result of the 2012 cost savings initiative and a need to find alternative delivery mechanisms to work within cost constrained budgets. A fantastic outcome for our council.

<http://www.hamilton.govt.nz/our-services/transport/maintainingimproving/Pages/Collaborative-Working-Agreement.aspx>



Limitations of our Work

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External Review – Efficiency and Cost Saving Opportunities
 Key statistics of the first five participants

ATTACHMENT 2

Participant		Population	Size	Budget
1	City of Casey Australia	288,500	410 km ²	\$347 million
2	Shire of Strathbogie Australia	9,486	3,302 km ²	\$28 million
3	Municipality of the District of West Hants Halifax, Canada	14,165	1,241.95 km ²	\$12.5 million
4	City of Toronto Canada	2.615 million	630.2 km ²	Operating \$10.1 billion 10 yr Capital Works \$21 billion
5	Hamilton City Council New Zealand	153,000	110 km ²	\$249 million
City of Joondalup		174,000	99 km ²	\$141 million