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18 August 2004

Mr Graeme Hall  
A/Director Planning and Community Development  
City of Joondalup  
PO Box 21  
JOONDALUP WA 6919

Dear Mr Hall

**City of Joondalup DOCUMENT REGISTRATION**  
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ATTACHMENT 1

### Horwath Perth

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### REVISED AUDIT AND ANALYSIS – FINANCIAL FEASIBILITY OF EMPLOYMENT OPTIONS ASSOCIATED WITH THE CITY OF JOONDALUP LEISURE CENTRES

We have completed our revised review of the analysis carried out by the City on the financial feasibility of employment options associated with the City of Joondalup Leisure Centres taking into account the additional information provided in the memorandum to the Manager Community Development from the Manager of Human Resources as requested. Our findings are included in the enclosed report.

As part of our review we examined the following documentation provided by Council:

- Report dated 3 May 2004 titled "Employment Options For The City Of Joondalup Leisure Centres" prepared by Planning and Community Development.
- Costings spreadsheet (hard copy and soft copy) prepared by the City relating to the employment options discussed in the report above.
- Costings spreadsheet (hard copy only) prepared by employment agency OzJobs relating to the employment options discussed in the report above.
- Proposed Staffing Structure – Model 2
- Memorandum in relation to identifying "relevant costs" for the decision making process prepared by Steve Ryan, Management Accountant – Financial Services at the City of Joondalup.
- Explanatory Notes for Cost to Organisation.
- Memorandum to Executive Management Team titled "Review of the Leisure Centres Staffing Structure".
- Additional Information 15/10/2003 relating to the City of Joondalup Leisure Centres Staffing Structure Proposal.
- Memorandum from Manager of Human Resources to Manager Community Development dated 31 March 2004, titled "Leisure Centres".

We would like to take this opportunity to express our appreciation to the staff at the City of Joondalup for the assistance provided to us during the performance of our review.

Should you have any queries in relation to our review, please do not hesitate to contact me.

Yours faithfully  
**HORWATH PERTH**  
Chartered Accountants

**A G BEVAN**  
Partner

Partners: Glyn O'Brien CA Anthony Bevan CA

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CITY OF JOONDALUP

REVISED AUDIT AND ANALYSIS

OF

FINANCIAL FEASIBILITY OF EMPLOYMENT  
OPTIONS ASSOCIATED WITH THE CITY OF  
JOONDALUP LEISURE CENTRES

REPORT

18 AUGUST 2004



## 1. BACKGROUND

In accordance with your instructions, we have conducted an audit and analysis of the detailed assessment and analysis carried out by the City on the financial feasibility of employment options associated with the City of Joondalup Leisure Centres, as summarised in the report from Planning and Community Development dated 3 May 2004.

As part of our review we:

- Reviewed the validity and accuracy of all qualitative and quantitative assumptions made.
- Checked the veracity of all supporting financial spreadsheet formulas and calculations.
- Reviewed the conclusions reached and provided a risk assessment of the options.

This report has been prepared solely for the use of the City of Joondalup for the above purpose and should not be used for any other reason. We accept no responsibility for any reliance on this report by any other party or for any other purpose.

## 2. CONCLUSIONS

### 2.1 Major Assumptions

The following major assumptions were identified as being significant to the analysis performed by Council:

#### **Staffing Model**

- Staffing Structure

The model developed has been benchmarked in the industry against other local government facilities and is seen by management as the most efficient and effective staff structure.

#### *Comment*

Should the City not be able to achieve this level of staffing when employing "in-house" there may be an adverse impact on the "savings" identified for Council.

- Accuracy of Staffing Costs

Certain costs such as covering full-time and part-time staff while on leave (by way of replacement or higher duties) have not been allowed for in either the City's or the Employment Agency analysis of costs.

#### *Comment*

This should not have a significant impact, as the effect of these costs have been ignored under both costings.



Accuracy of Staffing Costs (Cont'd)

It would appear that the Employment Agency analysis of costs did not fully allow for leave (annual, long service and sick) costs for full-time and part-time staff.

*Comment*

The financial impact of this is estimated at \$107,000. The inclusion of these costs would increase the savings identified for the City.

**Internal Costings**

- Adequacy of Internal Costs/Contingency

The adequacy of the HR Department internal costs (including contingency) of \$116,807 to cover the additional payroll and HR costs associated with employing leisure centre personnel in-house.

*Comment*

Our review revealed that the allowance made for the HR Department internal costs may be inadequate and that a figure in the vicinity of \$210,000 to \$240,000 would appear to have been more appropriate. This would decrease the savings identified for the City by approximately \$94,000 to \$124,000 for the full in house management proposal.

It should be noted that our estimates of HR Department internal costs contain non-recurring costs (approximately \$20,000) and certain other costs which would be higher in the first year of bringing the Leisure Centres in-house (approximately \$15,000).

It is important to bear in mind that the estimate of additional HR Department costs made by ourselves is an estimate only, based on the best information provided to us by City of Joondalup personnel. The additional costs reflect most of the additional costs highlighted in the Manager of Human Resources memorandum dated 31 March 2004.

**2.2 Findings**

The following findings are made with respect to our review of the assessment and analysis carried out by the City:

Validity and Accuracy of Assumptions Made

Except where noted in this report the assumptions made in the analysis are considered reasonable in terms of their validity and accuracy.

Veracity of Calculations

The financial spreadsheet formulas and calculations are considered correct.

Reasonableness of Conclusions

Any recommendation or decision to proceed with employing leisure centre staff in house needs to consider how the City will manage the risks identified in this report. Until such time, we do not consider that we are able to comment on the reasonableness of the conclusions reached in the report.



### 2.3 Risks to the City of Joondalup

We consider that there are the following major risks associated with the adoption of the proposal.

- Excessive HR Costs

We consider that there is a significant risk that the estimated additional HR costs of \$116,807 discussed in the report are not adequate to cover the additional costs of bringing the employment of staff in-house. The additional costs include payroll and personnel set-up costs, staff recruitment, advertising, and HR management costs.

- Market Availability

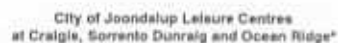
We are advised that the costings obtained for comparison purposes were obtained by way of quotation rather than by way of tender.

By not going to tender the City has not testing the full market resources available and thus may not have received the lowest costings for comparison purposes (we have been informed by staff that the tender process that occurred in January/February 2004 and subsequent results (costs) are consistent with the quote used in the analysis prepared by Council).

- Legal Ramifications

There exists a risk of industrial disputation issues arising with the transfer of Leisure Centre staff from the current employer to the City. This risk exists at both the time of transfer and into the future.

The City may be exposed to additional costs associated with industrial relations matters which may arise, and/or redundancy payouts.



Proposed Staffing Structure  
(with Option 6 pool operational)

\*Structure provides for service at all 3 Lelaume Centres