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City of Perth
Organisational Capability
and Compliance
Assessment

6 June 2017

Contents

List of Figures and Tables

List of terms and definitions

1995 Act	Local Government Act 1995
2016 Act	City of Perth Act 2016
the Assessment	the City of Perth Organisational Capability and Compliance Assessment
CBP	Corporate Business Plan
CEO	The Chief Executive Officer
CPP	City of Perth Parking
ELG	Executive Leadership Group
SCP	Strategic Community Plan
the Administration	the part of the organisation City under the CEO
the City	the City of Perth
the Council	the part of the organisation City that consists of elected members
the in-scope legislation	the most relevant and significant legislation as specified in the Terms of Reference
the organisation	a synonym for the Administration

Limitations of our work

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1   Executive summary

1.1   Purpose

The City of Perth (**the City**) has made a commitment to lead the Western Australian local government sector in the areas of governance, risk management, transparency and culture.

The independent Organisational Capability and Compliance Assessment (the **Assessment**) was commissioned to:

1. Build on the City's progress in reforming its governance and transparency
2. Provide a baseline for the City's performance in these areas
3. Identify opportunities across the City for further improvement.

Following consultation with the City to define the target outcomes of work, the Assessment was structured around three key focus areas: Legislative Compliance; Rigour and Transparency; and Capability and Value. The Assessment focused on providing a baseline of the City's performance in these areas, and was not designed as an audit.

By its nature, this report is a critical assessment of the City's operations. It focuses on identifying opportunities for improvement, in support of the City's goal to be a leader in the sector.

The findings are summarised below. A full explanation of the observations leading to each finding, as well as why it is important to the City, can be found in the main report.

1.2   Legislative compliance

The Legislative Compliance focus area reviewed the legislative compliance of the services currently delivered by the City.

Summary findings:

No.	Finding
1	One instance of previously undisclosed non-compliance with in-scope legislation was identified. City of Perth Parking does not have a business plan, which is required under the Local Government Act 1995 for major trading undertakings.
2	The majority of the City's services are discretionary in nature and not prescribed by legislation. Discretionary services are subject to the City's interpretation of the objects of legislation, which gives the City the ability to adjust scope and service levels to maintain a sustainable financial position.
3	The high degree of interpretation required means the City must rely on strategy and policy to guide decision making, however the City's current strategy and policy frameworks are insufficient in their current form.

1.3 Rigour and transparency

The Rigour and Transparency focus area sought to assess the rigour and transparency in the City's decision making, controls and risk management.

Summary findings:

No.	Finding
4	Decision making processes vary across directorates, and are unclear to many internal stakeholders. Lack of clarity leads to excessive escalation and inefficient decision making.
5	Certain corporate business controls are weak, leading to increased reliance on manual effort to maintain compliance and manage risk.
6	Management reporting is inconsistent and does not provide the executive leadership with the information required to make effective decisions.
7	Aspects of governance and risk are being improved through the development and rollout of new tools and frameworks.
8	Compliance risks remain, particularly in the context of an unprecedented number of changes in the workforce. Awareness of compliance requirements is constrained by insufficient on-boarding, training and policy and procedure documentation.

1.4 Capability and value

The Capability and Value focus area investigated whether the City has the right capabilities to deliver best value for its stakeholders.

Summary findings:

No.	Finding
9	There is no clear alignment between organisational strategy and business unit strategies. Misalignment leads to conflicting priorities between business units.
10	The organisation is managing to overall budget, not to business outcomes. Prioritisation and decision making is not informed by consistent measures of value and performance.
11	The City is limited in its ability to make informed decisions on workforce management. A complex position structure is limiting standardisation of roles and payroll classifications.
12	New roles and responsibilities are not well understood across the organisation, particularly for processes that are executed across multiple business units.
13	Business processes are at varying stages of redesign and levels of maturity. Processes that involve multiple business units are not well defined, impacting efficiency and transparency.
14	Procurement spend could be optimised through improved sourcing, consolidation and contract compliance.

1.5 Transformational change

Further to the three focus areas described above, the assessment identified a fourth overarching issue impacting the City's compliance and capability into the future: the recent organisation restructure has initiated transformational changes in how the City operates, however some issues threaten the success of this change.

Summary findings:

No.	Finding
15	While the restructure is nearing completion, other important elements of successful change have not yet been addressed, representing a major risk in terms of performance, culture and retention.
16	The ELG is insufficiently aligned to support successful transformation. While there is natural tension between competing priorities, unified sponsorship is required to manage the change.
17	The ELG's capacity to shape and lead the change is constrained by a high proportion of time devoted to operational matters.

1.6 Recommendations

The organisation must now complete the transformation that began with the restructure. The next phase of the transformation should be sequenced so that critical questions of legislative framework, strategy and business model are addressed first. This approach will help to prioritise and align the City's various inflight and planned improvement initiatives to the strategic direction.

High level recommendations:

No.	Recommendation
1	Clarify the City's Legislative Framework and Corporate Governance Framework to improve transparency in how legislative obligations and objectives are interpreted and applied.
2	Complete the development of a clear organisational strategy that makes explicit strategic choices on the City's priorities and how it balances competing expectations.
3	Based on a clear organisational strategy, make deliberate choices about the organisation's future business model.
4	Strengthen the City's operating model design, aligning in-flight and planned work towards a common and consistent target state.
5	Align the leadership in support of the transformational change, supported by centralised program management and organisational change management.

2 Context

2.1 The scope of local government services has broadened over time

The City provides services to its residents, ratepayers and visitors that are much broader than the traditional functions of local government. Consistent with other councils, the scope of these services have broadened over time.

According to the Commonwealth Grants Commission (2001), local government's functions have increased due to the following five factors:

1. *Devolution*: where another sphere of government gives local government responsibility for new functions
2. *Raising the bar*: where another sphere of government, through legislative or other changes, increases the complexity of or standard at which a local government service must be provided
3. *Cost shifting*: where there were two types of behaviour. The first is where local government agrees to provide a service on behalf of another sphere of government but funding is subsequently reduced or stopped, and local government is unable to withdraw because of community demand for the service. The second is where, for whatever reason, another sphere of government ceases to provide a service and local government steps in
4. *Increased community expectations*: where the community demands improvements in existing local government services
5. *Policy choice*: where individual local governments choose to expand their service provision.[1]

Further, local governments are not prevented from providing the same services that the State provides. Section 3.2 of the Local Government Act 1995 (the **1995 Act**) states: "The scope of the general function of a local government in relation to its district is not limited by reason only that the Government of the State performs or may perform functions of a like nature".

While there are a number of agreements between State and local government that affect service provision, there is often very little clarity around the funding arrangements for the provision of these services. Consequently, funding has not always kept pace with changes in demand and costs. The House of Representatives Standing Committee on Economics, Finance and Public Administration (2003) found that the "growth in local government's functions has far outstripped its financial capacity to discharge all those functions adequately."[2]

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[1] Commonwealth Grants Commission, Review of the Operation of the Local Government (Financial Assistance) Act 1995, June 2001, pp. 52-3.
[2] House of Representatives Standing Committee on Economics, Finance and Public Administration, Inquiry into Local Government and Cost Shifting, February 2003, p. 10.

2.2 New legislation reflects the City's unique position as a capital city

City of Perth's role has also been broadened by The City of Perth Act 2016 (the **2016 Act**). The 2016 Act sought to lay down a legislative framework for the City recognising that it should play a unique role as the local government of the capital city of Western Australia.

The 2016 Act identifies its range of stakeholders including ratepayers, businesses, visitors and tourists, and paints a broad canvas of aspirational goals for the City and its stakeholders. However, it neither prescribes what activities should be undertaken nor how those activities should be undertaken.

The City is still subject to the 1995 Act, to the Department of Local Government and Communities and to the Minister for Local Government, as well as over 400 other identified pieces of relevant legislation.

2.3 Increased pressure on the City's capacity to deliver

The City's rate of revenue growth is not keeping pace with operating costs, placing the City's operating surplus under pressure that has not been previously experienced.

Instead of the traditional reliance on rates as the predominant source of revenue, the City has historically enjoyed a significant secondary revenue stream from on- and off-street parking. Over the period 2013/14 to 2016/17 (budget), revenue from parking has increased by $5.2 million at a compound annual growth rate of 2.4%. Over the same period, expenditure assigned to parking bay licence fees, levied by the Department of Transport to all parking bays in the Perth Parking Management Area, has increased by $6.4 million at a compound annual growth rate of 16.4%. The Parking Levy cost represented 15.5% of CPP's revenue in 2013/14, which has increased to 22.7% in 2016/17 (budget).

Since 2013/14, revenue growth has not kept pace with expenditure growth. During this period, the City's total revenue has increased at a compound annual growth rate of 4.0%, whilst total expenditure has increased at a compound annual growth rate of 6.6%. Other than the impact of the Parking Levy increase, part of this expenditure increase can be attributed to the organisational restructure, which occurred in April 2015. Compounding costs in the delivery of key services has placed the City's operating surplus under pressure that has not been previously experienced, as outlined in Figure 1 below.

Figure 1: Total revenue versus total expenditure. (Source: City of Perth Long term financial analysis – Draft (Feb 2017))

In the context of a broadening role and increasing financial pressure, the City is left with the challenge of appropriately interpreting and implementing legislation, while balancing the competing interests of its various stakeholders in a financially sustainable manner.

3   Purpose and scope

3.1   Why did the City initiate the assessment?

The City recognises the importance of good governance and maintaining the highest levels of transparency in its operations, to protect and enhance its reputation as the capital city of Western Australia. The City has made a commitment to lead the Western Australian local government sector in the areas of governance, risk management, transparency and culture.

Since January 2016, the City has initiated and implemented a number of transparency measures and intends to build on these to better serve its residents, ratepayers and visitors. In order to demonstrate that it is meeting its respective obligations under State and Commonwealth legislation, the City must be in a positon to understand its compliance with legislation and the effectiveness of its operations. Through a heightened level of rigour and transparency, the City intends to demonstrate that it is providing quality public services at competitive cost and optimum efficiency.

The independent Organisational Capability and Compliance Assessment was commissioned to:

1. Build on the City's progress in reforming its governance and transparency
2. Provide a baseline for the City's performance in these areas
3. Identify opportunities across the City for further improvement.

3.2   What did the assessment examine?

A Terms of Reference document was developed by the City to define the background, objectives and purpose of the Assessment. This was approved by Council on 21st March 2017.

The Terms of Reference outlined three key focus areas: Legislative Compliance; Rigour and Transparency; and Capability and Value around which the assessment was structured. Within each of these focus areas, the assessment sought to answer the following questions as outlined in Figure 2.

LEGISLATIVE COMPLIANCE:

Is the organisation operating in compliance with relevant legislation?

Relevant legislation is defined as:
- City of Perth Act 2016
- Local Government Act 1995
- Local Government Regulations
- Perth Parking Management Act 1999.

RIGOUR & TRANSPARENCY:

To what extent does the organisation deliver rigour and transparency in its decision making, controls and risk management?

The scope includes, but is not limited to the organisational approach to:
- Governance
- Risk management
- Contracts and procurement
- Finance
- Payroll.

CAPABILITY & VALUE:

Does the city have the right capabilities to deliver best value for its stakeholders?

This project will respect the recent organisational restructure and focus instead on an assessment of capability maturity, prioritising the City's primary services.
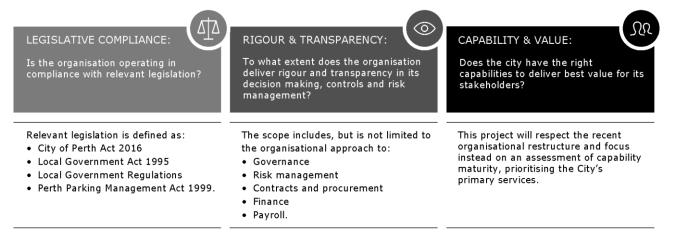
Figure 2: Focus area questions and scope. Source: Terms of Reference Assessment Terms of Reference

The Assessment focused on providing a baseline of the City's performance in these areas and was not designed as an audit.

3.3 Scope limitations

The Deloitte Governance Framework, Figure 3 below, defines the elements required for effective corporate governance. This figure is used to illustrate a number of scope limitations, described below.
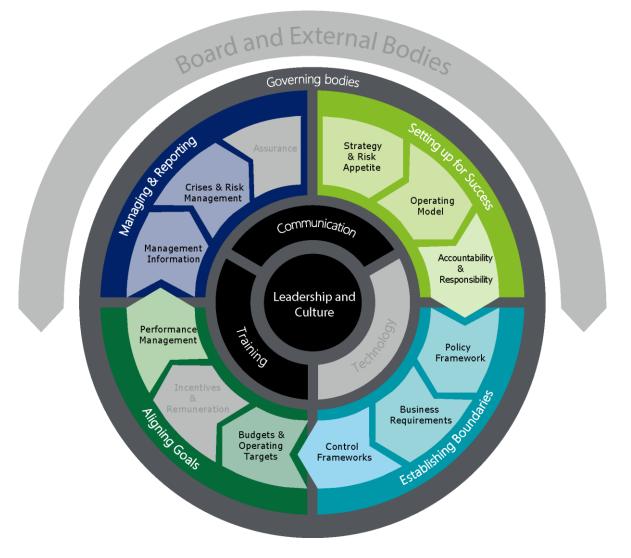

Figure 3: The Deloitte Governance Framework (Source: Deloitte)

The assessment focused on the City's governance and functions under the CEO (the **Administration**). With reference to Figure 3, the scope excluded:

- **Board:** The City's Council (the **Council**)
- **External Bodies:** Regulatory bodies relevant to the City, such as the Department for Local Government.

The assessment excluded three other elements:

- **Technology:** The City has recently completed a strategic review of its technology landscape, so the Assessment was instructed to avoid duplication of this work.
- **Incentives & Remuneration:** The Assessment was focused on organisational capability maturity. It excluded assessment of the capability and performance of individuals and how incentives and remuneration are linked to governance outcomes.
- **Assurance:** The scope excluded audit services, as the Assessment did not seek to replicate existing assurance processes. The Assessment reviewed whether the scope of the City's services are compliant with its legislative obligations, but did not seek to review all elements of legislative compliance.
  Finally, the Assessment cannot be construed as legal advice – the City is advised to seek legal advice if it wishes to test the assessment's findings further.

4 Approach

4.1 How was the assessment structured?

The Assessment was structured into six work packages. Three work packages were an organisation-wide assessment:

- Legislative compliance assessment
- Organisational capability maturity assessment
- Spend analytics.

These work packages were supplemented with more detailed diagnostic assessments in relevant areas:

- Governance
- Finance
- Procurement.

Figure 4 outlines how the work packages contributed to the three focus areas of the Assessment.
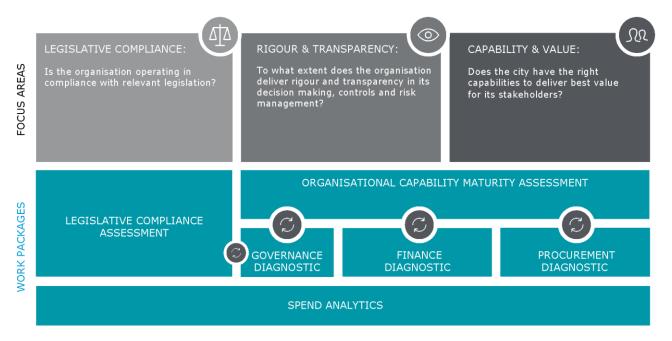

Figure 4: The work packages undertaken to complete the Organisational Capability and Compliance Assessment

4.2 How were the work packages delivered?

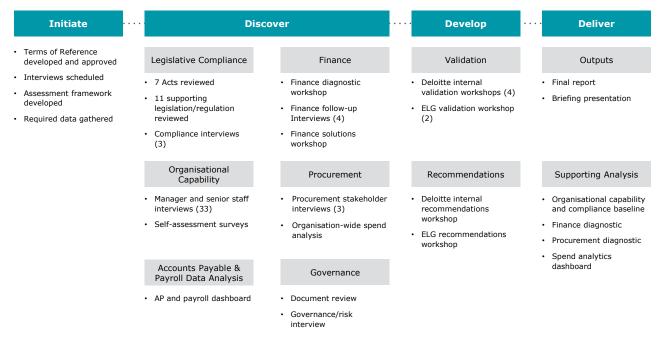The key activities undertaken to deliver the assessment are outlined in Figure 5 below:

Initiate	Discover			Develop	Deliver
• Terms of Reference developed and approved • Interviews scheduled • Assessment framework developed • Required data gathered	**Legislative Compliance** • 7 Acts reviewed • 11 supporting legislation/regulation reviewed • Compliance interviews (3)	**Finance** • Finance diagnostic workshop • Finance follow-up Interviews (4) • Finance solutions workshop		**Validation** • Deloitte internal validation workshops (4) • ELG validation workshop (2)	**Outputs** • Final report • Briefing presentation
	Organisational Capability • Manager and senior staff interviews (33) • Self-assessment surveys	**Procurement** • Procurement stakeholder interviews (3) • Organisation-wide spend analysis		**Recommendations** • Deloitte internal recommendations workshop • ELG recommendations workshop	**Supporting Analysis** • Organisational capability and compliance baseline • Finance diagnostic • Procurement diagnostic • Spend analytics dashboard
	Accounts Payable & Payroll Data Analysis • AP and payroll dashboard	**Governance** • Document review • Governance/risk interview			

Figure 5: Assessment activities

The work packages were delivered using a range of methodologies and approaches, as outlined below.

Legislative compliance assessment

The Assessment sought to determine what services the City must and must not provide from a legislative perspective, relative to what services the City actually provides. Legislative compliance was assessed against a selection of the most relevant and significant legislation, listed below in Table 1:

In-scope legislation	Additional legislation considered
City of Perth Act (2016)	Environmental Protection Act (1986)
Local Government Act (1995)	Building Act (2011)
Planning and Development Act (2005)	Waste Resources and Recovery Act (2007)
Perth Parking Management Act (1999)	Food Act (2008)
Health Act (1911)	Perth Parking Management Regulations (1999)
Local Government Regulations	Building Regulations (2012)
	Local Government Regulations (1996)
	Litter Act (1979)
	Food Regulations (2009)
	City Planning Scheme (2015)
	Other local laws, such as the Perth Parking Local Law (2016)

Table 1: Legislation and regulation reviewed in this Assessment

See Appendix 1 for a list of all documents reviewed.

The City's legislative compliance obligations were ascertained by identifying and mapping key obligations against the City's policies and services. For example, where the City is legislatively required to perform a particular service, such as building control as mandated in the Building Regulations Act (2012), the City's relevant policies and services were assessed against that legislation. A gap analysis was then undertaken to ascertain any areas of non-compliance. The analysis was validated through a number of follow up interviews with relevant internal stakeholders as detailed in Figure 5 above.

This work produced a list of the City's services, and identified those that are mandated by legislation versus those that are discretionary.

Organisational capability maturity assessment

The purpose of this work was to determine the capability maturity of each of the City's functions focusing on four dimensions:
- Strategy
- People and organisation
- Process
- Governance.

A standardised five point maturity rating scale was used, measuring the extent to which capabilities are defined, measured and managed across each of these dimensions.

The assessment captured evidence through manager self-assessment questionnaires and structured interviews, based on Deloitte's Organisational Assessment Framework. The results were validated by comparing the self-assessed ratings with the documentary evidence. Where the documentary evidence could not substantiate a self-assessed rating, the rating was adjusted.

Finance diagnostic

The City's core Finance processes were assessed using feedback gathered through interviews of Finance's 'customers', inputs from two workshops, follow up interviews and a review of finance documentation including management reports and the chart of accounts.

This diagnostic defined the level of capability maturity in the City's Finance function, and an improvement initiatives roadmap outlining recommendations to bridge the current capability gaps.

Procurement diagnostic

The Procurement Diagnostic incorporated a procurement maturity assessment and a spend opportunity assessment. To determine the maturity of the procurement function, interviews were conducted with staff involved in contracting and procurement from across the organisation. The existing procurement process was documented based on these interviews, along with pain points and issues. A gap analysis compared the existing process to leading practices as defined by Deloitte's standard procurement process definition.

The spend opportunity assessment analysed the City's procurement data and applied Deloitte's benchmark savings per spend category, which represent the savings typically realised from addressing the gaps identified. This analysis informed a high level estimate of the savings opportunity related to improvements in procurement practices.

Governance diagnostic

Governance effectiveness was assessed using data gathered from workshops and manager interviews, discussions with governance stakeholders, and review of relevant documentation. The review conducted a gap analysis between leading practice as defined by Deloitte's Governance Framework and the current state.

Spend analytics

The Spend analytics work package analysed the City's accounts payable and payroll data. The data was consolidated and mapped to create an interactive dashboard. This dashboard was

used as a source of reference for the Assessment, to guide prioritisation and focus of activities, and to inform the analysis of payroll and procurement processes.

A standard suite of Deloitte tests were also applied to the accounts payable and payroll data to identify potential evidence of weak controls and poor practice.

5   Legislative Compliance

5.1   Introduction

This focus area sought to determine whether the organisation's services are delivered in compliance with relevant legislation.

5.2   The legislative environment

Legislative compliance is complex and multilayered

As the City operates within a number of legislative, regulatory and commercial environments, it faces a broad range of compliance obligations. Some of these obligations are consistent across the local government sector, such as the provision of waste services, while others are specific to the City, such as biannual meetings of the City of Perth Committee, given its status as a capital city.

The City's legislation and associated regulations cascade under a legislative hierarchy. Within this hierarchy, there are the head acts, namely the 2016 Act and the 1995 Act, which provide the framework within which other forms of legislation are able to come into effect. Underneath the head acts, there are over 400 pieces of lower level legislation and regulation that have varying applicability and degrees of prescription to service delivery or provision.

Table 2 below provides an overview of the legislative hierarchy and documents reviewed for the purposes of the Assessment.

Legislative Hierarchy	What this means	Legislation Examined
Head acts	Legislation that defines the existence, functions and significance of the City	City of Perth Act (2016) Local Government Act (1995)
Enabling legislation	Legislation that provides wide ranging powers to carry out functions	Perth Parking Management Act (1999) Planning & Development Act (2005) Health Act (1911) Environmental Protection Act (1986)
Service enabling legislation	Legislation that prescribes responsibility for particular services to the City	Building Act (2011) Waste Resource and Recovery Act (2007) Food Act (2008)
Service defining legislation	Legislation that defines the services the City may perform	Perth Parking Management Regulations (1999) Building Regulations (2012) Local Government Regulations (1996) Litter Act (1979) Food Regulations (2009)

Legislative Hierarchy	What this means	Legislation Examined
Operational requirements	Local laws, policies and schemes that define service provision and enforcement	(None reviewed)

Table 2: Legislative Hierarchy

Head acts are non-prescriptive

The head acts are not prescriptive about the services and the extent of services to be delivered. Instead, these head acts give local governments wide ranging powers to carry out almost all functions.

For example, the 2016 Act states that the first objective of the City is "to provide for the good government of persons in the City of Perth, including residents, ratepayers and visitors". Similarly, the 1995 Act states that the general function of local government in Western Australia is to "provide for the good government of persons in its district."

Enabling legislation and service enabling legislation can define what the City must and must not do

Only upon review of lower levels of the hierarchy does it become apparent what services the City must provide. Taking waste management as an example, the Waste Avoidance and Resource Recovery Act (2007) requires a local government to provide a waste service for the purpose of protecting human health or the environment. Local governments are required to comply with this obligation because of their responsibilities under the Environmental Protection Act (1986).

Other examples include the legislative requirement for the City to perform swimming pool and health inspections, which are prescribed in the Building Regulations Act (2012) and the Food Regulations Act (2009), respectively. The Building Regulations (2012) outline a local government's responsibility to administer the State's building regulations in accordance with the Building Code of Australia, relevant town planning requirements and local building laws.

However, the method by which such services are provided is sometimes up to the local government to decide. The City of Joondalup, for example, has chosen to substantially outsource its waste management service to a private contractor, whereas the City of Perth utilises a largely in-house workforce, supplemented by contractors and casual employees.

5.3 Findings

The legislative compliance assessment makes four key findings in relation to the City's compliance obligations, the services it performs and how decisions (in relation to service provision) are made.

> **Finding 1:** One instance of previously undisclosed non-compliance with in-scope legislation was identified

Observations

Through a review of the in-scope legislation, as well as those mechanisms the City has in place to enable compliance, one instance of non-compliance was identified in relation to the failure to prepare a business plan for the City's major trading undertaking. No further evidence of non-compliance with in-scope legislation was identified.

A review of the in-scope legislation revealed the minimum service requirements with which the City must comply. Examples of these requirements are summarised below:

- The 2016 Act and the 1995 Act are administrative in nature and give the City wide ranging powers to carry out almost any function
- The Health Act (1911) allocates responsibility to the City for the construction and maintenance of all drainage within its district
- The Perth Parking Management Act (1999) requires the City to apply for and pay an annual licence fee for parking bays within the Perth Parking Management Area
- The Planning and Development Act (2005) mandates that all land that the City is responsible for be subject to the City's Planning Scheme, which provides for the creation of precinct plans, planning policies and guidance around decision making.

Each year, every local government in Western Australia must complete a Compliance Audit Return (the Return) that is submitted to the Department of Local Government and Communities. The Return asks a local government representative to answer a number of questions pertaining to the City's administration and operations, relative to legislative obligations. In 2015/16, the City self-disclosed 26 instances of non-compliance through its Return. For example, the City identified five occasions where procurement values exceeded or were about to exceed the tender threshold. Other areas of non-compliance reported by the City related to employee and Elected Member disclosure of interest and the disposal of property.

The first section of the 2015/16 Return considers Commercial Enterprises by Local Governments, including major trading undertakings. Major trading undertakings are defined in section 3.59 of the 1995 Act and Part 3 (9)(10) of Local Government (Functions and General) Regulations, where it is stipulated that any major trading undertaking must be supported by a business plan.

In its 2015/16 Return, the City responded that there were no major trading undertakings in 2016. The City of Perth Parking (CPP), however, can be considered a major trading undertaking under the definitions of legislation. The City had previously considered that the requirements under these pieces of legislation would not apply to CPP, as CPP began operating as a major undertaking prior to the Act's introduction in 1995/96.

During the course of this assessment, the City found that there was a transitional provision clause, which stipulated that if a business were to continue as a major trading undertaking it could be done without a business plan for two years (if the business were to cease before the completion of the two years) or one year if the operation were to continue. The City has never had a specific business plan in place for CPP, which means that City has been in breach of this provision since 1997. The City's staff are intending to address this compliance issue via the development of a CPP business plan.

Why is this finding important?

Maintaining a high degree of compliance demonstrates that the City is obeying laws and regulations in both its administration and operations. An ability to demonstrate compliance provides the Council, ELG, management, ratepayers and broader stakeholders with a degree of confidence that the City is doing what it should in an accountable and transparent manner.

Observations

The City delivers 77 different services, represented in Figure 6 below. The legislative compliance assessment identified that 16 of these services are mandated as service requirements under relevant legislation (inner ring). Some services are able to be delegated by the State Government under legislation, such as affordable housing and pollution control (middle ring). Over time, the City's Council has chosen to provide other civic services beyond the mandated local government functions (outer ring).
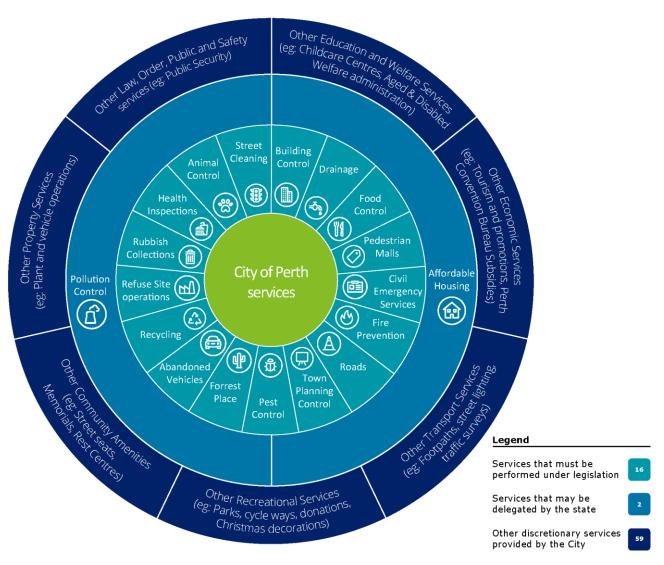

Figure 6: Services delivered by the City

It appears that a number of such discretionary services are provided on the basis of community demand. Further, the City is providing some services to a much wider group of service users than City residents and ratepayers. Social functions, such as management of homelessness, alcohol and drug problems, Skyworks, community safety and affordable housing are beyond the traditional scope of local government services. However the rationale, assumptions and benefits to ratepayers and stakeholders that underpin these services are not well documented, nor uniformly understood across the organisation.

The City does not have consistently and formally defined business requirements for its services; and where there are legislative obligations, these are not always reflected in policy and procedures. For example, the City's requirement to undertake inspections of food

premises, owing to its responsibility under the Food Regulations Act (2009), is referenced in the City's procedures, however, it is not reflected in a relevant policy. While there is no requirement for this legislative obligation to be reflected in policy, having a written Inspections of Food Premises policy in place would help clarify the City's position, whilst providing decision making requirements and guidelines on service provision.

Why is this finding important?

The City has an opportunity to enhance its governance framework by capturing legislative obligations under clearly defined service requirements. This view may take the form of a compliance management system or a regulatory compliance framework that defines the hierarchy of legislation, the City's resulting obligations and permissions, and its abilities to make choices on which services it will provide, including the extent of those services. By integrating legislative obligations with service requirements, the City will have a stronger foundation for making decisions on the services it provides, relative to its legislative obligations, financial capacity and organisational objectives.

Without a legal, social, economic and financial understanding of the implications associated with the provision of these services, the organisation is unable to quantify the funding and resources required to determine the sustainability of the service, and cannot inform decisions on service levels and trade-offs.

In current conditions, the City is managing its financial position with high scrutiny. The scope, service levels and level of subsidy of discretionary services are important levers in managing a sustainable operating surplus position for the City. Further, as State and Commonwealth governments pursue greater levels of fiscal austerity, it may be necessary for the City to undertake a business case to determine whether it is economically and socially feasible to take on additional services vacated by other spheres of government.

Finding 3:	The high degree of interpretation required means the City must rely on strategy and policy to guide decision making, however the City's current strategy and policy frameworks are insufficient in their current form

Observations

With legislation prescribing only a subset of the City's services, it is up to the City's strategy and policy setting to direct the scope and extent of the services it delivers.

The organisation-wide strategy document for the City is the Strategic Community Plan (**SCP**). The SCP is published by the City every four years as a community facing strategy document that performs an important role in capturing the needs and priorities of the City. Underneath the SCP is the Corporate Business Plan (**CBP**), which defines the detailed implementation plan for services, key projects and capital investments over the next four years.

Previously, a decision was taken to exclude business-as-usual activities from these documents. Consequently, there are no priorities or targets set for business units such as Library Services and CPP. While this helps to focus the documents on the significant changes to the organisation, it has resulted in some of the City's business units being unable to rely on the SCP and CBP as the framework for detailed definition of their own services, priorities and operational targets, and demonstrating the contribution of these services to overall strategy.

While strategy should help inform discretionary choices and priorities, policies should define the mandatory business rules that business units must follow. There is a significant policy framework in place for the organisation, however as outlined below, the assessment identified some deficiencies in how the policies are risk rated and reviewed.

The City's Organisational Policy Manual defines a policy as a concise statement of strategic objectives, principles or specific operational activities that give effect to the City's obligations or objectives, minimise risk, guide subsequent decisions and actions and ensure that the community is served in an open, accountable, consistent and sustainable manner. Section 2.7(2)(b) of the 1995 Act states that the Council is to "determine the local government's

policies", which are designed to provide direction for the ongoing management of City activities.

There are two policy categories at the City: firstly, a Council Policy, which is a policy required by legislation or a policy that governs a matter that affects the community and requires the approval of Council; and secondly, an organisational policy, which is a policy that affects the organisation's day to day activities and does not require the approval of Council.

The City has developed procedures for both Council and organisational policies. According to these procedural documents, the objectives of the procedures are threefold: firstly, to ensure consistency in the formulation, approval and regular review of policies; secondly, ensure there is alignment between policies and the SCP; and finally, provide the approval mechanisms of the policies[3]. Through these procedures, the City has committed to initiating an annual review of each major policy (due to have commenced in January 2017).

Council policies
Since 2015, the City has been in the process of applying a risk-based approach to inform the frequency of the policy review period across Council and organisational policies. The City has initiated a risk-rating for the 109 Council policies, however at the time of our assessment, only 17 have been assigned a risk rating and a review period and a further four have been assigned a review period, but not a risk rating. Table 3, below, demonstrates the relationship risk-rating categories and policy review periods.

		Risk-Rating							
		No risk-rating applied	Insignif-icant	Low	Minor	Moderate	Medium	High	**Total**
Frequency of Review	No review period applied	88							**88**
	Annual	1							**1**
	Biennial	2		3		2	2	1	**10**
	Triennial		1	5	1	1	1		**9**
	Every 4 years	1							**1**
	Total	**92**	**1**	**8**	**1**	**3**	**3**	**1**	**109**

Table 3: Risk-rating and frequency of review period for Council policies

Further, there appears to be a high degree of variance between risk categories and review periods. For example, a policy rated as "high" risk has the same biennial review period as a policy rated "low" risk. Similarly, a policy rated "medium" risk has the same triennial review period as a policy rated as "insignificant" risk.

In the City's Risk Management Framework, four categories of risk are defined and applied to the risks captured in the City's risk register: Low, Medium, High and Extreme. These categories are inconsistent when compared with the risk-rating categories used in the Council Policy Manual. For example, of the City's 17 rated policies, there are five policies that do not have a risk definition as presented in the Risk Management Framework.

A broader review of the Council Policy Manual shows that 60% of policies are outdated as these have not been reviewed in the last five years. Examples of outdated policies governing

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[3] Procedure – Council Policies, City of Perth, 24 October 2016; Procedure – Organisational Policies, City of Perth, 24 October 2016.

service provision include On-street Parking Policy (last reviewed in 2009), Road Safety Audits Policy (last reviewed in 2010) and Community Consultation Policy (last reviewed in 2002).

Organisational policies
The City has ten organisational policies in place, considered to be those which affect the organisation's day to day business and do not require the approval of Council. Four of these policies do not have a risk-rating. Those that are risk-rated, however, apply the same defined risk categories that are presented in the City's Risk Management Framework.

Six of the ten organisational policies have not been reviewed in line with the intended review dates.

Why is this finding important?

Without clarity in the City's strategic choices and business rules, it is difficult for the City to demonstrate transparency and strategic alignment in its decision making and resource allocation. Such a demonstration is particularly important in the absence of prescriptive legislative obligations.

While there is a substantial policy framework in place, clearer alignment with the legislative obligations that do exist, combined with an improved regime of risk rating and review, will help to maintain and demonstrate the currency and completeness of the City's policies.

6 Rigour and Transparency

6.1 Introduction

The second focus area sought to determine the extent to which the Administration delivers rigour and transparency in its decision making, controls and risk management.

6.2 The governance environment

Why is good governance important?

The Governance Institute of Australia states that ultimately, good governance is important "to ensure value is delivered to the community for the rates and other charges it pays and which form the foundation for sustainability in the future". Good governance provides the foundation for rigour and transparency in the City's decision making, controls and risk management.

How is good governance achieved?

The 1995 Act does not specify how good governance should be achieved, and it is up to local governments to interpret and apply governance practices for both Council and the administration. There are various sources for guidelines on effective governance. The Victorian Good Governance Advisory Group defines the fundamental components of good governance in local government as enabling:
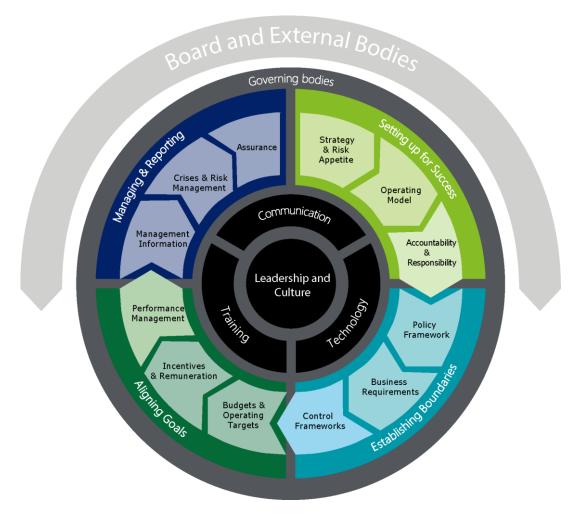
- **Accountability** – being answerable for the consequences of decisions made
- **Compliance** – demonstrating compliance with relevant legislation and policies
- **Transparency** – clarity and openness in the decision-making process
- **Fairness and equity** – demonstrating that the decision-making process has considered the interests of all relevant members of the community
- **Efficiency and effectiveness** – putting resources to best use.[4]

What did the assessment examine?

For the purposes of this Assessment, Deloitte's Governance Framework was used to assess the City's governance. The framework, as depicted in Figure 7 below, is split into five distinct sections:

- **Governing bodies** – setting the tone of the organisation and level of oversight for critical activities
- **Setting up for success** – establishing the organisation's strategic plan and risk appetite, operating model and accountabilities/responsibilities
- **Establishing boundaries** – assessing the level of policy/regulatory requirements and establishing policy and control frameworks
- **Aligning goals** – aligning budgeting and planning, performance management and reward to the organisation's strategic plan
- **Managing & reporting** – assessing usefulness of management information, level of risk management and clarity of board assurance to assist with decision making.

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[4] Victorian Good Governance Advisory Group, *Good Governance Guide*, 2012.

Figure 7: Deloitte Governance Framework (Source: Deloitte)

6.3 Findings

The Organisational Capability Maturity Assessment identified five priority findings in relation to the City's rigour and transparency.

> **Finding 4:** Decision making processes vary across directorates, and are unclear to many internal stakeholders

Observations

Each directorate and business unit has its own decision-making groups with varying meeting cadence, informal schemes of delegation and escalation triggers.

While the City has a documented scheme of delegation, the Assessment did not find evidence of formally defined, clearly communicated terms of reference for each internal decision-making group, nor were there consistently defined processes for decision making.

Decision making was reported to be more effective within directorates, however where decision making crossed organisational boundaries, interviewees reported a number of challenges such as:

- Delays and inefficiencies in resolving decisions, including a high degree of escalation to ELG to resolve decisions
- Lack of awareness of meeting forums, their intent and authority to make decisions
- Challenges with scheduling and availability of interested parties given the large number of internal stakeholders
- Relevant stakeholders not being consulted early enough in a process

- Increasing instances of managers only including a subset of relevant stakeholders in the decision-making process.

Why is this important?

In the absence of defined decision making rights and processes, the organisation suffers unnecessary friction, delays and escalations. Formalising decision rights in role descriptions and terms of reference will help to improve the rigour, transparency and efficiency of decision making, while reducing the unnecessary operational burden on the ELG.

Finding 5: Certain corporate business controls are weak

Observations

Review of compliance documentation and interviews confirmed that internal controls are defined and measured across the organisation. However, the effectiveness of some controls appears to be weak as outlined below.

Organisational policy and procedure
Finding 3 (above) identified that while the City has an established policy framework, the majority have not been reviewed in the last five years. Some managers also reported issues with policies being inconsistent, and in some cases, conflicting. Without structured, consistent and comprehensive organisational policies, some managers reported that they are, at times, selectively compliant with policies, where they consider that the policy lacks relevance. Determination of relevance is a subjective process that varies between managers. For example, a manager reported that their team uses a number of workarounds to get things done where current policies and procedures are restricting their ability to react to community and stakeholder needs.

Information systems
The City's information management systems are not seen as enabling effective and automated controls. Managers reported issues including:

- Limited workflow and automation leading to heavily manual processes
- Semi-automated processes which could be redesigned to be fully automated
- Transfer of data between systems requires manual extraction of data from source systems into spreadsheets, manipulation and re-entering into receiving systems
- Limited access to operational data which should be shared across business units to increase the visibility of operations.

To address this, there are a number of in-flight IT initiatives planned for delivery between 2017 and 2021, such as replacement of ageing systems and investment in new capabilities.

Supplier spend management
The City's approach to supplier and contract management is decentralised, with responsibility at the project or business unit level. There are limited controls in place to facilitate compliance with the City's Purchasing Policy (CP 9.7 Purchasing, 2015) and the 1995 Act, which articulates quotation/tender thresholds which apply to the procurement of goods and services.

Interviews suggested that most spend owners have little awareness of suppliers' cumulative spend. While the Contracts and Procurement team generates a monthly Contracts Expenditure Report listing cumulative supplier spend over $75,000, interviews indicated this report is not consistently reviewed by business units, and does not provide visibility of spend under this threshold nor spend that is not under contract.

Payroll accuracy
A suite of automated tests were applied on the payroll data as part of the Assessment. This analysis flagged a number of transactions that the City should validate and or further investigate to confirm their accuracy and validity. These preliminary observations may reflect weak controls or data quality issues, or may be valid scenarios that are not self-evident in the data examined.

There are acknowledged issues with the accuracy of payroll and the manual controls put in place to mitigate errors. There is extensive use of handwritten forms in the payroll process, which require manual verification, a time intensive activity.

Payroll errors and near misses have been formally tracked since December 2016. During the period December 2016 to March 2017, 44 errors and near misses, which originate in both business units and payroll, were identified and recorded. These issues are outlined in Table 4 below.

	Issues generated in business units	Issues generated by payroll	Total
Number of Payment Errors	19	20	39
Number of Payment Near Misses	5	0	5
Total	**24**	**20**	**44**

Table 4: Summary of issues found in Payroll (Source: City of Perth)

The manual preventative control of having managers individually review and sign off their team's pay at each pay run appears ineffective, with many managers reporting that they were not in a position to vouch for the accuracy of the data.

Non-standard payments, such as overtime, carry the highest risk of error. For example, calculations related to overtime are recorded on employee summary sheets, outside the payroll system. There are no controls to validate the data recorded in the payroll system to ensure that all overtime items are in line with the relevant Enterprise Bargaining Agreement (EBA) and business rules.

In 2015/2016 overtime payments at double time (or greater) accounted for $1.76 million (77% of total overtime and 2.2% of total payroll). Potentially, this cost could be reduced through consistent interpretation and application of overtime rules across business units as well as more effective workforce management practices to reduce the requirement of employees to undertake overtime hours.

The City is aware of the payroll issues outlined above and there is a planned initiative to address these through replacement of the payroll system as part of a larger Human Resources Information System project.

Invoice approvals
Finance reported that the proportion of invoices that remain unauthorised at month-end has increased substantially, from a long-term average of around 400 per month, to 900 per month in the last four to five months. Finance attributed this increase to new managers who were not familiar with the accounts payable process and associated deadlines.

Non-compliance with the invoice approval process impacts month-end close timelines as Finance must follow up with authorised approvers, and post month-end accruals where no action is taken. The value of accruals posted as a result of unapproved invoices at month-end is approximately $1.3 million. Posting month end accruals is time consuming and increases the risk of variance in the City's financial projections.

Accounts payable
A suite of automated validity tests was applied on the accounts payable data as part of the Assessment. This analysis flagged a number of transactions that the City should further investigate to confirm their accuracy. These may reflect weak controls or data quality issues, or may be valid scenarios that are not self-evident from the data examined.

Lease management
Management of parking bays is split across CPP and the Properties Business Unit, due to inclusion of parking in lease arrangements. Interviewees identified that there are insufficient controls in place to prevent leases from lapsing, and changes to the parking capacity of leased properties is not consistently identified and applied, impeding the ability to accurately report on the total number of active parking bays.

Why is this finding important?

Internal controls are critical in the delivery of rigorous and transparent processes. The gaps identified should be addressed to provide improved assurance to the City's management and its stakeholders that the City is operating in a compliant and effective manner.

Finding 6: Management reporting is inconsistent and does not provide the executive leadership with the information required to make effective decisions

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Observations

The quality of management information available to directors and managers was consistently reported to be poor, particularly reports provided by the Finance and Human Resources (HR) business units.

Finance reporting
Many interviewees commented on inconsistency in financial reporting. Directors and managers raised concerns about the scope, format, accuracy and timeliness of regular budget reporting. Several directors also provided examples of management reports that they have developed locally to supplement reporting provided by Finance.

Finance faces challenges in providing consistent and useful reporting, due to the lack of standardised, automated reports, the complex structure of the City's chart of accounts, and the insufficient integration across the City's various information systems.

Interviewees reported widespread support for the Directorate Accountants – a new role created to support each Directorate with financial analysis. However the quality of reporting is impacted by the high degree of manual effort, leading to a lack of confidence in the analysis provided.

Human Resources reporting
Finance and HR systems are not configured to provide an integrated view of workforce data. Generation of workforce reports is a manual, time consuming process with inputs from a mix of systems-based data and information provided by individual business unit managers.

Furthermore, the ELG reported discrepancies in the data provided in the HR monthly report and indicated they were reluctant to rely on it to make decisions given the inaccurate information.

Why is this finding important?

Unnecessary effort is spent on compiling data and reconciling differences, rather than using reports to draw insight. The lack of reliable and efficient management reporting impacts the City's ability to maintain oversight of operations and make informed and timely decisions.

Finding 7: Aspects of governance and risk are being improved through the development and rollout of new tools and frameworks

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Observations

The Governance business unit supports the City by providing an advisory service in the fields of Risk, Strategy, Corporate Planning and Corporate Governance. The stated purpose of the City's Governance Business Unit is to "establish effective and efficient systems and processes

to ensure compliance, accountability, fairness and transparency to all of its stakeholders" (Governance Business Unit 2016/17 Business Plan).

New compliance tools that the Governance Business Unit has recently developed include:

- Corporate Compliance Calendar: a tool that identifies legislative compliance tasks to be completed by the City on a continuous basis. In time, the calendar is expected to help managers actively manage their compliance tasks

- Compliance Accountability Listing: a tool that is designed to identify legislative requirements (and other instruments) that apply to an individual and/or business unit

- Take Action Notice: through the use of a paralegal, the City identifies legislative changes captured in the Gazette, which is then communicated through to the management team

- Document Control Box: an addition to the City's Policy template, to provide a consistent record of the policy custodian, any compliance requirements, risk rating and review frequency.

These tools are considered to be consistent with good practice and the City should continue to roll-out and embed them.

The City launched its new Risk Management Framework in early 2017. This framework has been developed and maintained by the Governance Unit to support the City to be more effective in recognising and managing its key risks at both the strategic and operational level. It also serves to further educate managers and staff on the value of effective risk management.

The City recognises that there is more work to be done to implement a truly effective and responsive risk management framework throughout the organisation. Such an approach will better equip the City to make risk-based decisions and to help prevent major incidents. For example, the City needs to develop a consistent approach for escalating and addressing significant risks identified by operational staff, such as asset condition risks and car park customer safety risks.

Why is this finding important?

Effective corporate governance plays a key role in maintaining rigour and transparency of the City's operations, and provides reassurance to stakeholders that it is meeting their expectations. The City will benefit from a continued commitment to further develop and embed its corporate governance practices.

Finding 8:   Compliance risks remain, particularly in the context of an unprecedented number of changes in the workforce

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Observations

The City's recent organisational restructure has had a number of impacts on the City's operational environment. The restructure established one new directorate and a number of new and significantly changed business units. This restructure also led to a large change in the City's workforce with the appointment of 158 new (permanent and fixed term) and departure of 152 employees since April 2015, as illustrated in Figure 8 below.
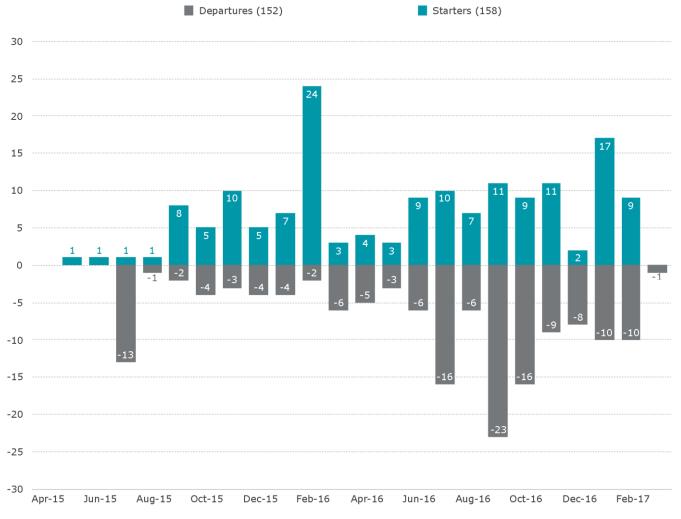
Figure 8: Timeline of starters and departures since April 2015 (Source: City of Perth)

These organisational changes have increased the risk of non-compliance, loss of organisational knowledge with staff leaving and new staff joining the organisation, often from outside of the local government sector.

Interviews identified that the on-boarding program had not proved sufficient in training new staff in compliance. Combined with outdated policy and procedure documentation, this omission has led to a reliance on existing employees to educate new starters about the City's ways of working, such as the navigation and application of legislative obligations, policies and procedures, systems and execution of daily activities.

The ELG voiced concerns about the potential for this organic approach to on-boarding inadvertently reinforcing poor behaviours and causing incorrect execution of tasks through adoption of a 'this is how we have always done it' mindset. The ELG also highlighted the need for existing employees to regularly refresh their knowledge of the City's responsibilities, restrictions and the legislation under which it operates.

Why is this finding important?
A concerted effort is required to refresh all staff on the City's policies in order to align ways of working to the obligations as set out in these policies.

7 Capability and Value

7.1 Introduction

The third focus area set out to determine the extent to which the City has the right capabilities to deliver best value for its stakeholders.

7.2 The organisational environment

This focus area set out to assess the organisation's capability maturity, meaning the extent to which its capabilities are defined, measured and managed. The current state of the City's organisation provided important context to the assessment, as summarised below.

Organisation structure is new and stabilising

The City is in a state of transition, having recently undertaken a significant restructure. Many business units are still embedding the resulting changes to their structures, teams and services, including defining roles, processes and procedures.

Large proportion of managers and employees are new to the City

158 permanent and fixed term employees have joined the organisation since the announcement of the restructure from various industries, bringing innovative ideas to the City. This change has introduced new diversity of expertise and talent but risks diluting organisational understanding of public service operations, with a number of managers new to local government.

7.3 Findings

The Assessment identified six findings regarding the City's capability maturity.

> **Finding 9:** There is no clear alignment between organisational strategy and business unit strategies

Observations

The City's Integrated Planning and Reporting Framework, outlined in Figure 9, shows the interaction between plans, informing strategies and strategic enablers.

Figure 9: Integrated Planning and Reporting Framework (Source: City of Perth)

Interview feedback from directors and managers, combined with a review of existing plans and enablers, revealed that the SCP and the supporting Corporate Business Plan (CBP) do not effectively capture the organisation's strategy. Three specific issues were identified – absence of business as usual activities, insufficient target setting, and a lack of integration between the various strategy and planning documents. These issues are outlined below.

The Strategic Community Plan (SCP) is the organisation-wide strategy document for the City. The SCP is a community facing strategy document that is refreshed every four years. Its purpose and function is formally defined in Regulation 19C of the Local Government (Administration) Regulations 1996. As the SCP is necessarily an external facing document, it does not fulfil the role of an internal business strategy for the organisation. Specifically, it lacks a clear and complete articulation of the City's strategic choices, priorities and targets.

A decision was previously taken to exclude business as usual activities from the SCP and the CBP. Consequently, the documents do not explicitly define the contribution of all business units to the organisation's strategic priorities, nor define and prioritise specific objectives for each business unit. The Community and Commercial Services Directorate reported the most concern that it cannot align to the SCP. Its business units, including Community Services, Library, Parking Services and Commercial Parking among others, have independently developed strategies to fulfil their operational requirements, but these strategies cannot demonstrate explicit alignment to the SCP.

The majority of business units do not have specific targets included within the SCP or the CBP. Managers consequently tend to see the SCP and CBP as too broad, not directly actionable or irrelevant to their operations.

The integration and linkage between the SCP, CBP and business unit level strategies is not explicitly articulated. In addition, there is insufficient integration between business unit strategies. Managers reported that their business unit strategies and plans have been developed in isolation, with limited or no collaboration with other areas of the organisation. This exacerbates coordination problems for the organisation, as the trade-off between competing business unit priorities is not explicitly resolved. For example, best practice urban design and sustainability can conflict with maximising parking revenue; while innovation in capital works design can clash with standardisation and efficiency of ongoing maintenance.

Consequently, the current suite of strategy and planning documents does not provide the clarity needed for leaders to make business decisions within the organisation.

Why is this finding important?

In the absence of a clearly defined organisational strategy, the organisation cannot effectively prioritise and manage its portfolio of services and investments. The lack of clarity in the purpose and priorities of the City has led to competing strategic imperatives, and significant effort invested in resolving escalated issues.

Finding 10: The organisation is managing to overall budget, not to business outcomes

Observations

The most common performance metric used by business units in monthly financial reports and project reporting was actual versus budgeted expenditure. However, the City does not have mechanisms in place to measure benefits realisation or return on investment.

Consequently, investment prioritisation and approval decisions are made without a consistent view of projected benefits and how these align to target outcomes. The Economic Development and Activation Directorate reports that there is a current initiative implementing tools for measuring economic and social return on investment, which will be delivered by December 2017.

Commercial Parking and Waste and Cleansing business units have indicated that they manage to a Profit & Loss (P&L) statement. Both business units are able to articulate their break-even point and can clearly communicate the financial benefit delivered for the City. Furthermore, Waste and Cleansing has adopted a strategy to transition from a subsidised to a cost recovery charging model, by growing its commercial waste business.

While a P&L statement may not be the most appropriate tool for all business units, regular monitoring of cost to serve, value and/or quality is expected. Approximately 14 of the business units reported having no metrics or performance indicators in place. Most business units that had metrics stated that they developed their own indicators with limited linkage to corporate strategy and objectives.

Why is this finding important?

The City has limited, high level metrics to understand business performance and inform decision making. Finer grain measures of costs and outcomes per service or project are increasingly important to optimally manage constrained resources and demonstrate how the City is delivering value.

Observations

The Assessment has identified four workforce management gaps: providing an accurate and stable estimate of the organisation's establishment; management reporting on workforce; the structure of the position hierarchy; and development of key performance indicators.

The City of Perth Workforce Plan outlines "the required resources, capabilities and competencies the City requires to deliver against its objectives, as well as to continue to service the community." This plan defines the full time equivalent establishment number (i.e. the approved workforce size) for each directorate, but there is no guidance for managers as to how this data was put together or how they should use it to guide their resourcing decisions. Directors reported that establishment figures for their directorates do not seem stable, which makes operational recruitment decisions difficult without a confident understanding of the approved capacity for their directorate.

Human Resources is currently unable to support business unit managers with timely data to optimise the workforce. The process for reporting workforce information is manual and time intensive, collating data and information from a number of sources. The first of these reports was produced in February 2017 with January data. Issues with the accuracy of the data provided have been identified by the ELG leading to a lack of trust and reducing the likelihood of use to support decision making at a senior level.

For example, eight business unit managers are seeking to hire new talent to fill perceived staffing gaps, without sufficient information to confidently determine if their team is working at full utilisation or on strategically aligned activities. Managers appear unable to accurately assess critical resourcing decisions such as whether it would be in the financial interest of the City to hire additional staff members or if it would provide greater cost benefit to upskill or cross skill current team members to fill capability gaps and improve productivity.

There is no explicit management of a position hierarchy, resulting in a high number of unique positions and payroll classifications. The City's workforce for 2016/17 is approximately 756.5 full time equivalent staff, for which there appear to be 530 unique positions and over 185 payroll classifications. The complex position structure makes it difficult to provide peer to peer comparisons, which are required to inform salary decisions and market analysis. In addition, the complex structure is a barrier to introducing and maintaining role-based IT system controls, a core element of many modern organisational compliance regimes.

The performance framework implemented by HR in 2016 has not been consistently rolled out to all business units across the City and there is not yet a shared understanding of the framework across the manager cohort, making it difficult to fairly benchmark employee performance. In addition, a number of interviewees reported that they have not had a performance review for a number of years.

Why is this finding important?

At this critical juncture when the organisation is trying to embed a new structure, lack of timely HR information is inhibiting the City from making informed decisions about resourcing. Without this information, the organisation is more likely to see inefficient use of human capital and associated payroll expenditure.

Without consistent employee performance metrics, there is a limited evidence base to use in measuring the performance and effectiveness of staff in delivering value that is aligned to corporate strategy.

<table>
<tr><td>**Finding 12:**</td><td>New roles and responsibilities are not well understood across the organisation, particularly for processes that are executed across multiple business units</td></tr>
</table>

Observations

The new organisational structure increased directorates from four to five and business units from 20 to 30. Figure 10 below illustrates the level of change experienced by the City as a result of the restructure.
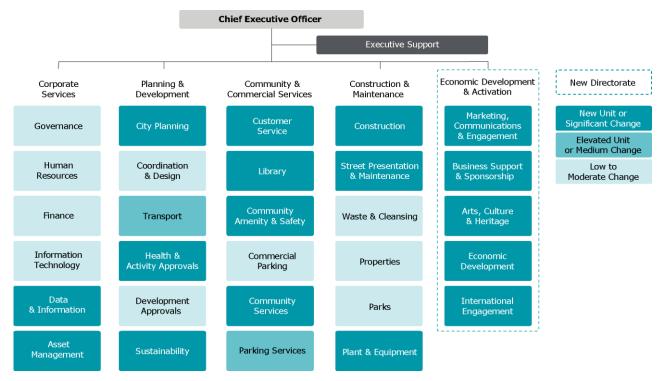

Figure 10: Levels of change since restructure

The restructure was implemented independently within business units, with managers responsible for designing their own structure based on an allocated headcount. The new structure and the approach to its implementation has led to additional complexity, and increased silos between business units and directorates. The new structure requires more consultation and collaboration between business units; however, new roles and their responsibilities are not sufficiently defined nor understood outside of their business units.

Managers have indicated that there is some duplication of roles and responsibilities between business units, potentially increasing complexity and costs, while reducing productivity. For example, analysis of the City's payroll data identified that there are 20 finance-focused roles and 14 procurement-focused roles spread across business units, in addition to the Finance business unit and the directorate accountant business partnering model. While this design may be justifiable, there is no explicit operating model design that defines the rationale and how these roles interact.

Delivery of capital works projects is proving a particular pain point within the new structure. Business units involved across various stages of the project delivery lifecycle reported a significant level of rework of detailed designs. Lack of consultation between the Planning and Design, Construction, Street Presentation & Maintenance and Parks business units has, in some cases, led to unmaintainable designs. In one significant example, a completed project in a public space needed to be replaced because of materials that were not fit for purpose had been used.

Why is this finding important?

The lack of organisation-wide clarity and shared understanding of roles and responsibilities is causing indecisiveness, wasted effort and unconstructive tension between teams. Siloes are deepening due to ineffective team collaboration, which left unchecked may impact staff morale and retention of talent.

Finding 13: Business processes are at varying stages of redesign and levels of maturity

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Observations

The Assessment identified that some business units have well documented procedures – particularly those with higher occupational health and safety risk exposure, as well as those closely regulated by legislation. Managers of these business units place significant importance on their team's compliance with procedures to mitigate risks to individuals.

While there is activity underway to further define processes following the restructure, there is limited evidence of business units working together to define cross-silo dependencies and hand over points. Various business units including Street Presentation and Maintenance, Community Services, Commercial Parking and Library stated that staff members are redefining processes and procedures within their individual business units. This siloed approach is degrading performance in cross-directorate processes such as Development and Health Approvals, according to relevant interviewees.

Why is this finding important?

The new structure has encouraged greater specialisation of roles, which means clearly documented process design is increasingly important to maintain clarity in dependencies between roles and efficiency in process execution. Leading practice business process design typically takes a top down approach, working from overall outcomes to processes and roles. A coordinated effort to map business processes would provide greater alignment between business units, more effective consultation, clearer roles and responsibilities, and enable greater efficiency in utilisation of staff.

Finding 14: Procurement spend could be optimised through improved sourcing, consolidation and contract compliance

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The assessment identified the following issues which are constraining the value that the City is delivering through its procurement activities:

- Process execution is inconsistent with insufficient governance and transparency to drive compliance
- There is limited evidence of category management, reducing the potential to achieve economies of scale
- There is no formal framework for procurement collaboration across business units, meaning similar procurements can be duplicated
- There is no consistent and rigorous market testing to ensure that purchases are achieving best value.

As part of the Assessment, accounts payable data for the period March 2016 – February 2017 was analysed to identify the potential value of improved procurement processes. The data was grouped into spend categories to identify the most material areas of procurement spend. Savings benchmarks, based on similar procurement reform initiatives, were then applied to each category to determine the potential savings opportunity at the City.

Why is this finding important?

By optimising procurement spend through improved sourcing practices, consolidation of contracts and improved contract compliance, the City has the opportunity to reduce total

operational spend by 2%-6%. Such a saving would result in an approximate savings range of $2 million - $5 million per annum.

8 Transformational change

8.1 Introduction

This theme arose from the findings of the other three focus areas.

During the course of the Assessment, it became apparent that a common theme was arising from all the work packages: the restructure has initiated a transformational change, which must be completed in order to achieve a valuable outcome.

8.2 A transformational restructure

The restructure was planned and initiated under the previous CEO in 2015. Project initiation documentation reviewed as part of the Assessment states that the objectives of the new structure were to bring Economic Development and Activation to the fore, as well as to implement the previous CEO's vision for the organisation as a structure without silos. Those ELG members who were in post under the previous CEO reported that implementing the new structure was prioritised in the interests of speed, against the backdrop of the State Government's local government reform agenda at the time. However, other elements of transformational change – such as refreshing strategy, processes and policy – were intended to be addressed once the restructure had been completed.

8.3 Findings

> **Finding 15:** While the restructure is nearing completion, other important elements of successful change have not yet been addressed, representing a major risk in terms of performance, culture and retention

Observations

Deloitte's Enterprise Model, outlined in Figure 11 below, identifies the dimensions that need to be considered when designing and implementing transformational change. Consistency and top-down alignment is important in effective design, while the sequencing and management of change is critical to achieving a purpose-driven, successful and sustainable transformation.

Enterprise Model Design

Figure 11: Deloitte's Enterprise Model

The restructure was supported at the outset with detailed planning and consultation, as evidenced by the document review, which included a substantial body of design work and project initiation documentation completed during the early phases of the restructure. However, the City's transformation focussed on restructuring of people and organisation first, rather than starting with a clear strategy and business model design.

Further, the organisational change was not delivered under a clear and widely understood purpose. Interviews identified that many managers now seem unclear about the restructure's intent and benefit. Only the longest serving managers were able to articulate that the new structure was intended to reduce the silos between directorates and business units.

Interviews gathered considerable qualitative evidence that the organisation is currently experiencing the typical negative side effects of transformational change delivered without a strategically-aligned change program grounded in a clear purpose. Issues were raised across all directorates relating to productivity, culture, leadership and low employee engagement. In particular, as the restructure was implemented in a devolved manner, it appears that the silos the restructure set out to reduce have deepened.

Examples of operational issues that have been caused or exacerbated by the restructure include:

- Critical knowledge and relationships have been lost via staff turnover

- Problems are experienced with executing processes that require cross-directorate collaboration, such as Planning and Health Approvals

- Challenges are reported with signing off new designs for capital works projects due to a lack of clarity over roles and decision rights between operational business units

- Operational business units such as Parks and Street Presentation & Maintenance reported frustrations with the structural separation of strategy and operations, as they have insufficient influence over design decisions for assets that they then become responsible for maintaining.

There are currently a large number of in-flight and planned initiatives addressing other layers of the enterprise model, including strategy refresh, process definition, role definition and technology investment. But projects remain devolved with no evidence of a single, coherent top down design.

Why is this finding important?

The full impact of the current, partially-transformed state is hard to quantify in the absence of performance indicators. However, a coherent, top-down program structure would increase the likelihood of successfully delivering the transformation.

Finding 16: The ELG is insufficiently aligned to support successful transformation

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Observations

There are natural tensions between the goals of the City's various services, and consequently, debate within the ELG is to be expected and welcomed. However, in the absence of an organisational strategy that articulates clearly prioritised strategic objectives, conflict arising from competing priorities is difficult to resolve and is visible to staff.

In contrast, successful transformation requires strong and unified sponsorship. PROSCI is a change method which identifies three important sponsor roles that were not evident in the

case of the restructure. Table 5 outlines the three main roles of the executive sponsorship coalition and the gaps identified in the execution of the restructure to date.

Sponsor Role	Gaps identified
Participate actively and visibly throughout the project	Implementation of the restructure was devolved to business unit managers without a central organisational design defined by ELG (Finding 13, section 7.3)
Build a coalition of sponsorship with managers and peers	Managers were unable to articulate the purpose and target outcomes of the restructure (Finding 16, section 8.3)
Communicate effectively with employees	Internal communications were handled locally by business unit managers (Finding 13, section 7.3)

Table 5: Sponsor role gap analysis (Source: PROSCI)

Why is this finding important?

A strong sponsorship coalition is the most important critical success factor in delivering transformation. Active and unified leadership, supported by a centralised investment in organisational change management will help to provide a purpose-driven, leader-led change.

> **Finding 17:** The ELG's capacity to shape and lead the change is constrained by a high proportion of time devoted to operational matters

Evidence

Deloitte's Four Faces of Leadership Model defines the four diverse roles that executive leaders are expected to play: shaping strategy and direction (strategist); leading change (catalyst); managing risk (steward); and managing efficient and effective operations (operator). Balancing these facets is important in delivering stakeholder expectations.

Engagement with ELG, as well as the manager interviews, identified that a high proportion of directors' time is currently spent managing operational issues, and that this is a barrier to them spending more time on higher value roles in strategy and change.

Figure 12 shows an average of the directors' self-reported allocation of time between the four different roles of the executive. It compares the estimate of actual of time versus what they believe is required to best deliver the transformation and the expectations of their role.
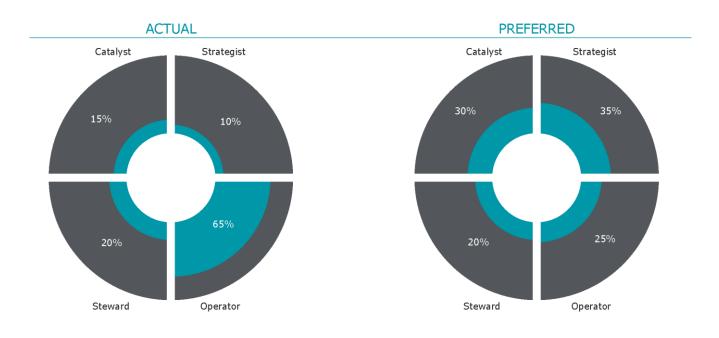

Figure 12: Actual and preferred ELG work priorities

The interaction between Council and the Executive was not an in-scope element of this assessment. Nevertheless, discussions with ELG identified that there may be potential to reduce its operational workload by clarifying and streamlining the relationship between Council and ELG. Such a protocol should be considered as part of future work to clarify the City's governance framework.

Why is this finding important?

The City is currently an organisation focussed on change, while seeking to maintain the levels of operational performance expected by its stakeholders. It will remain hard for ELG to commit sufficient energy to strategy and change unless it can manage down the volume of operational commitments.

9   Recommendations

The findings outlined above identify a number of potential improvements with respect to compliance, governance, capability maturity and embedding change.

Five summary recommendations are presented below, which represent the priority areas of focus for the City to consider in support of its goal to be a leader in the sector with respect to governance and transparency and to deliver best value for its stakeholders.

> **Recommendation 1:** Clarify the City's Legislative Framework and Corporate Governance Framework to improve transparency in how legislative obligations and objectives are interpreted and applied

A high degree of interpretation is required to translate the City's legislative obligations and permissions into strategy, policy and procedure. This interpretation often requires specific legal advice, which the City procures from law firms through its Legal Services Contract.

The City should further clarify its Legislative Framework (which forms part of the broader Corporate Governance Framework currently being developed) to improve transparency in how legislative obligations and objectives are interpreted and applied. The Legislative Framework should identify and define the hierarchy of legislation, the City's resulting obligations and permissions, and its abilities to make choices on which services it will provide, including the extent of those services.

To make best use of the Legislative Framework, the City should also establish guidelines and policies on the interpretation of legislation, including when further legal advice should be obtained.

In finalising its Corporate Governance Framework, the City should draw from existing good practice developed within and for the local government sector, such as the Good Governance Guide prepared by a consortium of Victorian local government stakeholders, the Governance Institute of Australia's Good Governance Guide for Local Government and local references such as the City of Joondalup's Governance Framework. City of Joondalup is an example of good practice in local government corporate governance because it has similarly pursued an agenda of increased transparency, rigour and effectiveness, with a sustained investment in implementing good corporate governance practices.

Recommendation 2: Complete the development of a clear organisational strategy that makes explicit strategic choices on the City's priorities and how it balances competing expectations

The SCP performs an important role, as defined in the Integrated Planning and Reporting Framework, in capturing the needs and priorities of the City. The process for its ongoing development is well defined and must continue. However, as the SCP is necessarily an external facing document, it does not fulfil the role of an internal organisational strategy.

ELG has been working since November 2016 to refresh the City's strategy. This work should be prioritised and consider:

- The organisation's purpose, values and aspirations, how these inform priorities and strategic choices, and how best to communicate these within the organisation
- How the organisation can best respond to the various external challenges and competing expectations it currently faces
- Clear and principled prioritisation of the organisation's strategic objectives and targets to help resolve conflicts and day to day decision making in areas such as design and place making, operational service delivery, customer service and financial sustainability
- How management reporting based on key performance indicators that cascade through all levels of the business can be utilised to enable better decision making and measure the performance of strategy execution.

Recommendation 3: Based on a clear organisational strategy, make deliberate choices about the organisation's future business model

The majority of the services delivered by the City can be considered to be discretionary in nature. The City therefore has a considerable degree of freedom to decide whether, how and how much of these services the organisation should deliver.

Each service should be explicitly defined to understand its rationale and optimal delivery model, including consideration of key issues such as:

- Its legislative position – understanding constraints and obligations, and addressing the key question "Must we deliver the service in the way it is currently done?"
- The expectations of service users/customers and wider stakeholders
- Current and forecast demand
- Current and required service levels
- The strategic, financial, economic and social outcomes of the service and the impact if service delivery were changed, reduced or stopped
- The availability and maturity of alternative service delivery models, such as commercial or not for profit providers
- The charging model, whether that be wholly public funded, subsidised, cost neutral or for profit to subsidise other services.

Recommendation 4: Strengthen the City's operating model design, aligning in-flight and planned work towards a common and consistent target state

Considerable work has already been completed against several layers of the operating model – customer, channels, technology, information and data, people and organisation – as well as many current and planned projects. To make sure that these initiatives deliver maximum impact and value, they must now be structured and prioritised into a second phase of transformation to deliver a cohesive operating model.

The work must:

- Define the what, who, why and how of the future organisation
- Demonstrate clear alignment with the organisational strategy
- Logically sequence the change to support successful implementation.

Existing and planned initiatives that do not contribute to the new operating model design can be deprioritised or stopped.

Cross-organisational processes and decision rights should be prioritised when designing the new operating model.

The new cohesive operating model will address issues caused by devolved organisational design and provide clarity and efficiency in how the City delivers to its operational obligations and expectations.

Recommendation 5: Align the leadership in support of the transformational change

In order to give the next phase of transformation the best chance of success, the program will need to be actively managed. This phase should include:

- Active and unified leadership from ELG
- Targeted interventions, led from the top, to refresh the organisational culture, aligned with organisational purpose, values and aspirations
- A centralised program management capability to facilitate planning and prioritisation, reporting and governance, and benefits management
- Targeted communications, training and support to maintain stakeholder and employee engagement through the transformation.

This approach will bring together the piecemeal projects addressing individual layers of the operating model, with explicit definition of strategic contribution and improved control and visibility over cost and quality.

Appendices

Appendix 1
– List of documents reviewed

ALGA Submission to the Productivity Commission Childcare Inquiry (Feb 2014)

Audit and Risk Committee Minutes – 8th Aug 2016

Audit and Risk Committee Report – Cash Handling Review

Budget Manual 2011-12

Child Care Services Agreement 2013

Child Care Services Wage Schedule 2013

City of Joondalup – Governance Framework

City of Perth – Corporate Induction (2017)

City of Perth – Corporate Learning and Development Calendar 2017-2018

City of Perth – Learning and Development Strategy Update - January 2017

City of Perth – Performance Shaping Memo ELG 6 December 2015

City of Perth Act (2016)

City of Perth Annual Budgets 2012/13 – 2016/17

City of Perth Annual Reports 2012/13 – 2015/16

City of Perth Code of Conduct Acknowledgement Declaration

City of Perth Delegated Authority Register (Dec 2013)

City of Perth HR Report – March 2017

City of Perth Human Resources – Organisational Restructure – Next Steps (May 2016)

City of Perth Human Resources – Organisational Restructure 2015 FAQ

City of Perth Intranet – New City of Perth Restructure Update (June 2015)

City of Perth Leadership and Development Strategy (Jan 2016)

City of Perth Leadership Development Program Info

City of Perth Operational Report for Elected Members

City of Perth Procedure – Accounts Payable

City of Perth Risk Management Framework

City of Perth Safe City Strategy 2016-2020

City of Perth Waste Strategy 2014-2024+

City of Perth Workforce Plan 2016-2020 (Vision 2029)

Corporate Business Plan 2016-2020

Corporate Induction Slide Pack (2017)

Council Policy Suite

CPA Australia – Excellence in Governance in Local Government (2005)

Crisis & Business Continuity Management Framework – 31 October 2016

DLGC Local Government Operation Guidelines Elected Member Induction (Number 4 – June 2011)

Draft - ELG Rules of Engagement

Draft – Organisational Change Management Plan

Economics and Industry Standing Committee – Growing WA through Innovation

Finance Diagnostic

Finance In Flight Initiatives

Finance One Chart of Accounts

Finance One Reports List (May 2017)

Finance Organisational Chart (March 2017)

Financial Management Task Force – Report Feb 2017

Financial Management Task Force – Reporting Timetable March 2017

Fortnightly Payroll Checklist (April 2017)

Health (Miscellaneous Provisions) Act (1911)

Health Act (1911)

HRIS Review Project – Business Requirements – Payroll

Invoices Accrual (Mar 2017)

List of current contracts

List of Payroll Errors and Near misses

Local Government (Administration) Regulations (1996)

Local Government (Financial Management) Regulations (1996)

Local Government (Functions and General) Regulations (1996)

Local Government (Miscellaneous Provisions) Act (1960)

Local Government (Rules of Conduct) Regulations (1996)

Local Government (Uniform Local Provisions) Regulations (1996)

Local Government Act (1995)

Long term financial analysis – Draft (Feb 2017)

Management Report by ORG CODE Period 8 2016/17

Management Report by UNIT Period 8 2016/17

New Starter Checklist – Payroll

Organisational Policy Suite (24 Feb 17)

Outside Workforce Enterprise Bargaining Agreement – Updated Wage Schedule 2016

Outside Workforce Enterprise Bargaining Agreement 2012-2015

Perth Parking Local Law (2017)

Perth Parking Management (Taxing) Act (1999)

Perth Parking Management Act (1999)

Perth Parking Management Regulations (1999)

Perth Parking Policy (2014)

Planning and Development Act (2005)

Public Health Act (2016)

Public Sector Commission – Accountability Map

Public Sector Commission – Good Governance Guide: Checklist

Public Sector Commission – Misconduct management arrangements at the City of Perth: Final evaluation advice

(October 2016)Salaried Officers Agreement 2014

Salaried Offices Wage Schedule 2016

Standing Committee on Economics, Finance and Public Administration – Inquiry into Local Government and Cost Shifting (Feb 2003)

Standing Committee on Economics, Finance and Public Administration – Official Committee Hansard (Feb 2003)

Strategic Community Plan – Vision 2029+

Termination Checklist – Payroll

The New City of Perth – Transition Approach (May (2016)

The New City of Perth (May 2015)

Timetable of Monthly Accounts

WALGA - Public Library Services in Western Australia in 2025 (June 2015)

Waste Avoidance and Resource Recovery Levy Act (2007)

Waste Avoidance and Resource Recovery Levy Regulations (2008)

Waste Avoidance and Resource Recovery Regulations (2008)

Appendix 2
– List of interviewees and workshop attendees

A/Director Economic Development & Activation

A/Director Planning & Development

A/Manager Coordination & Design

A/Manager Customer Service

A/Manager Street Presentation & Maintenance

Accounts Payable Officer

Accounts Receivable Officer

Budget and Capital Accountant

CEO

Chief Accountant

Construction and Maintenance

Contracts Officer - CPP

Contracts & Procurement Specialist

Corporate & Business Strategy Consultant

Director Community & Commercial Services

Director Construction & Maintenance

Director Corporate Services

Directorate Accountant

Finance & Customer Service Head – CPP

Financial Accountant

Funds Management Officer

Internal Auditor

Manager Arts, Culture and Heritage

Manager Asset Management

Manager Business Support & Sponsorship

Manager City Planning

Manager Commercial Parking

Manager Community Amenity & Safety

Manager Community Services

Manager Construction

Manager Data and Information

Manager Development Approvals

Manager Economic Development

Manager Executive Support

Manager Finance

Manager Governance

Manager Health and Activity Approvals

Manager Human Resources

Manager Information Technology

Manager Library

Manager Parking Services

Manager Parks

Manager Plant and Equipment

Manager Properties

Manager Sustainability

Manager Transport

Manager Waste & Cleansing

Marketing and Communications

Payroll Specialist

Risk Management Coordinator

Senior Business Analyst

Senior Contracts Officer

Senior Management Accountant

Senior Rates Coordinator

Senior Waste Management Officer

Supervisor Day St/Clean Waste Management

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