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Regional Council Benchmarking
Administrative and Support
Services Review 2013

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Issue 2.0

Contents

Contents	ii
Author	iv
Change Record	iv
1 Introduction	1
2 Executive Summary	2
3 Addressing Known Benchmarking Limitations	6
4 Approach	7
5 Review of the Key Differences.....	8
5.1 Overall Results.....	8
Figure 1. Total A&SS costs as a % of ORC.....	9
Figure 2. Adjusted A&SS costs compared to Central Government small agencies.....	9
Figure 3. Total A&SS costs per council FTE	10
5.2 Human Resources (HR).....	11
Figure 4. HR costs per employee.....	11
Figure 5. Number of HR FTEs per 100 employees.....	12
Figure 6. HR capability maturity model current state.....	13
5.3 Finance	14
Figure 7. Finance costs as % of ORC	14
Figure 8. Finance costs per Council FTE	14
Figure 9. Adjusted Finance costs less Rates as a % of ORC	15
Figure 10. Number of Finance FTE excluding Rates Collection	16
Figure 11. Finance systems cost.....	16
Figure 12. Finance capability maturity model current state.....	17
Figure 13. Finance process costs as a percentage of total Finance costs	18
5.4 Rates Collection.....	19
Figure 14. Rates collection costs as a percentage of value collected	19
Figure 15. Rates collection costs per property.....	20
Figure 16. Rates process costs as a percentage of total rates costs	22
Figure 17. Rates payments outstanding as a % of \$ collected	23
5.5 Information and Communications Technology (ICT)	24
Figure 18. Total ICT cost per end user.....	24
Figure 19. End User Support tower cost per end user	25
Figure 20. Communications tower costs per end user	26

Figure 21.	Date Centre tower costs per end user	26
Figure 22.	Applications tower costs per end user	27
Figure 23.	ICT Management tower costs per end user	27
Figure 24.	Number of smart devices per 100 ICT users	29
Figure 25.	ICT Applications coverage indicator	30
Figure 26.	ICT Management Practice Indicator	31
5.6	Procurement	32
Figure 27.	Value of procurement as a percentage of ORC.....	32
5.7	Property.....	34
Figure 28.	Total Property costs per sq. m.	34
Figure 29.	Property costs per council FTE	35
Figure 30.	Property facilities management costs.....	36
Figure 31.	Office Accommodation per Council FTE.....	36
Figure 32.	Number of workstations per council FTE	37
Figure 33.	Average Property grade score.....	38
5.8	Corporate and Executive Services (CES).....	39
Figure 34.	Overall CES costs as a % of ORC	39
Figure 35.	Library, Document Management, Archive & Research Costs per Council FTE ...	40
5.9	Communications and External Relations	41
Figure 36.	Communications costs as a % of ORC	41
Figure 37.	Communications capability maturity model current state	42
5.10	Vehicle Fleet Management	43
Figure 38.	Vehicle Fleet management as a % of ORC.....	43
Figure 39.	Average cost of council vehicles per year	44
Figure 40.	Fleet cost of council vehicles per km	44
Figure 41.	Average distance travelled per council vehicle.....	45
Figure 42.	Number of vehicles per 100 employees.....	45
6	Recommendations for Making BASS Business-as-Usual	46
Appendix 1	Key Influences on the BASS Results	49
Appendix 2	Key Service Improvement Focus Areas	52

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1 Introduction

The purpose of the Benchmarking Administrative and Support Services (BASS) initiative is to “provide information on the cost, efficiency, and effectiveness of administrative & support services in the State sector”.

Benchmarking provides an important role in comparing the costs and efficiency of administrative & support services (A&SS) across government agencies. Undertaken for the first time for regional councils in 2012, this is now the second year. It forms a basis for each council to track its performance over time. It provides information to support the regional councils in assessing how and where they can improve their performance.

This is a report of a review of BASS fiscal year 2012/13 results across eight regional councils, namely (in the ascending order of council overall running costs presented in the BASS results and this report):

- Northern Regional Council
- Otago Regional Council
- Hawkes Bay Regional Council
- Horizons Regional Council
- Bay of Plenty Regional Council
- Waikato Regional Council
- Environment Canterbury Regional Council
- Greater Wellington Regional Council.

The report explains the key differences in the benchmark results, as determined from the BASS results and reviews how the data was interpreted and measured by the councils.

The report presents:

- How the review addressed known benchmarking limitations
- A summary of the review approach
- A summary of key differences in the council’s results
- Recommendations for how the regional councils can make BASS business-as-usual.

Recommended areas of focus for improving administrative support services are provided in individual reports to each council.

Appendix 1 summarises key influences on the BASS results.

Appendix 2 provides a table summarising recommended areas of focus for each council in their individual reports

Central government small agency median BASS results from 2011/12 are included in this report based on data supplied by Treasury. Only a qualitative comparison with unpublished 2012/13 results is provided.

2 Executive Summary

This report follows the decision by regional councils to adopt BASS as an ongoing basis for measuring the cost of administrative and support service (A&SS) functions. This year provides additional components that help build a consistent basis of cost and service measurement for undertaking value for money improvement. A&SS costs are now starting to be compared meaningfully over time and against peer organisations.

This report provides a review of the 2012/13 BASS results for eight regional councils. Its purpose is to present *“An audit of the interpretation of the BASS data descriptions for consistency across all seven councils and an analysis to explain key differences in the results between Councils that should be taken into account when interpreting the results”*.

Recommendations

The report contains a number of recommendations that will help regional councils to make BASS part of a business-as-usual move towards better administrative and support services, the principal ones being:

- Address rates collection, ICT and procurement as strategic improvement opportunities
- Increase the value of A&SS functions by focusing on improving capability maturity and prioritising investment in higher value processes
- Collaborate on service improvement measures and initiatives through regional manager forums
- Collect more accurate information through aligning council cost and volume data measures with key BASS data points
- Add further measures that capture the value delivered by A&SS functions
- Change the Procurement benchmark to reflect common goals for regional council effectiveness and establish a systems capability to measure it.

Data Interpretation and Measurement

Treasury provides comprehensive guidelines for BASS data collection that have been augmented for regional councils. Most BASS data is captured consistently with these. However, as anticipated, the review finds some inconsistencies in interpreting and measuring the BASS data descriptions. As a result all councils re-submitted their data and four councils amended results from 2011/12.

This year service measures for Rates Collection, Communications and External Relations and Vehicle Fleet Management have been added to capture the scope of the services so they can be normalised and compared effectively.

There is still a need to capture the value of the services to council businesses through better information on the service levels delivered, so that more effective services are not misinterpreted as being less efficient. Further service scope parameters are required in some areas, particularly in ICT for big data. Some existing measures need to be collected accurately rather than being estimated.

A small number of factors were found that still drive differences in the results that have nothing to do with performance, although these are reducing:

- Not all data points are measured directly and best estimates have been used to derive some, making their accuracy unreliable
- Some ICT data points are quite technical and have been interpreted differently, leading to the scope of service and its performance being measured inconsistently
- BASS does not measure the cost of A&SS services passed to council staff to execute, such as parts of the HR and Procurement functions.

This report explains where these factors were found in each of the A&SS functions. It provides additional information to qualify the results where it can. Results significantly compromised by interpretation and measurement issues are omitted from this report.

Overall A&SS Service Results

Overall running costs (ORC) are used as the normaliser for the overall A&SS costs and other measures in BASS. Three observations from the overall results are:

- Compared to last year, the overall median A&SS cost for seven councils are a similar proportion of running costs as they were last year, which excluding rates collection, property and vehicles is 10% of ORC compared to 14% of ORC for central government small agencies
- Scale, especially through large outsourced services such as transport, improves A&SS efficiency measures
- Some of the smaller councils use a “lean and mean” approach using multi-tasking to help compensate for scale to improve what otherwise would be a large efficiency challenge.

Human Resources (HR)

The difference in HR performance reflects the volume of added value services provided, although due to poor process measurement it is not possible to be definitive. Parts of the HR processes are passed to managers to execute, providing an apparent uplift in A&SS efficiency because BASS does not measure their time spent on HR processes. Regional council investment in HR services is half that of central government small agencies. Despite this regional councils evaluate their capability maturity to be broadly equivalent. HR costs have risen 9% per employee for seven councils compared to last year. Four councils have reduced recruitment costs by attracting direct applications from local candidates.

Finance

The major cost in the Finance function is rates collection, followed by the added-value processes of general and management accounting. Rates collection should be the major focus for improved Finance efficiency, as identified below. Outside of rates collection, larger councils have more staff to offer a higher level of service, e.g. to support business management accounting. This additional service is not quantified in output terms at present and neither capability maturity nor added value process measures consistently support that it is actually being delivered. Compared

to central government small agencies, regional councils invest more in their finance function even after rates collection is taken into account (possibly due to more complex investment revenue and business organisations) yet their capability maturity is evaluated as broadly equivalent. Finance costs for seven councils have risen 2% compared to previous year in proportion to ORC.

Rates Collection

This year's results enable regional councils to understand the breakdown of rates collection costs and to compare pricing charged by TLAs for outsourced services across councils. About half the rates costs are fixed per property and half transactional per invoice. There is a strong correlation of efficiency with both scale and self-collection and therefore there is opportunity for significant cost savings. There is scope to encourage more efficient payment mechanisms.

Information and Communications Technology (ICT)

This is by far the most difficult A&SS service to measure consistently. Given some late changes to correct errors in both 2012/13 and 2011/12 results, regional council ICT benchmarks remain relatively immature even after simplification. Measures of service value delivery for both IT and applications need to be captured consistently to make comparison between councils meaningful and to include new services such as big data. Nevertheless the wide difference in the results shows that there is significant opportunity for performance improvement. Consistent themes emerging from the benchmarks are to standardise and simplify the underlying IT services, improve mobility through smart devices, focus on applications effectiveness and invest in better service management. Overall ICT cost has increased in all but one council, but without output measures it is not possible to qualify this. Regional council median ICT costs are consistent with the median spend by central government small agencies.

Procurement

The BASS procurement benchmark is not aligned to the procurement practice in regional councils and therefore the BASS results are not meaningful. Attempts to improve on it this year have foundered on data collection issues. Nevertheless total external expenditure by regional councils is running at 83% of overall running costs, so the role of procurement is critical and it needs to be effective. Further improvements are required to enable this function to be measured effectively. Regional councils need to agree common goals, such as to improve capability maturity and leverage buying power through collaborative contracts to make this possible.

Property

Regional differences in the property market and space utilisation are two big factors driving differences in the BASS property results. Central government reports show a difference in the regional property markets of up to 50% between Wellington, Auckland and Christchurch across different property quality mixes. The attempt to add a regional property price benchmark from The Property Council of New Zealand failed as no regional councils are members. The median results from the key property benchmarks show performance comparable with central government agencies, except that the average grade of regional council property is lower. Some

councils invested in property improvement last year, while others made some savings on the previous year.

Corporate and Executive Services (CES)

This A&SS function covers several sub-functions, of which two are measured as services in their own right:

- Communications and External Relations
- Vehicle Fleet Management

Other CES functions are a minor part of total A&SS services. Any key differences are identified in individual recommendations to councils in their own reports.

Communications and External Relations

This function was reviewed in more detail for the first time this year. Overall costs are comparable with central government small agencies as are the capability maturity measures. It is still too early to draw further conclusions as the process breakdown is not recorded accurately, even though this would enable councils to see the relative balance of investment. Few councils operate under the service level measure suggested. Communication managers have been encouraged to review and agree these measures for next year.

Vehicle Fleet Management

Vehicle Fleet Management is the highest cost of the CES functions as a percentage of overall running costs. With Property and ICT, it completes the generic infrastructure services that support council businesses. The amount of vehicles provided differs significantly across councils. During the review it became clear that measuring the fleet vehicle mix and utilisation will be important to improving the value of this function.

Conclusions

It is still early days to see any overall improvements in A&SS efficiency in the regional council BASS results, as the first results were only available half way through the year being measured. Improving A&SS functions with the support of benchmarking is a continuing journey. To get better value will require serious commitment and intent. It is important that regional councils make changes to measure data accurately through changing cost and timesheet processes to enable BASS results to accurately reflect achievement. There are key service levels that still need to be agreed and quantified so that service value and scope is captured.

By collaborating together, regional councils can make this practical. They can use it as a platform to grow a mutual understanding of what it means to achieve high performance A&SS services. By taking BASS results into each service manager forum this can become part of business as usual.

Across all councils, Rates Collection, ICT and Procurement stand out again this year as opportunities to make immediate gains. Down the journey, gains in the other A&SS services will emerge as the performance drivers and measures of effectiveness are sharpened.

3 Addressing Known Benchmarking Limitations

BASS provides key information for comparing results between councils and from one year to the next for a single council. To maximise the usefulness of this information, there are three well-known pitfalls to avoid in interpreting benchmarking results:

Measurement

Consistent measurement techniques have to be used in collecting the benchmark data. This is non-trivial as councils are seldom organised around the decomposition of information requested, e.g. some councils centralise all services and others distribute components of them.

Last year's review addressed the mechanisms and assumptions used for gathering data. Many councils use timesheet and cost breakdown information, but the same issues identified last year in mapping these to the BASS measures still exist. It is important that councils align their measurement to the BASS processes for future years.

Apples with apples

Benchmarking has to compare apples with apples or it can unfairly penalise the service providers. There has to be standardisation of the scope and quality of the services being benchmarked and a means to scale costs to the volume of service being delivered. Otherwise high performing service teams can appear poor.

This year's BASS review contains more questions to scale services and qualify key differences in service scope for important council services such as Rates and Communications in line with previous recommendations. Differences in assumptions coming out of the review have been checked across all councils.

Level of Service

Benchmarking can be weak in evaluating the level of service provided and its value to the organisation, i.e. the outcomes the service enables or achieves directly and how efficient and effective the service makes those who receive it. Benchmarking can make low-value services appear efficient even though these may make a council as a whole less efficient and effective or prevent it transforming itself.

This year's review has asked some additional service level questions and strengthened the definition of others. New service management maturity indicators have been introduced. These help strengthen what is still a limited area in BASS.

4 Approach

This year's BASS review has followed the pattern of 2012, which required:

An audit of the interpretation of the BASS data descriptions for consistency across all seven councils and an analysis to explain key differences in the results between Councils that should be taken into account when interpreting the results (e.g. there could be justifiable reasons for higher cost figures that on the face of it look inefficient e.g. some councils collect rates themselves). The output is to be a report to be provided to all councils.

The BASS review presented in this report is based on the following agreed approach:

1. The 2011/12 results and the review report recommendations were used to scope this year's data collection and recommended improvements, which were agreed by regional councils in July.
2. These were captured in a new data collection spreadsheet based on that issued by Treasury, complete with a comprehensive data collection guide and answers to frequently asked questions (FAQ).
3. Data was collected from each council and initial inconsistencies identified and queried as appropriate.
4. The 2012/13 BASS results were reviewed by service for key differences in the results both between councils and from the previous year's results (where available), e.g. key service components costs that are outside the median.
5. Interviews were held with each council to go through each service and its components to qualify key differences using the following where appropriate:
 - a. The scope of service being provided and kits broad levels of service
 - b. Key parameters affecting differences, e.g. depreciation of costs
 - c. The data measurement and collection methods used
 - d. Reasons for key differences in the key BASS comparators, e.g. the principal organisational cost drivers where total council costs are a significantly different ratio.
6. This report is provided to all councils to explain the key differences in results as far as is possible within the BASS framework, noting any differences in data interpretation and collection that contribute.
7. Individual reports to each council provide council-specific reflection on relative performance and recommendations for future action.

The emphasis in this year's review has moved on from qualifying the BASS approach to bringing additional focus on service effectiveness measures. This is achieved by examining process breakdown and capability maturity level wherever possible, which in the absence of comprehensive service level measures are the principal BASS tools available to look at service effectiveness.

5 Review of the Key Differences

This section reviews the key differences in the benchmark results by administrative and support service (A&SS). It identifies inconsistencies discovered in data interpretations and measurement methods between councils. It qualifies the key differences where scope and levels of service were found to be different.

Each BASS A&SS is reviewed in its own section. Three additional sections are included this year: Rates Collection, Communications & External Relations and Vehicle Fleet Management. The review identifies the key result differences and explains these where possible from the BASS results and explanations provided by the councils.

5.1 Overall Results

The overall BASS results comprise the total A&SS costs normalised by overall running cost (ORC). The key differences in A&SS costs are explained by the differences in each A&SS function described in following sections.

5.1.1 Overall running costs

There are some significant differences in the make-up of overall running costs between the councils. Each council has a unique combination of local services to deliver, e.g. running costs for transport are higher in the major centres of Christchurch and Wellington.

Two councils have chosen to eliminate some exceptional running costs from the BASS data collection:

- Waikato has excluded a grant to the Home of Cycling of \$5m from 2012/13, revising their ORC to \$101m.
- Greater Wellington has excluded \$26m of train costs from 2012/13, revising their ORC to \$193m.

5.1.2 FTE headcount

All the councils have less FTE than employee headcount, with one standing out as having significant part-time staff:

- Canterbury has 14% less FTE than employees.

5.1.3 A&SS Cost Drivers

Regional councils provide both asset-intensive and staff-intensive services to their communities. The cost of A&SS functions is therefore driven by both ORC and the number of staff in the council. Selection of the right driver to normalise A&SS costs for comparison across councils is critical to understanding relative performance. This report reflects drivers chosen by the councils themselves. Most councils have a consistent ratio of staff numbers to overall running costs (ORC) except Greater Wellington whose water supply and transport services are more asset-intensive and Northern which is the smallest council and has the lowest ratio.

5.1.4 Total A&SS costs as a % of ORC

BASS compares total Administrative support service costs as a percentage of ORC, with the results for regional councils shown in Figure 1. A comparison with Central Government small agencies 2011/12 median results is provided in Figure 2, which shows A&SS costs less rates collection, property and vehicles over the last two years.

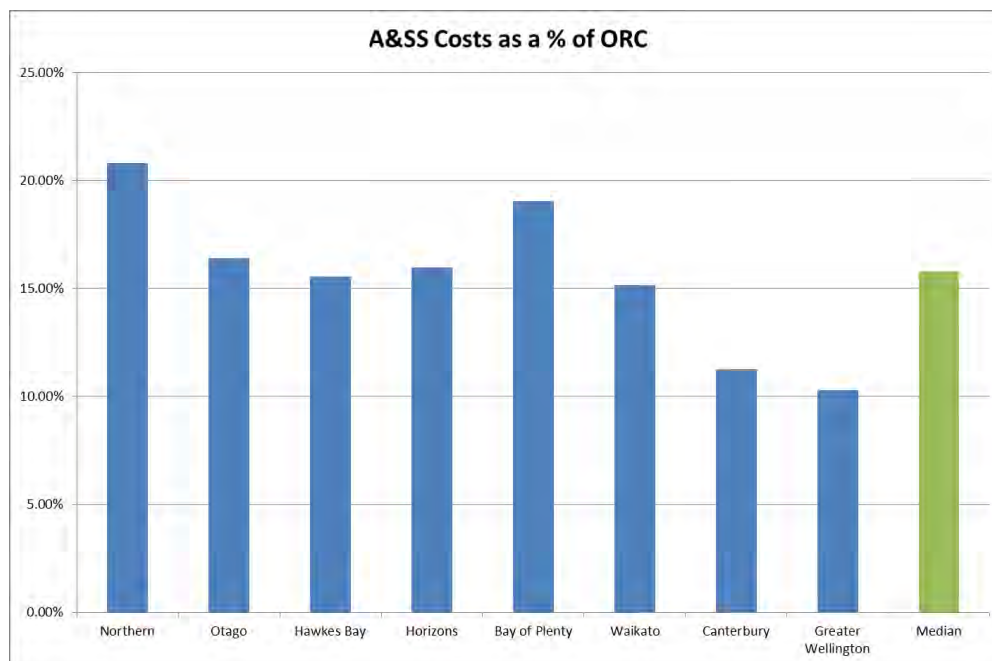


Figure 1. Total A&SS costs as a % of ORC

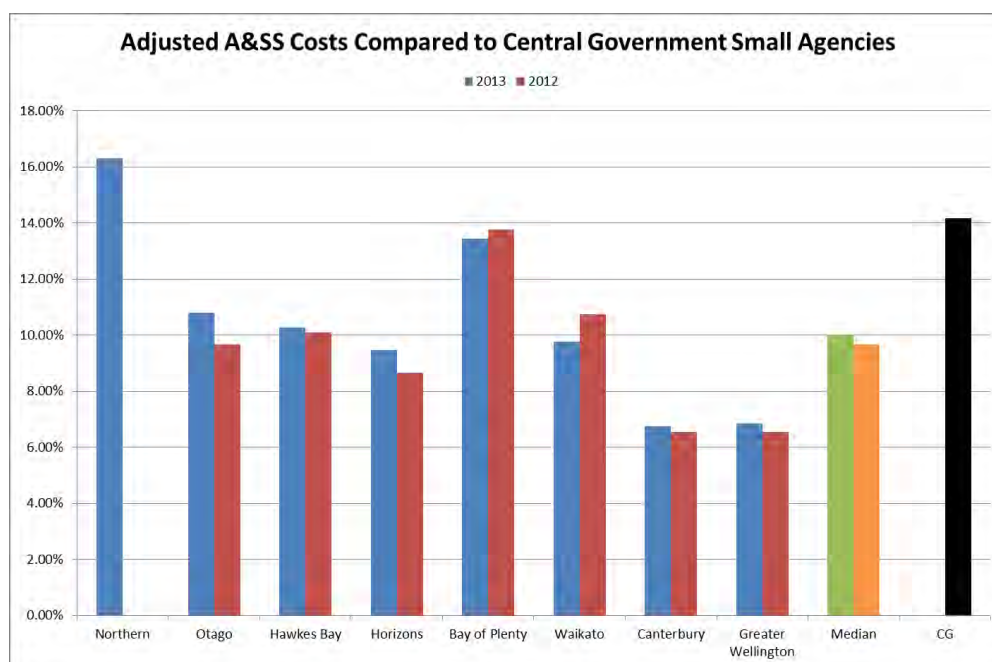


Figure 2. Adjusted A&SS costs compared to Central Government small agencies

Total AS&S costs are also compared as a per FTE cost in Figure 3.

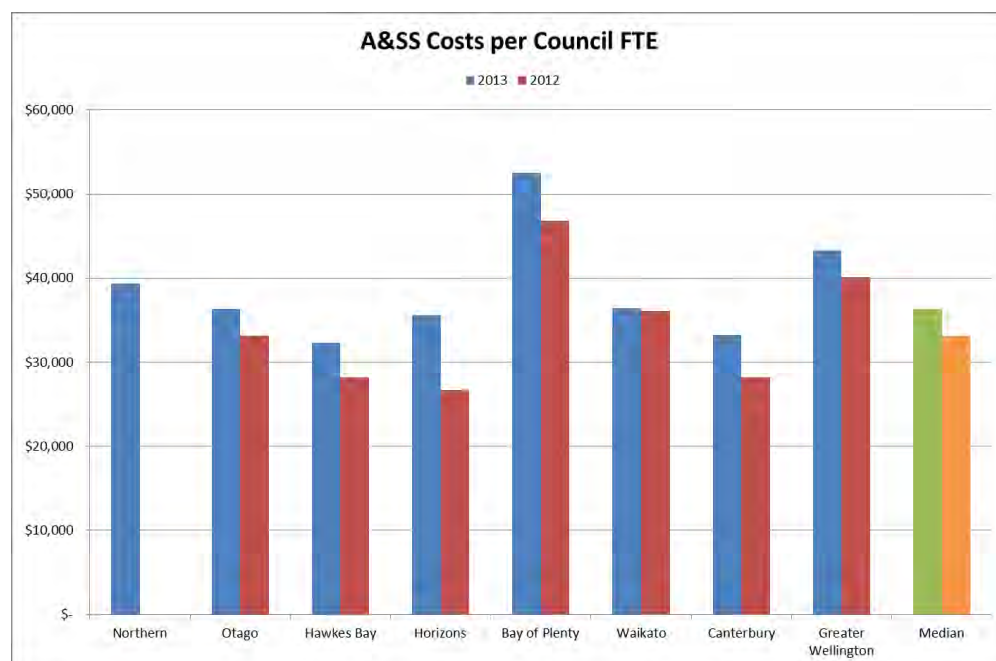


Figure 3. Total A&SS costs per council FTE

5.2 Human Resources (HR)

5.2.1 HR Key Cost Differences

As in all the A&SS functions, BASS uses a number of measures to assess the performance of human resources (HR), the principal one being HR costs per employee, as shown in Figure 4 (Bay of Plenty has restated 2012 results to remove lower valued shared services).

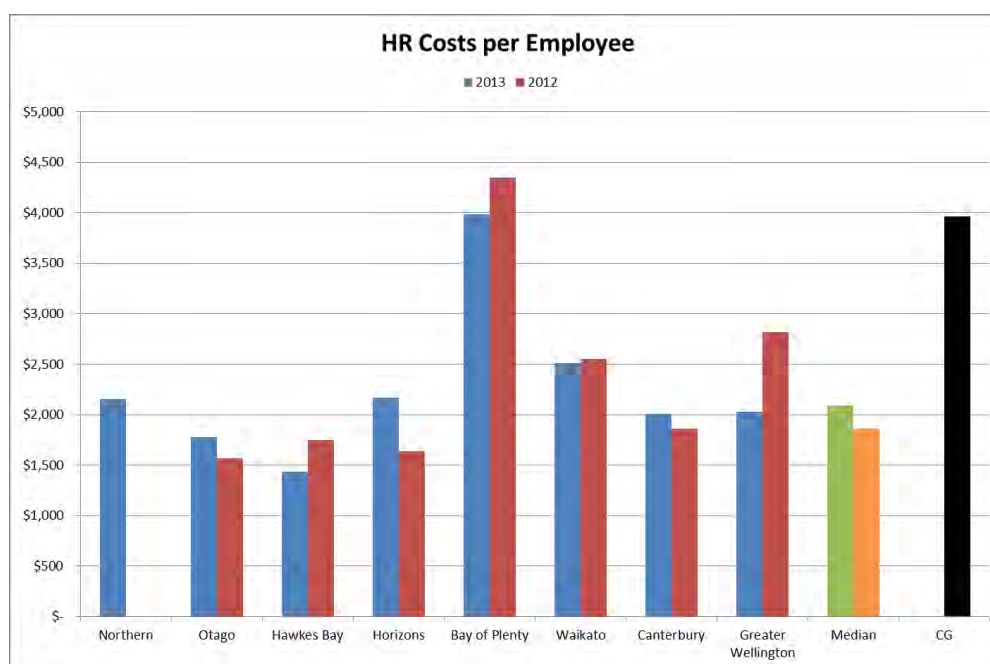


Figure 4. HR costs per employee

Another measure is the number of employees per HR FTE. In order to enable direct comparison with costs, this is presented as the number of HR FTEs per 100 employees in Figure 5. This shows that HR costs correlate with the number of FTEs in the HR function, with two exceptions:

- External costs vary across councils, major differences being use of consultants and corporate training, with Hawkes Bay being the lowest
- Bay of Plenty continues to have high external costs, with the overall performance being magnified by the removal of lower cost services to other local authorities from the benchmark this year.

The number of FTEs per employee broadly reflects the level of service being offered. The councils having higher FTEs provide more HR advisors to support the major HR processes. In councils without the higher levels of service, a greater part of HR processes is delegated to managers and staff, placing additional costs onto core council functions that are not measured by BASS.

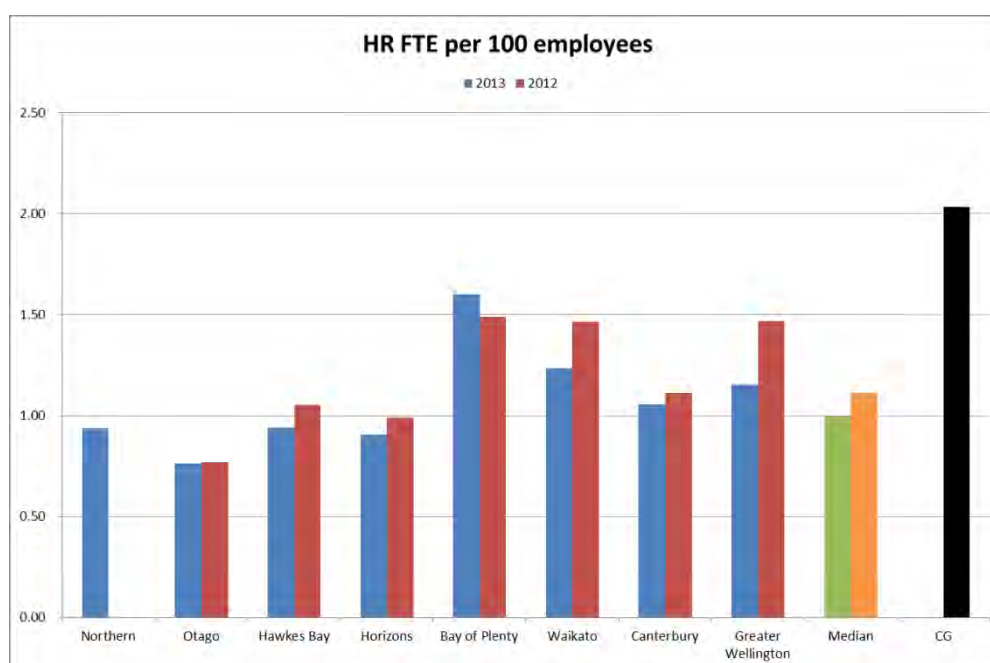


Figure 5. Number of HR FTEs per 100 employees

5.2.2 HR Data Interpretations

Overall the HR function is one of the easier A&SS functions for the BASS accountants to collect. The only difficulty encountered is interpreting the split of costs by HR process, for example the training is to be included under “Develop and counsel employees”. While external costs are easier to split, HR time is not for the following reasons:

- In some councils HR staff do not complete timesheets
- In other councils timesheets are completed but an overall overhead code is used for all time
- Where councils allocate time to different codes, the alignment of these with BASS processes is still a matter of interpretation.

The HR process breakdown reflects some qualitative “guesstimates” and is not reliable in the BASS results and this year’s results vary significantly from each other and the previous year.

5.2.3 HR Measures of Value

The BASS HR data points include just one measure of outcomes, the percentage of employees still in the role after 12 months. The value of this measure is debatable on the grounds that it is not solely dependent on the HR functions and is ambiguous in the context of organisational change.

Many councils undertake a form of employee engagement survey, although some are not current. The JRA Kenexa survey is the most common with 5 councils using this. This could be a potential data point for future benchmarking of HR effectiveness.

BASS has introduced a measure of the maturity of administrative functions this year using a capability maturity model. This is a self-assessment by each council across ten service capabilities such as “Developing the people skills of managers”, using the following scores:

1. Lagging capability
2. Achieving capability
3. Exceeding capability
4. Leading capability

These have not been independently verified in this review. Figure 6 shows the HR capability maturity results for 2012/13. It was observed that regional councils evaluate themselves at a similar level of capability to central government small agencies, yet they have half the staff and expenditure level.

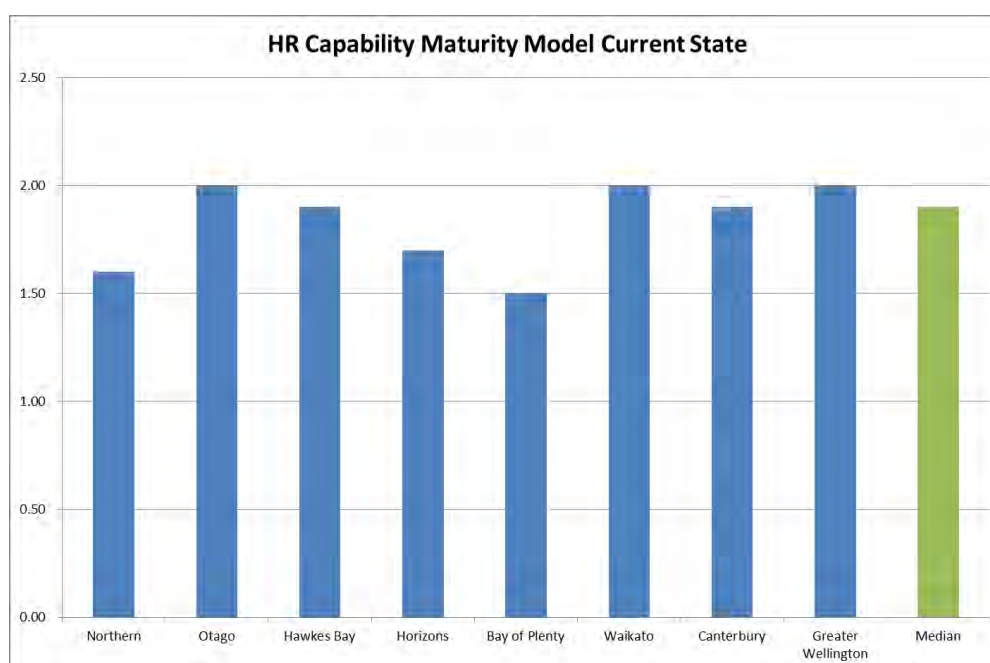


Figure 6. HR capability maturity model current state

5.3 Finance

5.3.1 Finance Key Cost Differences

The key BASS measure is the cost of the Finance administrative service as a percentage of council overall running costs, as shown in Figure 7. Figure 8 shows the cost of the Finance administrative service as an overhead per council FTE.

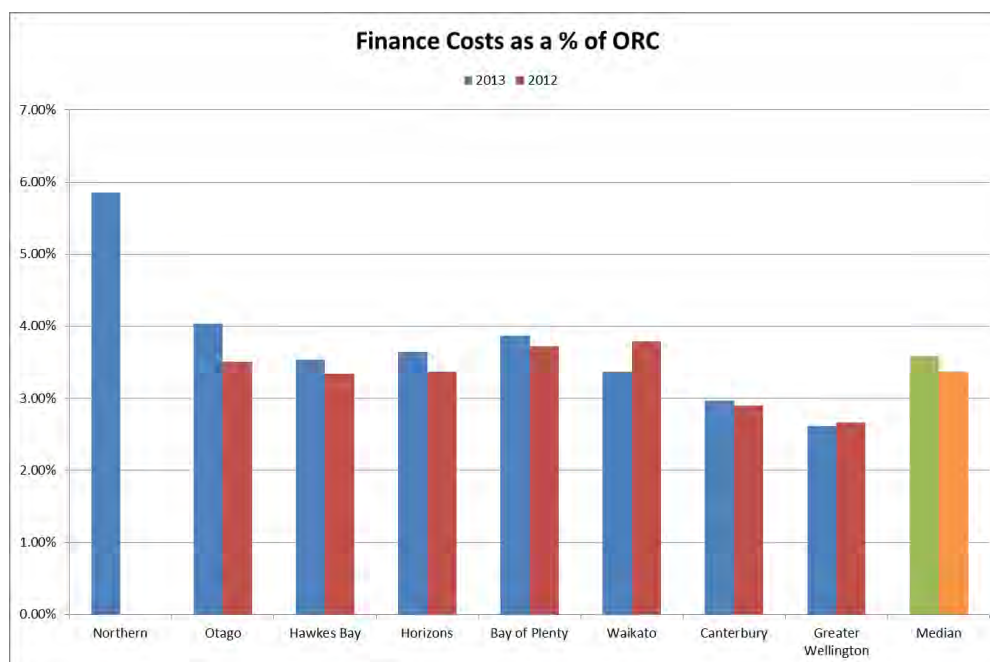


Figure 7. Finance costs as % of ORC

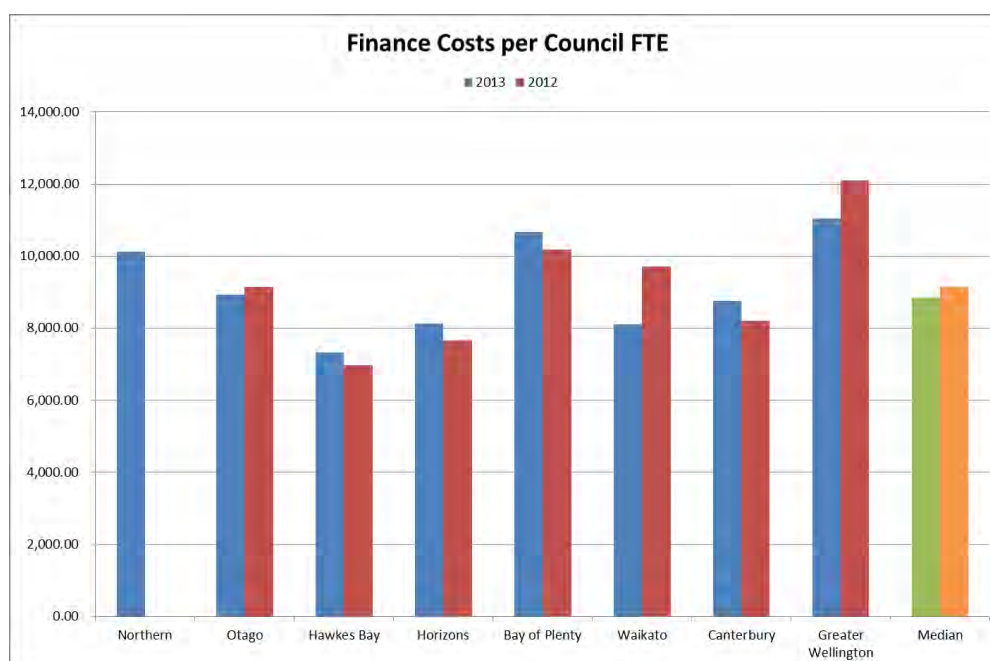


Figure 8. Finance costs per Council FTE

For the larger asset-intensive councils, the overhead per council FTE is not appropriate, while for the smaller councils it provides a more balanced perspective on the driver of organisational scope with fewer assets.

The cost of the Finance function as a percentage of ORC less the cost of collecting rates is compared with central government small agency median costs in Figure 9.

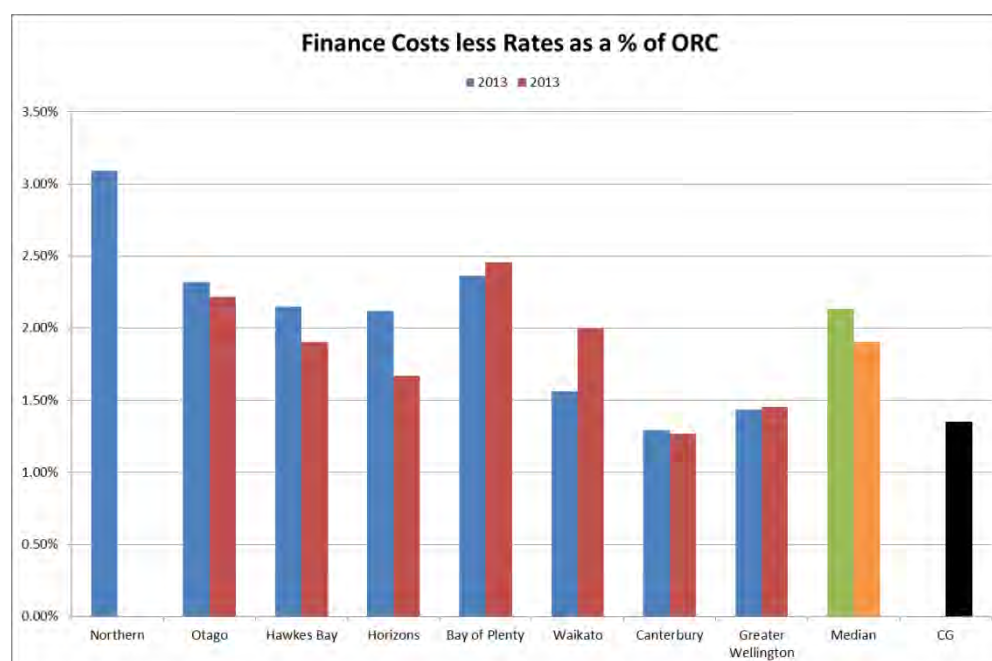


Figure 9. Adjusted Finance costs less Rates as a % of ORC

In Finance, the key differences are driven by the following:

Rates Costs

Collecting rates is the single most expensive finance process in regional councils, accounting for 44% of total finance costs. This year Rates Collection is analysed as a separate function (see Section 5.4).

Finance FTE

The total number of Finance team FTE less those associated with Rates is shown in Figure 10. Larger councils have more Finance staff. The smaller councils average around eight staff, while the larger councils around 14 staff (except Greater Wellington has an additional four staff assigned to businesses). Central Government small agencies have a median of seven staff.

Finance Systems Costs

There is a significant variation in the amount each council spends on its Finance software systems, as shown in Figure 11. Six different Finance systems are used by the seven councils, so ascertaining the reason for the difference in the BASS review was not possible. Interestingly, there is little correlation between systems costs and either Finance efficiency or the Finance capability maturity measure.

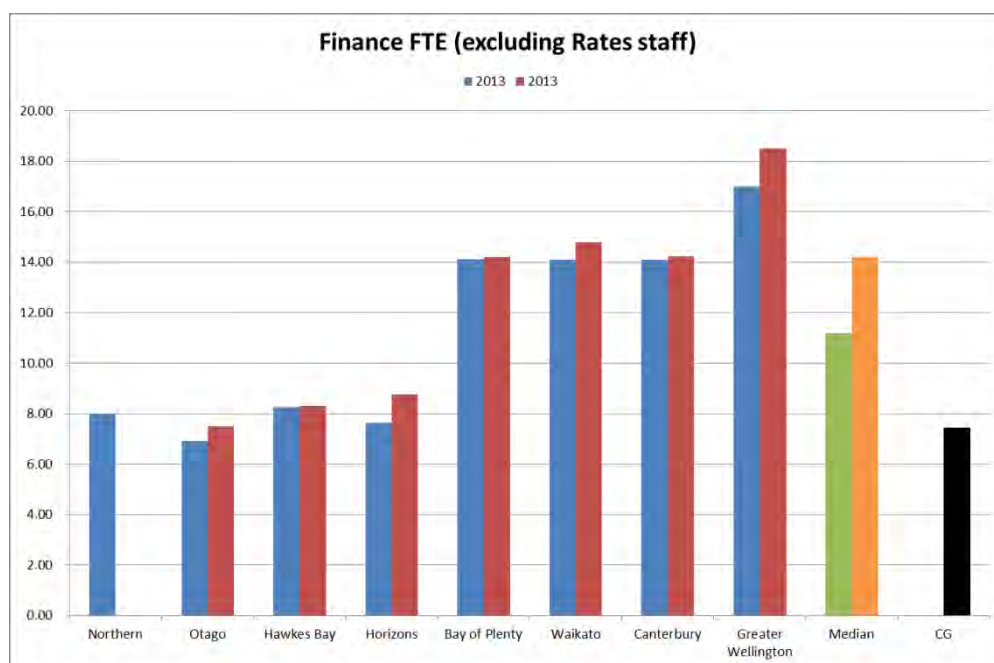


Figure 10. Number of Finance FTE excluding Rates Collection

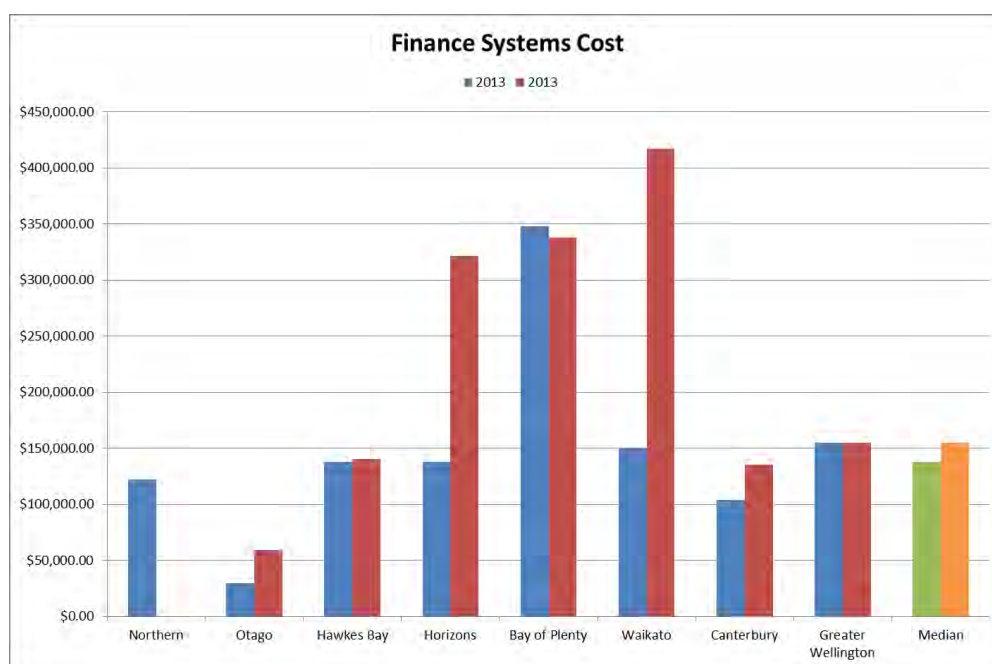


Figure 11. Finance systems cost

Finance Processes

The breakdown of the Finance administration service into its component processes is shown in Figure 13. This shows the significant investment in rates collection. The two processes that add the most business value are Planning & Management Accounting

and General Accounting & Reporting. There is a relatively weak correlation between increased headcount and these added value processes (cf Figure 10).

5.3.2 Finance Data Interpretations

There are no obvious issues of data interpretation in this year's financial results. Similar issues of process data measurement exist as for HR (see Section 5.2.2) but the results are more consistent and are included in this report.

5.3.3 Finance Measures of Value

The only measure of value for Finance administrative services collected by BASS is the capability maturity model measure introduced this year and shown in Figure 12. This shows that regional councils have an achieving level of capability. This is similar to central government small agencies.

Two key observations stem from the review regarding value for money:

1. Rates collection is the major administrative process where improvement to efficiency could offer significant cost reductions. Other finance transaction processes do not consume a significant proportion of the total Finance spend and therefore are of secondary benefit.
2. The key administrative process where investment could deliver additional value to the council as a business is management accounting. Additional measures of outputs in this and general accounting and reporting would help quantify value delivery.

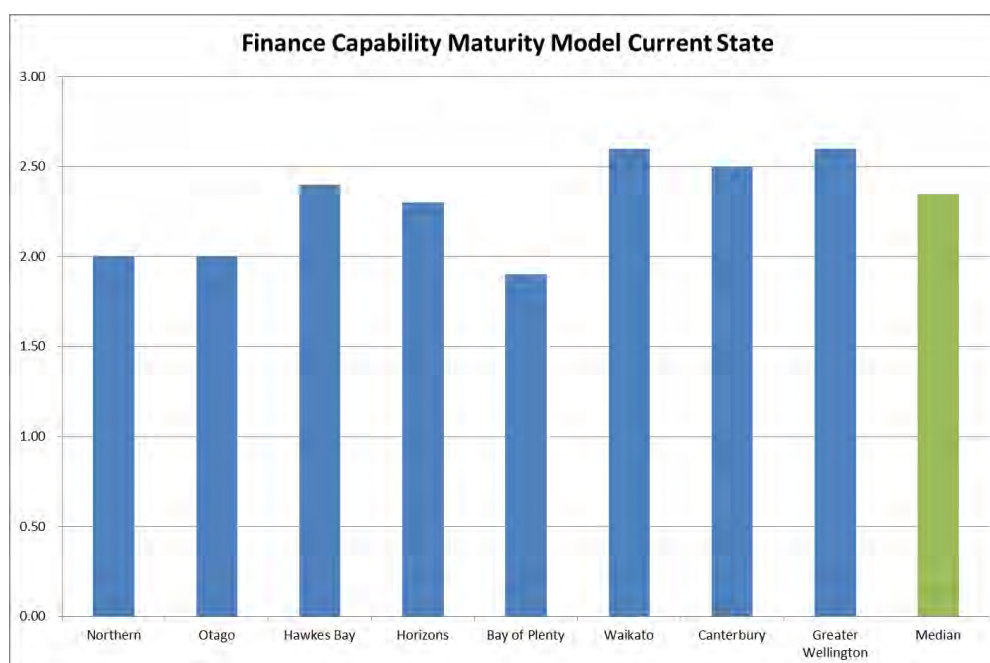


Figure 12. Finance capability maturity model current state

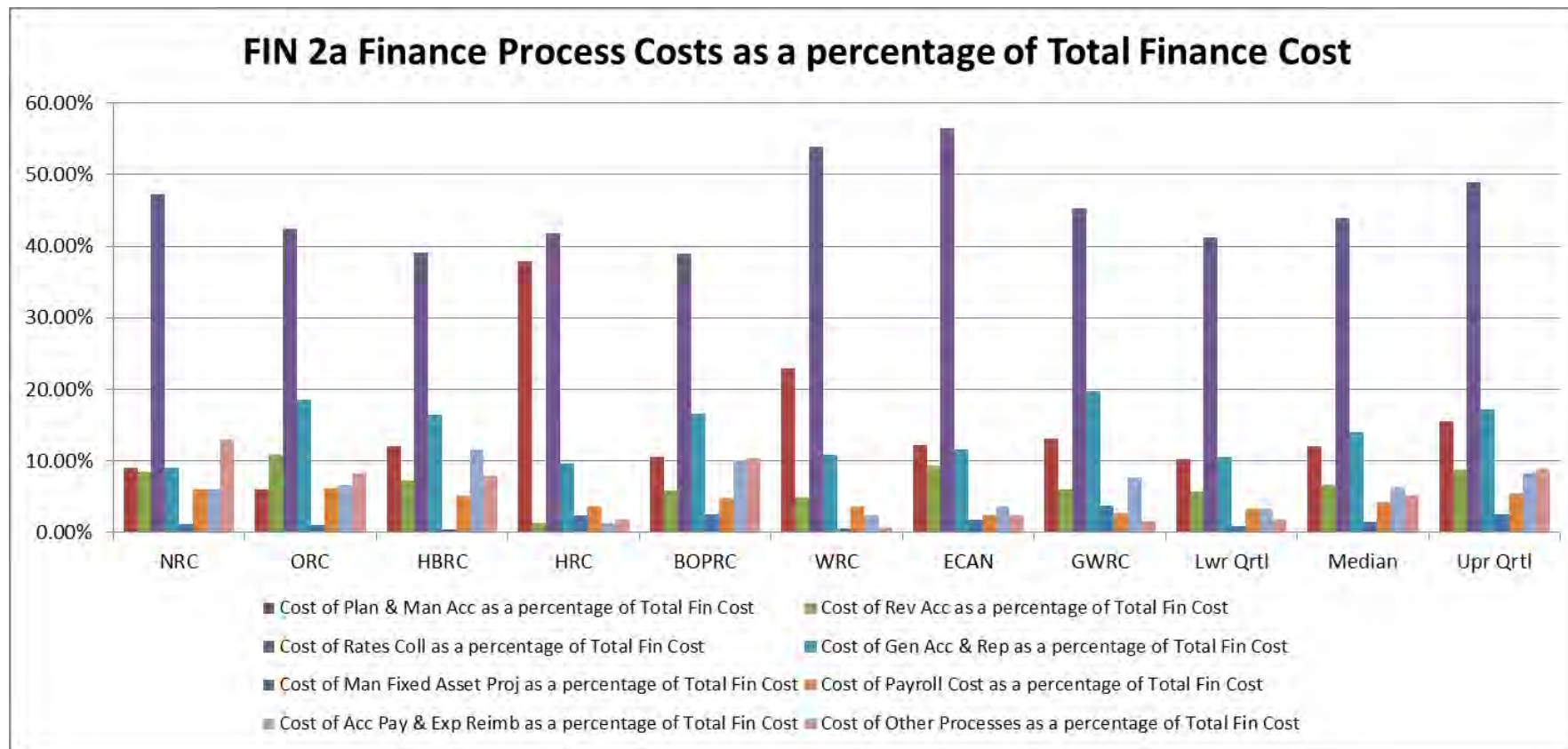


Figure 13. Finance process costs as a percentage of total Finance costs

5.4 Rates Collection

5.4.1 Rates Key Cost differences

Rates collection costs are shown in Figure 14 as a percentage of the value collected and in Figure 15 as a cost per property. Horizons has no customer services costs.

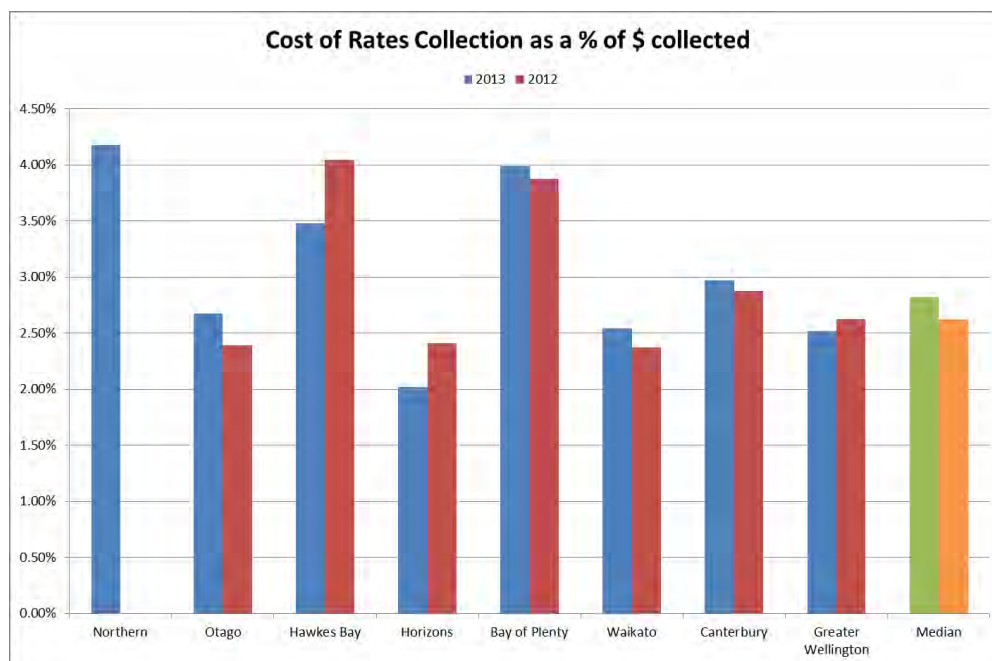


Figure 14. Rates collection costs as a percentage of value collected

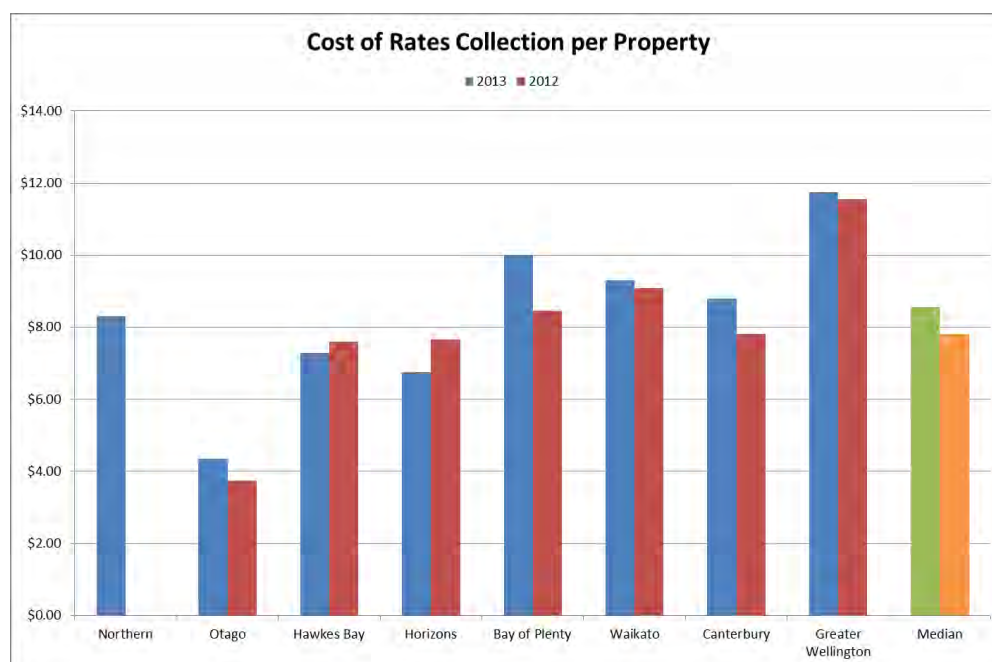


Figure 15. Rates collection costs per property

Rates Collection Sourcing

Rates collection services are sourced differently across the councils. Otago, Hawkes Bay and Horizons perform their own rates collection, but outsource property valuation to their territorial local authorities (TLAs). Waikato performs its own rates collection and the Local Authority Shared Services (LASS) organisation undertakes property valuation on behalf of the regional council and the TLAs. The other councils outsource rates collection entirely to their TLAs.

Two common reasons cited for performing rates collection were:

- One or more of the regional TLAs no longer wishes to provide the service
- The regional council wants to have a direct payment relationship with its customers.

As the pricing of outsourced services between local authorities is steeped in tradition and the wider context of their relationship, the costs shown above may not accurately reflect the costs of collecting rates. The objective of this report is to provide as much information as possible to advantage regional councils in determining their rates collection strategy and negotiating future prices.

Rates Collection Processes

The councils that performed their own Rates collection provided information on the breakdown of Rates collection into its separate processes as shown in Figure 16. Canterbury was also able to elicit data from three TLAs and profile this across the remainder by size.

From this data it is possible to estimate that almost 50% of rates collection cost is transactional and therefore the most efficient way to collect this is through one payment transaction per year, as all councils who collect their own rates do. The fixed costs of rates collection are dominated by property valuation and RID maintenance, most of which is outsourced, some to quite small authorities that lack critical mass to achieve efficiency.

Rates Payments

About 30% of rates is collected in the form of cash and cheques, with only a little over 10% by the most efficient form of direct debit. While there is scope to improve the efficiency of invoice collection, only TLAs have sufficiently large payments to achieve this, as shown by Canterbury's results, where the ratio is reversed.

5.4.2 Rates Data Interpretations

No obvious data interpretation issues remain in the final results. Some data was unavailable from the outsourced service providers to complete the process breakdown or to exclude Maori land from the payments outstanding at the end of the year. Horizons have not counted customer contact centre costs for Rates.

5.4.3 Rates Measures of Value

The single service level measured this year is the percentage of rates payments outstanding at the end of the year, which is shown in Figure 17. Bay of Plenty and Greater Wellington were unable to exclude Maori Land from their returns.

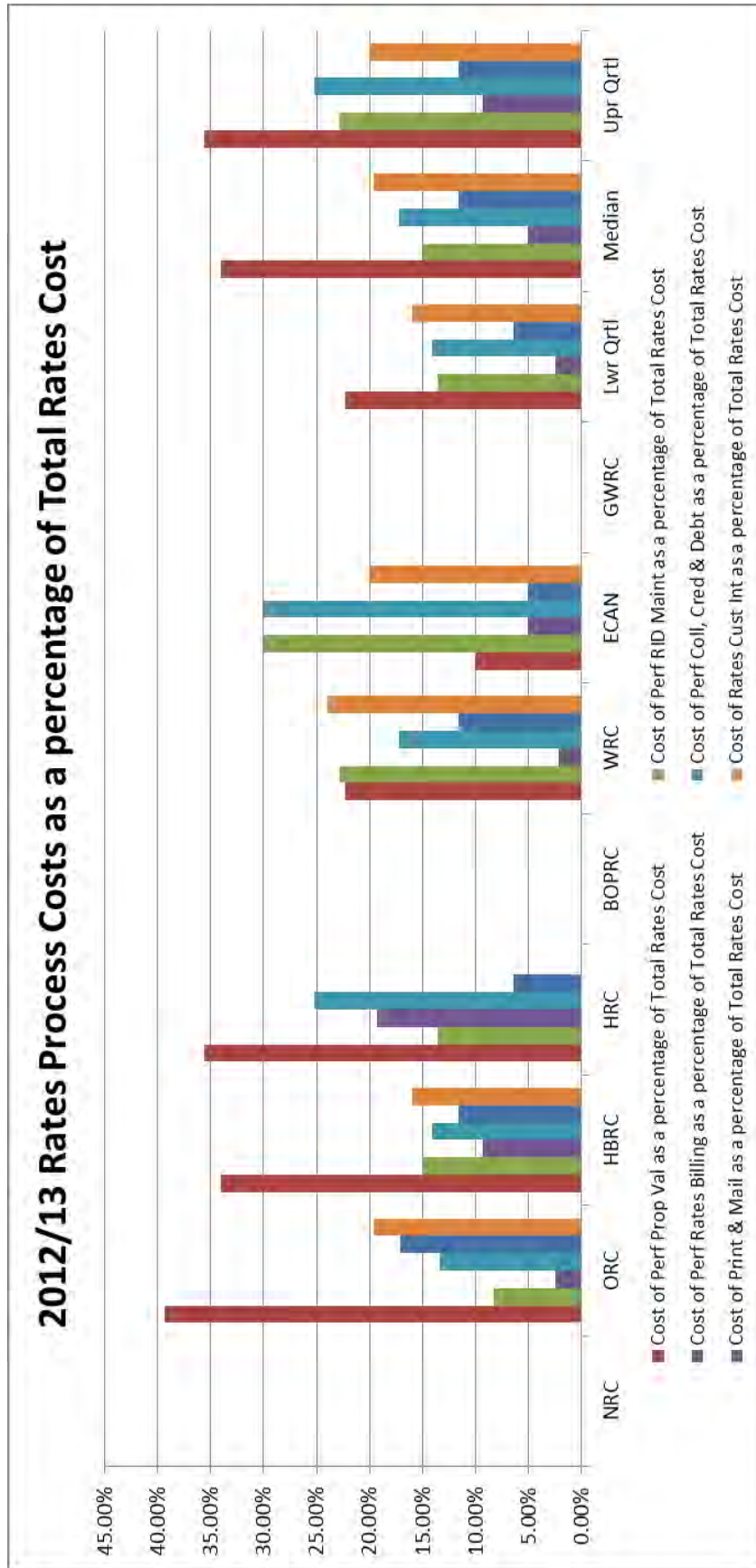


Figure 16. Rates process costs as a percentage of total rates costs

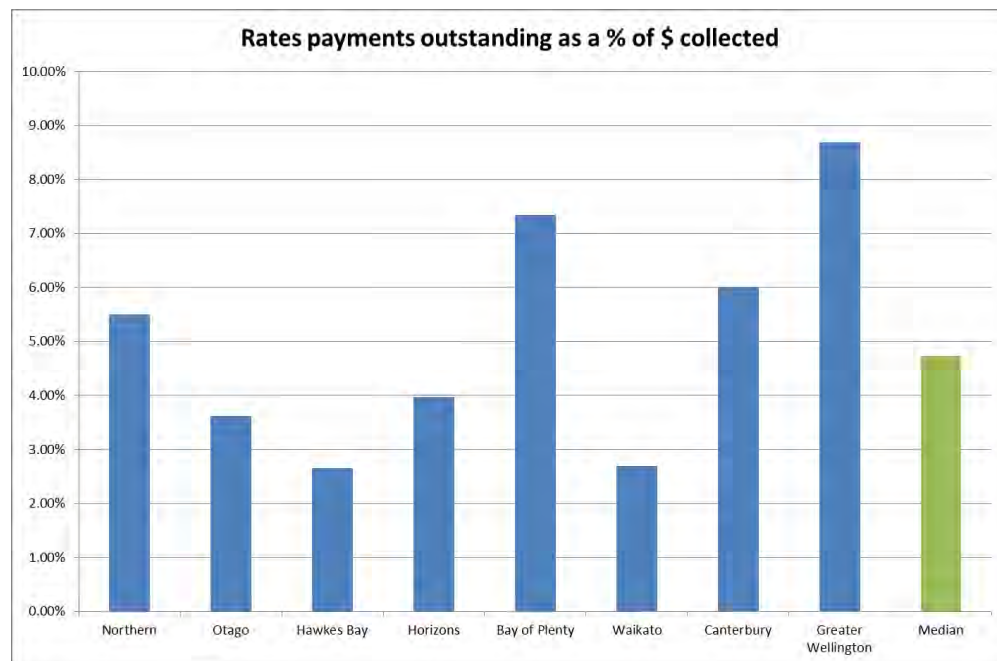


Figure 17. Rates payments outstanding as a % of \$ collected

5.5 Information and Communications Technology (ICT)

5.5.1 ICT Key Cost Differences

Overall ICT costs per end user are shown in Figure 18. As for last year, these costs are collected by service tower (type of service, e.g. applications). They are on a depreciation basis as for other A&SS costs and as per the council accounts. Central government costs, however, are shown on a capital cost basis. Bay of Plenty has restated its 2011/12 results to remove lower value shared services.

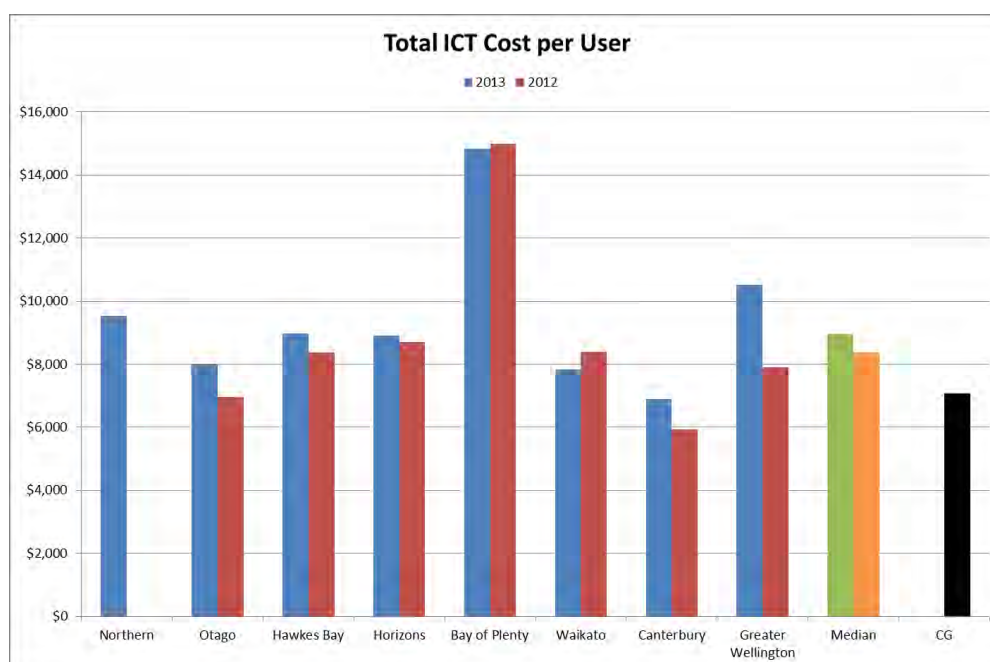


Figure 18. Total ICT cost per end user

The differences are explained by looking at each service tower.

End User Support

End User Support is the sum of the End User Infrastructure and Helpdesk BASS service towers. These are often combined in one team and in previous council returns the split between them was not consistent. Costs of the End User Support tower are shown in Figure 19.

Bay of Plenty has the largest ICT End User Support team and replaced all its hardware and updated to Windows 7 the previous year, even so its costs are high. Otago, Horizons and Greater Wellington clients are all but fully depreciated. Northern, Hawkes Bay and Waikato have disproportionately low software costs, which may be a data collection artefact. ECan has a current desktop architecture fully costed through a lease-back support contract.

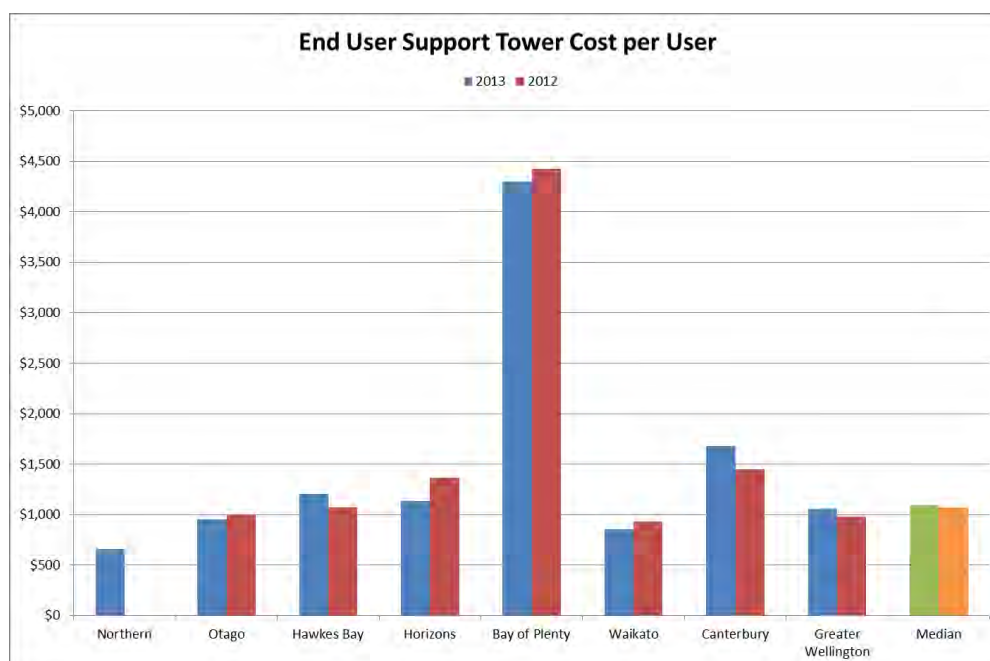


Figure 19. End User Support tower cost per end user

Communications

Communications is the sum of the WAN, LAN/RAS and Voice BASS towers. These functions are often combined in one team. Costs are shown in Figure 20.

Bay of Plenty and Horizons have double the carriage costs of other councils at \$2k per user, while Northern has very low costs. There is no correlation between carriage costs and the percentage of smart devices being used, so their data usage charges are assumed to be low. Other breakdowns are not available.

Data Centre

Data Centre is the sum of the Mainframe & Midrange, Storage and Facilities BASS service towers. Not only are these functions often combined in one team, they may be sourced in a consolidated infrastructure-as-a-service (IaaS) contract. Costs of the Data Centre tower are shown in Figure 21.

Northern, Horizons, Bay of Plenty and Waikato have redundant data centre capacity with a fail over capability for disaster recovery (as opposed to relying on backups and finding additional machines). Canterbury and Wellington midrange computers are mostly fully depreciated and have little redundancy; Infrastructure as a Service (IaaS) is now being procured by Canterbury to remedy this.

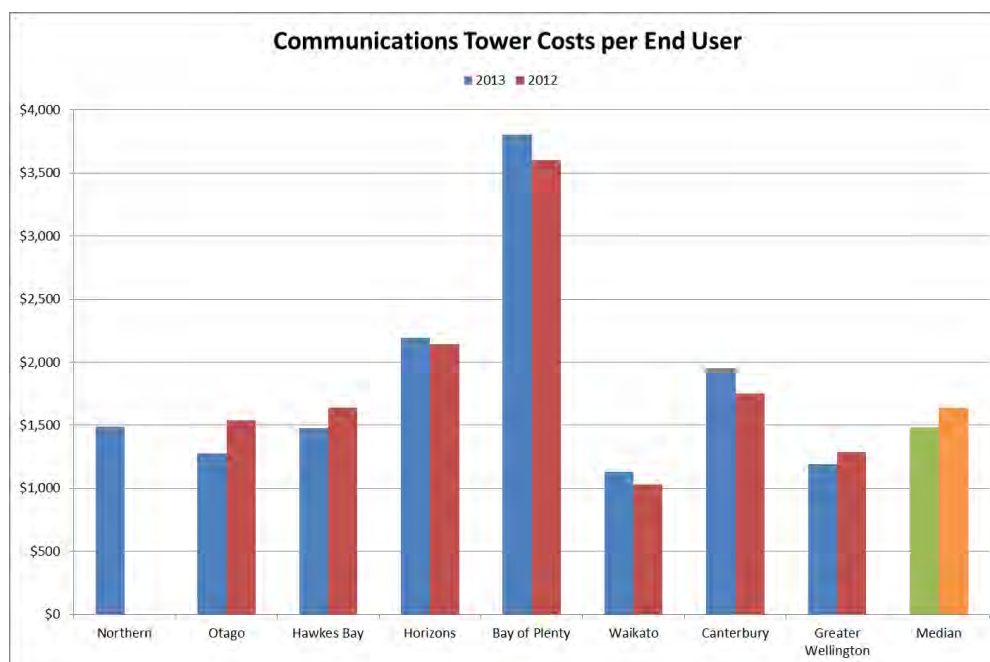


Figure 20. Communications tower costs per end user

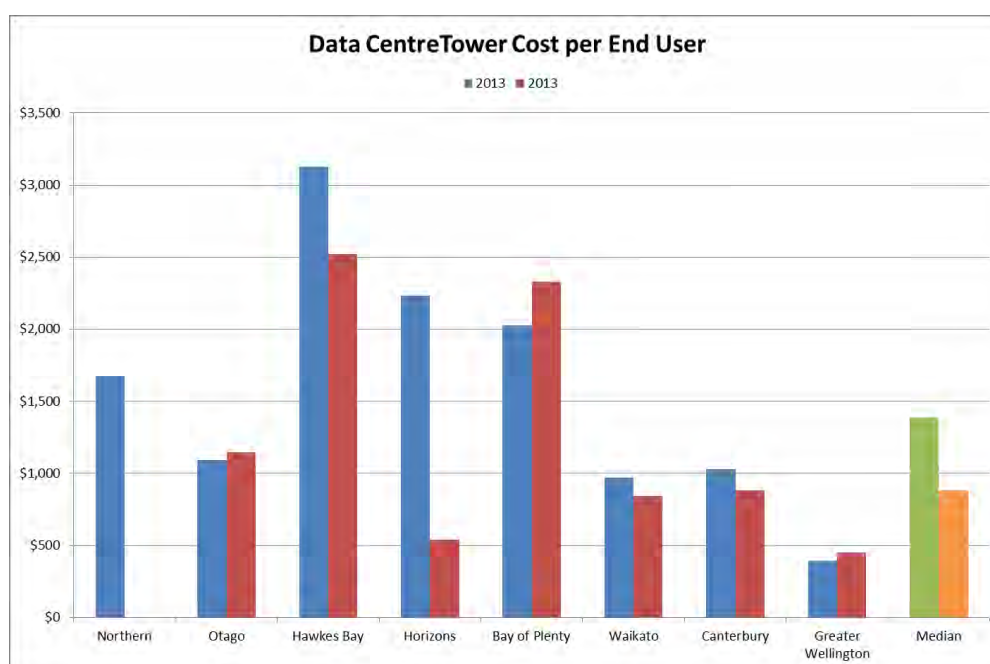


Figure 21. Date Centre tower costs per end user

Applications

The Applications tower is identical to the BASS tower of the same name, and its costs are shown in Figure 22. As for Finance systems, it is not possible to explain the cost differences here without additional measures due to the complexity of the applications suite in each council. Greater Wellington had significant licence catch-up and transport applications costs in 2012/13.

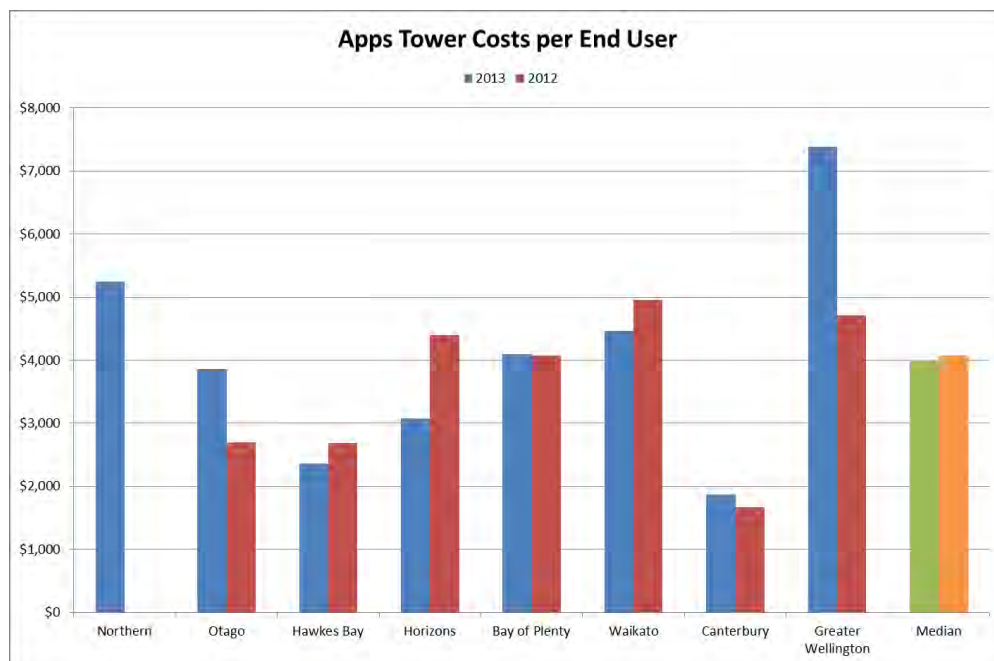


Figure 22. Applications tower costs per end user

ICT Management

The ICT Management tower is identical to the BASS tower of the same name, and its costs are shown in Figure 23. Generally the costs of people with the title “manager” are allocated to this tower, so the results reflect the span of control and team size relative to number of users.

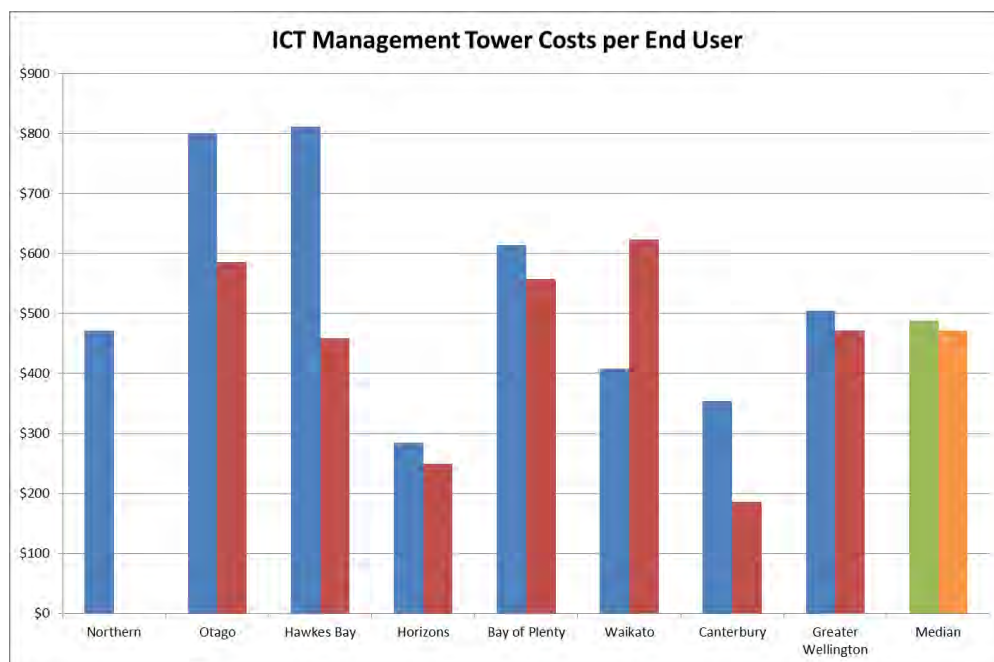


Figure 23. ICT Management tower costs per end user

5.5.2 ICT Data Interpretations

ICT remains the most difficult A&SS function for BASS data collection. It is a very technical area with precise specifications and has more data points than other A&SS functions. These do not match the simple way costs and parameters are recorded in the councils. Data was submitted more than once in this area and three councils corrected previous year costs.

The implication for small council ICT departments is either to sift through many transactional costs, or (as appears to be the case) use “guesstimation” and interpolation.

Many of the differences in the results presented in the previous section are realistically explained by this and where possible are highlighted in the explanations in the previous sections. No attempt has been made to review the tower cost elements in detail or the measures of output quality as these are transparently compromised by differences in interpretation, although simplification of the IT towers has helped consistency.

5.5.3 ICT Measure of Value

Service Quality

For the infrastructure towers (End User Computing, Communications and Data Centre services), BASS asks for two measures of ICT output quality: system “reliability” (actually BASS means system availability) for the “top 5 systems” and “supportability” (actually BASS means mean time to repair (MTTR)) of all service level interruptions. This year, the “top 5 systems” for regional councils were specified as:

- Document management
- Email
- Finance
- Consents & Compliance
- Website

These are excellent output quality measures. The results submitted show high levels of availability at all councils, but unfortunately the council data points are unreliable for the following reasons (this is not a criticism of the data collection or quality of service delivered):

- No councils have service levels for these systems, so this metric is not identified, managed, measured and reported systematically; system availability results are generally against server availability.
- No councils directly measure system availability or MTTR. Server availability returns tend to be based on the time it takes to restore servers from backup, and in some cases overall incident response time is measured at the helpdesk.
- A mature service level capability would have specific measures for priority one incidents and their resolution times to take these measures to a level that accurately reflects impact on council businesses.

- An additional service level to track outage time that exceeds a maximum tolerable level would complement the MTTR benchmark.

Regional councils have a mismatch of strategies for delivering ICT with few matching established ICT industry practice across all services, however the lack of quality measures in BASS means the impact of this is not measured effectively.

Service Scale

Measures of cost for ICT need to be supplemented with a measure of the scope of the services being supplied. The key measure used in BASS is the number of end users to which the service is delivered, and this is used in this review. As councils move to providing more external data then measures of data centre scale such as the number of servers and amount of storage will be required to capture its relative scope.

Service Value

A measure of the mobility of ICT services has been introduced this year to regional councils. This is a simple count of the number of smart devices provided per 100 employees, where a larger number indicates greater value, as shown in Figure 24.

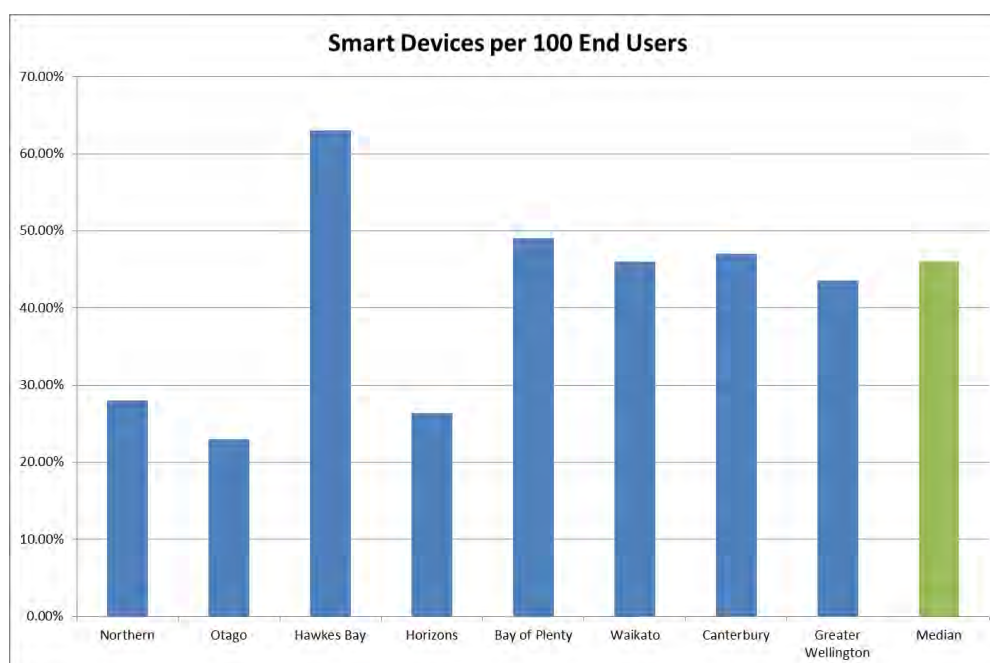


Figure 24. Number of smart devices per 100 ICT users

Another measure of value delivery introduced this year is an applications coverage indicator. This is a self-evaluation of the capability of key applications according to a 4-star rating system based on the level of business process support they provide, where if everything was 4-stars the result would be 100% coverage. The results are shown in Figure 25. Northern has evaluated the new IRIS capability which went live in the last month of the year.

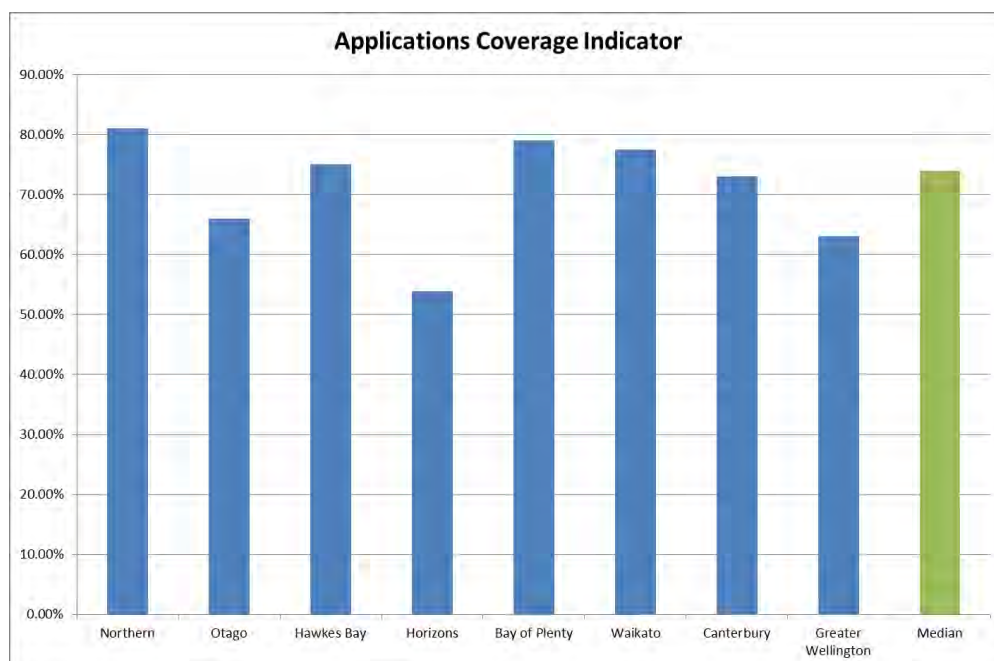


Figure 25. ICT Applications coverage indicator

These factors have improved the ability of the BASS benchmark to focus on value delivery, but still leave it well short of enabling a full comparison and significant work remains to normalise the returns against a level of service.

BASS makes no attempt to use the Gartner measures of ICT service alignment, as used in the IM Review conducted for Bay of Plenty.

Management Practice Indicator

BASS provided a management practice indicator for ICT and not a capability maturity model. This is shown in Figure 26. There has been significant improvement since the previous year and more work remains to be done. A capability maturity model is essential for ICT to guide future service improvement.

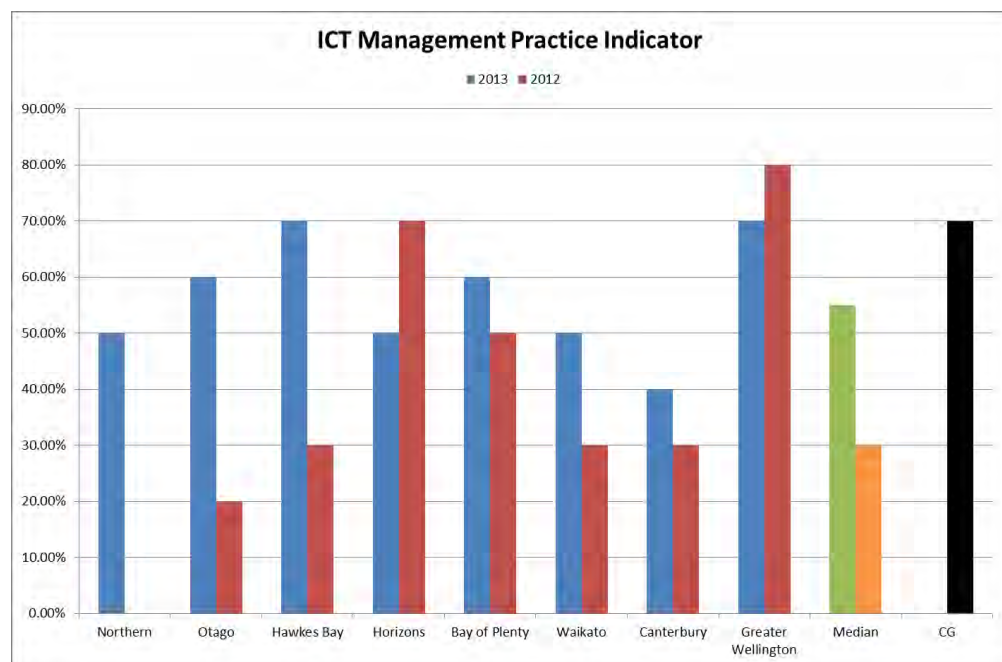


Figure 26. ICT Management Practice Indicator

5.6 Procurement

5.6.1 Procurement Key Differences

As explained in the next section, the measurement of procurement costs in regional councils remains unreliable. The one key metric that can be reported this year is the total spend of each regional council as a percentage of ORC, which is show in Figure 27.

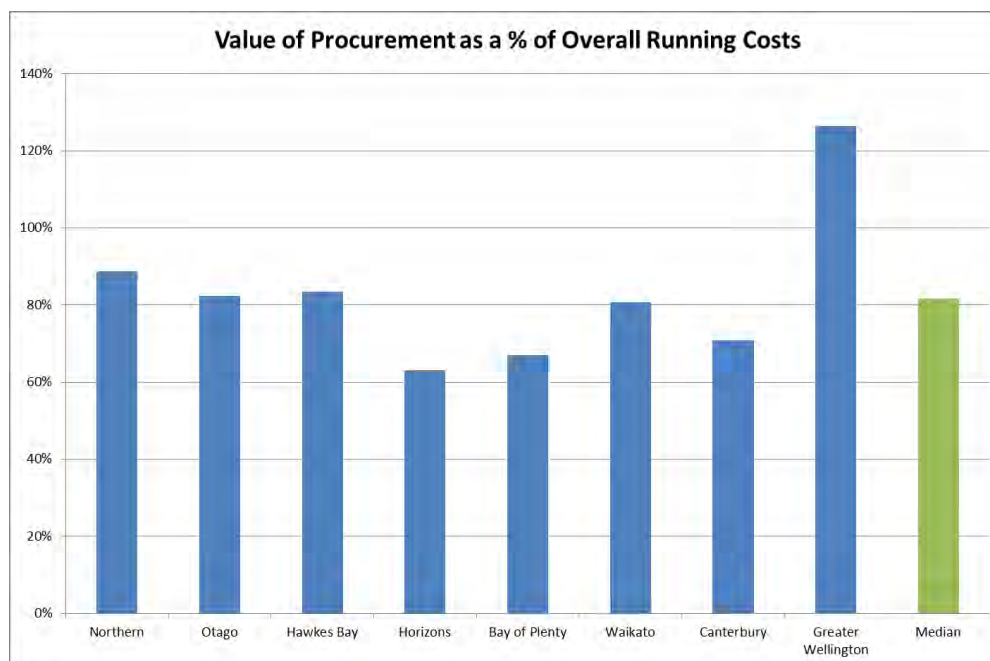


Figure 27. Value of procurement as a percentage of ORC

5.6.2 Procurement Data Interpretation

The review of the Procurement administrative function data points highlighted that this function is not well matched to BASS benchmarking in the regional councils. Although attempts were made to overcome them this year, significant issues of data interpretation and measurement make it impossible to compare the cost performance of the regional councils at present.

Key issues include:

- Only three regional councils have staff dedicated to procurement, so for the remaining five councils the BASS data was not technically measurable and attempts to “guesstimate” it were undertaken in different ways that make comparison misleading
- For the three councils that have a single member of staff dedicated to procurement, there are significant differences in their role making their metric comparisons unreliable

- Established terms such as 'procurement', 'purchasing' and 'contracting' in the BASS context are still causing data interpretation inconsistencies with respect to the BASS procurement process scope; Bay of Plenty is still the only council planning to integrate all these within one administrative service and even then major parts will be delegated to managers and staff
- Regional councils do not have the systems support that would enable them to accurately distinguish procurement, purchasing and contract management; most rely on analysing invoices to respond to the BASS procurement questionnaire.

The impact of these factors means that the scope of procurement in the regional council returns is neither self-consistent nor comparable between councils.

5.7 Property

For 2012/13 Treasury removed property from the scope of A&SS functions included in BASS as the MSD centre of excellence now coordinates this. However, Property remains within the scope of BASS for regional councils.

Central Government comparisons shown in this section are taken from the published MSD report for June 2012 for all agencies which covers leased property only.

5.7.1 Property Key Cost Differences

The principal cost measure for Property is total Property costs per square metre of office space, as shown in Figure 28.

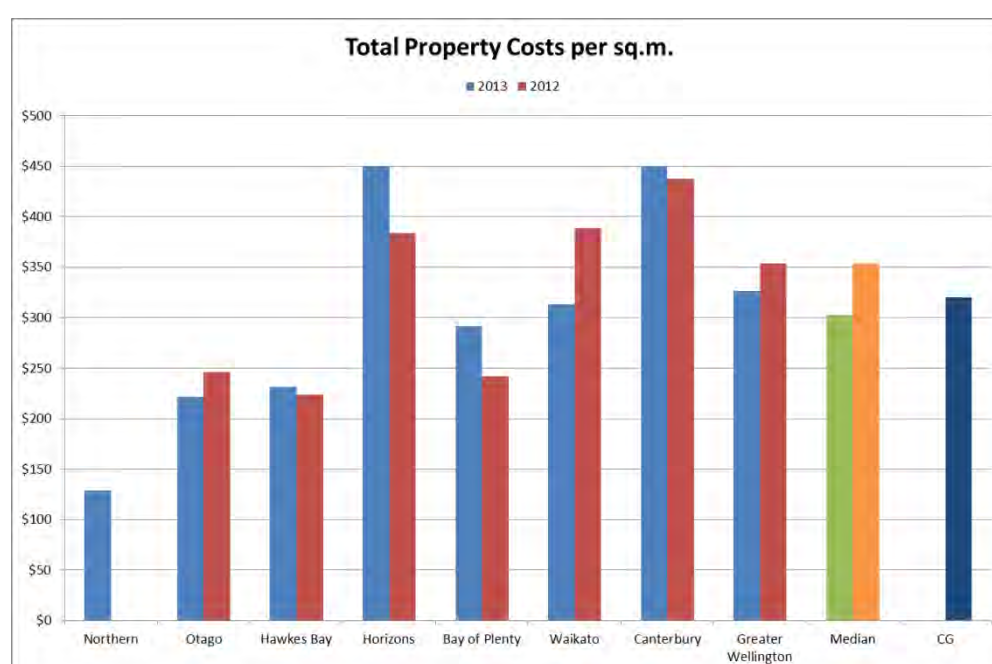


Figure 28. Total Property costs per sq. m.

Variances shown above include:

- An increase in Waikato office space to accommodate their increase in FTE, with temporary accommodation taken on while their leaky building is repaired being excluded from the benchmark
- One-off maintenance and upgrades at Horizons and Bay of Plenty.

A second cost measure is the cost of property per council FTE, which is shown in Figure 29.

Councils have different mixes of self-owned and leased property, with all self-owned property being measured on facilities management, operational and depreciation costs (except Northern who revalue their property each year), with leased-out space excluded on a proportional basis.

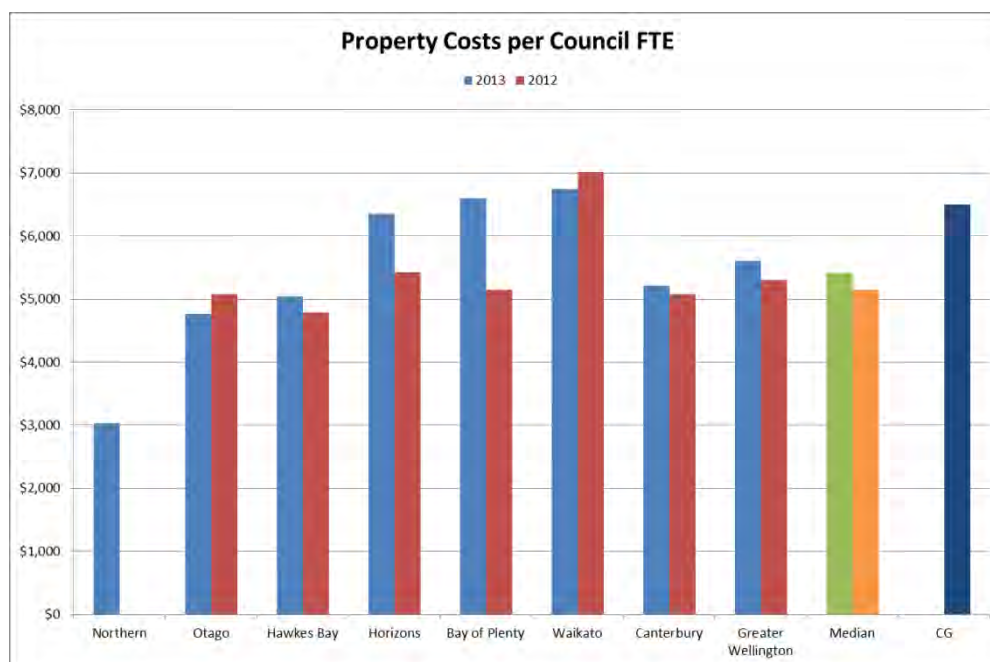


Figure 29. Property costs per council FTE

The Property Council offers the ability to benchmark property costs on a local basis provided councils become members and there are sufficient other local members to make this possible. At present no regional councils have this membership so local comparisons are not possible.

Another measure of the efficiency of Property is the cost of the facilities management function itself per square metre, which is shown in Figure 30. Differences arise from the proportion of leased property where facilities management costs are included in the lease, such as Canterbury, to measurement of just the internal team time, such as at Otago.

5.7.2 Property Data Interpretations

There were no significant issues apparent in the property benchmark data interpretations this year, with the possible exception of facilities management costs where costs may be buried in lease or outsource payments.

5.7.3 Property Measures of Value

A principal BASS measure for property performance is the size of office accommodation per FTE, as shown in Figure 31.

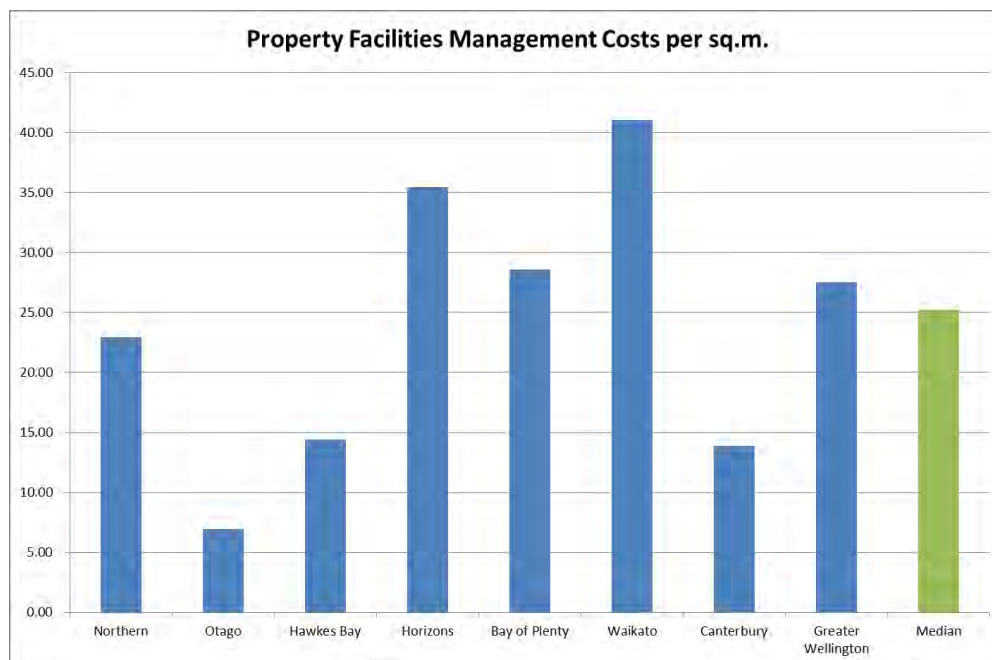


Figure 30. Property facilities management costs

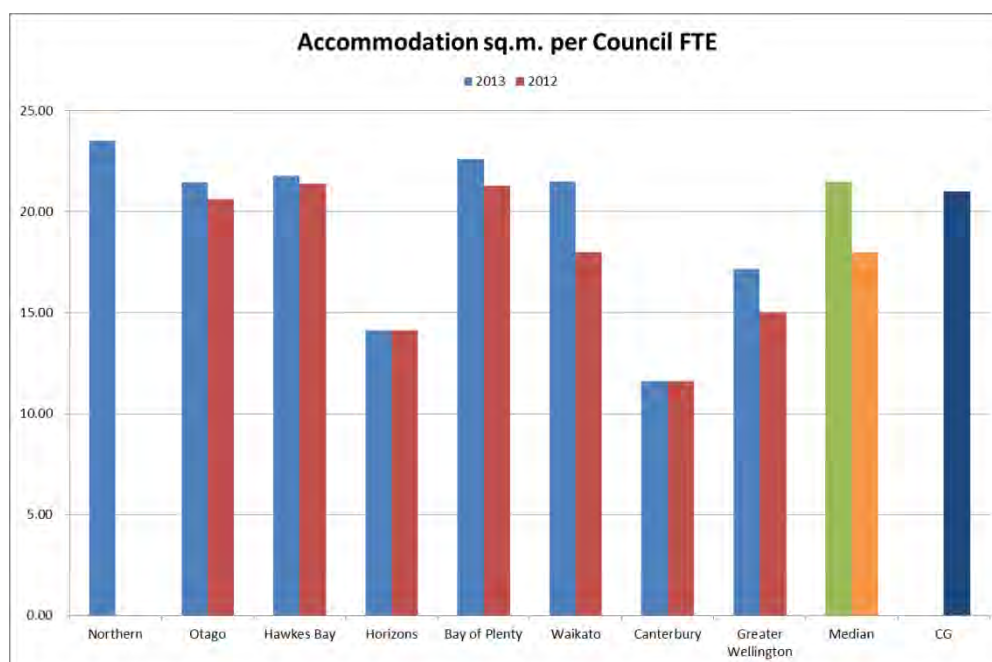


Figure 31. Office Accommodation per Council FTE

A principal driver of the differences in office accommodation per FTE includes occupancy utilisation, for example:

- Bay of Plenty has empty space due to staff rebalancing between Whakatane to Tauranga and additional hot desks for multi-site working

- Canterbury has struggled to find sufficient post-earthquake accommodation for its staff.

A second measure of property performance is the number of workstations per council FTE, which is shown in Figure 32. Canterbury has had to optimise its use of workspace following the earthquakes due to building availability.

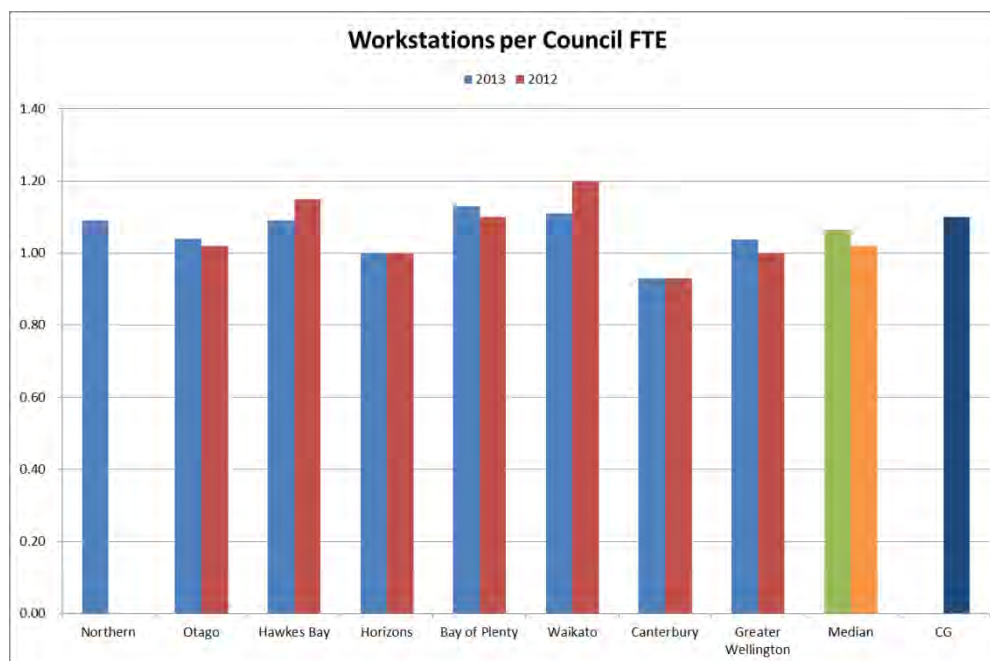


Figure 32. Number of workstations per council FTE

Finally, central government uses the property grades issued by The Property Council of New Zealand to classify office property quality. These are divided into New Zealand 'A', 'B' and 'C' grade offices. For the purposes of comparison, these have been given a numerical score of 100%, 66% and 33% each and the results are shown in Figure 33, with central government property in Wellington as a comparison.



Figure 33. Average Property grade score

5.8 Corporate and Executive Services (CES)

The final category of administrative support services groups together six different services as “activities” within corporate and executive services:

- Communications and external relations
- Strategy and planning
- Library, document management, archive and research
- Audit and risk management
- Governance and support

Two further CES activities are outside the scope of the review or are not material and have not been included:

- Legal costs are generally not material once non-administrative costs are excluded and other corporate costs are allocated to the right administrative support service (which some may not have been)
- No councils reported an enterprise portfolio management function.

An additional CES activity is measured for the first time this year, but is excluded from the overall comparison of CES costs as it was not measured last year:

- Vehicle Fleet Management

The overall CES costs are shown in Figure 34 less vehicle fleet management. The differences in the CES function are explained by considering each function separately.

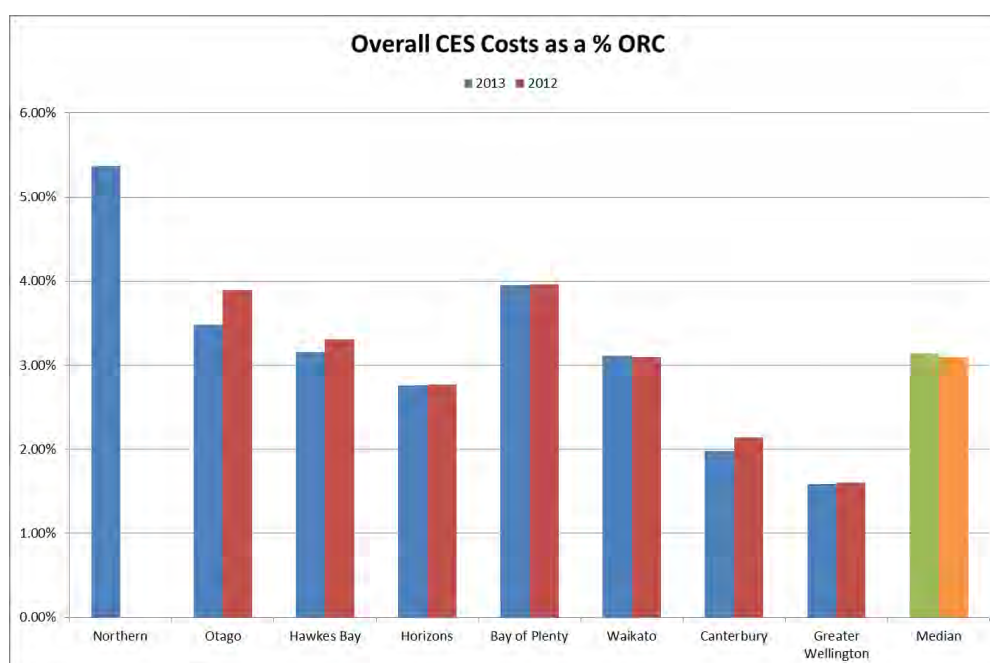


Figure 34. Overall CES costs as a % of ORC

Communications and external relations

Communications and external relations was measured in greater detail this year and is reported as a separate A&SS function in Section 5.9.

Strategy and Planning

Strategy and Planning is the cost of the strategy and planning internal team dedicated to completing the Annual Plan (AP) plus publishing costs. They do not include business or finance staff time. The median strategy and planning costs were 0.33% of ORC, so are not significant in efficiency terms. It is not possible from BASS to explain differences in the results.

Audit and Risk Management

The results in audit and risk management are the audit costs of the AP in 2012/13, i.e. the Audit NZ fees. The median cost was just 0.24% of ORC, which is not significant.

Library, Document Management, Archive & Research

The results for this CES function are given in Figure 35. Neither Horizons nor Hawkes Bay had an EDRMS in the period but both have plans to implement one.

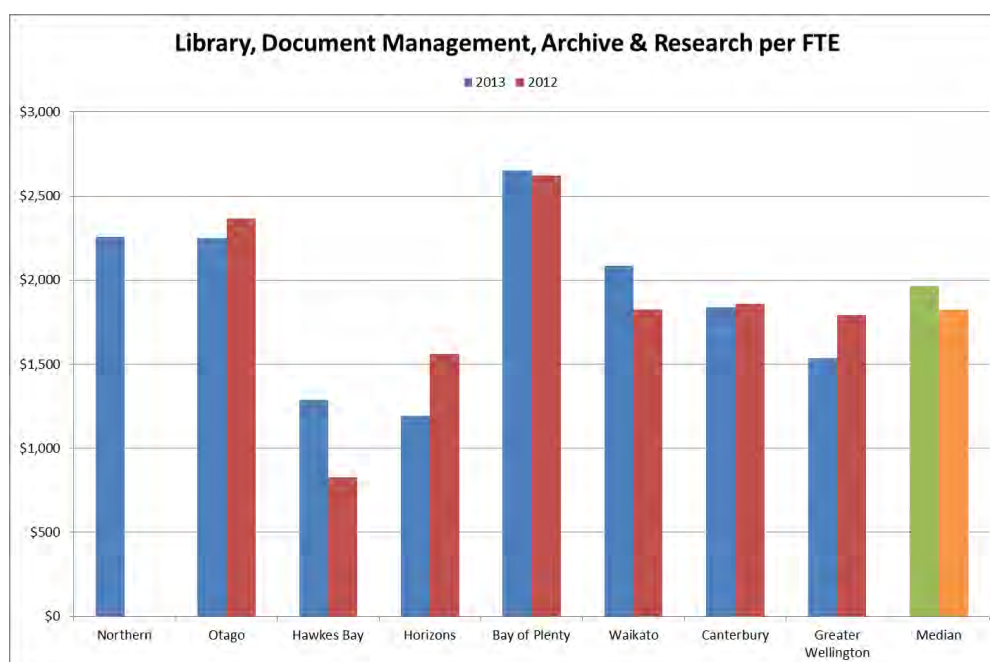


Figure 35. Library, Document Management, Archive & Research Costs per Council FTE

Governance Support

The median Governance Support costs were 0.37% of ORC, so are not significant in efficiency terms. It is not possible from BASS to explain differences in the results.

Vehicle Fleet Management

For the first time in 2012/13 the costs of managing the operational fleet of vehicles that support council business was measured. This is included in Section 5.10.

5.9 Communications and External Relations

5.9.1 Communications Key Cost Differences

Communications and External Relations is included as a separate A&SS function in 2012/13. This is to address the level of service provided, look at the cost breakdown and clarify what external relations functions are in and out of scope. The overall results are shown in Figure 36.

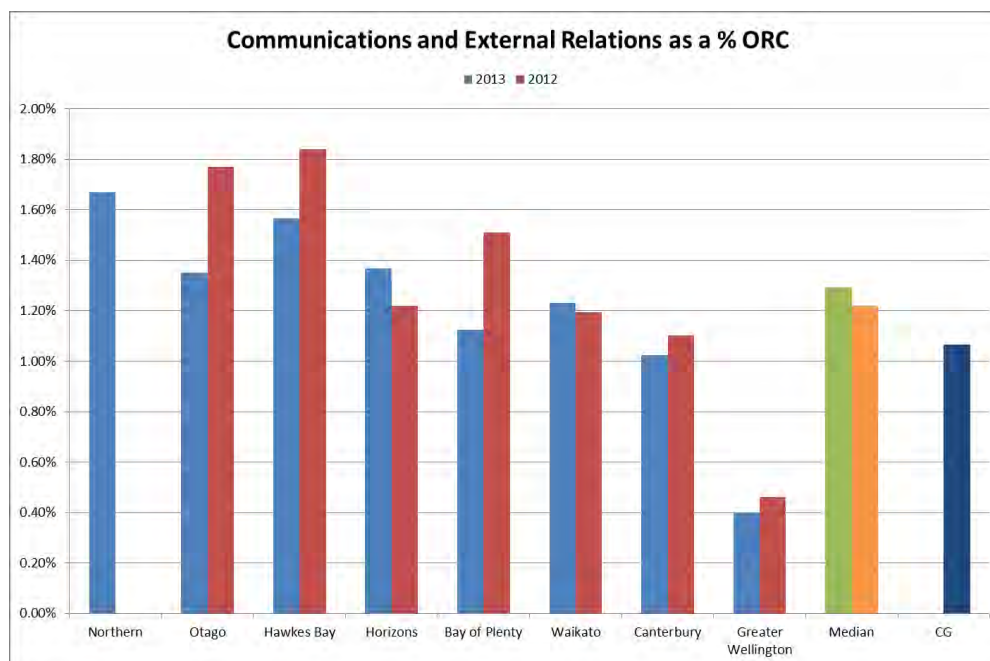


Figure 36. Communications costs as a % of ORC

As this cost was not broken down in 2011/12 it is not possible to determine the differences between years.

5.9.2 Communications Data Interpretations

There were two significant issues in the communications benchmark data interpretations this year. The first is that the breakdown of costs into processes is not reliable. Issues include too much time in the management process, putting almost all costs as external relations and not being able to account for the true costs of internet and intranet services. The second is that at best only three councils measure the number of media uptakes.

5.9.3 Communications Measures of Value

The primary BASS benchmark for Communications is the capability maturity model, the results for which are shown in Figure 37.

A secondary measure of value is the process cost breakdown that shows where the investment in communications was spent. This is not meaningful due to data interpretation and collection issues described above.

An attempt was made in 2012/13 to set an output value benchmark in terms of the number of media releases made and their uptake, a key performance indicator at Waikato. Only three councils offered a measure of the number of uptakes and some challenged using it as a measure as it was not one they operate under. It has therefore been omitted from this report.

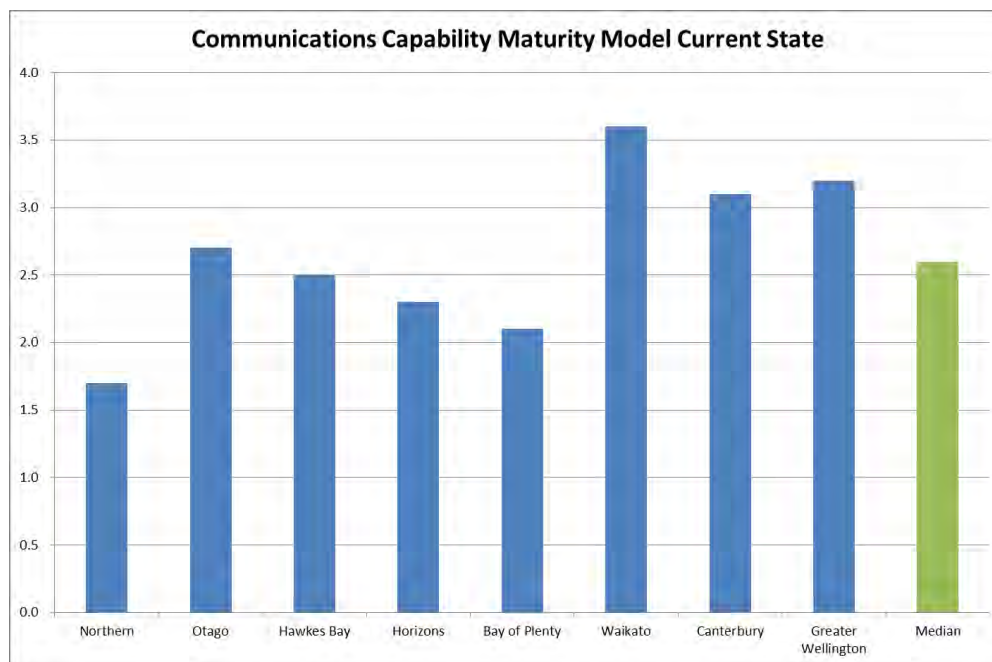


Figure 37. Communications capability maturity model current state

5.10 Vehicle Fleet Management

5.10.1 Vehicle Fleet Management Key Cost Differences

Three measures of vehicle fleet management costs are presented in this report:

- The cost of vehicle fleet management as a % of ORC is shown in Figure 38
- Average cost per vehicle is shown in Figure 39
- Fleet cost per km travelled is shown in Figure 40 and the average distance travelled per vehicle in Figure 41 (Greater Wellington has a significantly lower distance travelled per vehicle than other councils).

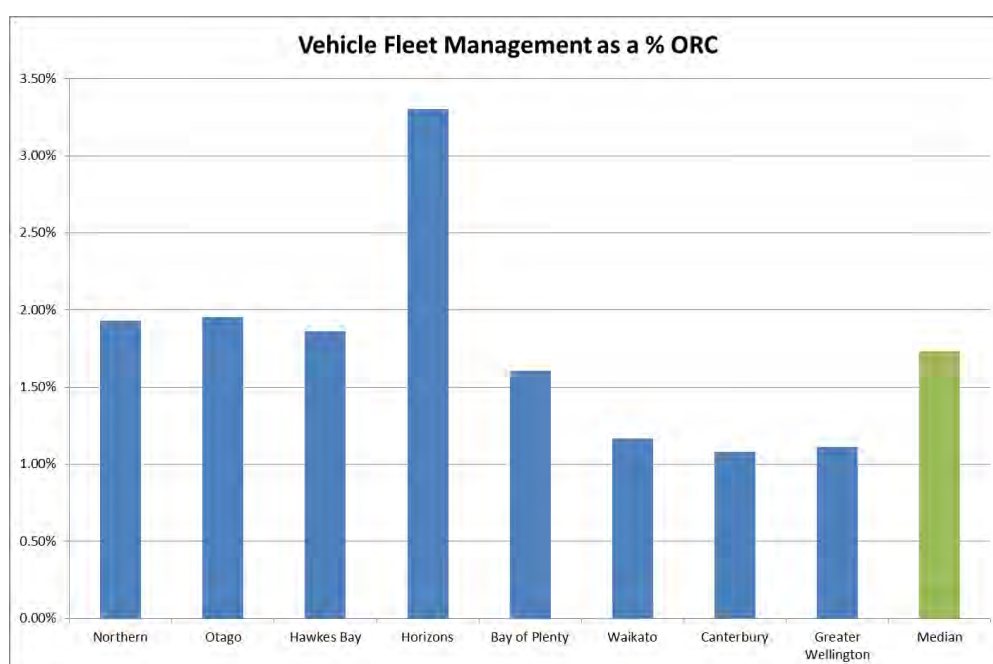


Figure 38. Vehicle Fleet management as a % of ORC

5.10.2 Vehicle Fleet Management Data Interpretations

There were no significant issues apparent in the vehicle fleet management area. However, an additional parameter was requested to determine how many vehicles are more expensive off-road vehicles. This turns out to be an ambiguous measure as a lot of council vehicles are SUVs for occasional off-road use and these were classified as off-road vehicles by some councils but not in others.

5.10.3 Vehicle Fleet Management Measures of Value

The principal measure of value for vehicle fleet management is the number of vehicles per 100 council employees, which is shown in Figure 42.

Another focus for vehicle fleet management is vehicle utilisation, which is a measure that could help qualify the number of vehicles required and therefore is a potential measure of value for this function in the future.

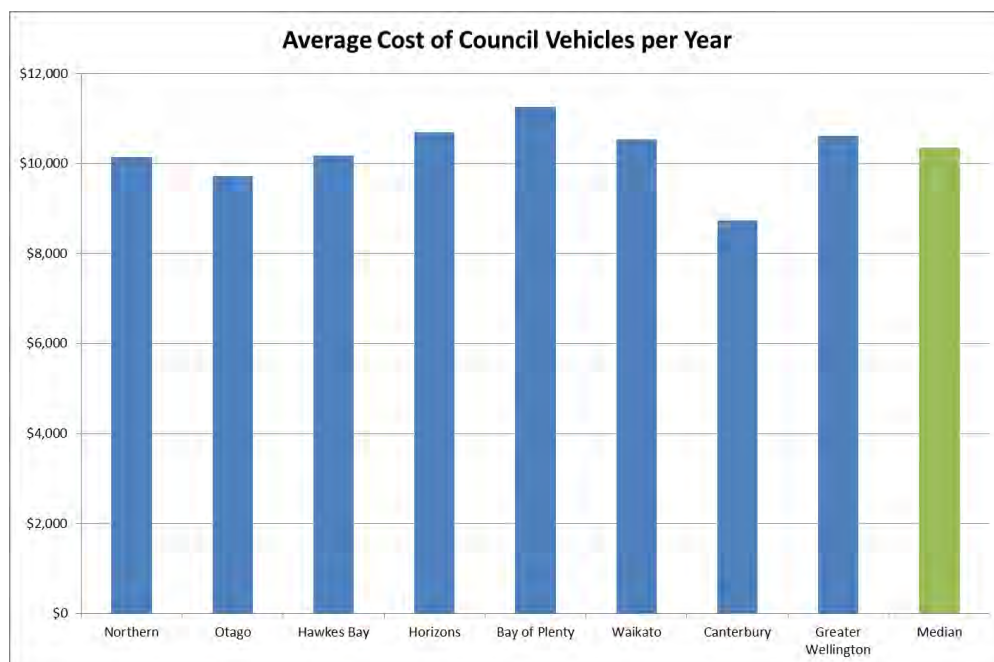


Figure 39. Average cost of council vehicles per year

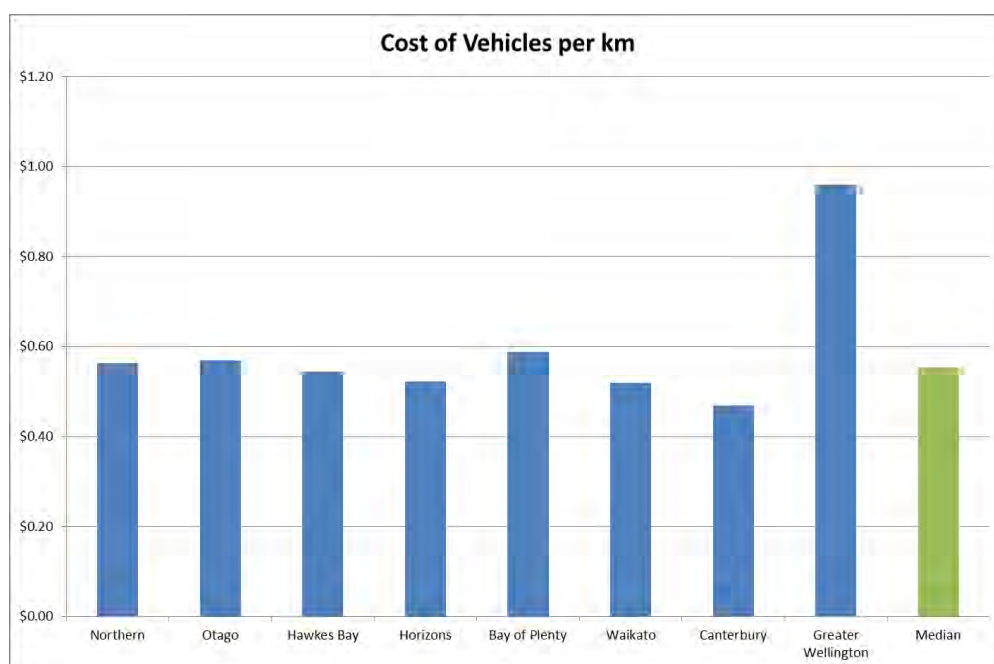


Figure 40. Fleet cost of council vehicles per km

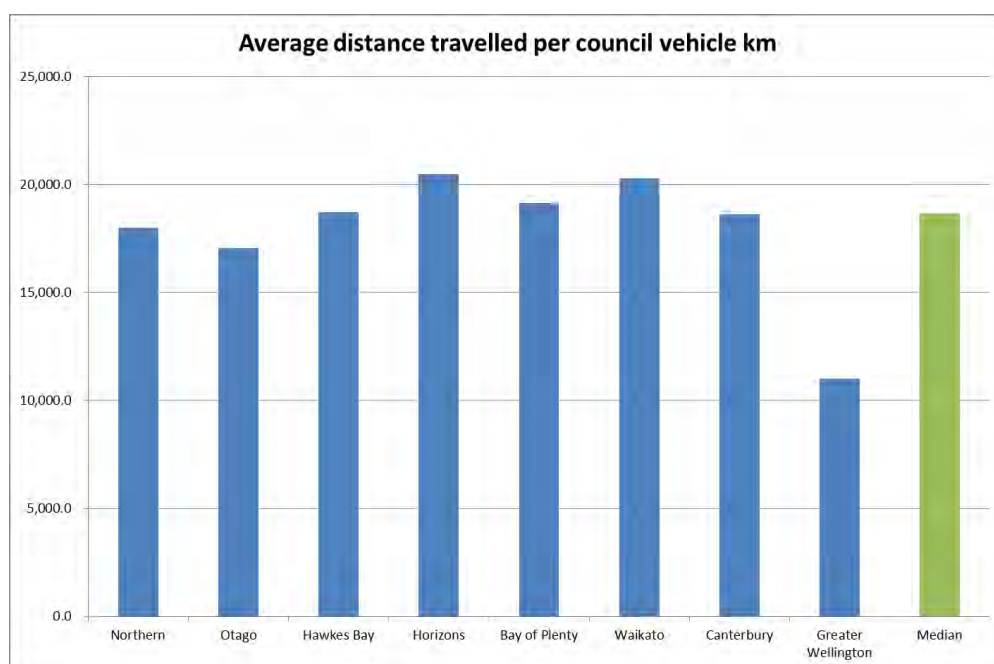


Figure 41. Average distance travelled per council vehicle

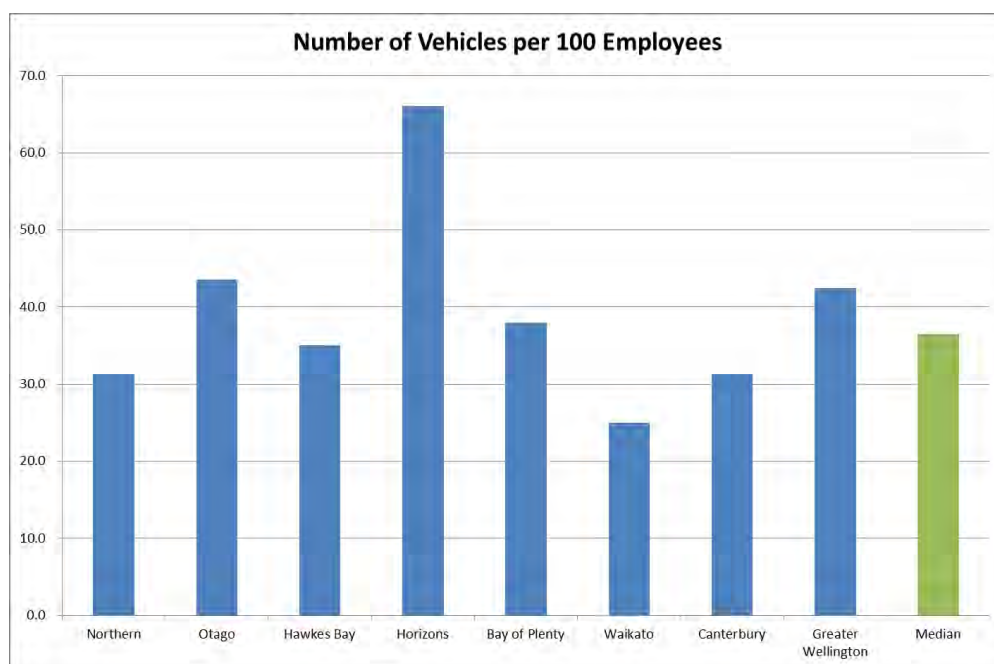


Figure 42. Number of vehicles per 100 employees

6 Recommendations for Making BASS Business-as-Usual

Last year's report made recommendations that would enable regional councils to take forward BASS as a basis for improving administrative and support services (A&SS). Many of those were adopted for this year's round. The few that remain have been reviewed and included again in this section where appropriate.

This year the recommendations are focused on how regional councils can make BASS part of a business-as-usual approach to improving administrative and support services.

Individual recommendations for focusing improvement are provided to each council in their individual reports. These are summarised by AS&S function in Appendix 2.

The overall recommendations are as follows, with those specific to each A&SS function below:

1. Address Rates Collection, ICT and Procurement as strategic opportunities to reduce costs and improve value to the council by looking at the comparative performance of other councils and using their experience to identify opportunities to make local services more effective and efficient.
2. Focus on the capability maturity models in BASS and on the higher-value processes to bring A&SS functions to an optimum point for regional councils, ensuring that a balanced capability is established so that A&SS functions meet strategic needs, add value and perform well operationally.
3. Collaborate on service improvement measures and initiatives through regional manager forums, so that best practice is promulgated, other people's lessons are learned without repeating their mistakes and BASS is optimised to focus on what is important to regional councils.
4. Re-align council measures to accurately quantify the BASS data points, eliminate "guesstimation" of data points and enable these to be collected semi-automatically each year, e.g. through time sheets, cost codes and better capture tools (this requires that Treasury and regional councils agree metrics prior to the year to be measured).
5. Continue to develop meaningful measures of A&SS volume drivers, outputs and outcomes wherever practical, to explain differences in results driven by choices over levels of service to be measured.

Specific recommendations for the HR A&SS function are as follows:

6. Align HR service team work processes with BASS processes and establish consistent measures of cost and service scope, or otherwise make recommendations for changes to BASS.
7. Define a set of employee engagement outcomes using a common measurement method, such as JRA Kenexa, and qualify regional council HR outcomes against other organisations as comparison with central government small agencies suggests there is scope to invest if value can be gained.
8. Define HR levels of service that quantify the scope and value of service provided by the HR team to business managers and council employees.

Specific recommendations for the Finance A&SS function are as follows:

9. Undertake a strategic review of rates collection as significant gains in efficiency are possible by moving to economies of scale, and direct stakeholder property and revenue engagement may improve customer knowledge and understanding.
10. Focus on moving investment in other processes to the higher value management accounting and reporting processes, as comparison with central government small agencies performance and staffing suggests there is room to make this is possible.
11. Define Finance levels of service that directly quantify the scope and value of service provided by the Finance team to business managers and council employees.

Specific recommendations for the ICT A&SS function are as follows:

12. Improve ICT services by taking them to greater maturity, including to standardise and simplify the underlying IT services, improve mobility through smart devices, focus on applications effectiveness and invest in better service management.
13. As council ICT maturity grows, ensure that system availability and MTTR are managed, measured and reported consistently and accurately as output quality measures.
14. Encourage Treasury to obtain a capability maturity model for ICT that can be help identify how to strengthen regional council ICT capability to an appropriate level.
15. Provide more measures of ICT service value, including direct volume measures such as capacity and utilisation, service response time and application mobility.

Specific recommendations for the Procurement A&SS function are as follows:

16. Last year's recommendation is repeated, that this function is left out of the BASS benchmark while regional councils rely on bespoke competitive tendering as their primary strategy to achieve value for money in procurement, as there are nothing meaningful to measure at present.
17. Regional councils need to improve their staff skills and systems capability to manage procurement and contracts effectively so that meaningful measures can be established, as a significant proportion of overall running costs are procured externally.
18. Goals for regional council procurement improvement need to be established and reviewed against the BASS goals of procuring against contracts, using collaborative contracts and employing procurement professionals, so that these can be adjusted accordingly if required.

Specific recommendations for the Property A&SS function are as follows:

19. Determine whether the purchase of local property benchmarks from The Property Council of New Zealand offers value for money, or whether reliance on the MSD centre of excellence reports suffices to give councils confidence in the performance of regional council property portfolios, and act accordingly.

Specific recommendations for the Corporate and Executive Services (CES) A&SS functions are as follows:

20. Establish agreed service levels for the communications and external relations function and ensure that processes capture the relative investment in the different components of this function.
21. In vehicle fleet management, establish measures of the vehicle type mix and vehicle utilisation so that the efficiency and effectiveness of this function in meeting business needs is more directly measured.
22. No councils have an enterprise portfolio management office even though a significant proportion of council business is project-based; as an independent reviewer the author recommends that regional councils consider establishing a capability to obtain information on the performance of this core practice and champion its improvement.

Appendix 1 Key Influences on the BASS Results

This appendix summarises the key influences on the BASS results observed in the Review. It provides both generic influences and influences specific to single administrative and support service (A&SS) functions. As the review was neither an audit of the accuracy of the results nor a review of the business processes, these observations are not intended to provide a complete explanation of the variances. They are presented without reference to specific councils.

Generic Influences

These are the second results from benchmarking regional council A&SS functions. Progress has been made since last year in establishing a consistent means to capture comparable results, nevertheless some benchmarking results are still influenced by inconsistencies in data.

The following influences on the BASS results were observed across many A&SS functions:

Data Measurement

No consistent way of measuring all the data requested by the BASS benchmarks is yet established across regional councils. In early submissions both labour costs and purchases contained obvious inaccuracies. Some detailed data points around cost breakdowns and scope adjustments rely on estimation because they are not yet directly captured and verified through timesheets and account codes that align with the BASS measures. Four councils restated their previous year results to correct anomalies.

Data Interpretation

Some data points, particularly in ICT service levels, are quite technical and have been interpreted differently, making any comparison of service performance inconsistent at present. Significant differences remain in breaking down some of the A&SS functions into their component processes, e.g. in HR and Communications and External Relations.

Normalisation

Not all BASS measures are normalised to the volume of service being provided, making results appear to be different, e.g. in Finance and ICT. Overall council running cost is often used as the default for normalising results for comparison purposes.

Hidden Costs

BASS does not measure the cost of A&SS services passed to council staff to execute; making some A&SS results look more efficient than they really are, e.g. in HR.

Levels of Service

Individual councils provide different levels of service for each A&SS function. BASS has few data points on the level of service provided and often relies on assessing capability using a maturity model. Better A&SS service levels may lead to greater efficiency elsewhere in a council, but this is not taken into account. No clear correlation was observed between the capability maturity model results and the cost benchmarks.

Positive Efficiency Influencers

Two key influences leading to more efficient results were observed in the review:

- Scale, especially through large outsourced services such as transport, improved A&SS efficiency measures
- Leaving value aside, a “lean and mean” approach, largely achieved through multi-tasking service teams, can also improve efficiency where scale is smaller.

Influences by A&SS Function

The following influences on the BASS results were observed in specific A&SS functions.

Human Resources (HR)

HR was one of the easier functions to measure. Significant differences in the size of the HR teams imply different levels of service are provided, although this does not correlate well with the capability maturity model results. HR cost breakdowns are inconsistent. Special projects and the amount of training allocated to the A&SS function vary between councils. Overall HR costs are not normalised for the number of new recruits in the year.

Finance

There was a significant difference in the breakdown of finance costs, with some councils relying on estimates by individuals. The Rates collection costs account for 44% of Finance costs and outsource pricing from TLAs is a significant cost variant. Levels of service, specifically in the higher-value processes of general and management accounting vary between councils, but these are not measured.

Information and Communications Technology (ICT)

Data interpretations for ICT are quite technical and it was not possible to rationalise the interpretation of service levels in the review. Some councils have fully-depreciated capital equipment in certain service elements making them look more efficient. There are still issues with correctly allocating costs to the types of service being delivered.

There are significant variances in levels of service delivered between councils, such as mobility, applications functional coverage and business continuity. Some simple measures and reports of these are included in the review.

It is important that ICT is normalised to the number of end users supported as in this report and not to the size of the council. However, as the community begin to use more ICT resources, no single normaliser will give an accurate measure of ICT efficiency.

Procurement

The review found that the BASS measures are not well aligned to regional council procurement practice and the results are unreliable.

Property

It was not possible to normalise property costs by regional property benchmarks as no regional councils are members of the Property Council. As central government results show clear differences between regional centres, this is key to comparing costs across councils. This year's results enable the grade of office accommodation to be compared. Property space utilisation varies between councils.

Corporate and Executive Services (CES)

This A&SS function covers a range of different activities. As only two activities have further breakdown, it is not possible to determine the reasons for the differences in all activities. The following key influences on the overall CES results function were observed:

- There are differences in the relative investment in different processes within the communications function, but the results are not consistent enough to quantify these yet
- Legal costs are subject to interpretation issues and differences in measurement so are unreliable and were excluded in the review
- No council reported an enterprise portfolio management process despite the large amount of project-based work in regional councils
- Strategy and planning appears to vary in scope and level of service across councils, but is a small proportion of A&SS costs
- Audit and risk management is essentially the Audit NZ fees
- Library and document management scope and levels of service are not measured, with all but one council now having an electronic document management system
- It was not possible to determine why governance costs varied, but they are a small proportion of A&SS costs
- Vehicle Fleet Management is a significant A&SS function, with the number of vehicles provided varying between councils. Overall costs per vehicle are reasonably consistent. Vehicle types, fuel consumption, utilisation and average distance travelled are known cost variants that were not reviewed for simplicity.

Appendix 2 Key Service Improvement Focus Areas

The following table provides an indication of where each regional council has been recommended to focus service improvement to promote collaboration between councils.

Key Focus Area	NRC	ORC	HBRC	HRC	BOPRC	WRC	ECan	GWRC
Human Resources capability and high value process focus	✓	✓	✓	✓	✓	✓	✓	✓
Human Resources overall and recruitment efficiency improvement			✓	✓	✓			
Finance capability and high value process focus	✓	✓	✓	✓	✓		✓	✓
Rates Collection strategic shared service opportunity	✓	✓	✓	✓	✓	✓	✓	✓
Rates Collection efficiency improvement	✓				✓	✓	✓	✓
ICT capability maturity, service balance and service quality	✓	✓	✓	✓	✓	✓	✓	✓
ICT end user computing efficiency					✓			
ICT end user computing upgrade older solutions		✓		✓				✓
ICT communications efficiency				✓	✓			
ICT data centre efficiency			✓					
ICT data centre resilience and/or IaaS		✓	✓				✓	✓
ICT applications review strategic solutions		✓	✓		✓		✓	

Key Focus Area	NRC	ORC	HBRC	HRC	BOPRC	WRC	ECan	GWRC
Procurement coordination, measurement and outcome focus	✓	✓	✓	✓	✓	✓	✓	✓
Communications capability and high level process focus					✓			✓
Review and improve vehicle fleet management utilisation				✓				✓

