

Rural Councils Transformation Program

Funding Guidelines - August 2018



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Department of Environment, Land, Water and Planning

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1. Program overview

1.1 Background

Rural councils often have restricted ability to affordably deliver and invest in services and infrastructure, in part due to their dispersed populations and larger geographic areas. Compared to their metropolitan counterparts, rural councils tend to face greater barriers to sustainability: meaning they are less likely to have the capacity to meet the agreed service and infrastructure needs of their community and absorb foreseeable changes and unexpected shocks into the future. This leads to poorer outcomes for the community, with measures of health and wellbeing in many rural communities being recorded at lower levels than those of their metropolitan counterparts.

With populations forecast to decline in some rural areas over the coming decades, these challenges will likely be exacerbated into the future. This may result in a reduction in service levels, declining breadth and scope of available services, and deterioration in infrastructure performance. As a result of these challenges rural councils generally have less capacity to innovate, plan strategically, or generate efficiencies than their metropolitan counterparts, impacting on their capacity to provide services to their communities.

The adoption of regional service delivery models can help to achieve greater service benefits for rural and regional communities, through increased collaboration across councils and the delivery of greater efficiencies. Economies of scale may be achieved through more efficient service delivery with integrated regional services, greater collective buying power through collaborative procurement, or shared corporate services. Such partnering arrangements can lead to more efficient service delivery, ultimately contributing to greater sustainability of these councils and better service provision for communities.

1.2 Rural Councils Transformation Program

The Victorian Government is committing \$20 million of funding in the 2018-19 financial year towards the Rural Councils Transformation Program (RCTP). The RCTP seeks to incentivise the implementation of large-scale transformative projects on a regional level, such as joined-up service delivery, corporate services, procurement and asset management. This will help to improve the sustainability of councils which would not be able to invest in these transformations without financial assistance.

The RCTP therefore complements, but goes beyond, other existing initiatives that aim to assist rural councils through:

- funding advice and assistance to develop feasibility studies into shared services (Financial and Accounting Support Team Program, 'FAST');
- projects for councils to collaborate on environmental sustainability (Collaborative Councils); and
- projects that focus on job growth, infrastructure and strengthening communities in regional Victoria (Regional Jobs and Infrastructure Fund, Fixing Country Roads Program).

RCTP differs from these existing programs in that it will invest in the implementation of transformation at a greater scale than has previously been funded.

1.3 Program objectives

The RCTP aims to:

1. Improve the financial sustainability of rural and regional councils by achieving economies of scale including through regional service delivery or collaborative procurement;
2. Promote more efficient and improved service delivery through collaboration and innovation;
3. Facilitate benefits for rural and regional communities, with priority given to those for rural communities; and
4. Demonstrate potential efficiencies to be gained through regional service delivery.

2. Eligibility and scope

2.1 Who can apply

Councils, as defined by the *Local Government Act 1989*, from rural and regional Victoria are eligible to submit an application under this fund. Rural and regional Victoria is defined as the 48 local government areas set out in Schedule 1 of the *Regional Infrastructure Development Fund Act 1999*.

Applications will only be considered where there is an arrangement governed by a Memorandum of Understanding or similar between three or more of these councils, with priority to be given to applications that demonstrate the greatest benefits for rural communities. For the purposes of the RCTP, the arrangement is expected to include a majority of rural councils, and may also include regional councils. The involvement of relevant public-sector agencies in the arrangement will be considered on a case by case basis. The form of these partnering arrangements may include (but not be limited to) a special committee which operates as a committee of each of the councils involved, an incorporated association or a corporation.

As per Section 3.2, applicants will be required to nominate a lead council or entity for the arrangement, depending on the governance arrangements of the proposal. The lead will act as the point of contact throughout the application and assessment process and, if successful, will be the contracting party, responsible for entering into a funding agreement with the Victorian Government and for coordinating monitoring and reporting on behalf of the partnering arrangement.

2.2 Scope of funded activities

2.2.1 In scope

The RCTP aims to fund large scale proposals that will implement transformation of existing council functions such as direct service delivery, corporate services, procurement or asset management. Activities that will generally be considered for funding under the RCTP to implement such transformation include but are not limited to:

- Establishment of governance arrangements;
- Digital transformation or system development;
- IT hardware and software – both new and upgrades;
- Staffing – management and administration;
- Related consultancy advice – legal and finance;
- Buildings (leased only) and fixtures and furniture – leased and owned; and
- Vehicles and equipment (phones, computers, office supplies).

The RCTP will provide seed funding to facilitate collaborative arrangements that are at a greater scale or scope than has been previously seen in the context of the operation of Victoria's rural councils. To provide councils with guidance as to expectations in relation to scale, four example scenarios that could be considered eligible for funding are outlined in detail in Section 6. These examples include:

- Jointly owned fleet management entity;
- Shared statutory services;
- Shared corporate services; and
- Shared engineering services.

2.2.2 Out of scope

The following activities generally will not be considered for funding:

- Projects that have already commenced implementation or were completed prior to requesting funding;
- Projects where funding is more likely to be provided by other Victorian Government sources or programs;
- Projects requiring ongoing funding from the Victorian Government;
- Ongoing operating costs, maintenance costs or salary subsidies, once the initiative is established;
- The purchase of land;
- Standalone feasibility studies, business plans, cost benefit analyses and economic impact studies (i.e. that do not include an implementation phase); and
- Projects to be undertaken by a partnering arrangement of fewer than three councils.

2.3 Scope of funding

The Victorian Government has committed \$20 million to the RCTP, which will be awarded through a competitive grant process as outlined in Section 3. Applications submitted for funding under this program are required to meet an indicative minimum funding threshold of \$2 million, with priority consideration to be given to larger-scale transformations. DELWP reserves the right to consider applications below this threshold where appropriate.

While applicants may provide a co-contribution if feasible, there will not be a requirement under the funding agreement for applicants to provide a matched, cash co-contribution.

An indicative proportion of 75 per cent of funding allocated to an approved proposal will be available for upfront seed funding, with the remaining 25 per cent to be paid upon completion of all the agreed milestone/s.

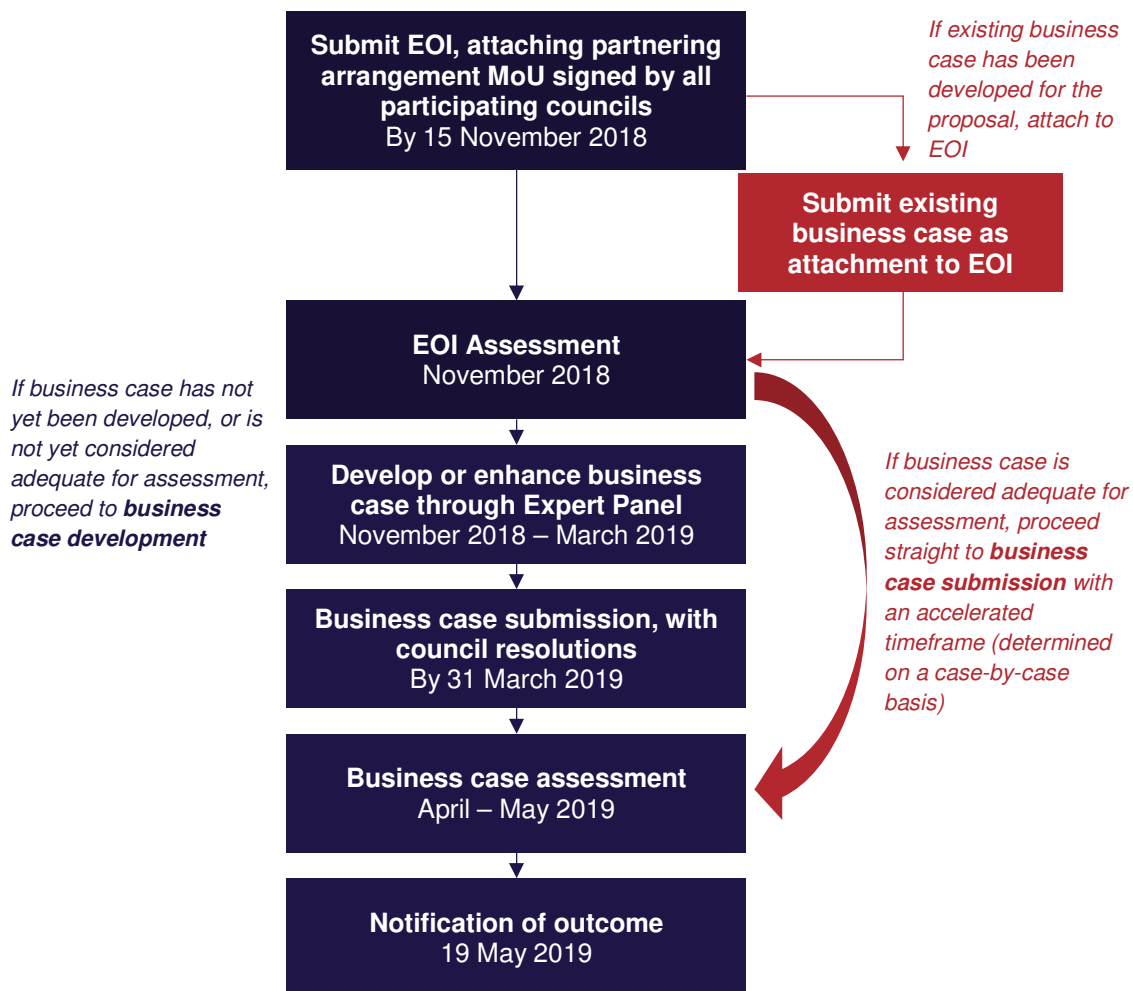
Applicants will be expected to demonstrate the commitment and capacity to continue funding the proposal beyond the period of initial grant funding administered through this program.

For specific conditions of funding, refer to Section 4.

3. Application and assessment process

3.1 Application process

To request funding under the RCTP, applicants will need to follow a two-step process as outlined below, which includes submitting both an Expression of Interest (EOI) and a business case for assessment. The application process is demonstrated in the diagram below.



3.2 Step 1: Submit an Expression of Interest

Prior to submitting an EOI, applicants are advised to carefully read these guidelines and any attached documentation to establish a clear understanding of eligibility and funding criteria. Applicants should also familiarise themselves with the terms and conditions for the funding offered as outlined in Section 4.

Applicants must propose a partnering arrangement in order to submit an EOI, which should consider individual roles and responsibilities for delivering the proposal. The partnering arrangement must nominate a lead council which will act as the primary point of contact and the contracting party. The EOI will need to provide a Memoranda of Understanding (MoU) between Chief Executive Officers (CEOs) of involved councils committing to progress the proposal to business case development if approved by the Department of Environment, Land, Water and Planning (DELWP).

Using the EOI template, applicants should provide a clear and concise summary of the following:

- The objectives and scope of the proposal;
- Evidence of baseline service levels (e.g. current FTE levels, service levels, materials & services expenditure, capital expenditure and any other key expenditure items);
- Evidence of need;
- Expected outcomes or benefits (in terms of both service delivery and financial performance) to each of the contributing councils;
- An estimated cost of investment (that meets the \$2 million minimum threshold);
- Readiness to proceed to implementation (i.e. whether there is an existing business case or not); and
- Details of the lead contact.

EOIs will be received through a single round, opening on 14 August 2018 and closing 15 November 2018. Applicants should submit their EOI via *Grants Online*. The EOI template incorporated within *Grants Online* is shown at <https://www.localgovernment.vic.gov.au/grants/rural-and-regional-councils-sustainability-reform>.

Any questions regarding the fund or the EOI process should be directed to the contacts noted in Section 5.

3.3 Step 2: EOI assessment

DELWP will consider EOIs against the eligibility criteria in Section 2 and potential for the proposal to meet the assessment criteria specified in Section 3.8. Following initial assessment of EOIs, DELWP may contact the lead council to seek further clarification of information or request further information to be submitted.

The lead council will then be informed whether their EOI submission has been:

- Rejected;
- Approved and eligible to proceed to business case development (Step 3); or
- Approved and eligible to proceed to business case assessment (Step 4).

Applicants will be considered eligible to proceed to assessment (Step 4) where an adequate business case has already been developed prior to submission of an EOI. In progressing applicants to this stage, DELWP will consider readiness for implementation of the proposal among other factors. Partnering arrangements deemed eligible to proceed to Step 4 will still need to provide evidence of a council resolution (see further detail under 4.1) ahead of DELWP undertaking the business case assessment.

3.4 Step 3: Prepare a business case

If approved by DELWP at the EOI stage, proposals that require development of a business case will proceed to this stage. During this stage, a council resolution from each council involved in the partnering arrangement must be passed, committing to implementing the business case if approved by DELWP.

For those council partnering arrangements approved at the EOI stage and that need to be further developed or enhanced via a detailed business case, DELWP will, at its discretion, provide support for this step by allocating a firm from a DELWP expert panel of providers to develop a business case in conjunction with the partnering arrangement group. DELWP will engage the firm and pay for the engagement with the partnering arrangement group, but would not be involved in the development of the business case.

The business case will need to be submitted to DELWP by 31 March 2019 and should provide a clear and concise summary of the following:

- Definition and detailed evidence of the problem;
- The proposal objectives and scope, including outline of proposed options;
- A cost-benefit analysis of the proposal options, concluding with a recommended option;
- For the recommended option:

- A draft project schedule / delivery timeline;
- A draft implementation / delivery plan;
- A clear description of the expected net benefits of the proposal, including estimated annual savings per council resulting from project implementation and any further qualitative benefits that will flow from the proposal. This section will also need to specify key datasets and baseline values that will be used to monitor the achievement of benefits throughout the proposal's life;
- Risk identification and mitigation strategy;
- Proposed project management arrangements;
- Proposed governance arrangements; and
- Proposed budget for the whole project (not just the requested funding).

Applicants must summarise this information in an Executive Summary (3-4 pages), and may include other important information or supporting documentation as relevant to their application. Business cases, together with the required council resolutions, must be submitted to DELWP by 31 March 2019. Any questions regarding this process can be directed to the contacts noted in Section 5.

The business case template is shown at <https://www.localgovernment.vic.gov.au/grants/rural-and-regional-councils-sustainability-reform>.

3.5 Step 4: Business case assessment

Following the close of business case submissions on 31 March 2019, applicants will receive confirmation of receipt of their application and be informed of progress by DELWP on an as needed basis throughout the assessment process.

Business cases will be evaluated by the RCTP Governance and Assessment Panel, which comprises at least one representative each from DELWP, Department of Treasury and Finance and Department of Economic Development, Jobs, Transport and Resources - Regional Development Victoria. This will establish eligibility for funding and consider the business cases against the key assessment criteria listed in Section 3.8.

3.6 Step 5: Approval process

Applicants will be advised of the final decision relating to their application in writing by 19 May 2019. Successful applicants will receive a letter of offer and Victorian Common Funding Agreement, which will outline the funding obligations attached to the offer.

3.7 Key dates

The following table outlines key dates for the RCTP:

Action	Date
Release of Guidelines	14 August 2018
Expressions of Interest (EOI) sought	14 August -15 November 2018
Development of business case for successful EOIs	30 November 2018 – March 2019
Business case submission period closes	31 March 2019
Notification of decision	By 19 May 2019
Fund agreement negotiations with successful applicants	May – June 2019
Commence funding distribution	June 2019

3.8 Assessment criteria

3.8.1 EOI assessment criteria

The following assessment criteria will be referred to when assessing EOIs submitted under the RCTP:

- Minimum eligibility thresholds have been met including a partnering arrangement with three or more councils, and funding of over \$2 million is requested
- Project is of a transformational scale
- Details of the project have been thoroughly considered, including:
 - Demonstrated need for assistance
 - Expected benefits, including impact on service delivery and/or financial efficiencies
- Any additional evidence that the project aligns with council objectives
- A Memorandum of Understanding signed by CEOs of all councils participating.

3.8.2 Business case assessment criteria

The following assessment criteria will be referred to when assessing business cases under the RCTP:

Criteria	Description	Weighting
Financial sustainability	Demonstrate how the proposal will deliver efficiencies / savings that will contribute to improved sustainability of involved councils	35%
	Quantify the financial benefits of the proposal in annual terms and demonstrate that there will be a positive Net Present Value (NPV) within five years, which will be sustained beyond this period	
Evidence-based	Clearly articulates the evidence of the need and how the proposal will address this need	25%
	Outlines a robust framework for collecting data or other evidence to assess the proposal's outcomes and, if applicable, to assess its viability as a model that can be replicated or scaled up	
Impact	Clearly quantifies the expected improvements from current baseline resourcing and service provision levels or council operations that will result from the proposal	25%
	Outlines how the proposal project will result in a transformation of significant scale	
	Demonstrates that the proposal project will have a positive impact on rural communities through improving service delivery quality or scope	
Collaboration	Demonstrates clear and comprehensible partnering arrangement governance arrangements, including roles and responsibilities for project delivery on an ongoing basis*	15%

Note: DELWP reserves the right not to award funding in the case that no applications reasonably meet these criteria.

*Councils participating in the partnering arrangement must submit council resolutions expressing their commitment to the project for its implementation as a threshold requirement for consideration at the business case assessment stage.

4. Conditions of funding

4.1 Funding agreements

Successful applicants must enter into a funding agreement with DELWP. Funding agreements establish the parties and outline their commitments and obligations to each other, as well as setting out the general funding terms and conditions. It is recommended that applicants review the Common Funding Agreement standard terms and conditions before applying, available at: <https://providers.dhhs.vic.gov.au/victorian-common-funding-agreement>

Under the agreement, funding will be executed through milestones negotiated between the successful applicant and DELWP, with funding to be predominantly targeted towards supporting establishment of the proposal. Funded milestones beyond those associated with establishment will be linked to performance based criteria and are likely to occur beyond FY18-19. The successful applicant will be required to provide satisfactory progress reporting against these milestones in order for DELWP to release the performance-based component of the funding allocation, which is expected to total at least 25 per cent of the total funding allocation to any one partnering arrangement.

No funding will be released until DELWP and the applicant have executed the funding agreement and the appropriate milestone evidence identified in the funding agreement has been met. DELWP reserves the right to withhold payments in cases where evidence has been provided but DELWP deems that there are reasonable concerns relating to the delivery of the project. In this instance, DELWP will release funding when appropriate actions have been taken to ensure the funding project is delivered within the agreed timeframes.

If, in the reasonable opinion of DELWP, the contracted parties:

- a) do not comply with the funding agreement;
- b) do not deliver all or part of the activity to its reasonable satisfaction; or
- c) have used, spent or committed all or part of the funding other than in accordance with the funding agreement,

DELWP may in its absolute discretion give written notice to the contracted parties requiring repayment of that part of the funding and any GST paid to the contracted parties which, in DELWP's reasonable opinion, has not been applied in accordance with the Agreement and the contracted parties will repay that amount to DELWP within thirty (30) days, or such other time period as agreed, of receiving the written notice from DELWP.

As noted in Section 3.3, all involved councils will be required to commit to continue funding (via submitted MoU and Council resolutions) the proposal beyond the period of initial grant funding administered through the RCTP.

4.2 Project reporting

Funding recipients are required to comply with monitoring and reporting requirements to be outlined in the funding agreement. This includes submitting progress reporting as appropriate to enable DELWP to assess performance against negotiated milestones in the funding agreement. Release of funding against milestones will be contingent on DELWP being provided satisfactory milestone evidence.

In addition to regular progress reports as agreed in the funding agreement, DELWP may request a progress report or project data from successful applicants at any time. A Project Outcomes and Financial Acquittal report is also required at the conclusion of the project, using a template provided by DELWP. Reporting may be required after the funding period has ended.

DELWP reserves the right to use information collected through ongoing monitoring for internal reporting, evaluation or communications purposes.

4.3 Acknowledgement

Successful applicants are expected to acknowledge the Victorian Government's support, by accepting promotional guidelines as part of the funding agreement. Successful applicants must liaise with the relevant DELWP contact to coordinate any public events or announcements related to the funded initiative. Successful applicants may be requested at any time to contribute information on activity outcomes for use in program evaluation or in DELWP's communication materials.

4.4 Victorian Industry Participation Policy

The Local Jobs First - Victorian Industry Participation Policy (VIPP) seeks to maximise opportunities for Australian, New Zealand and Victorian suppliers to compete for government business on the basis of best value for money over the life of the goods or services. The VIPP is implemented by Victorian Government departments and agencies to help drive local industry development.

The VIPP applies to Government procurement activities, construction activities, major projects, major events, Public Private Partnerships and investment support, business development and community infrastructure grants above the threshold values of \$3 million or more in Metropolitan Melbourne and \$1 million or more in Regional Victoria. If awarded a contract of over \$1 million, the lead council or entity will be required to fulfil the VIPP requirements as outlined here: <https://economicdevelopment.vic.gov.au/victorian-industry-participation-policy>

4.5 Competitive Neutrality Policy

All successful applications from a government body, including local government authorities and government agencies, will be required to comply with the Competitive Neutrality Policy Victoria, in respect of any commercial goods or services offered by the body as a result of the grant.

The Policy can be accessed at: <http://www.betterregulation.vic.gov.au/Competitive-Neutrality/Competitive-Neutrality-Guidance>

Additional information and guidance can be obtained at: <https://www.localgovernment.vic.gov.au/grants/rural-and-regional-councils-sustainability-reform>.

4.6 Victorian State Election

As the Victorian State election will be held on Saturday 24 November 2018, the Victorian Government will assume a caretaker role from 6:00 pm on 30 October 2018 until such time that either it becomes clear that the incumbent government will be returned, or when a new government is commissioned.

In line with the caretaker conventions, the incoming government will determine whether to proceed with this grant process and award the grants after the caretaker period.

Applicants should be aware that:

- All information about this grant process represents the position of the current government only, and is subject to change; and
- The incoming government may decide to not proceed with this grant process.

5. Contacts and further information

Following the release of the Program Guidelines for RCTP in August 2018, the fund will be promoted through a series of information sessions to be delivered in rural and regional locations across Victoria. These sessions will be delivered by Local Government Victoria to stakeholders from eligible councils. The aim of these sessions is to provide potential applicants with further information to help frame development of an EOI, and present the opportunity to clarify any questions regarding the program.

For further information regarding the program or to discuss a possible EOI please contact:

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Director, Sector Innovation, Performance and Resilience
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6. Shared Services Examples

The following provides hypothetical examples of the type of transformational projects that may be eligible for funding under this program.

Shared Engineering Services Unit

Challenge

Eight rural and regional councils collectively recognise that they are facing a challenge in retaining sufficient in-house capability in key engineering project management and design skills. Each council is on average employing 5 FTE engineers and all councils have undertaken service reviews in the past four years.

There has been, over the last 10 years an increasing dependence on outsourcing to deliver services in design, specification, fixed asset assessments and inspections. Despite losing 30 per cent of their FTE over the past decade, the councils collectively are spending 190 per cent more on engineering services compared to 10 years ago. Skills and internal capability have declined, and the age profile of the staff has increased significantly, creating risks for the councils in the long term. All of the councils claim to struggle to attract young staff.

Project benefits

To address this challenge, the councils decide to centralise the eight engineering units into two regional sites, bringing together the current staff and resources of 40 FTE. Over the coming years, the staffing numbers decline due to retirements. The outsourcing budget costs for the eight councils are reduced due to more work being undertaken in-house, due the greater capacity of the combined team. As a result the unit is able to take on trainee engineers from the region and is able to increase their training budget.

Other potential benefits from this project include an increase in staff retention and job satisfaction due to the increase in diversity and scope of work at a larger regional level. There may also be an increase in the number of jobs that are progressed on time without budget variances due to the increased ability to smooth regional project demands across the combined team.

The councils govern the service via a joint council contract agreement. This is binding on the councils, and ensures the unit plans and allocate resources to meet the needs of each council.

Jointly Owned Fleet Management Entity

Challenge

A group of seven rural and regional councils establish a corporation under joint ownership to undertake the leasing and operation of their fleets. Individual ownership of the fleets has resulted in duplicated ownership of similar assets and higher maintenance costs. Consolidating the function brings together a large portfolio of assets from passenger vehicles, to trucks and road graders. Each council transfers their existing fleet assets to the new corporation which has service contracts with each participating council.

Project benefits

The advantages of the change may be felt soon after the transition, as maintenance costs are reduced some of the aging fleet is able to be retired.

The corporation implements fleet management software system to make best use of the shared assets. Vehicles, plant and equipment are utilised more efficiently and with tracking and active management, administration costs decline.

Routine maintenance and servicing is centralised and managed, with specialist servicing outsourced at lower cost than before due the economies of scale. The corporation is able to offer traineeships to mechanics and establish long term service agreements with several service centres in the region.

The corporation may also be able to purchase newer vehicles and increasingly turn over their fleet to be replaced with newer, more efficient vehicles, helping to reduce fuel costs. Alternatively, if the fleet is upgraded to electric vehicles, infrastructure for electric cars is rolled out across the council group, with charging stations deployed at depots and council offices, and key tourist sites across the region.

Shared Statutory Services

Challenge

A group of six rural and regional councils have undertaken service reviews of their statutory services over the past five years, including local laws, environmental health, building and food safety.

The total number of staff involved in these processes is over 100, however the reviews identified a major deficit in skills and capability, with the small size of the council teams contributing to a lack of opportunity to develop capacity and operational experience.

Project implementation

To address this challenge the council group establish a shared service agreement to deliver statutory services as a group. Over a two-year period, the services are brought under a regional management structure. The services are delivered from 'service delivery clusters' that are located across the region.

Benefits

As a result of the new arrangements, service levels are likely able to be increased due to the increased capacity to undertake longer term planning and management, while staff are able to develop expertise in a specific service with a broader regional impact.

Over the following year, the benefits of the arrangements lead to significant improvements in both service levels and quality. While staff numbers remain similar prior to consolidation, the group is able to invest in more up to date training and staff are able to specialise.

Due to the success of the project the councils begin to examine their planning functions with a view to consolidating these services for similar service benefits in the future.

Shared Corporate Services

Challenge

A group of six rural and regional councils are experiencing long term difficulties in maintaining sufficient service levels, and in keeping their IT infrastructure up to date. On their own, none of the participating councils can commit to the capital requirements needed to invest in new IT infrastructure, and each council is duplicating several lower level functions. They are also struggling to attract and retain the required skills and capability. To address this, the councils decide to integrate their corporate (back-end) services over a 3-year period.

Project implementation

A Memorandum of Understanding (MoU) is signed by the councils to undertake the initial stage of this project. Due to their greater bargaining power as a group of six, the council group is able to negotiate improved IT services and costs with vendors, and better support packages and IT training. The plan is rolled out over an initial 2-year period with the councils' IT systems integrated and new software installed.

With the base infrastructure in place, the participating councils then negotiate an ongoing shared services contract agreement.

Project benefits

The councils are able to implement a range of business improvements including reducing duplication of corporate services across the councils. Many transactions are streamlined, with resultant cost benefits.

Financial management and procurement services are the first to be centralised, with large savings resulting from cooperative procurement and consistent supplier management and contracting. Finance are able to implement a centralised treasury and cash management service for the councils. Utilities and consumables purchasing are consolidated leading to further savings.

The centralisation of human resources and payroll services progresses, with recruitment times reduced and consolidation and management of casual and labour hire services progressed. Staff are able to gain access to improved training and support services as a result of centralised management.

With these arrangements in place, the councils may plan for the future coordinated management of key services such as Occupational Health and Safety, customer service, legal services and tourism. The shared services contract agreement is embedded in the councils' business as usual after 3 years.

Due to the success of the project, the councils agree to take the next step toward the creation of a jointly owned corporate services entity to progress further consolidation of back-end services.