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12 November 2020

The Hon Greg Piper MP
Chair
Public Accounts Committee
Parliament House
Macquarie Street
SYDNEY NSW 2000

By email: pac@parliament.nsw.gov.au

Dear Mr Piper

NSW Audit Office Report – Workforce in merged councils (LAC20/184.03)

Thank you for your invitation to clarify how the nett merger savings of $13m identified by QPRC will be achieved, further to the findings of the NSW Audit Office performance audit report. To assist understanding of the savings and benefits, attached is the 'Nett Benefit' worksheet derived from the reporting tool required of OLG during the merger period, updated to last financial year. This worksheet was regularly reported to Council.

Upon reading this submission, the benefits of merger become more obvious than just savings. Our response is arranged under the following headings.

1 Key targets

In re-setting the merger *savings* target at $13m with DPC in 2016, it was premised on the basis of the new council meeting other metrics as evidence of merger *benefits*, through:

- A rate pricing path lower than that published by the councils prior to merger (in QCC: 2% > CPI; in PC: 7% > CPI)
- A FTE/Resident ratio at or below levels prior to merger (ie 7.5FTE /1000 reside)
- A back office support/external services FTE ratio below levels prior to merger
- An FTE growth path at or below levels prior to merger
- Meeting Fit For Future (FFF) sustainability benchmarks

2 Key restrictions

All merged councils were required to observe Award and s354 protections for staff. However, as a merged council in a regional area, the restrictions of s218CA applied – so that 123FTE were required to be retained in perpetuity at Bungendore and Braidwood – and any rationalisation of offices and depots were not readily feasible. Further, as only one former Palerang Council executive was nominated as 'senior staff', the KPMG forecasts of significant senior staff savings were not capable of being realised, as the remainder of that executive were award employees with associated protections.

In addition, the 4-year rate path freeze superimposed on the former councils' proposed SRV or utility annual charges forecast in their respective financial plans, hampered the merged council's ability to increase expenditure on renewals or upgrades of infrastructure without access to grants. Similarly, the harmonising of technology into a single ICT platform (and mitigation of legacy workarounds), would not have been possible without supporting merger grants. The Nett Benefit worksheet illustrates the cost of that ICT implementation, entirely offset by the NCIF 1 grant.

3 Key impacts

In accord with the merger protections and DPC guidance, the following were the primary workforce cultural and financial impacts of the merger (over 10yrs):

- Voluntary redundancies ($1.312m)
- Salary harmonisation ($2.856m)
- Technology and telecommunications (incl HR modules) ($5.282m)

4 Key focus

Again, in relation to impacts on workforce, the following approach was taken to utilise retained staff, or engage fixed term new recruits, within the merger rules of no forced redundancies and first choice option for existing staff for vacant positions:

- Established Transition Plan identifying strategic merger and harmonisation projects, project lead and resources
- Established a 'service-program-activity' (SPA) framework nested within the strategic pillars of the Community Strategic Plan, delineating the scope, deliverables and performance expectations of the services for the merged council
- Utilised NCIF 2 to fund those merger projects (service reviews; asset, salary system and structure harmonisation; ICT configuration; procurement and property rationalisation)
- Utilised NCIF 2 to fund change management and cultural development plan (human synergistics diagnostics, values, teams development etc)
- Engaged fixed term external recruits linked to term of grants/projects

5 Key frameworks

To blend the former council structures and harness the skills of staff:

- The 'transition organisation structure' was shaped on the SPA framework, layering roles into service management, program coordination and activity tasking by team; with role definition mapped to the deliverables and performance outlined in the SPA statements. The Workforce Plan (WFP) noted intention to revise the structure twice as the organisation matured, with the final 'transformation structure' for confirmation by the incoming 2020 elected council (now deferred to 2021 elections).
- A project management office (PMO) was resourced to focus on merger, infrastructure and organisational projects and contracts
- A project management framework was established to guide funding and governance of those projects
- A harmonised salary system and staff performance framework was introduced to reflect the layered roles of the organisation structure, and appropriately

reward staff in relation to the regional market (eg TRP @ 75th percentile of LGNSW survey)

6 Key deliverables

Merging a predominantly large urban regional council with a smaller rural council inherently brings differences in policy, priority settings and service expectations. Without rapid service reviews at the beginning of a merger, the scope and spread of services tend to gravitate to the higher standard (of either former council) to demonstrate to community a level of equity of service across the broader LGA. Not surprisingly, QPRC expanded the type and levels of service beyond that provided by either former council, and subsequently engaged an additional 30 FTE resources above the preserved merger FTE (400). This was required in order to deliver the services scoped in the SPA framework adopted in 2017 - particularly in communications, tourism, events, recreation, town centre place management, grants and economic development.

Retention of staff in critical skill areas and refining practices to HSEQ standards assisted the merged Council's capacity and reputation to retain RMCC and other contracts. The depth of capability in the PMO led to the design and construction of improved infrastructure delivering key commuter and freight corridors valued over $150m since merger.

In addition, with the benefit of stronger council and community grants, staff and contract resources were engaged to complete community infrastructure projects endorsed through the Local Representation Committee. These included harmonising town entry and town centre landscaping and servicing.

The merged council built greater capacity that enabled effective participation in natural disaster response and community recovery – evidenced particularly now as QPRC continues in its bushfire recovery from last summer.

Through the Workforce Plan, our ambitions to refresh the organisation and curate the skills otherwise difficult to attract in the local government sector were fashioned through a targeted increase in cadets and trainees, often replacing a vacant position with two trainees at equivalent cost.

Without the NCIF grant provided with the merger, neither former council would be in a position to fund and implement new software (TechOne). QPRC subsequently configured and implemented integrated modules (incl HR modules recruitment, L&D, electronic timesheets etc) not available or utilised previously, in turn relieving staff resources from paper-based tasks.

Perhaps the more significant deliverable will be the migration of more than 200 Queanbeyan-based staff from 11 dislocated cottages and buildings in the CBD, into a single council office and library in the new civic and cultural precinct. The premises will also accommodate government and commercial offices, a smart hub and gallery connections to performance centres. This will be achieved without requiring new rating revenues, but rather by servicing the debt for the project with savings achieved through resizing staff establishment as planned, building savings and lease returns.

7 Key Outcomes

The key outcomes achieved against the metrics listed in Section 1 include:

- equitable salaries and TRP aligned to regional market
- workforce metrics stabilised (turnover, unplanned absence, overtime)
- post-merger increase FTE (30) represented 6% uplift in employment cost
- harmonised salary system represented 1% increase in employment cost
- no forced redundancies as consequence of merger
- FTE/resident ratio remains lower than 7.5/1000
- backoffice FTE ratio at 13% is lower than pre-merger

Summary

The sections above illustrate that prudent planning, management and investment in staff have returned expanded service across the LGA and improved infrastructure outcomes for the community. This has been achieved within the revenue limits of the merged council (due to the 4 year rate path freeze) and without the higher rating imposts foreshadowed by the former councils.

The attached 'Nett Benefit' worksheet illustrates the 'savings' ($11.2m) generated by the merger almost matched the 'costs' ($12.2m) of implementing the merger, while the attached nett 'efficiencies' sheet ($4.6m) illustrates the enduring benefits. The combination of the nett benefit and merger grants ($12.1m) forecast over 10 years are near the $13m target offered to DPC in 2016.

QPRC's merger savings are better defined as *benefits* as outlined in the 'efficiencies' sheet. Initially, the value of voluntary redundancies was reinvested in recruiting front line roles ($830k). When the transition organisation structure was established, other staff were deployed into merger transition projects on fixed term arrangements. That structure progressively engaged 30 new FTE to support the expanded services ($2.17m). Together with the expiration of several fixed term roles and 3 year merger restrictions, the scheduled transformation organisation structure releases cumulative savings of $782k (FY20), $495k (FY21) and $1036k (FY22). Those savings are in turn ringfenced to service debt for the new office in Queanbeyan.

Should further information be required, we'd be happy to arrange.

Yours sincerely,

Peter Tegart
CEO
Queanbeyan-Palerang Regional Council

4. **Net** (input not required)

	Year 1. Fin Yr (16/17) $ '000	Year 2. Fin Yr (17/18) $ '000	Year 3. Fin Yr (18/19) $ '000	Year 4. Fin Yr (19/20) $ '000	Year 5. Fin Yr (20/21) $ '000	Year 6. Fin Yr (21/22) $ '000	Year 7. Fin Yr (22/23) $ '000	Year 8. Fin Yr (23/24) $ '000	Year 9. Fin Yr (24/25) $ '000	Year 10. Fin Yr (25/26) $ '000	Total Actual $ Value $ '000	Total NPV $ Value $ '000
1. Costs												
ICT Costs	1,251	2,313	1,383	322	13	-	-	-	-	-	5,282	4,357
Workforce Restructure Costs	540	1,566	560	350	350	350	350	350	350	350	5,116	3,763
Other Transition Costs	1,183	323	253	79	-	-	-	-	-	-	1,839	1,609
Total - Costs	2,974	4,203	2,196	751	363	350	350	350	350	350	12,236	9,728
2. Savings												
Councillor Savings	-	150	200	200	200	200	200	200	200	200	1,750	1,031
Salaries and Wages Savings	232	425	516	516	516	516	516	516	516	516	4,785	2,905
Material, Contract and Other Savings	245	290	600	515	515	515	515	515	515	515	4,740	3,103
Total - Savings	477	865	1,316	1,231	1,231	1,231	1,231	1,231	1,231	1,231	11,275	7,039
3. Efficiencies												
Efficiencies	961	661	661	(561)	(66)	584	584	584	584	584	4,573	2,254
Total - Efficiencies	961	661	661	(561)	(66)	584	584	584	584	584	4,573	2,254
4. Net												
Costs	(2,974)	(4,203)	(2,196)	(751)	(363)	(350)	(350)	(350)	(350)	(350)	(12,236)	(9,500)
Savings	477	865	1,316	1,231	1,231	1,231	1,231	1,231	1,231	1,231	11,275	6,800
Efficiencies	961	661	661	(561)	(66)	584	584	584	584	584	4,573	2,923
Total - Net [(Savings + Efficiencies) - (Costs)]	(1,536)	(2,677)	(219)	(81)	802	1,465	1,465	1,465	1,465	1,465	3,612	223
New Council Implementation Grant	5,000		3,500								8,500	7,485
Net + New Council Implementation Grant	3,464	(2,677)	3,281	(81)	802	1,465	1,465	1,465	1,465	1,465	12,112	7,455
										TARGET	13,000	
										SHORTFALL $	888	

NOTE 1: QPRC's agreed 10 year target is $13m.

3. Efficiencies (input sheet)

Efficiencies	Year 1. Fin Yr (16/17) $ '000	Year 2. Fin Yr (17/18) $ '000	Year 3. Fin Yr (18/19) $ '000	Year 4. Fin Yr (19/20) $ '000	Year 5. Fin Yr (20/21) $ '000	Year 6. Fin Yr (21/22) $ '000	Year 7. Fin Yr (22/23) $ '000	Year 8. Fin Yr (23/24) $ '000	Year 9. Fin Yr (24/25) $ '000	Year 10. Fin Yr (25/26) $ '000	Total Actual $ Value $ '000	Total NPV $ Value $ '000
1. 'ICT savings	300										$ 300	$274
2. 'Redeployment 11 VR resources to front line staff	661	661	661	830	830	830	830	830	830	830	$ 7,795	$4,788
3. Redeployed/new staff - Transition Structure >FY19: +30FTE nett) - new services				- 2,174	- 2,174	- 2,174	- 2,174	- 2,174	- 2,174	- 2,174	$ (15,215)	-$10,758
4. FTE post Merger savings -15FTE nett (used to service debt for new QCCP)				782	1,277	1,927	1,927	1,927	1,927	1,927	$ 11,694	$7,950
5.											$ -	$0
6.											$ -	$0
7.											$ -	$0
8.											$ -	$0
9.											$ -	$0
10.											$ -	$0
Total - Efficiencies	$ 961	$ 661	$ 661	$ (561)	$ (66)	$ 584	$ 584	$ 584	$ 584	$ 584	$ 4,573	$ 2,254