Workforce reform in three amalgamated councils

1 MAY 2019
The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the Public Finance and Audit Act 1983 and the Local Government Act 1993.

We conduct financial or ‘attest’ audits of State public sector and local government entities’ financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies’ accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on entity compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity’s operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General’s Reports to Parliament – Financial Audits.

In accordance with section 421D of the Local Government Act 1993, I present a report titled ‘Workforce reform in three amalgamated councils’.

Margaret Crawford
Auditor-General
1 May 2019
contents

Workforce reform in three amalgamated councils

Section one – Workforce reform in three amalgamated councils

Executive summary 1
Introduction 4
Progress towards an efficient workforce 8
Managing the impact of change 15

Section two – Appendices

Appendix one – Response from councils and Office of Local Government 19
Appendix two – Compliance with staff protections in the Local Government Act 1993 26
Appendix three – About the audit 28
Appendix four – Performance auditing 30
Section one

Workforce reform in three amalgamated councils
Executive summary

On 12 May 2016, the NSW Government announced the amalgamation of 42 councils into 19 new councils. This followed a period of 18 months during which the NSW Independent Pricing and Regulatory Tribunal (IPART) had assessed councils’ ‘fitness for the future’, and communities were consulted about proposed mergers. A further amalgamated council was created on 9 September 2016.

Upon amalgamation, existing elected councils were abolished, interim General Managers appointed, and Administrators engaged to undertake the role of the previously elected councils until Local Government elections were held 18 months later. During the period of administration, councils were asked to report on the progress of their amalgamations to the Department of Premier and Cabinet (DPC).

Council amalgamations not only require a re-drawing of boundaries, but re-establishment of local representation, decisions about alignment of services across the former council areas, and establishment of an amalgamated workforce.

The objective of this audit was to assess whether three councils, Inner West Council, Queanbeyan-Palerang Regional Council and Snowy Monaro Regional Council, are effectively reforming their organisation structures to realise efficiency benefits from amalgamation and managing the impact on staff.

Conclusion

The three councils we examined have made progress towards an efficient organisation structure.

Following amalgamation, all three councils developed detailed plans to bring their former workforces together, review positions and salaries, amalgamate salary structures and align human resources policies. All three councils have largely achieved the milestones included in these plans.

Benefits realisation plans show that councils did not expect to achieve material savings or efficiencies from workforce reform within the first three years of amalgamation.

Two councils do not clearly report on whether their reform initiatives are achieving benefits.

Administrators at all three councils endorsed lower savings targets than the NSW Government’s early analysis suggested may be possible. All three councils have plans or strategies to progress and achieve benefits from the amalgamation. However, Inner West Council and Snowy Monaro Regional Council could more clearly link their reform initiatives with expected benefits and include this in public reporting.

Amalgamations represent a substantial period of change for affected communities and amalgamated councils should be routinely reporting to their communities about the costs and benefits of amalgamation.

Councils have not yet determined their future service offerings and service levels nor completed integration of ICT systems. These decisions need to be made before an optimal organisation structure can be implemented.

Before amalgamated councils can implement an optimal organisation structure, they need to review and confirm their customer service offerings and service levels in consultation with their communities. This work is underway but is not yet complete in any of the councils.

Progress towards an efficient structure has been slowed by staff protections in the Local Government Act 1993 (the Act) and a range of logistical and administrative issues associated with amalgamation. These include multiple IT systems and databases that need to be integrated and different working conditions, policies and practices in the former councils that are not yet fully harmonised.

The councils implemented legislated staff protections and focused on the people side of change but cannot reliably measure the impact of their change management efforts.

The Act provides protections that reduce the impact of amalgamations on staff. Beyond implementing these protections, the councils have communicated with staff, sought to prepare them for change, and involved staff in key decisions. All councils have conducted staff surveys over time. However, at this stage these staff surveys have not provided an effective or reliable measure of the impact of change management efforts.
1. Key findings

The three councils have made progress towards an efficient organisation structure

Following amalgamation, all three councils developed plans and timelines for developing a single organisation structure, reviewing positions, recruiting internal staff into new positions, amalgamating salary structures and aligning human resources policies. At the time of the audit, major milestones in these plans have largely been met and each of the three councils is operating with a single workforce.

Our review of benefits realisation plans prepared for DPC by Queanbeyan-Palerang Regional Council and Snowy Monaro Regional Council shows that workforce reform activities were not expected to achieve material savings or efficiencies in the first three years of amalgamation.

Councils have not yet determined their future service offerings and service levels nor completed integration of ICT systems

Councils need to establish the service levels and offerings they intend to provide before they can settle on the best approach and workforce structure to deliver them. Councils are working through the process of establishing what customer service levels and offerings they should provide as an amalgamated council, including whether service levels should be common across the council area. At the time of the audit, different service levels inherited from the former councils mean that some ratepayers of the amalgamated council are receiving a higher level of service than others.

While all three of the councils purchase services and benchmarking reports that provide feedback on their efficiency, the Office of Local Government (OLG)\(^1\) has not developed a suite of council efficiency indicators or comprehensively benchmarked council efficiency.

Two councils do not clearly report on whether their reform initiatives are achieving benefits

Amalgamated councils were asked by DPC to prepare a plan that identified how they would achieve expected savings and efficiencies over a ten-year timeframe. Queanbeyan-Palerang Regional Council and Snowy Monaro Regional Council reported progress against these plans to DPC until the middle of 2017, approximately one year after amalgamation, when the unit within DPC that was monitoring and supporting the amalgamated councils handed over its functions to the OLG. Queanbeyan-Palerang Regional Council continues to monitor and report progress of integration activities to its elected council in terms of savings and efficiencies realised. However, Inner West Council and Snowy Monaro Regional Council do not clearly link their reform initiatives with expected savings and efficiencies in public reporting. Amalgamations represent a substantial period of change for affected communities and amalgamated councils should be routinely reporting to their communities about the costs of amalgamation and realisation of benefits.

Legislative, administrative and logistical issues have impacted progress towards an efficient organisation structure

Councils did not expect significant efficiencies during the protection period due to staff protections in the Local Government Act 1993 and a number of logistical and administrative challenges.

All the councils implemented staff protections provided for in the Local Government Act 1993. These protections benefited staff and communities and there was very little industrial action related to amalgamations in the councils we audited. Having said this, staff protections limited the pace at which councils could:

- move staff to new locations and co-locate work teams
- divest redundant staff
- bring salaries and working conditions into line with work value
- recruit new skills, due to the requirement to exhaust internal recruitment options before advertising externally.

---

\(^1\) This audit was conducted prior to the Administrative Arrangements Order 2019 announced on 2 April 2019. Those orders abolished the Office of Local Government, effective from 1 July 2019. From that date, support for the local government sector will be provided by the Department of Planning and Industry.
Administrative and logistical impediments to implementing an efficient structure, some common to any organisational merger, include:

- maintaining duplicated information technology systems and databases until integrated enterprise systems can be implemented
- inconsistent policies, procedures, customs and practices that need to be aligned
- significant staff time devoted to recruitment.

We also identified a small number of examples where decisions of former councils in the lead-up to amalgamation created challenges for the amalgamated council. These included an increase in staff numbers at the former Ashfield and Marrickville Councils and extension of the staff protection period from the legislated three years to five years at the former Leichhardt Council.

**The councils implemented substantial change management and communication programs for their staff, but staff need further support**

Following amalgamation, all three councils focused on helping staff to cope with change and implemented extensive communication programs to keep staff informed.

Having said this, it is evident from staff surveys and field visits that staff in all three councils are still finding it difficult to cope with change and need ongoing support. Further change is expected as systems, processes and employment conditions are integrated and aligned, and support for staff affected by these changes may need to be provided for some time.

**At this stage the councils cannot adequately assess the effectiveness of their change management efforts**

Each of the councils conducted staff surveys early in the amalgamation process and in subsequent years, but none can use these to reliably assess the impact of their change management efforts to date. Initial surveys at Inner West Council and Queanbeyan-Palerang Regional Council included different questions in their respective 2016 and 2017 surveys, meaning they cannot track the impact of their change management efforts over that period. Snowy Monaro Regional Council cannot rely on the validity of its first survey as it was administered to one former council workforce before the amalgamation, and the other two workforces after the amalgamation.

### 2. Recommendations

**All three councils should:**

1. establish future service offerings and service levels and ensure that organisation structures are aligned with service levels and integrated ICT systems.

**Inner West Council and Snowy Monaro Regional Council should:**

2. report against target efficiency and savings outcomes associated with workforce reform and actively monitor progress against milestones.

**The Department of Planning and Industry**² **should:**

3. develop a suite of efficiency and economy indicators and start reporting the performance of councils against these indicators to assist with benchmarking.

---

² This recommendation is directed to the future Department of Planning and Industry, which, from 1 July, will take over responsibility for supporting the Local Government sector.
1. Introduction

1.1 Background

Amalgamation of councils in New South Wales

Council amalgamations have been a recurring theme in Australia’s history, typically implemented with the intention of achieving greater efficiency and effectiveness through scale. Local Government in NSW has existed for over 170 years, since 29 local councils were established by the Imperial Act of 1842. Modern Local Government was introduced in 1906 under the Local Government Act 1906, which introduced a compulsory system of incorporation and consolidated the law on shires and municipalities. From 327 councils created in 1906, amalgamations and boundary changes have reduced the number of councils to 128 Local Government areas in NSW.

Exhibit 1: NSW Local Council numbers from 1906 to 2016

Source: Audit Office analysis.

Background to the 2016 council amalgamations

In February 2014, the Division of Local Government in DPC was abolished and its functions transferred to the newly created Office of Local Government (OLG). In September 2014, the NSW Government committed to Local Government reform, releasing its ‘Fit for the Future’ (FFTF) program. The OLG released its four-year strategic plan, with an organisational purpose to ‘Strengthen Local Government’, and an organisational outcome to achieve ‘Fit for the future councils leading strong communities’. The NSW Independent Pricing and Regulatory Tribunal (IPART) assessed whether councils in NSW were ‘fit for the future’ and made recommendations about potential council mergers. Some councils put forward alternative merger proposals. The Chief Executive of OLG appointed delegates to examine each proposal and consider community input. On 12 May 2016 the NSW Government announced the amalgamation of 42 councils into 19 new councils. A further two councils were amalgamated into one on 9 December 2016.
A special unit within DPC was set up to support councils through the amalgamations. In consultation with DPC, Local Government NSW (LGNSW), the peak organisation representing councils in NSW, developed an Amalgamation Toolkit to support and guide councils in the amalgamation process.

Exhibit 2: Fit for the Future and 2016 amalgamation timeline

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 February 2014</td>
<td>The division of Local Government in the Department of Premier and Cabinet (DPC) was abolished and its functions transferred to the newly created Office of Local Government (OLG)</td>
</tr>
<tr>
<td>10 September 2014</td>
<td>The NSW Government committed to Local Government reform, releasing its &quot;Fit for the Future&quot; (FFTF) program</td>
</tr>
<tr>
<td>First week of June 2015</td>
<td>IPART, in the role of the Expert Advisory Panel, released its Assessment Methodology Final Report, describing the criteria that would be used to assess whether councils were FFTF</td>
</tr>
<tr>
<td>30 June 2015</td>
<td>Councils submitted proposals as to how they met the criteria</td>
</tr>
<tr>
<td>Mid October 2015</td>
<td>IPART assessed council proposals and provided recommendations to the NSW Government</td>
</tr>
<tr>
<td>6 January – 11 May 2016</td>
<td>The formal proposal period commenced, during which merger proposals were examined and reported upon by IPART and DPC’s delegates</td>
</tr>
<tr>
<td>12 May 2016</td>
<td>NSW Government proclaimed the amalgamation of 42 councils into 19 new councils</td>
</tr>
</tbody>
</table>

Source: Audit Office research 2018.

The amalgamating councils continue to be guided by the provisions in the Local Government Act 1993 (the Act) that relate to amalginations. Section 354 of the Act describes employment protection provisions, such as the preservation of existing entitlements, and no forced redundancies. Some of these provisions are enduring, whilst others remain in place for three years from the date of amalgamation, a period informally known as the Protection Period. In addition, Section 218CA requires council to maintain staff numbers, ‘as far as is reasonably practicable’, at any rural centre that had a population of less than 5000 at the time of amalgamation.
In July 2015, and in parallel to the process driven by IPART described in Exhibit 2, the NSW Government commissioned an analysis of potential savings from merging councils. A tailored summary of the results was made available to each council that identified potential savings over a 20-year period for each proposed merger. For the three councils included in this audit, the analysis identified potential net savings of $88.0 million for Inner West Council, $22.0 million for Queanbeyan-Palerang Regional Council, and $13.0 million for Snowy Monaro Regional Council. These net savings took into account additional revenue in the form of New Council Implementation Fund (NCIF) grants to assist the councils with the costs of amalgamation.
A note on savings and efficiency

The analysis of potential savings commissioned by the NSW Government in 2015 was clear that not all savings would be realised through reductions in staff numbers. Documentation produced at the time by the NSW Government referred to opportunities for councils to realise both financial savings such as reduced numbers of councillors, and efficiencies such as conversion of back-office positions into frontline service positions. The analysis also recognised other potential savings through the increased purchasing power of larger councils, and the integration of separate ICT systems. These savings are retained by councils. In line with the original NSW Government documentation, references to savings and efficiencies within this report include financial savings as well as redeployment of staff, improved community service and reduced duplication of effort.

1.2 About the audit

This audit’s objective was to assess whether three councils are effectively reforming their organisation structure to realise efficiency benefits from amalgamation and managing its impact on staff.

We addressed the objective by answering the following questions:

1. Are councils working towards an efficient organisation structure?
2. Are councils effectively managing the impact of change on employees?

Exhibit 4: Amalgamated councils included in this audit

<table>
<thead>
<tr>
<th>Inner West Council</th>
<th>Queanbeyan-Palerang Regional Council</th>
<th>Snowy Monaro Regional Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>Former councils:</td>
<td>Former councils:</td>
<td>Former councils:</td>
</tr>
<tr>
<td>• Ashfield</td>
<td>• Queanbeyan</td>
<td>• Bombala</td>
</tr>
<tr>
<td>• Leichhardt</td>
<td>• Palerang</td>
<td>• Cooma-Monaro</td>
</tr>
<tr>
<td>• Marrickville</td>
<td></td>
<td>• Snowy River</td>
</tr>
</tbody>
</table>


The audit covered council workforce decisions between 10 September 2014 and November 2018. It focused on decisions affecting staff in the corporate functions and included Parks and Gardens staff as an example of ‘outdoor’ staff.
2. Progress towards an efficient workforce

2.1 Amalgamating the organisation structures

Amalgamated councils took different approaches to developing their new organisation structure

Immediately following amalgamation, each of the three councils implemented an interim organisation structure so that staff knew who they reported to and who was responsible for performance management. These interim organisation structures closely reflected the organisation structures of the former councils, reporting to an interim General Manager appointed by the Governor in the Proclamation establishing each council.

Each council then embarked upon an organisational design process to develop an amalgamated organisation structure.

Exhibit 5: Three different approaches to developing an organisation structure

Some staff were not laterally transferred into the new organisation structures or did not apply for new roles. Both Snowy Monaro Regional Council and Inner West Council placed excess staff in a redeployment pool. At the time of the audit, those staff were either backfilling vacancies or assisting with integration projects. At Queanbeyan-Palerang Regional Council, the new structure was able to accommodate all staff who wanted a role in the new organisation, and there is no redeployment pool.

Each of the three approaches has delivered a workable structure that, at the time of the audit, is delivering services to the community.

All three councils need to align their services across the council area before they can establish the optimal organisation structure

Councils need to establish the service levels and offerings they intend to provide before they can settle on the best approach and workforce structure to deliver them.

Service reviews are underway at all three councils, although no council has yet completed the process of aligning the service offerings and levels of the former councils. At the time of the audit, different service levels inherited from the former councils mean that some ratepayers of the amalgamated council are receiving a higher level of service than others.
Council staff told us that decisions about service offerings and levels take time due to the need for community consultation. Service changes may have an impact on staff work locations and employment conditions and councils are unable to modify these (other than by agreement with staff) until the end of the staff protection period. The end of the protection period brings an opportunity for councils to align services and implement further workforce reform to ensure efficient and effective service delivery.

Exhibit 6: Relationship between service levels and workforce reform

At Inner West Council, grass nature strips are maintained by council employees in the former Marrickville and Leichhardt Council areas, but not in the former Ashfield Council area. The local community and their elected councillors will need to decide whether to align this service across the amalgamated Local Government area or retain the differentiated service levels. If the services are aligned, the tasks of some council workers may change. More or less maintenance could be performed, or different maintenance schedules introduced. This could lead to changes in work crew structures and work scheduling.

2.2 Monitoring workforce reform and reporting on savings

The councils did not anticipate material benefits from workforce reform within the first three years of amalgamation

Following amalgamation, DPC asked councils to report regularly on their amalgamation costs and benefits using a Benefits Capture Tool provided by DPC. This tool encouraged councils to estimate annual costs, savings and efficiencies associated with amalgamation over a ten year period, and to report against annual milestones. Queanbeyan-Palerang Regional Council and Snowy Monaro Regional Council used the Benefits Capture Tool to report progress to DPC every three months. Inner West Council did not report progress to DPC.

We have reviewed the Benefits Capture plans for Queanbeyan-Palerang Regional Council and Snowy Monaro Regional Council. Neither of these councils anticipated material benefits from workforce reform within the first three years of amalgamation. A review of financial statements and annual reports for all three councils shows that all three have realised some remuneration savings through a reduction in the number of General Managers and councillors.

In the middle of 2017, amalgamation monitoring and support was transferred to the OLG and councils have not been asked to report on benefits realisation since that time.

Communities should be informed about the full costs of amalgamation, including how NCIF grants are being spent and the extent to which amalgamation costs are funded by ratepayers. We note that Queanbeyan-Palerang Regional Council is reporting to the elected council on their amalgamation costs and benefits at a summary level using DPC’s Benefits Tracking Tool. These reports are available to the public.

None of the councils have detailed plans for further workforce reform after their protection period ends

Following amalgamation, all three councils developed detailed plans that included key activities such as:

- developing a new organisation structure
- reviewing positions and salaries
- recruiting staff into positions
- aligning salaries, working conditions and human resources policies.
At the time of the audit, all three councils have largely completed these major activities, with the exception of alignment of salaries and conditions for staff employed under enterprise agreements at Inner West Council, which is planned for 2019.

None of the councils has detailed plans, with tasks, target dates and key milestones, for further workforce reform after their protection period ends.

All amalgamated councils are expected to report to the OLG every six months on the expenditure of New Council Implementation Fund (NCIF) grants that were provided to amalgamated councils, but these reports are not made public by the OLG. The reports do not track realisation of benefits.

Queanbeyan-Palerang Regional Council monitors and reports to its community on the benefits and costs of amalgamation

Analysis commissioned by the NSW Government prior to amalgamation suggested that Queanbeyan-Palerang Regional Council could achieve savings and efficiencies of around $22.0 million dollars over 20 years, net of costs. Queanbeyan-Palerang Regional Council developed its own estimate of $13.0 million net savings over ten years. Both the original and the revised estimate included a grant of $5.0 million to assist with merger costs. No material savings due to workforce reform were identified for the first three years following amalgamation.

In September 2016, Queanbeyan-Palerang Regional Council informed DPC of the revised estimates. A plan for achieving the revised estimates was adopted by the Administrator of Queanbeyan-Palerang Regional Council one month later. Queanbeyan-Palerang Regional Council reports progress against this plan to the council every year. These progress reports are included in council papers and are available to the public. Queanbeyan-Palerang Regional Council also reported progress to their Implementation Advisory Group while it was active.

Snowy Monaro Regional Council does not report to its community on the benefits and costs of amalgamation

Analysis commissioned by the NSW Government prior to amalgamation suggested that Snowy Monaro Regional Council could achieve savings and efficiencies of around $13.0 million net over 20 years, including a grant of $5.0 million to assist with merger costs. A revised schedule of estimated savings and efficiencies valued at $3.7 million over ten years, net of the $5.0 million grant, was presented to the Audit and Risk Committee in December 2017 and adopted by Snowy Monaro Regional Council in July 2018.

Snowy Monaro Regional Council’s schedule of estimated savings and efficiencies, last maintained in 2017, shows very few savings or efficiencies were expected from workforce reform, and nothing material in the first three years. Snowy Monaro Regional Council is no longer monitoring efficiencies and savings from amalgamation against targets or milestones.

Inner West Council does not report to its community on the benefits and costs of amalgamation

Analysis commissioned by the NSW Government prior to amalgamation suggested that Inner West Council could achieve savings of around $88.0 million net over 20 years. Subsequent modelling, commissioned from the same service provider by the delegate responsible for assessing the merger, estimated $51.0 million net over ten years. Plans for achieving savings and efficiencies of $60.0 million over ten years were presented to Inner West Council in October 2017, although these plans contained no interim targets or milestone dates. The original and the revised estimates included a grant of $10.0 million to assist with merger costs.

Inner West Council also presented monthly updates to their Implementation Advisory Group. These contained status reports for projects associated with the amalgamation. However, the status reports did not identify expected or actual savings and efficiencies from these projects. These status reports, and the benefits realisation plan presented to Inner West Council in October 2017, are available to the public on the council website.

Inner West Council is not maintaining a schedule of planned efficiencies and savings from amalgamation with targets and milestones.
Councils would benefit from more comprehensive guidance on how to measure efficiency of their organisation structures

The intent of DPC’s Benefits Capture Tool was to track benefits achieved specifically through amalgamation, and over a specified time period. Councils should be considering more broadly the efficiency of their organisation structures and how these contribute to their overall performance targets.

Councils track and benchmark their performance using the following audited metrics:

- Operating performance ratio.
- Own source operating revenue ratio.
- Unrestricted current ratio.
- Debt service cover ratio.
- Rates and annual charges outstanding ratio.
- Cash expense cover ratio.

These ratios are included in council financial statements and are also published in our Local Government financial audit report to Parliament.

However, these are not metrics of efficiency. While all three of the councils purchase services and benchmarking reports that provide feedback on efficiency, the OLG has not developed a suite of council efficiency indicators nor comprehensively benchmarked council efficiency.

Councillors are required to review the organisation structure within 12 months of a council election. An appropriate set of measures of outputs and outcomes that support efficiency and economy would provide meaningful information to support this review process.

2.3 Implementation challenges

The Local Government Act 1993 protected staff, but slowed restructuring

Staff and smaller communities benefited from the protections that the Local Government Act 1993 required councils to provide. However, these protections have impacted on the speed at which councils have been able to progress structural change, and created potential risks to future efficiency and economy.

These protections have also impacted upon councils’ ability to plan for or realise benefits from amalgamation during the protection period. Some staff protections are enduring, while the Act requires councils to implement other protections for a period of three years following amalgamation. Inner West Council increased the three-year protection period to five years.

Staff cannot be forcibly made redundant during the protection period, meaning that councils must retain staff who do not have a position in the organisation structure. At the time of the audit, 22 staff at Inner West Council fall into this category and their employment is protected until May 2021 when the Inner West Council protection period ends. The employment cost of these staff is $2.4 million per annum, with the staff performing productive work, backfilling vacancies or working on integration projects.

In addition, councils must first recruit from their internal staff to fill any vacant positions, before advertising the position externally. Preferential treatment for internal applicants can make it difficult to maintain employment levels. Whenever one vacant position is filled by an internal staff member, another recruitment round must be initiated to fill the vacancy created.
Exhibit 7: Vacancies are high and recruitment continuous at Snowy Monaro Regional Council

At the time of the audit, the vacancy rate at Snowy Monaro Regional Council was around 20 per cent. Any time a staff member leaves the organisation, a successful internal recruitment process leads to a vacancy in a different position. While this provides opportunities for staff promotion and development, it is difficult for the organisation to ‘catch up’ through external recruitment. In addition, Snowy Monaro Regional Council is located in a remote area and external recruitment is typically a lengthy and challenging process, especially when recruiting for staff with specialist skills.

Additional provisions in the Act relating to the relocation of staff no doubt assisted staff and local communities to adjust but have impeded the establishment of integrated working arrangements in Snowy Monaro Regional Council and Queanbeyan-Palerang Regional Council. This is a particular problem in regional councils where the distances between work locations can be much greater, and public transport is often limited or unavailable. Staff at Snowy Monaro Regional Council reported that some supervisors regularly spend unproductive time driving between sites that are more than an hour's drive apart to deliver face-to-face supervision and training. With the agreement of staff, Inner West Council relocated their workforce across the merged Local Government area so that teams could be co-located wherever possible.

Exhibit 8: Regional councils cannot reduce numbers at rural locations

Section 218CA of the Act requires amalgamated councils to maintain staff numbers at any council locations where the local population is 5000 or fewer at the time of the amalgamation, even if the population later exceeds 5000. Both Queanbeyan-Palerang Regional Council and Snowy Monaro Regional Council have locations that meet this criterion. This requirement, combined with restrictions on relocating staff for three years following amalgamation, make it difficult to establish new work teams that can work together. While the requirement to maintain staff numbers at rural locations is ongoing, there is no requirement that specific positions must remain in their former council work locations once the protection period is over. Regional councils have an opportunity after the protection periods end to consider where best to locate specific positions so that work teams can operate as efficiently as this restriction allows, while maintaining overall staff numbers at rural locations.

Multiple ICT systems and inconsistent business processes remain in each council, impeding workforce efficiency

A critical task following amalgamation is the integration of ICT systems, transfer of data and standardisation of business processes. At the time of the audit, these tasks are still underway at all three councils.

Queanbeyan-Palerang Regional Council and Inner West Council are each part-way through an integration project while Snowy Monaro Regional Council has only just selected an integrated enterprise system. Additional staff are needed for these projects in the short-term. Until systems and data are integrated, extra staff are also needed to perform some functions that require the use of systems and data from the former councils.

Once systems and business processes are integrated, councils will need to re-examine their organisation structures to realise efficiencies from moving to a single system from multiple systems.

Changes in leadership can disrupt the progress of workforce reform

Strong leadership with a clear and consistent reform direction assists any amalgamation. At Inner West Council and Snowy Monaro Regional Council, the interim General Managers appointed at Proclamation departed during the protection period. Further, the second interim General Manager at Inner West Council was appointed under a series of short-term contracts. A permanent (third) General Manager was appointed to Inner West Council part-way through this audit. Change and uncertainty at the top of an organisation inevitably disrupts and acts as an impediment to workforce reform and planning.
Changes in leadership have occurred for most of the councils amalgamated in 2016. The Proclamation made on May 12, 2016 included appointments of interim General Managers for all amalgamated councils. Of the 19 interim General Managers appointed, only three remain in their role at the time of the audit, and the average tenure was just under 18 months. During the 18-month period of administration, five councils experienced a change of interim General Manager. In September 2017, council elections were held and a further eight councils changed their General Manager during the six months after.

**Staff salaries in each council cannot be fully harmonised**

All three councils included in this audit experienced variation in pay cycles across the former councils, with some former councils paying staff weekly, and other former councils paying staff fortnightly. All councils have now aligned their pay cycles as permitted by the Local Government (State) Award 2017. Inner West Council and Queanbeyan-Palerang Regional Council assisted staff to adjust to this change by offering short-term loans where needed.

In addition to aligning the frequency of staff pay, councils needed to align salaries and working conditions that may differ between the amalgamated workforces. The Act requires that no staff should be worse off due to amalgamation. This relates not only to the specific salary and working conditions of staff members at the time of amalgamation, but also to future increases provided for in the salary structure.

Each of the three councils included in this audit developed a new ‘amalgamated’ salary structure following an evaluation of roles using a job evaluation system.

At Snowy Monaro Regional Council and Queanbeyan-Palerang Regional Council, some staff have elected to remain on their old salary structure. Any staff who join the council as a new employee, or who apply for a new role within the council, will be paid under the new salary structure.

**Exhibit 9: Staff remaining on old salary structures at the time of the audit**

<table>
<thead>
<tr>
<th>Council</th>
<th>Staff remaining on old structures</th>
<th>Staff transferred to new structures</th>
<th>Number of salary structures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Queanbeyan-Palerang Regional Council</td>
<td>267</td>
<td>327</td>
<td>3</td>
</tr>
<tr>
<td>Snowy Monaro Regional Council</td>
<td>20</td>
<td>416</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Audit Office research.

At Inner West Council, all staff recruited into new positions within the organisation structure have moved to the new salary structure. Outdoor staff, childcare staff, library staff and staff in the redeployment pool have remained on their existing salary scales until service reviews are completed in these areas and enterprise agreements renegotiated where relevant. Inner West Council also took the view that any staff accepting a role in the new council should also accept new human resources policies such as the parental leave policy and study leave policy. This has created difficulties relating to policies that were perceived by staff to be more generous in the former councils and Inner West Council is working through these issues with their consultative committee.

**Different working conditions initially created barriers to using the workforce efficiently at Inner West Council**

Some groups of staff at Inner West Council, primarily outdoor workers from the former Leichhardt and Marrickville Councils, are covered by six enterprise agreements that are inconsistent in their conditions of employment. These inconsistencies relate to staff working hours, start times, lunch breaks, allowances and other conditions. Because of these inconsistencies in the agreements, staff covered by these agreements were initially unable to be rostered to work together, making it difficult for the workforce to flexibly deliver services across the Local Government area. Some of these staff have cooperatively developed interim arrangements to align their work conditions until such time as the enterprise agreements can be renegotiated. Inner West Council has plans to renegotiate these agreements in 2019.
Exhibit 10: Example of different service levels affecting staff working conditions

Waste collection in the former Leichhardt Council area involves a weekly collection of waste and recyclable material and two booked collections of general waste per year. In the former Marrickville Council area, waste is collected during the day, and households can request a household waste collection at any time. Former Leichhardt staff work a 38-hour week with dual shifts including some night work, and former Marrickville staff work a 38-hour week during the day. Unless the waste collection services are aligned, and staff working conditions aligned to match, Inner West Council cannot deliver a seamless waste service across the merged council area. In addition, Inner West Council cannot take advantage of the larger workforce to share workers across teams to cover for staff absences. Waste collection in the former Ashfield Council area is outsourced, making alignment across the merged council area even more challenging.

Actions of former councils can create impediments to progress

Amalgamated councils inherit decisions made by former councils. In circumstances where these impact upon staff employment conditions, decisions made by former councils present difficulties for amalgamated councils due to the Act’s requirement that staff entitlements must be preserved.

In the year prior to amalgamation, staff numbers (FTEs) at both the former Ashfield and Marrickville Councils increased by seven per cent and five per cent respectively, increasing the number of staff receiving protections at the time of amalgamation. In addition, during the pre-proposal period, the former Leichhardt Council resolved to extend the period of protection against forced redundancy provided for in the Act from three years to five years. Inner West Council inherited this decision and had to amalgamate a workforce where former Leichhardt Council staff had five years protection against redundancy and former Marrickville and Ashfield staff had only three years protection. In November 2017, the newly elected Inner West Council extended the five year protection period to all staff.

Amalgamated councils may also inherit poorly maintained records from former councils. The Act requires that no staff should be worse off after the amalgamation. One council received such poor employment records from a former council that they are now obliged to pay some staff ongoing allowances with no original documentation about the rationale or eligibility for the allowances.

The role of elected councillors in determining the organisation structure is ambiguous in the Act

Section 332 of the Local Government Act 1993 requires the elected council to determine the senior staff positions, senior staff reporting lines and staff budget after consulting the General Manager or CEO. The Act requires the General Manager or CEO to determine the rest of the structure ‘after consulting’ the council. The councils included in this audit reported varying levels of councillor influence in the development of organisation structures for non-senior positions.

Exhibit 11: Example of elected councillors influencing a change to the organisation structure at Inner West Council

During the audit, Inner West Council approved the creation of a new position within Trees, Parks and Sportsfields, to be called the Office of Sport Coordinator. Council officers had previously determined that the duties associated with this position could be more efficiently performed by existing staff within the Trees, Parks and Sportsfields function, and that no new position was required. However, consultation with the councillors revealed that there was a strong desire amongst the councillors to fund the new position, even though this was a less economic solution. A compromise was reached where the new position was created for just two years.
3. Managing the impact of change

3.1 Meeting the requirements of the *Local Government Act 1993*

All three councils implemented staff protections in the Act

The Act contains protections that help to mitigate the impact of amalgamations upon staff. Described in more detail elsewhere in this report, the protections prevent the amalgamated council from:

- terminating any non-senior staff, other than by agreement
- relocating any non-senior staff from a work base outside the boundaries of their former council area, other than by agreement
- advertising any positions externally until internal applicants have been assessed.

In addition, the council must assess positions in the new organisation structure and identify staff who were performing substantially the same duties in their former council. These staff should be given the opportunity to apply for the position and if successful, are considered to be ‘laterally transferred.’

These protections are in place for three years following Proclamation, although Inner West Council extended their protections to five years.

Councils are bound by two further enduring protections:

- preserve entitlements (salary and conditions) of non-senior staff
- regional councils must maintain staff numbers at rural locations that have population of 5000 or less at the time of amalgamation.

All three councils implemented these protections with the involvement of their consultative committees. Further information about the specific approaches taken by each council is included in Appendix two.

Councils took different approaches to implementing some protections in the *Local Government Act 1993*

Councils took different approaches to implementing some of the provisions in the Act. In particular, they differed in their approaches to identifying non-senior staff eligible for lateral transfer, and their interpretation of which non-senior staff should be given preference in recruitment.

To assist with interpreting the Act, Councils had access to information provided by the OLG, legal opinions obtained by Local Government NSW, and some councils also obtained their own legal advice. Despite these opinions, councils still took different approaches.

3.2 Managing change and keeping staff informed

All three councils focused on change management following amalgamation

In addition to implementing protections required by the Act, councils developed and implemented change management plans and strategies, regularly consulted and communicated with staff about the change, and administered staff surveys. Councils further supported staff by offering voluntary redundancies and promoting the Employee Assistance Program.

All three councils adopted a mixed media approach to communication with staff including presentations, team leader talks, newsletters, emails and printed notices.
Good change management practices included:

- Queanbeyan-Palerang Regional Council commissioned an audit of their change management practices within a year of amalgamation and implemented improvement recommendations.
- Snowy Monaro Regional Council held a Health and Wellbeing day for all staff that included change management and coping-with-change training and gave all staff the opportunity to contribute to the vision and values of the new organisation through workshops.
- Inner West Council held training sessions on change and resilience as well as courses targeted at developing specific skills such as resume-writing and recruitment.

Inner West Council also used their Consultative Committee effectively.

**Exhibit 12: Inner West Council Consultative Committee**

The Consultative Committee (CC) at Inner West Council met monthly following amalgamation, although meetings have recently become less frequent. Initially, the CC had 22 members, with representatives from each of the former councils. Over time, the number of members has reduced. The Chair of the CC told us that the membership will be reviewed again in 2019 to ensure that all locations are represented.

During 2017–18, all aspects of the new organisation structure were reviewed by the CC, including position descriptions. The CC also reviewed human resources policies as they were developed such as the voluntary redundancy policy, excess leave policy and study assistance policy.

Outreach was an important function of the CC during the early days of the amalgamation. CC members were given time off their regular duties to meet with staff and then deliver feedback to Group Managers. The Chair of the CC met regularly with the union representatives to discuss issues of concern to the staff. After every CC meeting, a further Town Hall meeting was held to brief staff on the proceedings.

**At this stage councils have not adequately assessed the effectiveness of change management efforts**

All three councils conducted staff surveys in 2016 to take a baseline measurement of Employee Engagement. Snowy Monaro Regional Council and Queanbeyan-Palerang Regional Council also included questions about change optimism and transition readiness.

While such surveys help management understand staff issues, they are especially valuable to help assess trends over time. However, none of the three councils is able to use the surveys they have undertaken to assess change and the effectiveness of change management efforts since 2016 when the amalgamation took place.

To illustrate:

- Inner West Council and Queanbeyan-Palerang Council used different questions in their 2016 and 2017 surveys. Both have now administered 2018 surveys that are consistent with their 2017 surveys and if the surveys remain consistent in future years, they should be able to monitor trends and assess the impact of change on staff.
- The results of the 2016 survey at Snowy Monaro Regional Council cannot be relied upon because it was administered in one of the former councils before amalgamation and the other two former councils after amalgamation. This is unlikely to have produced a consistent result across the three workforces.

In addition to staff surveys, all three councils are using other benchmarks such as staff turnover and sick leave to monitor staff wellbeing.
Section two
Appendices
Response from Snowy Monaro Regional Council

10 April 2019

Ms Margaret Crawford
Auditor-General
Audit Office of New South Wales

Via email: Margaret.Crawford@audit.nsw.gov.au

Dear Ms Crawford

Performance Audit Report on Workforce Reform in Three Amalgamated Councils

Thank you for your office’s letter dated 4 April 2019 and for the opportunity to respond to the Performance Audit Report on Workforce Reform in Three Amalgamated Councils [the Report].

Snowy Monaro Regional Council accepts the recommendations contained in the Report, in so far as these relate to Snowy Monaro Regional Council.

I advise that these recommendations have been included in our Operational Plan 2019/2020 as a means of continuing our endeavours towards the implementation of these recommendations.

I would like to thank the Audit Office for its efforts in examining how amalgamated councils are reforming their workforce to realise efficiency benefits from amalgamation and to manage its impact on staff.

Should you require further information please contact Peter Cannizzaro, Director Corporate and Community Services on (02) 6455 1720.

Yours faithfully

Peter Bascomb
General Manager
Response from Inner West Council

INNER WEST COUNCIL

17 April 2019

Ms Margaret Crawford
Auditor-General of NSW
GPO Box 12
Sydney NSW 2001

Attention: Claudia Migotto

Dear Ms Crawford

RE: Response to Performance Audit Report – Workforce Reform in Three Amalgamated Councils

I am writing in formal response to your Performance Audit Report – Workforce Reform in Three Amalgamated Councils as a participant Council.

The State Government did not adequately prepare for amalgamation. The amalgamations were forced upon the community with little or no regard for them or the staff. Consequently, amalgamated Councils are still, three years since proclamation, in a situation of transition and transformation, whilst delivering services to the community. The Performance Audit Report accurately reflects that newly amalgamated Councils cannot realise the benefits of amalgamation until they align services across the former council areas, complete integration of ICT systems and adopt common practices. These matters should have been managed much better by the State and funded properly.

These transition processes are time and resource intense and efficiencies are longer term. The impact of employment protections within the Local Government Act whilst giving some certainty to staff, have had a detrimental effect on timely benefits realisation.

As indicated via the examples in the report, Inner West Council has made tremendous efforts and significant achievements to date, despite the challenging and disconcerting environment for staff.

I would like to thank you for the personal meeting to discuss this report and the co-operation shown by all parties in ensuring an accurate reflection of Workforce Reform to date at Inner West Council.

Yours sincerely

Michael Deegan
Chief Executive Officer
Inner West Council

P.O. Box 14 Petersham 2049 | P (02) 9392 5000 | E council@innerwest.nsw.gov.au
Customer Service Centres | Petersham 2-14 Fisher Street | Leichhardt 7-15 Wetherill Street | Ashfield 260 Liverpool Road
Response from Queanbeyan-Palerang Regional Council

18 April 2019
Audit Office of New South Wales
GPO Box 12,
Sydney, NSW 2001

Dear Ms Crawford
By email: susan.loane@audit.nsw.gov.au

Workforce Reform Audit of Amalgamated Councils

Thanks you for the opportunity to respond to the Performance Audit of Amalgamated Councils, of which Queanbeyan-Palerang Regional Council (QPRC) was selected as one. At the outset, we compliment your audit team led by Susan Loane, for their professional and courteous conduct.

In broad terms we support the approach, findings and recommendations of the Report, noting we were provided an opportunity to discuss aspects with your audit team previously. We provide the following observations and comments.

2.1: QPRC established a ‘service, program, activity (SPA)’ framework that underpinned the five pillars of the Community Strategic Plan. That framework was used to guide its reframing of services and to guide the shape of the organisation structure and the associated resources and expertise required to deliver services and projects for the community. To an extent, many of those services were expanded in scope or extended geographically into the broader LGA, more generally at a harmonised or higher level than the former council.

2.2: Council reported progress against the Merger Transition Plan 2016 and the Merger Projects initially to the Implementation Advisory Group, then to the Audit Risk and Improvement Committee. Those Committee minutes were reported to Council. We continue to provide annual updates on merger progress to Council, and will prepare a 3-year Merger in Review report after FY2019.

Council prepared an initial Workforce Strategy (WFS) embedded in the Resourcing Strategy 2017, which together with workforce and culture related projects outlined in the Merger Plan, outlined the actions and responsibilities to deliver workplace reform and establishment of systems. The next generation WFS is in draft for presentation to Council mid-year.

2.3: It is difficult at this early stage of the new organisation life to identify and illustrate efficiencies generated by the organisation structure and the investment in technology platform. As the audit noted, the provisions of the Act limited real structural and locational reform – particularly through obligations to retain staff numbers, depots and offices (and in most circumstances the same roles) in the smaller towns.
Similarly, transitioning to single pay cycles, structures and salary systems was problematic and relatively lengthy – in part due to experiences of the merger 12 years earlier. Nonetheless, those systems and structures were designed to be foundation setting for a new organisation, not just to stitch the former organisations together.

It would be a useful outcome of the audit to gain legal or industrial clarity on a number of matters identified, such as s218CA, s332 and retention of former salary systems for example.

3.2: QPRC also provided assistance to L2-3 staff exposed to spii/fill to obtain financial and CV advice, as well as assistance for staff considering voluntary redundancies. We recently advised staff there will be no forced redundancies as a result of the merger protection period closing in May 2019, but will continue to revise roles and structures in accord with the Award. A formal review and consideration of the Transformation Structure to have regard to service reviews and productivity generated by the digital and mobility platforms is scheduled for mid-2020 as foreshadowed in the Merger Transition Plan.

Merger benefits presented to DPC by Council included an FTE/resident ratio at or below the ratios of the former councils; lower backoffice % of operational expenditure; and a lower rate pricing path of the former councils. It is suggested those, together with others extracted from the ‘Australasian LG performance Excellence Program (PEP)’ may inform the performance benchmarks to established by OLG.

While we initially proposed to undertake an independent logistics assessment of the impact on productivity of daily shuffling between the various offices, workspaces and depots by staff, we have utilised the PEP to examine attendances, unplanned absences and co-relationships to overtime, stress, excess leave and injury statistics as metrics of productivity.

Appendix 2: based on the level of vacancies at time of merger, meant we did not have enough staff to fill the structure and seamlessly continue services. Hence the opportunity for employment, role redesign and promotion was available to staff from time of merger. Recent presentations to staff have illustrated ~20% of staff have been placed or promoted into higher level roles since merger; ~ 20% received a pay rise; and ~30% of staff have now been employed longer at QPRC than the former councils.

Relocating staff to different work locations has been problematic due to merger and award protections, unless appointed to new roles. Notwithstanding, retention of staff numbers at the smaller centres skewed those attempts to relocate. Post the merger protection period, a program to co-locate staff in functional groupings across the three main offices and depots is underway. Award allowances and travel-in-work-time issues may prevail.
Again, thank you for the opportunity to submit to the audit report. We are happy to clarify or expand on any of the points raised.

Yours sincerely,

[Signature]

Peter Tegart
CEO
Queanbeyan-Palerang Regional Council
Response from Office of Local Government

Ms Margaret Crawford
Auditor General of NSW
By email: mail@audit.nsw.gov.au

Dear Ms Crawford

Thank you for your letter of 4 April 2019 providing a copy of the report, Performance Audit – Workforce Reform in Three Amalgamated Councils. The Office of Local Government (OLG) appreciates the opportunity to respond to the report and notes the findings and recommendations that have been made.

I would like to acknowledge the valuable work of your Office in examining the progress made by the three amalgamated councils that have been audited towards an efficient organisation structure.

I have noted the recommendation that OLG develop a suite of efficiency and economy indicators and report on the performance of councils against those indicators. I note that a similar recommendation was made in the report Council Reporting on Service Delivery 2017. In my response that report, I advised that OLG is working on the development of a Performance Measurement Framework for councils in NSW, incorporating appropriate performance measures to assist in consistent sector-wide performance reporting.

As you may be aware, work began on the development of a performance measurement framework during 2013 and 2014. The project was placed on hold while other local government reforms were being pursued. The NSW Government has previously committed to the development of a performance measurement framework for NSW councils, and provision for such a framework has been made in previous amendments to the Local Government Act 1993.

The timing and development process for this framework will ultimately be a matter for the consideration of the Minister for Local Government, the Hon. Shelley Hancock MP. However, it is currently anticipated that work will recommence later in 2019.
Thank you again for the opportunity to respond to the report and for engaging with OLG throughout the audit process.

Yours sincerely

\[Signature\]

Tim Hurst
Chief Executive
Office of Local Government

29/4/19
Appendix two – Compliance with staff protections in the Local Government Act 1993

Voluntary redundancies

The Local Government Act 1993 Section 354F protects non-senior staff from redundancy for a period of three years following amalgamation. Inner West Council's elected council has extended this period of protection to five years in line with an earlier decision by the former Leichhardt Council.

All three Councils offered voluntary redundancies to staff, providing varying levels of support and communication.

Inner West Council developed a policy for voluntary redundancies where individual staff in specific target groups who did not have a job in the new structure were personally invited to express interest in a voluntary redundancy. Queanbeyan-Palerang Council openly invited interested staff to apply for voluntary redundancy. The council mapped the stages of the voluntary redundancy application, advised staff to obtain independent financial advice and provided staff with a redundancy payout calculation tool.

Snowy Monaro Regional Council did not develop a written policy or procedure. Staff were not specifically invited to apply for voluntary redundancy but were informed during meetings that they could submit an application if they felt unable to continue their employment with the amalgamated council.

All three councils involved the General Manager in decisions about voluntary redundancies. None of the councils approved voluntary redundancies for staff members who had potential to be employed in the new council structure. Some staff at Inner West Council were approved for a voluntary redundancy but remained in temporary roles assisting with integration and other tasks until no longer needed.

Exhibit 13: Applications for voluntary redundancy

<table>
<thead>
<tr>
<th>Council</th>
<th>Applications</th>
<th>Voluntary Redundancies</th>
<th>% successful applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner West Council</td>
<td>Not tracked</td>
<td>56</td>
<td>N/A</td>
</tr>
<tr>
<td>Queanbeyan-Palerang Regional Council</td>
<td>35</td>
<td>11</td>
<td>31</td>
</tr>
<tr>
<td>Snowy Monaro Regional Council</td>
<td>Not tracked</td>
<td>14</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Lateral transfers

The Local Government Act 1993 Section 354G provides that the General Manager can place staff of the former councils into a position in the new organisation structure if they performed 'substantially the same duties' immediately prior to the amalgamation. Councils should identify staff in this situation and offer them a reasonable opportunity to apply for the position in the new council, and cannot advertise such positions externally.

Each of the three councils adopted different processes for lateral transfers.

Snowy Monaro Regional Council actively matched staff with positions in the amalgamated structure and laterally transferred around 97 per cent of staff.
Inner West Council laterally transferred 498 outdoor and childcare workers. All other positions were advertised and staff could make a case for a lateral transfer. If there was more than one person eligible, a merit-based process was used to decide who was laterally transferred. An additional 96 staff were laterally transferred this way.

Queanbeyan-Palerang Regional Council established Assessment Panels whose responsibilities included identifying staff eligible for lateral transfer and inviting those staff to apply for positions.

These different approaches resulted in a variation in the number of positions filled by lateral transfer in the three organisations.

Exhibit 14: Outcome of lateral transfer approaches

<table>
<thead>
<tr>
<th>Council</th>
<th>Number of lateral transfers</th>
<th>% staff laterally transferred</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner West Council</td>
<td>594</td>
<td>54</td>
</tr>
<tr>
<td>Queanbeyan-Palerang Regional</td>
<td>292</td>
<td>69</td>
</tr>
<tr>
<td>Snowy Monaro Regional Council</td>
<td>225</td>
<td>97</td>
</tr>
</tbody>
</table>

The councils each adopted an approach that they considered appropriate to their individual circumstances. None of the councils experienced industrial action relating to lateral transfers, nor received a significant level of complaints about the process they adopted.

Recruitment preference for internal staff

The Local Government Act 1993 Section 354H requires that if a position was not filled by lateral transfer, internal staff must next be given an opportunity to apply for a vacant position before it can be advertised externally.

Again, all three councils adopted different approaches to giving preference to internal staff. Inner West Council gave preference to staff employed prior to the Proclamation date for all internal recruitment in the protection period. Both Queanbeyan-Palerang Regional Council and Snowy Monaro Regional Council gave preference to any staff member employed at the time any vacant position was advertised.

Relocation of staff work bases

The Local Government Act 1993 Section 354I limits the extent of work base relocation following amalgamation. During the protection period, councils cannot require staff to relocate their work base outside the boundaries of their former council, unless staff agree to relocate.

Inner West Council co-located staff with their agreement. The extra travelling distance for most staff is small and good public transport is available. The council and Consultative Committee worked together to minimise the impact on staff during the move, and the small number of staff assessed as experiencing hardship were assisted with flexible arrangements.

The geographical distances between former council locations, combined with a requirement within the Act to maintain staff numbers at rural centres with populations less than 5000, meant there was limited opportunity for Queanbeyan-Palerang Regional Council and Snowy Monaro Regional Council to co-locate staff.
Appendix three – About the audit

Audit objective
This audit assessed whether three councils are reforming their organisation structure to realise efficiency benefits from amalgamation and manage its impact on staff. The councils audited were:

- Inner West Council
- Queanbeyan-Palerang Regional Council
- Snowy Monaro Regional Council.

Audit criteria
We addressed the audit objective with the following line of enquiry:

1. Are councils working towards an efficient organisation structure?
   a) Council has an effective process in place to develop an efficient post-amalgamation organisation structure.
   b) Council has plans and strategies for achieving the post-amalgamation organisation structure.
   c) Council is making progress against the plans and strategies.
   d) Council vacancies, retraining and redundancies are managed according to their plans.

2. Are councils effectively managing the impact of change on employees?
   a) Council is complying with legislative requirements.
   b) Council has reviewed positions and associated remuneration and is making progress towards aligning pay scales and conditions.
   c) Staff are effectively consulted on workforce reform, have opportunities to contribute meaningfully in workforce restructure and are kept well-informed.
   d) Council are assessing and responding to staff sentiment and workforce engagement.
   e) Council has a detailed plan and strategy for developing a unified post-amalgamation organisation culture.

Audit scope and focus
In assessing the criteria, we checked the following aspects:

- Council workforce decisions between 10 September 2014, when amalgamations were first announced by the State Government, through until the time of the audit.
- The staff included in the audit were senior executives and corporate staff, both full-time, part-time, contract and regular casuals.
- Parks and Gardens staff were also included, as an example of ‘outdoor’ staff.

Audit exclusions
The audit did not:

- examine the impact of amalgamation on elected councillors
- examine the impact of amalgamation on call centre staff or service delivery staff, other than Parks and Gardens staff
- examine the impact of amalgamation on the makeup of committees, on delegations or on extra-curricular positions held within the council organisation
- examine the technical integration of payroll or human resources computer systems
- question the merits of government policy objectives or decisions made by councillors.
Audit approach

Our procedures included:

1. Interviewing staff who participated in the amalgamation process at all three councils, with representation from all of the pre-amalgamation councils and unions.

2. Examining:
   - documents relating to post-amalgamation workforce planning and recruitment
   - policies relating to staff terms and conditions
   - minutes of meetings where staff conditions were discussed
   - documents relating to positions and pay rates including Awards and both formal and informal work arrangements
   - documents relating to communication with staff, grievances, welfare and engagement
   - sections of the *Local Government Act 1993* relating to amalgamation.

3. Analysing data on staff movements, project plans and staff surveys. We also examined:
   - documentation from other stakeholders obtained throughout the audit such as research and studies, statistical data and analysis
   - media reports, including local regional newspapers, relating to council amalgamation
   - information relating to the 2004 amalgamations for comparison.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by staff of Inner West Council, Queanbeyan-Palerang Regional Council, and Snowy Monaro Regional Council, the Office of Local Government and others who participated in interviews and provided information to assist our work.

Audit cost

Including staff costs, travel and overheads, the estimated cost of the audit is $330,000.
What are performance audits?
Performance audits determine whether State or Local Government entities carry out their activities effectively, and do so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole Local Government sector. They cannot question the merits of government policy objectives.

The Auditor-General’s mandate to undertake performance audits is set out in section 38B of the Public Finance and Audit Act 1983 for State Government entities, and in section 421D of the Local Government Act 1993 for Local Government entities.

Why do we conduct performance audits?
Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and Local Government entities, other interested stakeholders and Audit Office research.

How are performance audits selected?
When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

What happens during the phases of a performance audit?
Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity.
The relevant Minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

**Who checks to see if recommendations have been implemented?**

After the report is presented to the NSW Parliament, it is usual for the entity's audit committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

**Who audits the auditors?**

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

**Who pays for performance audits?**

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

**Further information and copies of reports**

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.
Our insights inform and challenge government to improve outcomes for citizens.

**OUR VISION**

To help parliament hold government accountable for its use of public resources.

**OUR PURPOSE**

Purpose – we have an impact, are accountable, and work as a team.

People – we trust and respect others and have a balanced approach to work.

Professionalism – we are recognised for our independence and integrity and the value we deliver.

**OUR VALUES**