Group Financial Services

Value for Money (s17A) Review 2018

Auckland Council
Te Kaunihera o Tāmaki Makaurau

10 May 2019

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Executive Summary – key findings

Finance has delivered on key investment challenges

- Finance faced and addressed a number of challenges on amalgamation. It produced consolidated accounts and met complex financial planning, reporting and audit requirements
- The financial objectives of the Long-term plans has been met or exceeded. For example average rates increases has been at projected levels and efficiency targets achieved
- There is a clear financial strategy and plan for the next 10 years to move the Group to a sustainable financial position. This strategy includes diversifying revenue streams (E.g. fuel tax), managing debt at prudent levels and working with Government and others to identify new approaches to funding growth infrastructure

Borrowing is within prudent levels - core to financial strategy

- Council borrows money to Finance capital investment with Group borrowing forecast to increase to be $13.1bn in 2028.
- The Group has maintained a AA credit rating. The credit rating signals the risk of lending money to the Group and a higher credit rating results in reduced interest costs. It also signals that an external agency has high confidence in the Group financial strategy
- Management of borrowing (and the associated interest cost) represents a risk to the Group and there are robust management practices to manage these risks including review by independent experts.

Capital project delivery key to meeting LTP objectives

- Capital expenditure is the driver of borrowing and it is used to spread the cost of long-live assets across multiple generations
- The Group is facing a big challenge to deliver on its large capital investment plan ($26bn over 10 years) against a history of under spend
- External factors such as oil price, interest rates, labour shortages all impact delivering the capital programme within budget parameters
- Finance has an increased role and opportunity to support capital delivery and drive improved forecasting of capital works expenditure so that borrowing remains within agreed limits

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Executive Summary – key findings

Costs are reasonable compared to benchmarks but there are efficiency opportunities

- The Group spends $43m on Finance which represents 1% of the Group operating cost. This is above public sector Finance benchmarks of 0.8%. Local Government has more financial compliance requirements (public consultation, development contributions, treasury, bond market listing rules, specific audit requirements) than Government and Auckland Council with the Group structure adds further complexity
- Auckland Transport and Watercare Finance costs are at or below the benchmark, ATEED, Panuku and RFA are slightly higher than benchmark and has relatively small Finance expenditure reflecting the size of their organisations.
- Finance costs has increased over the last 5 years in Auckland Council with the increase in reporting and insight to improve performance. Some of the increase is due to consolidating staff into the Finance division which were previously in non-Finance departments. The cost of processing transactions has decreased.

Good examples of shared services operating

- Finance teams collaborate well across the Group. There is an established CFO forum and another for financial managers who meet regularly to discuss items of common interest
- Shared services are successfully used. Auckland Council provides treasury, tax and technical accounting across the Group and they also provide transactional Finance services to RFA, Panuku and ATEED. Auckland Transport and Watercare has their own transactional Finance teams.
- Duplication also exists. Some of this is necessary duplication reflecting the strategic importance and complexity of Finance to each organization. Some duplication may be able to be removed with further shared services
- As part of the LTP the Mayor requested a shared services strategy for the Group and this should be progressed. The business case for further shared service opportunities should be tested against the significant benefits that robotic process automation provides without structural change

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Executive Summary

Finance has a number of roles. Overall Finance is effective.

- Finance performs well across it’s varied roles: strategy – planner and policy advisor; catalyst for change; steward of public money; financial operator
- Globally, Finance's role is changing to monitoring overall business performance. The Group Finance teams already has this role as the key performance monitoring function.
- Where measured, customer satisfaction is generally good.
- Finance also maintain an effective internal control environment and has developed the appropriate financial stewardship culture. The Auditor-General has not identified any significant management control issues or concerns over expenditure of public money.

New technologies being used to automate repeatable transactions

- As a key enabler, Finance has to adapt to the global shift to digitisation. Global research shows leaders in Finance digitisation are achieving significant cost savings.
- Finance teams has started to implement robotic process automation on some processes to reduce costs and errors. There are further efficiency and quality improvement opportunities through the use of robotics.
- Finance must also keep up with changing legislative (including tax) and accounting standards and there is a coordinated Group approach to the adoption of and the training of staff on these changes.

Group Finance is a mature function but needs to make sure it is ready for future challenges

- The Group requires a clear strategy and sound execution to achieve the LTP outcomes. A robust financial strategy is in place and Finance is effective in their role as steward of the Group Finances.
- The challenges of funding infrastructure is becoming more complex and Finance must ensure it continues to have the appropriate skills.

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Recommendations to Appointments, Performance Review and Value for Money Committee

It is recommended that the council's chief executive collaborate with the chief executives of the CCOs to:

Recommendation	Proposed Changes	Benefits
1. Shared services strategy for all back office services	• Building on current services to develop a shared services strategy and operating model including: • Key guiding principles • the appropriate operating model to deliver efficient and effective shared services • Establish the appropriate shared service governance structure and decision-making principles with appropriate sponsorship and representation from all Group organisations • Establish a mandate to use in future CCO Statements of Intent and in council policies • Assess the potential future efficiency and productivity benefits that increased use of robotics and AI and how the Group may collective leverage these benefits	• An agreed strategy and operating principles around how the Group will collaborate to improve efficiency and effectiveness • Opportunities to reduce cost of organisational support services through removing duplication, productivity improvements and scale efficiencies • Opportunity to create knowledge based centres of expertise allowing the Group to insource more activity • A framework to expand shared services to other local government organisations

2. Group Financial Information Strategy	• Design and implement a strategy for the management of Group financial information:
	    • determining the key information that is required in the Group plan to report cycle, for each LTP as part of a three-year planning calendar
	    • principles for how the information collected, accessed and used
	    • establishing appropriate data governance and controls
	• Develop a business case for implementing of the strategy including the selection of appropriate technology solutions and roadmap for future improvements
	• Determine the appropriate analytical tools for self-service capability for staff
		• A single source of truth for all information required for the long-term plans, annual plans, financial policies and annual report
		• Reduce the number of requests to provide the same information by multiple people, generally from Auckland Council to CCOs
		• Increased efficiency in the Finance teams across the Group
		• Clarity in the definitions of data resulting in consistency of reporting
		• Improved data quality
		• Improved quality of information to support decision-making

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Recommendations to Appointments, Performance Review and Value for Money Committee (cont.)

It is recommended that the council's chief executive collaborate with the chief executives of the CCOs to:

Recommendation	Proposed Changes	Benefits
3. Simplify planning and reporting process (Auckland Council focus)	• Introducing a new planning and reporting framework aligned to LTP, annual budgeting and planning cycles and corporate strategy • All business performance reporting driven on an exception basis by eliminating duplicated reporting effort • Corporate reporting requirements move to quarterly and on an exception basis. • Creating an embedded, enterprise wide Commercial & Finance team reporting servicing the business through a single channel • Simplifying the chart of accounts and controls around future changes	• Reduced, standardised and simplified corporate reporting demands decreasing the effort across the organisation • Finance activity focussed on value adding activities improving customer experience and service delivery • Improved alignment of business planning with budgets/forecasts with carry overs, phasing and detailed budget changes eliminated • Improved quality of service delivery by creation of clear accountability and channels of engagement for customers

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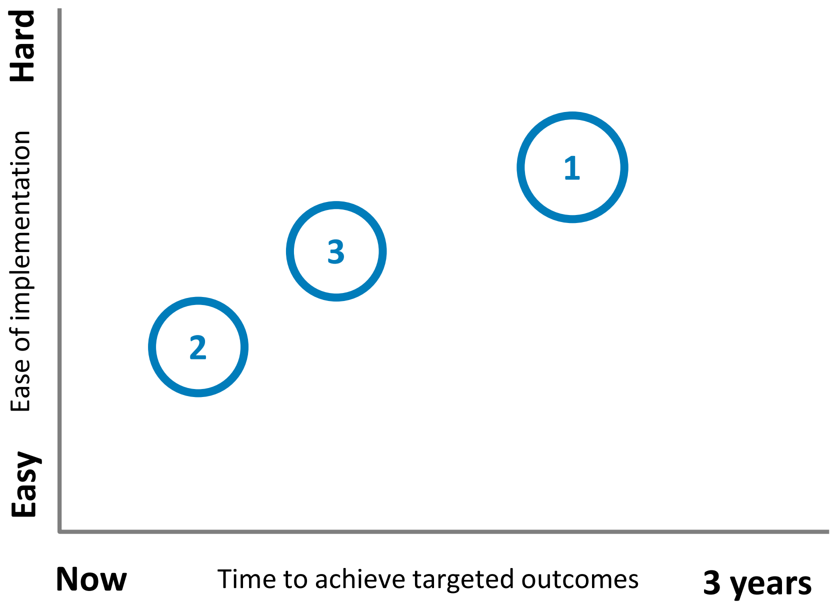
Summary of potential value and dependencies

Governance
Funding
Service Delivery



	Value propositions	NPV (10 years) $m
1	**Group shared services strategy**	+ve not estimated
2	**Group financial information strategy**	+ve not estimated
3	**Simplify planning and reporting (Auckland Council focus but Group benefit)**	18
	Total	**18**

Note

- The financial estimates are cash releasing benefits. That means the Group will improve its cash flow from implementing the opportunity.
- Estimates are indicative of the order-of-magnitude of the opportunity, drawing on assumptions from the literature and experiences in other places. Their purpose is to establish the case for progressing options and associated business cases. In some cases, the evidence is strong; in others, the basis for assumptions is speculative.

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Value was assessed by considering these key questions

#	Key question	Confidence that VfM achieved and planned	VfM review conclusions
1	What has been the benefits from consolidating Financial Services from amalgamation, and key initiatives since then?	VfM demonstrated	• Significant progress has been made in standardising Finance processes and controls from amalgamation
2	Cost: is the cost of Finance reasonable compared to benchmarks?	VfM demonstrated	• Compared to benchmarks and reflecting the scale and complexity of the Group Finance, in general, is cost-efficient
3	Cost: does the Group co-ordinate and co-operate on Finance solutions to minimise duplication, reduce cost, and improve effectiveness?	VfM demonstrated	• Good collaboration across the Group with established forum's • Shared services exist across Finance with Treasury (all CCOs) and some transactional services provided • Shared services strategy needed to determine if further opportunities (finance technology)
4	Effectiveness: is Finance delivering its services to the desired performance standards?	VfM demonstrated	• How about: Finance is generally effective across its varied roles - strategist, catalyst, steward and operator. • There are no material internal control issues highlighted by the Auditor-General
5	Effectiveness: is Finance's customers and stakeholders satisfied with the financial services?	VfM demonstrated	• Where measured satisfaction is generally good • Lower levels are recorded for the Commercial and Finance team (part of Auckland Council operations). We are advised the survey followed a re-organisation of the team
6	Funding: does Finance enable the Group to effectively manage its funding and financing, i.e. rates, revenue, user-pays, debt and alternative sources?	VfM demonstrated	• The Group is expanding the range of funding mechanisms to reduce the burden on ratepayers • A treasury shared service operates and a AA credit rating has been maintained reflecting prudent financial management
7	Ongoing effectiveness and efficiencies : Are the financial plans, policies and processes supporting the Group's long term strategic objectives and key risks ?	VfM demonstrated	• The council has a clear financial strategy with supporting objectives • There is opportunity for Finance to play a greater role in capital planning and forecasting to improve capital expenditure plans • Debt management will be critical to achieving financial objectives
8	Ongoing effectiveness: are Finance services improving in line with changing practices, technologies and customer expectations?	VfM demonstrated	• Digitisation is changing Finance and the use of robotic process automation is being implemented across the Group

Governance *Funding* *Service Delivery*

VfM demonstrated *Some VfM demonstrated* *Low VfM demons*

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Current state assessment

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Understanding the legislative context and the building blocks of a Finance function

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Scope: Finance sets financial strategy and manages the council's money

This review* covers all entities in the Auckland Council Group (the Group) and assesses whether the provision and delivery of Financial Services (Finance) is cost-effective, and supports the Group in its role to deliver on the Auckland Plan's outcomes.

Auckland Council refers to the council parent organisation and the Group being Auckland Council and CCOs.

What is Financial Services?*

Finance is responsible for developing and implementing a long-term sustainable financial strategy for the Group to deliver the LTP. Finance advises on the optimal way to invest in Auckland's infrastructure while managing debt levels and maintaining confidence that the Group financial management is robust. Effective financial management is critical to the Group achieving it's objectives.

Finance also manage the council's moneys. This includes money received from ratepayers and customers, the money paid to staff and suppliers and maintaining controls so that only appropriate transactions are made. Finance is centred around the management of money.

Finance provides information both to meet statutory requirements but also to support council decision-making.

The financial challenge for Auckland Council Group

Delivering the financial strategy contained in the 2018-2028 Long-term Plan requiring the balance of investment in assets with

- acceptable costs to the community
- prudent management of debt and sustainable financial management.

This *review report should be read in conjunction with the review's terms of reference

Key Financial Services

Strategy, planning and policy	Determining how the Group funds its activities including planning capital investment and how much ratepayers and customers will pay
Transactions	Managing the billing and collection of charges and the payments made to suppliers
Accounting	Recording financial information in accordance with statutory and accounting standards ensuring that only appropriate financial transactions occur
Reporting	Providing information to meet statutory requirements and to support the delivery of council services
Decision support	Interpreting and analysing information to support the effective delivery of the LTP
Treasury	Managing cash (and risk) so the Group can meet its obligations, and maintain external confidence in the Group's financial management

Some key facts

$43m In Group annual expenditure for audit and risk management services

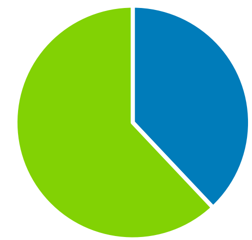
$8.8bn Borrowing increasing to $13.1bn in 2028

335 Finance staff represent 3% of total staff

$4.5bn Revenue invoiced and collected

$26bn Capital expenditure over next 10 years

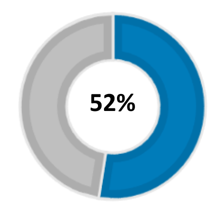
$51bn Of assets growing to $77bn in 2028



Finance in context of the Group

Operating spend 17/18 (Total $3.9b)	**$43M**
Capital spend 17/18 (Total $1.5b)	**$0M**

Rates-funded share ($1.32 for every $100 of total rates)



The Value chain helps us understand the key processes that deliver Financial Services

Value drivers

Public accountability and Finance constraints	Financial stewardship	Commercial services	Turning data into Insight	Finance and customer expectations
Finance provides tools to help the council achieve objectives	Finance provides confidence that there is an effective control environment and that resources are used appropriately	Finance provides commercial management services to support the delivery of the LTP	Trusted data is turned into useful, advanced insights on business performance, risks and opportunities	Routine Finance processes are automated, self-service enabled, and Finance staff focused on specialist advice

Value chain

Strategy and plan	Transact	Account	Report	Manage	Review
Manage • financial policy • financial planning • capital planning • budgeting and forecasting	Manage • requisition to pay • order to cash	Manage • general accounting • tax • Internal control • compliance	Manage • financial reporting • management & performance reporting	Manage • decision support (management accounting) • treasury (inc. funds management) • financial systems (inc. support)	• Review and improve

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Complex financial stewardship obligations exist which require robust planning, budgeting, forecasting and reporting systems

The Local Government Act sets out the key operating principles

- Council is required to achieve *prudent stewardship and efficient and effective use of its resources and each year projected operating revenues are set at a level to meet operating expenses* (i.e. a balanced budget)
- Auckland Transport is required to operate in a *financially responsible manner …that seeks value for money and its revenue and expenditure are accounted for in a transparent manner*
- Watercare is required to manage its operations *efficiently with a view to keep overall costs of water supply and waste-water services to its customers at minimum levels consistent with the effective conduct of its undertaking and the maintenance of the long term integrity of its assets*

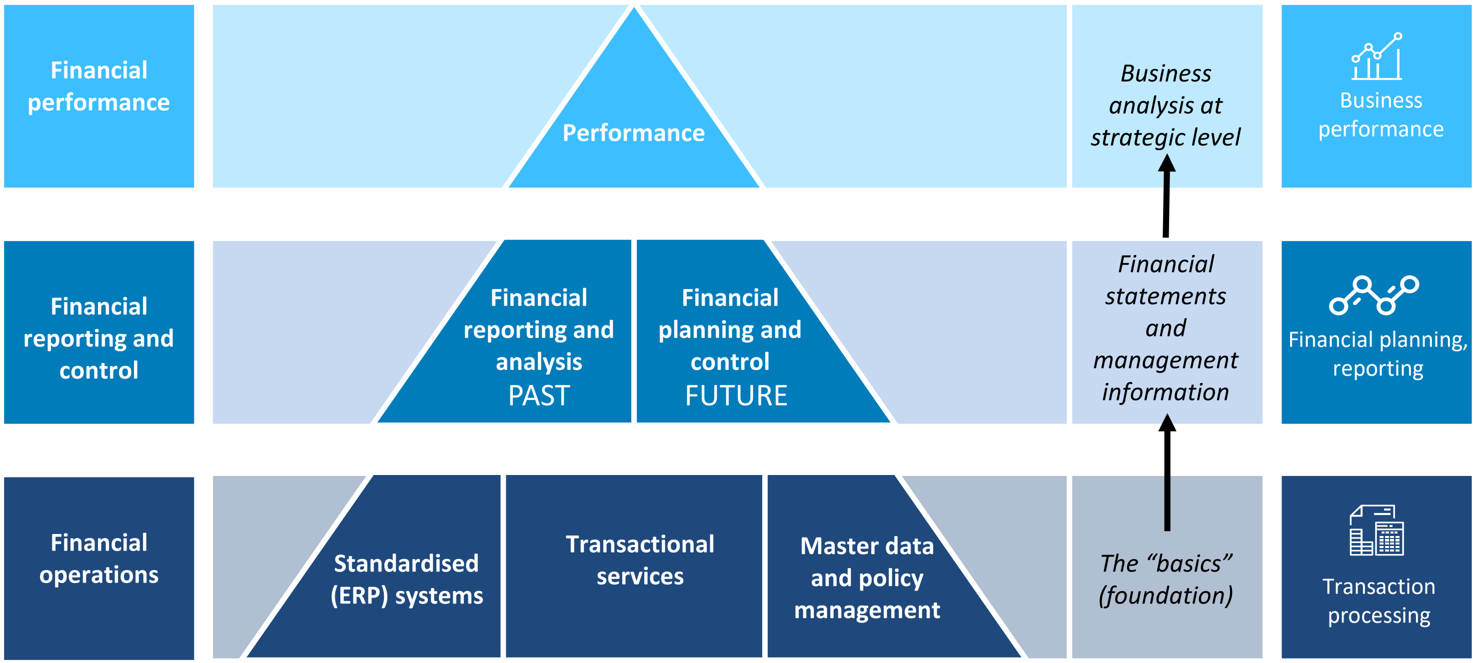
Effective funding and financing require planning & process precision

- The council is required to adopt certain prescribed long-term and annual financial and funding plans, strategies and polices. The frequency, timing, public consultation and required content for each is largely prescribed by legislation.
- Funding sources are also prescribed by legislation and include rating, fuel taxation, user fees and charges, development and financial contributions.
- The council and CCOs are subject to obligations and restrictions on how borrowing and financing may occur
- The council has bonds listed on the stock exchange and must comply with their rules

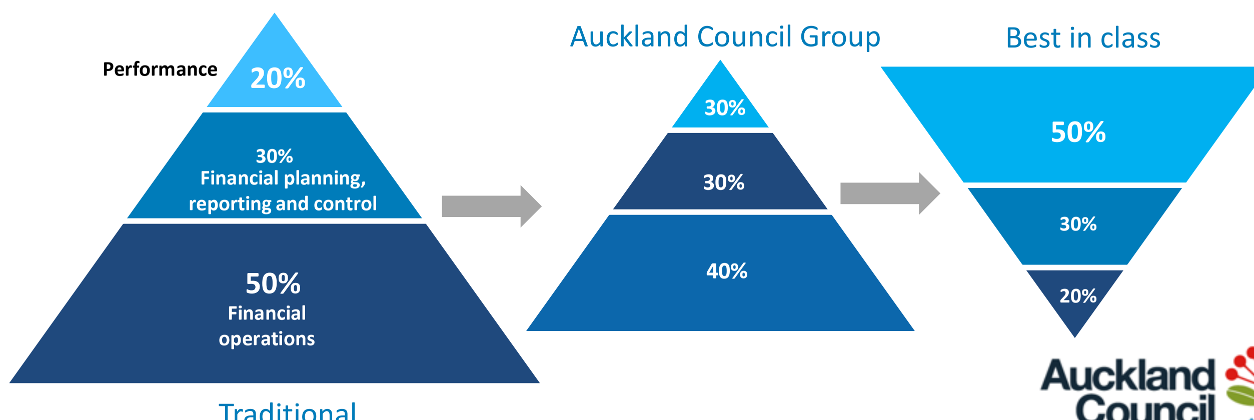
Financial reporting is mandatory and complex

- CCOs must complete annual Statements of Intent including forecast financial information
- All Group financial statements and accounts must be prepared in a prescribed form and be audited by the Auditor–General
- Auckland Council must publish half yearly and annual reports with information provided by each group organization
- The council is required to disclose its forecast and actual performance in relation to certain benchmarks in its annual plan, annual report and its LTP

Understanding the building blocks of a successful Finance function



Best in class Finance functions flip the triangle investing most of their time in improving business performance. Good process design, data standards and automation reduce the cost in operations and reporting and control



1. What has been the benefits from consolidating Financial Services from amalgamation, and key initiatives since then?

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Financial policies, plans & systems has rapidly developed since amalgamation

2010/11

- Eight councils consolidated into one – interim group financial plan & budget produced
- Uniform rating system designed
- Six new CCOs created which had inconsistent financial processes and standards

2012

- 2012-2022 Long-term Plan approved, including the outline Group financial plan
- Council provides shared transactional services to the smaller CCOs
- Single rates bill for all properties
- Single water bill

2013

- Consolidation of systems commences – over $100 million spent on new financial, asset management, procurement and payroll systems over three years

2014

- Developed and adopted the 30-year Auckland Plan, giving Auckland a unified strategic direction

2015

- Approval of second LTP 2012-2025 which outlines the Group financial plan and targeting of significant efficiency savings

2016

- Auckland Transport Alignment Funding Project government funding secured for Auckland Transport

2017

- Housing infrastructure funding secured from Government
- Weathertightness claims quantified ($296m)

2018

- Third LTP - 2018-2028 - approved with major step-up in infrastructure investment of $26bn over 10 years
- Treasury expands shared services to all Group organisations
- Funding sources diversified with new targeted rates, regional fuel tax and and consulting on revised development contribution

2. Is the cost of Finance reasonable compared to benchmarks?

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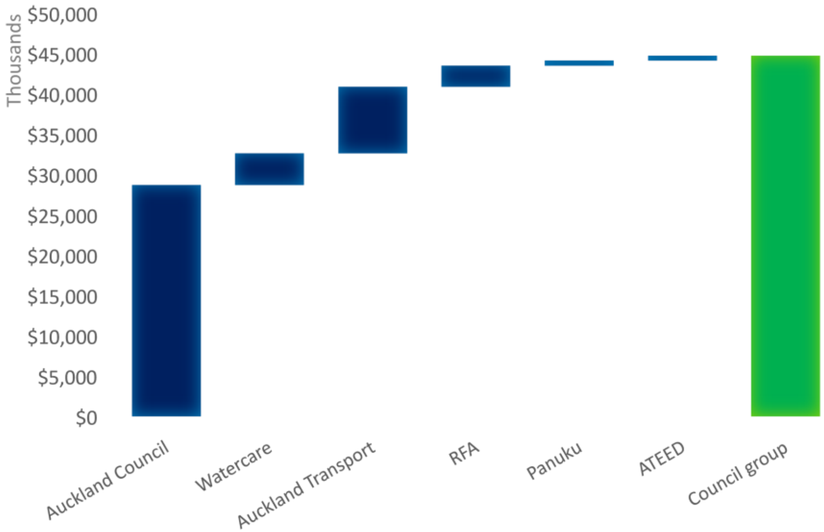
$43m is annually spent on Finance mainly in staff costs. Auckland Council is 65% of total.

Majority of Finance costs are in Auckland Council

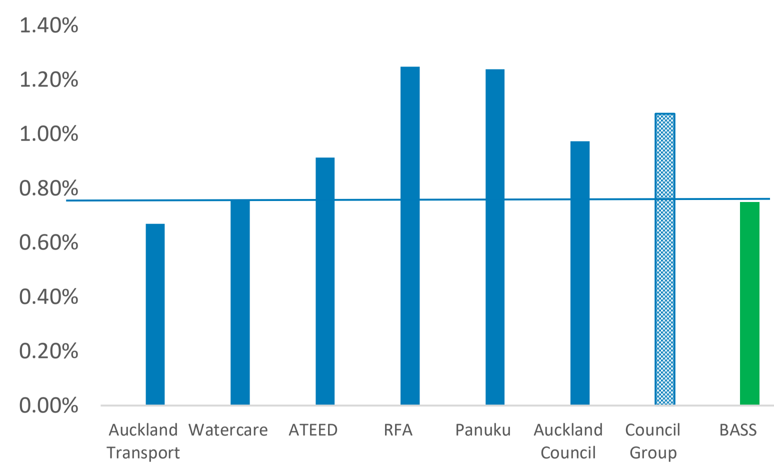


Auckland Council has the highest costs as expected

- 83% of Finance cost relates to staff costs with the balance being billing (valuations, invoicing and external collection), consulting support
- Auckland Council provides transactional shared services to ATEED, Panuku and RFA at no cost
- Auckland Transport and Watercare do their own transactional processing

Data Source: AC and CCO Finance cost provided

Finance is 1% of total operating costs



Group costs are higher than the government benchmark

- Benchmarks can provide a comparative indication of efficiency. However, every organisation is different with their own unique challenges requiring financial support
- Auckland Council provides shared treasury and transactional services to CCOs at no cost. Any adjustment for this would not has a material impact on the analysis
- The Central Government BASS median is 0.8% of operating cost. No reliable comparative Local Government benchmarks were identified
- PWC global Finance Effectiveness Benchmarking study found Finance functions had a median of 0.86% and top quartile are 0.55%

Data Source: AC and CCO & annual report data, BASS survey, PWC Financial effectiveness 2017, VfM analysis

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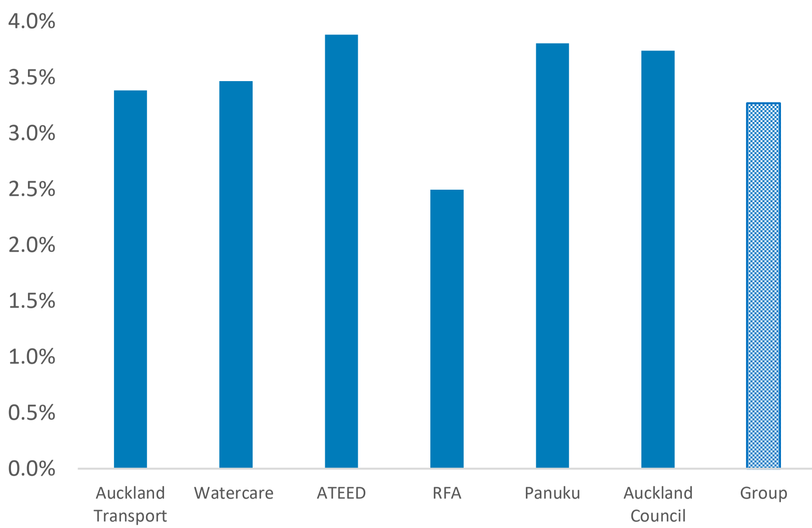
Overall costs are reasonable compared to benchmark. A further review of Council parent is needed as it represents the largest cost

Finance FTE as a proportion of organisation FTE

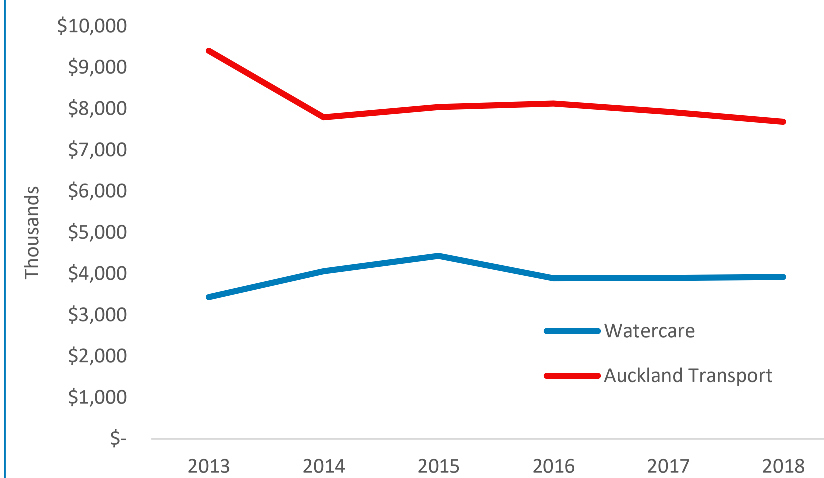


Finance represents 3.5% of all Group staff

- As 83% of Finance cost is staff costs, we reviewed the proportion of Finance FTEs to see if there are any outliers and found:
  - While RFA Finance costs are the highest in proportion to operating expenses the proportion of FTE is lower than the with the rest of the Group and reasonable compared to the PWC attractions benchmark
  - Auckland Council, Panuku and ATEED costs and proportion of FTEs appear reasonable given the size of both organisations

Data Source: AC and CCO Finance FTE provided & annual report data

Watercare and Auckland Transport Finance costs 2013 – 2018



Trend for Auckland Transport and Watercare reflect growth in business

- Auckland Transport has grown significantly over the past five years but Finance costs has remained relatively constant. This demonstrates efficiency gains are being achieved year on year
- Watercare's Finance costs has managed to absorb growth in the business and is achieving similar efficiencies to Auckland Transport
- There is a reasonable balance of teams delivering transactional vs. value-add activities

Data Source: Provided by Auckland Transport and Watercare

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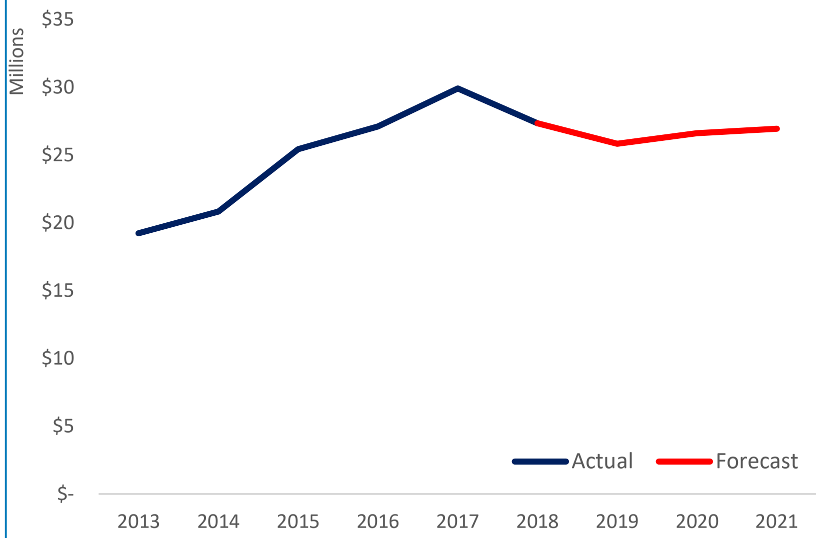
Auckland Council's parent costs increased with additional investment in higher value-add activities

40% increase in AC's Finance costs over last 5 years

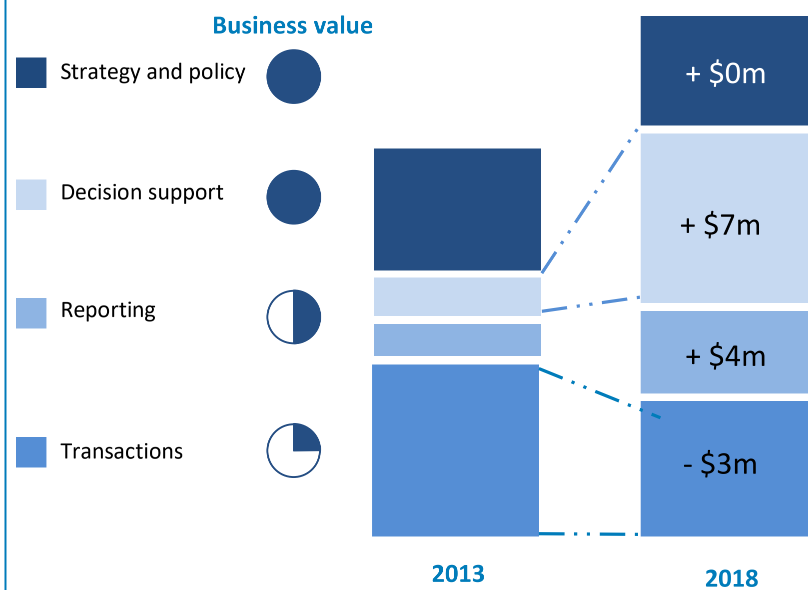


Costs has increased from $20m in 2013 to $29m in 2018

- The majority of the increase is the investment made in decision support which is the interpretation and analysis of information provide insights on business performance
- In 2013 the Finance team was split and costs increased as an operations division commercial Finance team was established to provide commercial and financial support to operations. A number of positions previously in operating departments were moved to Finance which accounts for part of the cost increase
- As a result of this split is the CFO is accountable for but does not have the control of all Finance activity in the council

Data Source: Provided by AC

The cost of processing transactions is reducing as decision support and reporting costs increase



Efficiencies being achieved in transactional processing

- Year on year, the council has been able to absorb growth in transactional volumes and reduce the total cost of Finance transactions
- The increase in costs is in activity which has higher business value such as providing insights to improve performance

Data Source: Provided by AC, VfM review analysis

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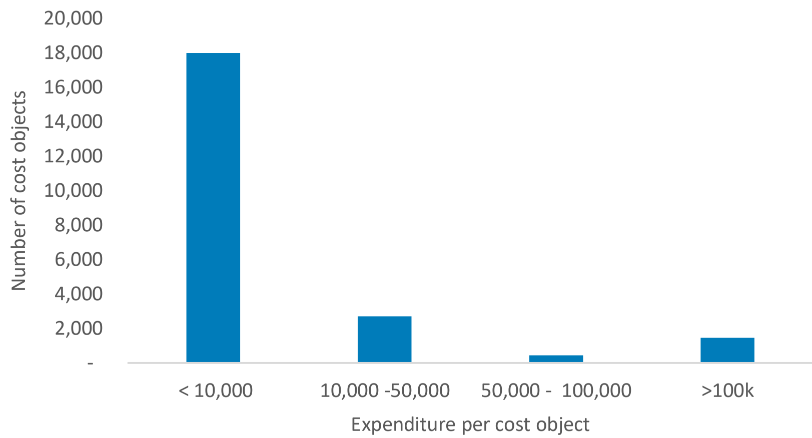
The complexity of Auckland Council's financial ledger is creating significant inefficiency. Management reporting is improving.

80% of cost objects has less than $10k pa budget



Cost objects are unique identifiers within the financial ledger (Finance records)

- Complexity in the financial ledger drives increases in cost In addition to the 22,000 cost objects there are 1,000 cost centres.
- Community Facilities has 80% of the cost objects. This is being driven by asset management requirements without a consideration of the knock-on finance costs
- This level of detail generates work for the Finance team and is seeking a level of precision and accuracy which can not be cost-effectively achieved in practice
- The financial ledger is being used to manage the council assets when the information required may be better in held in an asset management system

Reporting at Auckland Council is maturing and improving despite financial ledger complexity

There has been recent improvements in both the internal management reporting within Auckland Council

Key improvements that has been made

- Quarterly reporting on the council performance has been reduced in size (it was over 200 pages) with a greater focus on consistent presentation across the Group and a move to only reporting on exceptions. These changes will help councillors to get better insight into performance and understand and more effectively monitor Council's performance
- Monthly management performance reporting has also moved to an exception reporting basis. The monthly reporting is now available to managers via online dashboards

However, while improvement has been made there management reports that are duplicated where:

- the purpose and audience are unclear
- they are produced from different data sources
- there are uncommon service or key performance measures
- the paper-based reporting information is readily available to the system user online

To has effective performance reporting it is crucial that a "single version of truth" is used so everyone is working from the same information and where key performance indicators align with the strategic plans.

Data Source: Provided by AC, VfM review analysis

3. Does the group co-ordinate and co-operate on Finance solutions to minimise duplication, reduce cost, and improve effectiveness?

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Some shared services exist, with each organisation also having a Finance team. Much of this duplication is necessary to the organisations meeting their objectives.

	How is service delivery organised?	How is it funded?	How is it governed?	Observations
Auckland Council	• Finance teams (reporting to Group CFO) covering strategy, planning and policy, transactions, accounting, reporting, treasury and decision support	Rates User charges	• Group CFO reports to CEO • CFO responsibilities also include ICT, procurement and corporate property	• Provides treasury shared services to all Group organisations • Provides technical accounting and tax advice to all Group organisations • Provides transactional shared services to ATEED, Panuku and some for RFA
Auckland Transport	• Finance team responsible for strategy and planning, transactions, accounting, reporting, and decision support	Auckland Council grant (rates funded) User charges NZTA levy	• Executive GM Finance reports to CEO • Executive GM Finance responsibilities also include procurement	• Executive GM has 2 Finance direct reports one of which is responsible for a team managing NZTA levy
Watercare	• Finance team responsible for strategy and planning, transactions, accounting, reporting, and decision support	User charges	• CFO reports to CEO • CFO responsibilities also include supply chain, property, internal audit and risk	• Billing, receipting and debt collection are part of the retail operations team rather than Finance

Financial Services (cont'd)

	How is service delivery organised?	How is it funded?	How is it governed?	Observations
Regional Facilities Auckland An Auckland Council Organisation	• Finance team responsible for strategy and planning, transactions, accounting, reporting and decision support	Auckland Council grant (rates funded) User charges	• CFO reports to CEO • CFO responsibilities also include ICT, procurement, health and safety, risk and assurance, visitor security and maintaining shared services relationship	• Ungerboeck is the system of financial record • Some transactional shared services from Auckland Council
Auckland Tourism, Events and Economic Development An Auckland Council Organisation	• Finance team responsible for strategy and planning, accounting, reporting and decision support	Auckland Council grant (rates funded) User charges	• Chief Financial Officer reports to CEO • CFO responsibilities also include risk and maintaining shared services relationship	• Transactional shared services from Auckland Council
Panuku Development Auckland An Auckland Council Organisation	• Finance team responsible for strategy and planning, accounting, reporting and decision support	User charges Auckland Council grant (rates funded)	• Director Corporate Services reports to CEO • Director Corporate Services responsibilities includes procurement, risk and maintaining shared services relationship	• Transactional shared services from Auckland Council

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Treasury and some transactions are shared services; there may be some further opportunities in transactions and reporting

	Description		Sharing actual	Sharing potential	Comments on sharing and value opportunity
?	Strategy, planning and Policy	How to fund Group Services and Auckland's development	◔	◔	• Group approach is required for overall strategy. • Each CFO should be determining how each organisation implements the financial strategy
$$$	Transactions	Billing, collection, payments, reconciliations	◔	◑	• Some shared services exist • Further opportunities could be in billing (including maintenance of property and customer information), debt collection and accounts payable
	Accounting	Recording financial information, controls, liaise with audit	◔	◑	• Some shared services exist with technical accounting and tax • Further opportunities could be the production of six-monthly and annual financial statements
	Reporting	Data and information produced	◔	◑	• Some shared services exist where the a number of similar SAP financial systems are used across the Group • Further opportunities could be on a common data repository/ management reporting portal
	Decision support	Analysis and insight	◔	◑	• Analysis and insight is unique to the organisation or service being analysed • Opportunities for resource pooling and common approach to financial management of infrastructure development
$	Treasury	Managing cash, debt and external financing	●	●	• Shared service for all Group organisations operating for treasury (except Ports of Auckland (POAL))

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Different processes and systems may be a barrier to future Finance sharing; robotics may be the new opportunity to achieve scale–based efficiencies

Treasury shared service has delivered benefits

- Auckland Council manage the treasury function on behalf of the Group with a single treasury policy approved by each organisations. This is a good example where a Group approach has been successfully adopted
- POAL do not currently participate. This could be a future opportunity. Noting that POAL only represents approx. 5% of the Group debt
- The following benefits has been realised from having a single treasury function
  - Lower cost to serve as only two staff to manage debt across the Group rather than in each organisation
  - Improved internal control and risks managed on a Group basis
  - No surprises on debt levels as there is a single view for the Group
  - Lower cost of debt e.g. it is estimated Watercare will save $6m per annum by using the treasury shared service

Group shared services strategy

- In the mayoral proposal for the LTP there was an expectation of reduced costs in back office functions delivered via shared services
- Some work has been completed but an overall road map is needed for this strategy and how duplication will be removed
- In March 2018, CFOs of organisations in the Group agreed there was benefit from further shared services. Since then, four of six CFOs have changed, delaying the development of the overall strategy
- Detailed work is required to assess what value can be delivered from a shared services approach against the cost of change
- Assessment of new automation technologies such as robotics is also needed.
- To be most successful, shared services work on "one system, one process". Detailed work may show new automation technologies may be able to deliver some of the shared services benefits without making any structural changes
- A key first step would be the establishment of a governance group with representation across the Group and a dedicated resource to develop a strategy and then business case to evaluate potential future options

Data Source: LTP 2018-2028

Auckland Council Te Kaunihera o Tāmaki Makaurau

4. Is Finance delivering its services to the desired performance standards?

5. Is Finance's customers and stakeholders satisfied with the financial services?

Finance wears a number of hats but generally is effective in each role

Role of Finance			Observations on effectiveness
Finance as a strategist	Finance is responsible providing financial advice the overall future of each organisation (and Auckland) and how will this be achieved financially	Green	• LTP has a clear financial strategy (discussed later at question 6) • Debt levels managed at prudent levels, maintaining credit rating
Finance as a catalyst	Finance is responsible for instilling a financial mindset and improving financial acumen across each organisation and help each organisation perform better and deliver value for money	Green	• Finance actively monitors, measures and supports improvement in the Group business performance • Where measured, in general, high levels of internal customer satisfaction • Financial elements of business cases could be improved, particularly benefit realisation
Finance as a steward	Finance is responsible for preserving the Group's assets, minimising risk and getting the financials right	Green	• Auditor-General has issued unqualified audit reports each year. There are currently no material management control or other issues • No material internal audit issues identified and unresolved
Finance as an operator	Finance is responsible for managing a well controlled money in/out transactional environment	Orange	• Accounts payable operating effectively with suppliers paid accordance with payment terms • Debt collection could be improved. Issues at Auckland Council with regulatory billing, receipting and subsequent slow collection

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Finance maintains an effective control environment as part of its complex financial stewardship obligations

Internal controls – doing things right

- Finance is responsible for maintaining an effective control environment so that only those authorised can be involved in financial transactions
- Generally, controls part of the financial technology solution (SAP) but other controls are manual such as review of the monthly management accounts
- The Auditor-General is the auditor of the Group annual report (including financial statements). There is also a requirement that the Auditor-General undertakes regular performance auditing
- In addition to an audit opinion, the Auditor-General also reports on the effectiveness of the control environment and identifies areas for improvement
- Overall, neither the Auditor- General nor internal audit reviews have highlighted any material elements in Finance that require improvement
- Since amalgamation, there has been no significant or material breaches of the internal control environment
- Overall, Finance is maintaining an effective management control environment

Finance as the gatekeeper – doing the right things

Plan to report process

LTP → Forecast → Results → Annual report

- Finance is responsible for the LTP, annual plans, quarterly performance reporting to the Council and Annual report. This includes public consultation
- Reporting of results to the Council has recently been revised with the new format
    - Focused on year-to-date results (both financial and non-financial)
    - Focused on material items
    - Risks to achieving targets
    - Use of graphs and colour to make reports easily understood

Chartered Accountant ethical standards

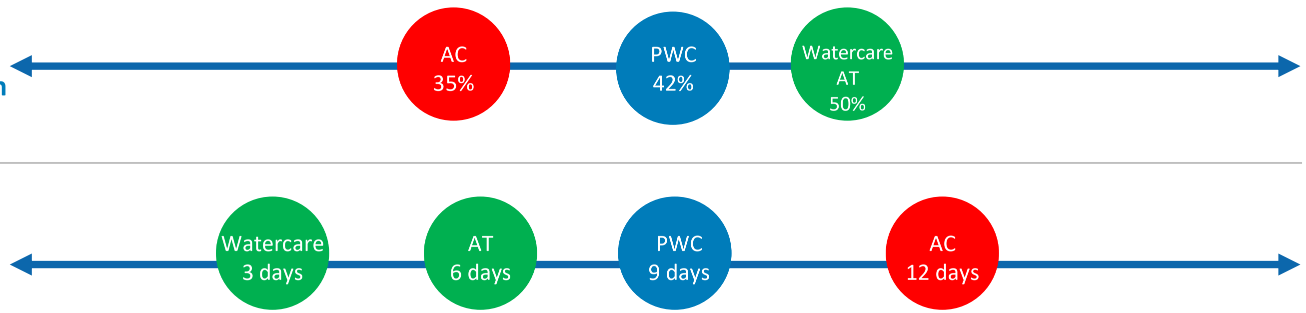
- Members of Chartered Accountants Australia and New Zealand and other professional accounting bodies has ethical obligations to the accounting profession
- Professional members also has obligations for continuing professional education
- Approximately 20% of the Finance staff are members of professional accounting bodies

Benchmarking shows most Finance operations are effective with improvement opportunity for reporting at Auckland Council

Reporting and decision support

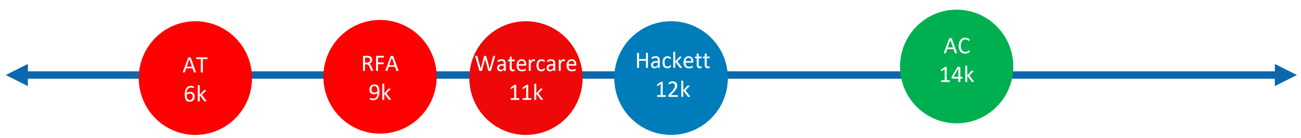
Percentage Finance time spent analysing information vs accessing and preparing

Days to close and report financial results



Accounts payable

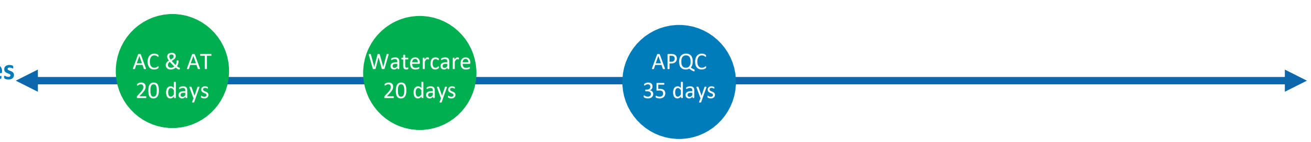
Number of invoices per AP FTE



Most invoices are for services rather than goods. Greater efficiency can be achieved in organisations buying goods
Investigation at Auckland Transport shows many complex invoices with multiple lines, NZTA compliance, PCI compliance (credit card regulations). However, management has also identified areas for improvement

Accounts receivable

Number of days for invoices to be paid



A number of customers pay rates in one instalment and pay consents in advance positively impacting council results
Auckland Council provide credit control for RFA, ATEED and Panuku

Benchmarks

- PWC Benchmark – PWC Global benchmark study, median benchmark
- APQC – top quartile benchmark
- Hackett Benchmark median benchmark

Application of benchmarks

- Auckland Transport – no debtors days as majority of revenue cash or from funders
- Deloitte 2018 Finance Lab Report

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6. Does Finance enable the Group to effectively manage its funding and financing, i.e. rates, revenue, user-pays, debt and alternative sources?

7. Are the financial processes supporting Council’s long-term strategic objectives?

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Te Kaunihera o Tāmaki Makaurau

A clear financial strategy exists to effectively fund the LTP and meet Local Government Act requirements

Local Government Act requires prudent financial management

- The Group must ensure that each year’s projected operating revenues are set at a level sufficient to meet that year’s projected operating expenses*
- The Group must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community*
- Prudent financial management is required over the next 10 years to deliver the largest ever infrastructure programme for Auckland while operating within level of debt that can be borrowed
- While Finance does not deliver services to the community, it needs to work closely with management across the Group to accurately plan, report and forecast performance

Long term financial strategy

- The 2018-2028 LTP has a clear strategy to manage Auckland's rapid growth which is driving demand for new and improved infrastructure, to manage historic under-investment and to manage community expectations
- In summary, the financial strategy balances the need for investment with
  - acceptable costs to the community
  - prudent management of debt and sustainable financial management
- To deliver on its financial strategy, the council will
  - set revenue that reflect acceptable levels of increase
  - maximise the value of revenue received
  - manage our investments to optimise returns
- Finance has a small team looking at alternative funding mechanisms including working with central government and the private sector

* S100, S101, Local Government Act 2002

Auckland Council
Te Kaunihera o Tāmaki Makaurau

Productivity Commission is benchmarking local government funding and financing – the Group is meeting the benchmarks

Productivity Commission – LG funding and financing

- Government has asked the Commission to review the cost of services provided by local government and how they are paid for. This will include an assessment of the current local government funding and financing frameworks
- Local government has a range of tools to fund the services they provide and has financial benchmarks that they must achieve
- Financing is the way the cost of services or projects are paid for at the time they are provided. Local government has a choice to pay-as-you-go (paid through current revenue) or borrowing
- he Group uses borrowing to spread the cost of infrastructure investment, so cost is spread over generations, rather than just current users
- The council will engage with the Commission over submissions on its issues paper which it is due to report back to government on in November 2019

LG financial benchmarks are being achieved

Benchmark	Benchmark requirements	Auckland Council 2018
Rates affordability	Actual or planned rates is ≤ to the limit on rates increases (3.5%) and total rates as included in the financial strategy	2.3%
Debt affordability	Actual or planned borrowing is ≤ to the limit on borrowing included in the financial strategy (275%)	206%
Balanced budget	Revenue for the year exceeds operating expenditure	99%
Essential services	Capital expenditure is ≥ depreciation	189%
Debt servicing	Yearly borrowing costs ≤ 15% of its revenue	10%
Debt control	Actual net debt at the end of the year ≤ planned net debt	98%
Operations control	Actual net cashflow from operations ≥ planned net cashflow from operations	103%

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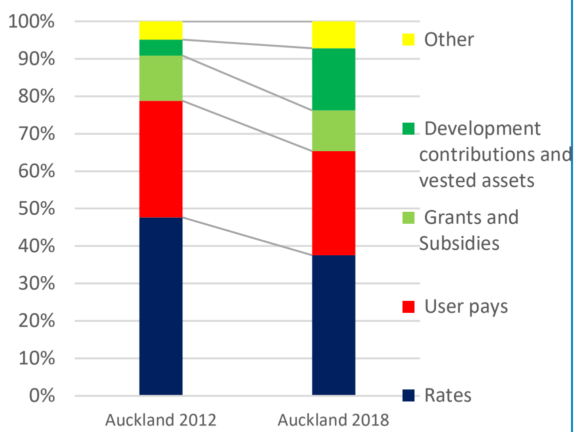
Te Kaunihera o Tāmaki Makaurau

Auckland Council is diversifying revenue sources resulting in less reliance on revenues from ratepayers

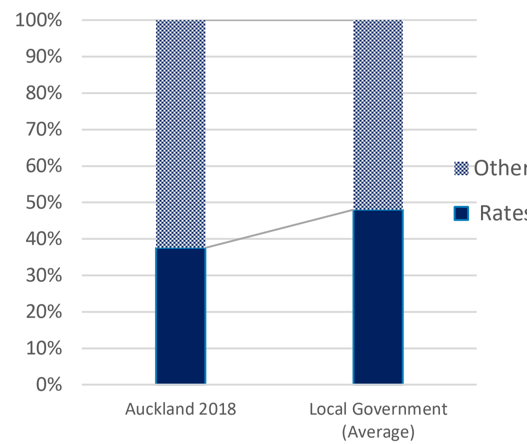
Change in revenue sources over time



Rates decreased from 48% of revenue in 2012 to 38% in 2018

- The growth in development contributions and vested assets from 4% in 2012 to 17% today is a significant change in the funding mix
- This reflects Auckland's growth with Finance providing the council tools to allow recovery of costs related to that growth

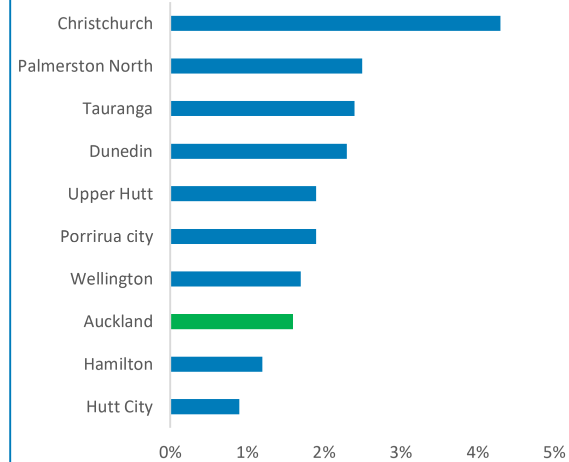
Rates comparison to Local Government average



The council's rates proportion is lower than the local government average

- The council relies less on rates than other local authorities (see comment about development)
- The council has started to introduce more targeted rates e.g. accommodation provider, water quality and natural environment. These will reduce reliance on general rates and focus on specific areas where the community has asked for improvement

Annual growth in rates per capita City Councils 1996 - 2017



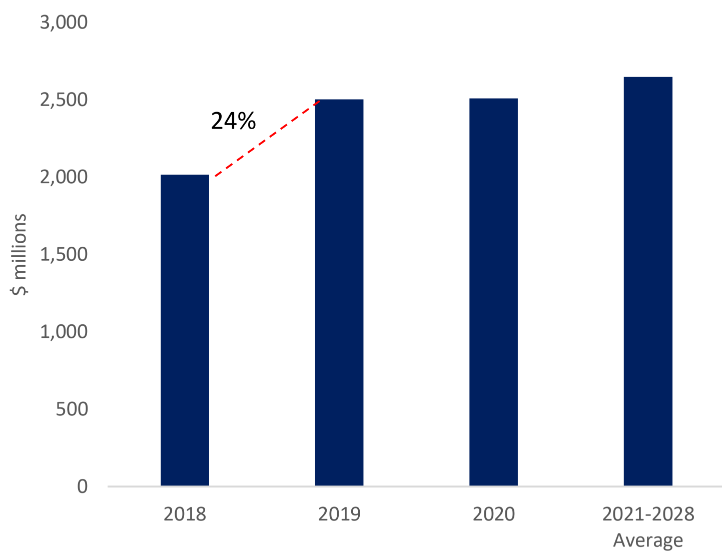
Rates increases are lower than most other city councils

- Both Auckland Council and its legacy Councils has maintained rates increases significantly lower than other City Councils.

Data Source: Provided by Auckland Council Annual report, VfM review analysis and NZ Productivity Commission November 2018

The 24% increase in the capital budget over the next year presents both a challenge and opportunity for the Group

Step change in size of capital budget

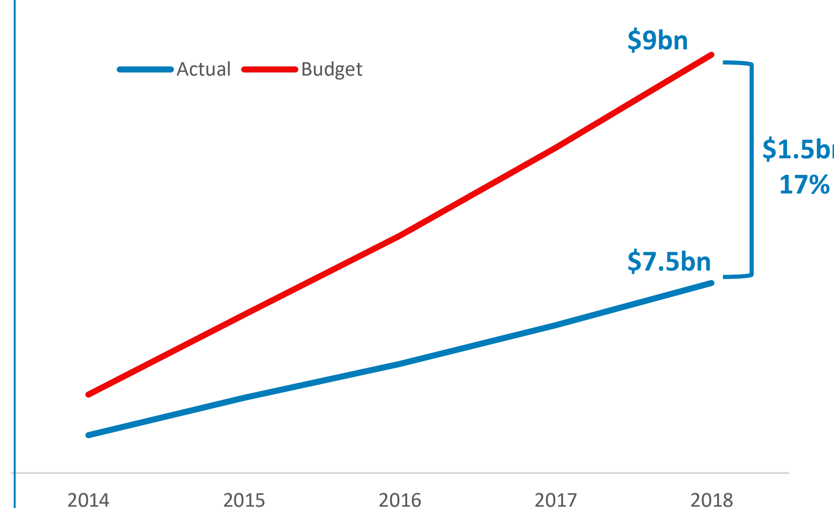


$26bn investment over next 10 years

- Delivery of the capital budget on time and on budget is considered a key strategic risk
- The LTP has a significant capital development programme over the next 10 years . This represents a very large step change above the current level of investment
- The programme must not only be planned and delivered at speed but also phased effectively to manage within the Group's debt cap which is a growing constraint. This is particularly in the first three years of the LTP.
- Delivering an effective step change in the size of the capital programme expenditure will benefit from state-of-the-art capital planning, forecasting and reporting systems

Data Source: Provided by AC, VfM review analysis

There is a growing trend in capital expenditure underspend for the Group



Growing capital gap between actual and budget over last five years

- Capital underspend is a systemic problem for the Group, with 17% cumulative underspend over the last five years. No organisation is consistently meeting their capital targets
- The LTP assumes that the cash required in the first three years will be less than the actual programme i.e. an underspend which has been the historic pattern
- Finance has an opportunity to effectively support, challenge and forecast the capital programme delivery

Data Source: Provided by AC, VfM review analysis

Auckland Council
Te Kaunihera o Tāmaki Makaurau

8. Are Finance Services improving in line with changing practices, technologies and customer expectations?

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Finance is the performance monitor for the Group and needs to keep current with changing expectations, digitisation and external standards

The changing role of the CFO

- A number of accounting consultancies has written about the changing role of Finance. Organisations are seeking increased value from their Finance teams and want the CFO to be the Chief Performance Officer
- The evolution of the role is driven by five forces
  - increased expectations
  - pace of change
  - pressure to grow (or constrain cost)
  - power of data
  - expanded control and legislative expectation
- Group CFOs already has this role. Public sector organisations has both financial and non-financial reporting requirements which are managed by Finance teams
- Finance is responsible for the LTP, annual report and reporting to both the council and CCO boards which covers the plan to report cycle
- Finance has an opportunity to ask “So what?” and use this to drive future performance improvement

Legislative and accounting standard changes

- The Group is required to comply with legislation (including tax legislation) and changes to accounting standards
- In New Zealand, accounting standards are set by the External Reporting Board (XRB), an independent crown entity. The Group use accounting standards for public benefit entities
- The Group Financial Controller at the council is responsible for establishing Group accounting policies and how these are aligned to changes in accounting standards so that Group financial statements are prepared on a consistent basis
- The Group Financial Control team arrange training for financial staff across the Group in both changes to accounting standards and tax updates

Auckland Council
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Robotics are being used to automate processes, improving effectiveness and efficiency

- Group organisations has used the software UiPath for successful Robotic Process Automation (RPA) initiatives. Each organisation has leveraged the others' knowledge and experience to establish their own RPA. Watercare and POAL are good examples of such reciprocal collaboration
- While there has been good collaboration to date a centre of excellence hasn't been considered to further leverage experience and expenditure on UiPath software, reducing duplication

Sept 2017

Watercare

- RPA has now been successfully utilised to automate four high volume business processes
- To date, a reduction of five FTEs, achieved through natural attrition, can be directly attributed to the RPA project
- The RPA project was a finalist in CEO financial innovation project of the year 2018

February 2018

Auckland Council

- RPA has been used to automate a number of processes including managing consultation responses to the LTP, supporting dog registration, and accounts payable
- Opportunity with RFA underway for Ungerboeck payables system
- RPA project was one of sic ICT projects in local government to be nominated for the Excellence in Innovation Award

Current

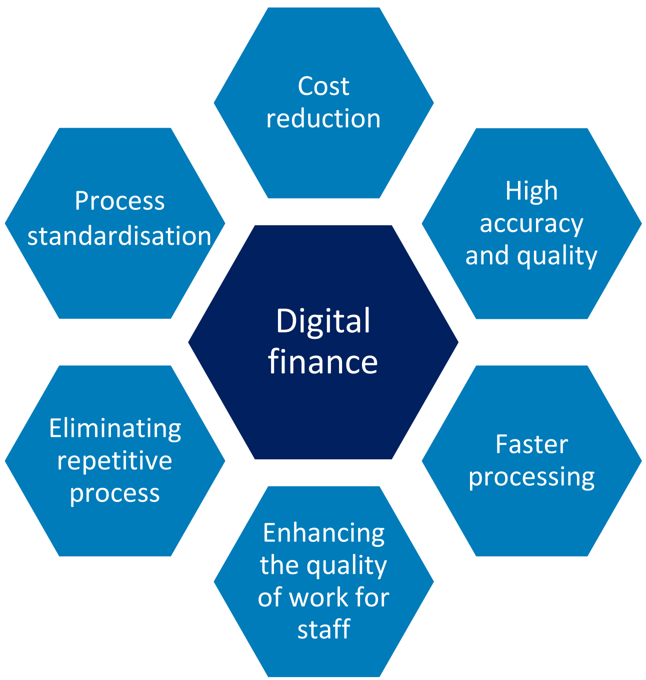
Auckland Transport

- The council parent is helping Auckland Transport develop of a programme of work to implement RPA

* The Hackett Group. The three hallmarks of a world-class finance organisation

Digital leaders are achieving significant efficiency and offer further opportunities for the Group

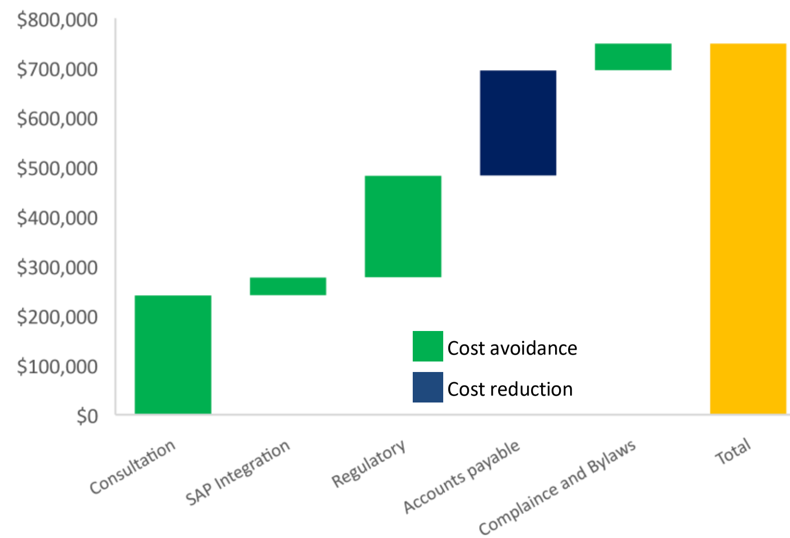
Benefits of digital Finance (including RPA)



Digital leaders' finance costs are 43% lower

- Hackett Group* found that digitally led finance teams reduce:
    - FTE by 45%
    - errors by 37%
    - time to collect and compile data by 15%

Benefits from Auckland Council RPA (2018)



$800k of savings from automating processes

- RPA was introduced at the council in February 2018
- A number of processes has been automated including the tracking of feedback received from the consultation on the LTP
- The transactions continuous improvement team of four are focused on automating processes

* The Hackett group. The three hallmarks of a world class Finance organisation

Data Source: Provided by AC, VfM review analysis

Challenges and issues in realising further value, and value opportunities

Challenges and issues in realising further value

Challenges	Issues
Increasing performance expectations and the pace of change is changing the requirements of Finance teams	Further process improvement and automation required so staff can focus on more value added activity rather than transacting and reporting
Duplication exists across the Group's Finance teams, some of which is necessary	Each CCO Statement of Intent addresses the LTP's mayoral proposal requesting a shared service approach but limited progress has been made, other than Treasury
Each Group organisation has their own Finance technology solutions	Achieving group efficiencies through transactional shared services is most effective with "one system, one process"
Auckland is growing rapidly, requiring additional funding to invest in the appropriate infrastructure and there is little debt capacity	Accurate financial forecasts are required to plan the debt requirements and improvement is needed in the maturity of forecasts

Auckland Council
Te Kaunihera o Tāmaki Makaurau

Value proposition #1: Group Shared Services Strategy

IF … building on the successful Group shared services already in place develop a business case to determine whether more services could be provided as a shared service in alignment with the mayoral proposal request...

By

- Developing, building on the shared services currently operating, a shared services strategy and operating model including
  - key guiding principles
  - the appropriate operating model to deliver efficient and effective shared services
- Establishing the appropriate shared service governance structure and decision-making principles with appropriate sponsorship and senior representation from all Group organisations
- Establishing a mandate to use in future CCO Statements of Intent and in council policies
- Assess the potential future efficiency and productivity benefits that increased use of robotics and AI and how the Group may collectively leverage these benefits

Then we will achieve

- An agreed strategy and operating principles around how the Group will collaborate to improve efficiency and effectiveness
- Opportunities to reduce overall cost of organisational support services by removing duplication, productivity improvements and scale efficiencies
- Opportunity to create knowledge-based centres of expertise allowing the Group to insource more activity
- A framework to expand shared services to other local government organisations

Note: The proposed scope of the Group Shared Services Strategy is broader than Finance and covers all organisational support services. Organisational Support services include Finance, ICT, Procurement, Customer Services, and Human Resources

Auckland Council
Te Kaunihera o Tāmaki Makaurau

Net estimate (10yr NPV)	+ ve (not estimated)
Ease of implementation	Moderate
Timing	6 - 12 months (business case only)
Overall rating	Must do

Assessment

Criteria		Comment
Strategic fit	●	Aligns with mayoral proposal and CCO Statements of Intent
Value for money	●	Improved VfM will be achieved by: • reducing duplication • improving operating efficiencies
Equity	●	Value from an efficient and effective back office benefits all ratepayers
Feasibility	●	No barriers
Affordability	●	Business case funded from existing budgets
Competency	●	Development of business case funded from existing budgets

Development and implementation of a Group Shared Services Strategy will support CCO Statement of Intent obligations to pursue Group shared activity where it makes sense to do so.
It will also demonstrate that value is being maximised from back office support functions.

Results

Summary of financial costs and benefits

Costs
- No additional costs anticipated for development of business case

Benefits
- Quantitative benefits:
  - reduced cost by removing of duplication
  - increased efficiency and productivity
  - allow the council to complete more work internally rather than outsourcing

Auckland Council
Te Kaunihera o Tāmaki Makaurau

Key risks and constraints

- One size does not fit all and to maintain effectiveness certain services are core to each organisation achieving their objectives and are not good candidates for shared services
- Risk of value being lost if there is no requirement to use, participate in, and contribute to, a Group shared services approach.
- Risk of resistance to change or later rogue behaviour can erode benefits.
- Watercare's efficient and effective operations obligation means that, when assessing proposals for co-ordination, the proposal must assist (or at least be neutral) in keeping the costs of water supply and wastewater services to customers at efficient and effective levels.

Key assumptions

- The shared services strategy will be jointly developed by, and for, each organisation in the Group and be jointly beneficial to each participating organisation.
- The council or CEO of a CCO will sponsor the development and implementation of the shared services strategy, supported by senior executives
- All Group organisations will participate in alignment with the commitments contained in Statements of Intent for organisations to work together.
- There are some limited and clearly defined opt-out clauses, e.g. to meet legal obligations (such as Watercare being able to opt out where doing so would lower the cost of water supply and wastewater services to consumers).
- The approach is flexible enough to allow the right approach and to encourage innovation, but still achieve the benefits of collaboration.

Auckland Council
Te Kaunihera o Tāmaki Makaurau

Auckland Council currently provide some shared services to CCOs

Description	Shared service: Actual	Shared service: Potential	Auckland Tourism, Events and Economic Development	Auckland Transport	Panuku Development Auckland	Regional Facilities Auckland	Watercare
Financial services	◔	◑	🟢	🟠	🟢	🟢	🟠
ICT	◔	◑	🟢	🔴	🟢	🟠	🔴
Customer	◔	◑	○	🔴	○	○	🔴
Procurement Lead organisation varies for each procurement	◑	◕	🟢	🟠	🟢	◑	🟠
Human Resources VfM review of Human Resources has not yet occurred. Assumptions would be validated as part of this review	◔	◑	🟢	🔴	🟢	🟠	🔴

🟢 *Group shared service*
🟠 *Some shared service elements, more opportunity may exist*
🔴 *No shared service elements., opportunity may exist*
○ *Limited shared service opportunity*

Auckland Council
Te Kaunihera o Tāmaki Makaurau

Value proposition #2: Group Financial Information Strategy

IF … develop a strategy for the collection, storage and retrieval of financial information required across the Group (for Group matters) …

By

- Designing and implementing a strategy for managing Group financial information:
  - Determining the key information that is required in the Group plan to report cycle for each LTP as part of an three-year planning calendar
  - Principles for how the information is collected, accessed and used
  - Definitions for key data sets
  - Establishing appropriate data governance and controls
- Developing a business case for implementing the strategy including the selection of appropriate technology solutions and roadmap for future improvements
- Determine the appropriate analytical tools that can be used to allow self-service capability

Then we will achieve

- A single source of truth for all information required for the LTP, annual plans, financial policies and annual report
- Reduce the number of requests from multiple people for the same information; generally from the council to CCOs
- Increased efficiency in the Finance teams across the Group
- Clarity in the definitions of data resulting in consistency of reporting
- Improved data quality
- Improved quality of information to support decision-making

Auckland Council
Te Kaunihera o Tāmaki Makaurau

Net estimate (10yr NPV)	+ ve (not valued)
Ease of implementation	Moderate
Timing	12 – 24 months
Overall rating	Must do

There are multiple requests for the same information across the Group, generally from the council to CCOs. These requests are not approached strategically. Information is stored in spreadsheets, creating inefficiency with the risk of using incorrect information.

Value will be delivered from having a single source of truth.

Assessment

Criteria	Comment
Strategic fit	Supports the efficient discharge of statutory obligations
Value for money	Improved VfM will be achieved by having a single source of truth and more Finance time available to analyse information and provide improvement insights
Equity	Overall benefits expected to exceed costs
Feasibility	No barriers
Affordability	Funded from existing budgets
Competency	Some external support may be required to develop a fit for purpose strategy. Business case will identify future requirements

Results

Summary of financial costs and benefits

The strategy will provide clarity on what information is required, when and for what purpose. Following development of a strategy a business case should be developed to determine costs and benefits

Costs

- There will be a cost of change which should be quantified and assessed against the future benefits of the change

Benefits

- Quantitative benefits
  - Reduced time required to collate information allowing focus on analysis
  - Single source of truth
- Unquantified qualitative benefits include:
  - Greater clarity of reporting information to enable better decision-making and reduced risk of errors

Key risks and constraints

- Risk of value being lost if future data sets are not actively managed
- Risk of resistance to change or later rogue behaviour can erode benefits
- Risk of loss of talent during any change process
- Watercare's efficient and effective operations obligation means that, when assessing proposals for co-ordination, the proposal must assist (or at least be neutral) in keeping the costs of water supply and wastewater services to customers at efficient and effective levels

Key assumptions

- The Group Financial Information Strategy is jointly developed by and for each organisation in the Group and is jointly beneficial to each participating organisation
- The approach is flexible enough to accommodate and answer all the different questions required of financial information at a Group level
- The council or CEO of a CCO will sponsor the development and implementation of the Group Financial Information Strategy with the Group CFO and CCO CFOs (or equivalent) forming the project steering committee
- Appropriate investment will be made to enable success
- All Group organisations will participate in alignment with the commitments contained in Statements of Intent for organisations to work together
- There are some limited and clearly defined opt-out clauses, e.g. to meet legal obligations (such as Watercare being able to opt out where doing so would lower the cost of water supply and wastewater services to consumers)
- The approach is flexible enough to allow the right approach and to encourage innovation but still achieve the benefits of having a single source of truth

Value proposition #3: Simplify planning and reporting process at Auckland Council to deliver Group benefits

IF … we simplified the planning and reporting process so that it is more effective and efficient by …

By

- Introducing a new planning and reporting framework aligned to LTP, annual budgeting and planning cycles and corporate strategy
- Implement a leaner annual report process with greater business ownership of the performance story
- All business performance reporting driven on an exception basis by commercial and Finance team eliminating duplicated reporting effort
- Corporate reporting requirements move to quarterly and on an exception basis.
- Creating an embedded, enterprise wide Commercial & Finance team reporting servicing the business through a single channel
- Simplifying the chart of accounts and controls around future changes

Then we will achieve

- Reduced, standardised and simplified corporate reporting demands decreasing the effort across the organisation
- Finance activity focussed on value adding activities improving customer experience and service delivery
- Improved alignment of business planning with budgets/forecasts with carry overs, phasing and detailed budget changes eliminated
- Improved quality of service delivery by creation of clear accountability and channels of engagement for customers

Auckland Council
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Net estimate (10yr NPV)	$18m
Ease of implementation	Moderate
Timing	6 – 12 months
Overall rating	Must do

Value will be delivered from simplification, removing unnecessary work and duplication which will create efficiencies.

Planning and reporting is how the organisation plans, tracks and monitors performance, and who is involved in the execution of these activities., This includes regulatory, statutory and governance as well as business facing requirements.

Assessment

Criteria	Comment
Strategic fit	Aligns with organization strategy of Making Size Work
Value for money	Improved VfM will be achieved from reduced operating costs in Finance and greater clarity for business units
Equity	Value from an efficient and effective Finance service benefits all ratepayers
Feasibility	No barriers
Affordability	Cost of change funded from existing budgets
Competency	Competence exists to deliver changes

Results

Summary of financial costs and benefits

Costs

- There will be a cost of change which should be quantified and assessed against the future benefits of the change

Benefits

- Quantitative benefits
  - Net reduction in operating costs
- Unquantified qualitative benefits include:
  - time saving reduction by business unit management in planning and reporting process
  - greater clarity of reporting information to enable better decision-making

Auckland Council
Te Kaunihera o Tāmaki Makaurau

Key risks and constraints

- Risk of resistance to change or later independent behaviour can erode benefits
- Risk of loss of talent during any change process
- Risk that Finance’s customers do not understand or agree with the proposed changes

Key assumptions

- The Group CFO will sponsor the development and implementation of the proposed changes to the planning and reporting processes
- Appropriate investment will be made to enable success particularly embedding process changes

Value for money

This review delivers on the section 17A of the Local Government Act 2002 requirement, to:

"… review the cost-effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services, and performance of regulatory functions …

… consider options for the governance, funding, and delivery of infrastructure, services, and regulatory functions…"

These reviews must be undertaken at least every six years.

The **purpose** of this internal strategic review is to identify strategic opportunities to improve value for money (VfM).

The value propositions developed in this report indicate the potential value from undertaking certain actions. It provides orders-of-magnitude estimates of this value. The propositions do not explicitly include the costs of implementation. The value propositions has been designed to inform council decisions whether to invest in more detailed investigation, including business case development and consultation on options.

VfM, or cost-effectiveness, considers both the cost and the effectiveness (a measure of value) of local government services.

The Office of the Auditor-General, in its 2008 Procurement guidance for public entities publication, defined VfM as:

> "… using resources effectively, economically, and without waste, with due regard for the total costs and benefits of an arrangement, and its contribution to the outcomes the entity is trying to achieve. In addition, the principle of value for money when procuring goods or services does not necessarily mean selecting the lowest price but rather the best possible outcome for the total cost of ownership (or whole-of-life cost)."

We define value from the viewpoint of the customers of the services. Depending on the service, customers might be specific groups of individuals, households or businesses, or they might be the Auckland public in general.

When we consider VfM, we also look at the public policy reason for the council's current role and whether that role will continue to be appropriate in the future, given changes in factors like technology, customer expectations, the environment, legal framework, etc.

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Our methodology uses a fact-based approach

The review involves testing current service arrangements, as well as asking if the rationale is still sound and fit for the future. We focused on specific challenges, issues and opportunities that we found most relevant for service delivery in the future.

Questions

What

- What is the service and how big is it?
- How is it delivered, funded, governed, regulated?
- What is its place in the value chain?
- What is the current and future context?

Why

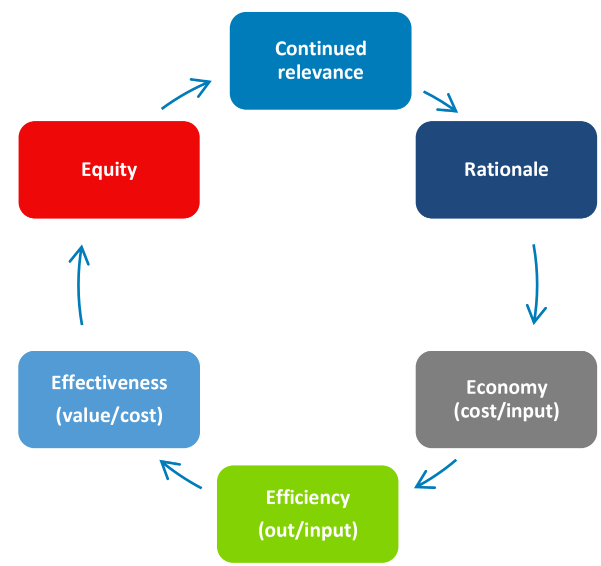
- What is the service trying to achieve?
- What are its strategic or statutory drivers?
- What is the public policy rationale for local government role?

Performance

- What are the cost and value drivers?
- Cost: economy (cost of inputs) and efficiency (service delivery)
- Effectiveness: economic, environmental, social impacts
- Cost-effectiveness
- Equity

Implications

- Does current performance indicate good VfM?
- Do incentives/controls give confidence about achieving future value?
- What are the areas of risk and uncertainty affecting VfM?
- Continued relevance in light of likely changes in context?
- What funding, governance, delivery options for improvement?



Glossary

Term	Definition
APQC	Global performance benchmarking company based in USA. Used by consultancies to provide performance comparisons
ATEED	Auckland Tourism, Events and Economic Development
Auckland Council (the council)	Auckland Council
BASS	A Treasury publication of benchmarking administration and support services
ERP	Enterprise Resource Planning. A technology solution originally from manufacturing that provides the core technology requirements for an organisation
Local boards	There are 21 local boards which share responsibility for decision-making with the governing body. They represent their local communities and make decisions on local issues, activities and facilities
Local Government Act 2002 (LGA 2002)	Legislation that defines the powers and responsibilities of territorial local authorities such as Auckland Council
Long-term plan (LTP)	This document sets out the council's vision, activities, projects, policies, and budgets for a 10-year period. Also commonly referred to as the LTP/ the 10-year budget
Rates	A charge against the property to help fund services and assets the council provides
ROI (Return on investment)	Measures the gain or loss generated on an investment relative to the amount of money invested. ROI enables a comparison of the efficiency of different investments
Value for Money (VfM)	Using resources effectively, economically, and without waste, with due regard for the total costs and benefits of an arrangement, and its contribution to the outcomes the entity is trying to achieve

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