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REVIEW OF NEW ENGLAND STRATEGIC ALLIANCE OF COUNCILS

December 2009

Division of Local Government
Department of Premier and Cabinet

dlg

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EXECUTIVE SUMMARY

In 2004, four Councils (Armidale Dumaresq, Guyra, Uralla and Walcha) formed the New England Strategic Alliance of Councils (NESAC) as an alternative to being amalgamated into a regional council. The scope of functions and services to be encompassed by NESAC was unprecedented in the sector. The members found implementation to be difficult and the Alliance did not fulfil its ambitions. The Alliance has ceased to function as it was originally contemplated.

The Councils undertook extensive work at the outset to identify the costs and benefits of entering into a strategic partnership. Significant benefits were identified. There is clear merit in undertaking such work when considering a new business/delivery model, notwithstanding that the benefits were not fully realised by NESAC.

The business cases developed by the Councils, their recent responses to this review and other earlier work, such as the Boundaries Commission report on the proposed regional council, all indicate there is significant potential for the Councils to make more effective use of their resources. There remains contention as to how this might be best achieved.

This report makes findings about the reasons why NESAC failed. It provides advice for those wanting to be successful in collaborating in the delivery of local government services. It highlights the need for councils to enter into alliances for the right reasons, that is, the motivation needs to extend beyond staving off the prospect of amalgamation.

The reasons why the NESAC Alliance failed are complex and interrelated. They include a flawed structure, the lack of a sound governance framework, the failure to make ongoing use of project management methodologies and ultimately, a loss of common will to make the Alliance a success.

The selection, implementation and cost of information technology (IT) were cited by some as a key factor in the poor performance of NESAC and as a justification for Councils leaving. While it is apparent that the implementation of the chosen IT

platform was problematic, our view is that there are other more significant factors that explain the collapse and failure of the Alliance.

The focus of this review was NESAC. The attention of all stakeholders now needs to shift to the future and how local government can make best use of its limited resources to serve the New England community.

The Councils were recently given the opportunity to make submissions to the Division of Local Government on their current intentions and capacity to better serve their communities. This report notes there is no consensus among the Councils to the extent that reform is required and/or the means of achieving reform.

To be effective, regional collaborative partnerships need shared vision, political direction and ownership; a sound evidence base to inform strategy; a detailed business case, supported by good analysis, sound governance structures and trust. Our preliminary assessment of the submissions made by each of the Councils is that they do not adequately demonstrate that they are able to meet these essential preconditions.

It would not be in the public interest to allow the Councils to continue to squander further limited resources on pursuing potentially flawed reform strategies. It is clear from their past performance that they will need assistance if they are to be successful in achieving reform.

We have recommended that the Minister for Local Government appoint an independent person to facilitate a review of the arrangements for delivery of local government services in the area. Such a review would allow the submissions made by the Councils to benefit from a comprehensive assessment that has been beyond the scope of this review.

The appointment of an independent person will provide the community members, the Councils, individual councillors and other stakeholders (such as unions) with the opportunity to make submissions directly to the facilitator. It is vital that future arrangements for local government in the New England be informed by a diverse range of views.

RECOMMENDATIONS

R1   Given the collapse of the voluntary strategic alliance, the Minister and Councils should give consideration to other, more durable means of delivering the benefits that were identified by NESAC as being available but which were only partly delivered by the Alliance.

R2   The Minister should appoint an independent person to facilitate a review of the arrangements for delivery of local government services in the areas served by the Councils.

R3   Councils entering into collaborative arrangements should pay particular attention to governance practices and ensure they are consistent with Australian Standard AS8000-2003.

R4   Service Level Agreements or standard contracts should be used to govern the delivery of shared services. Responsibilities of both the purchaser and provider should be clearly documented.

R5   Councils that are considering entering into collaborative arrangements of a similar scale to NESAC should seek and be guided by legal advice to ensure agreements adequately deal with possible exposures to legal, financial and reputational risks. Issues to be addressed include, but are not limited to inclusion of an indemnities and insurance clause, ownership and control of assets, dispute resolution and arrangements upon termination of the agreement at the end of its term or upon the withdrawal of a member.

R6   The implementation and ongoing operation of such collaborative arrangements should be undertaken in accordance with documented operational plans; there should be ongoing monitoring of performance and regular reporting and review.

R7   Council management plans should incorporate a statement outlining the proposed nature of the council's involvement in such collaborative arrangements over the timeframe covered by the plan.

R8   Council management plans should, in relation to each of the principal activities of the council, explain the role of cooperative/collaborative arrangements and how the council proposes to assess the performance of the arrangement. The revenue policy of each council should explicitly deal with the recovery of costs and the generation of revenue in relation to services provided to other councils.

R9   Councils must have an ongoing commitment to internal and external communication strategies as they are a critical factor in gaining and maintaining stakeholder support.

R10   Councils need to ensure they comply with clauses 27 and 34 of the *Local Government (State) Award 2007.* These clauses pertain to consultative and participative processes and workplace change.

R11   Each of the Councils should develop and commence implementation of a comprehensive enterprise risk management framework within 6 months.

R12   The Division of Local Government should actively promote the availability of the guidance paper on collaboration and partnerships.

R13   The Division of Local Government should proceed with the publication of the resource to assist councils deal with the workforce relations issues associated with the implementation of strategic alliances and other cooperative arrangements.

R14   The Division should consult with the Strategic Alliance Network regarding the need for a resource to assist councils in measuring, recording and reporting upon the costs and benefits of strategic partnerships.

R15   The Division should consult with the Strategic Alliance Network regarding the need for a resource to assist the sector in developing service level agreement and/or standard contracts for the delivery of services between councils.

R16   The Division should consider developing a generic *Collaboration and Partnerships Self Assessment Tool* that can be used by councils to benchmark their current and proposed arrangements.

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ABOUT THE REVIEW

New England Strategic Alliance of Councils (NESAC) was a collaborative arrangement between the Armidale Dumaresq (ADC), Guyra, Uralla, Walcha Councils and the New England Weeds Authority.[1]

The Department of Premier and Cabinet, Division of Local Government (DLG) undertook this Promoting Better Practice review to identify what could be learnt from the approach adopted by the Alliance and to provide feedback to NESAC and its members, so they could identify and take advantage of improvement opportunities.

The review involved:

- A desktop audit that included a review of key documents, gathering of background information and analysis of prior reviews.
- Completion and submission of a self assessment instrument by the Alliance. This was designed to capture a range of information about the history and current operations of the Alliance.
- The opportunity for councillors to have input, by way of a survey and face to face interviews.
- Interviews with the Mayors, current general managers, a range of staff and other stakeholders (to gain access to first hand experience and knowledge of the Alliance and to verify preliminary findings identified by the desk top audit).
- Production and circulation of a draft report for the review of the Councils and the review of their responses to the Division.
- Analysis of the decisions by members to withdraw from the Alliance.
- Preliminary assessment of submissions made by the Councils on how they propose delivering the same or better benefits than they had identified as being able to be delivered to the community by entering into NESAC.

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[1] Walcha Council resolved to withdraw from the Alliance on 25 February 2009. Uralla Shire Council resolved to withdraw from the Alliance on 24 August 2009. While Guyra Shire Council and ADC continue to work together, the Alliance has ceased to operate as originally contemplated.

In 2007, the former Department of Local Government (the Department) published a guidance paper *Collaboration and Partnerships between Councils* (the guidance paper). The guidance paper describes a range of better practices in relation to the implementation of partnerships and collaborative arrangements between councils. These better practices, along with the objectives of the NESAC Charter, were used as benchmarks against which the Alliance's model and performance was assessed.

BACKGROUND

In 2003, Mr Chris Vardon was appointed by the then Minister for Local Government to undertake a review of the structure of local government in the Peel Region (the Peel Regional Review). He recommended amalgamations and boundary alterations affecting a number of councils in the Peel Region. The then Minister for Local Government put forward a proposal for a new New England Regional Council incorporating the local government areas of Armidale Dumaresq, Walcha, Guyra Shire (part) and Uralla Shire (part), and involving boundary alterations with Inverell Shire. The Councils made submissions suggesting a strategic alliance as an alternative to amalgamation.

In March 2004, the Local Government Boundaries Commission recommended to the then Minister that Armidale Dumaresq, Guyra, Uralla and Walcha local government areas be amalgamated. However, it also recommended that in the event that the proposal did not proceed to implementation immediately, that the Minister review it again within 12 months, particularly with regard to the success or otherwise of the proposed strategic alliance. The Boundaries Commission indicated that it had a number of concerns regarding the proposed alliance and that it did not support it as a means of achieving reform.

The Alliance was formed in 2004. The NESAC Shared Services Charter under which it operates was due to be renewed or terminated within 12 months of the local government elections conducted on 13 September 2008. Walcha Council unilaterally resolved to withdraw from the Alliance on 25 February 2009. Uralla Shire Council resolved to withdraw on 24 August 2009. While Guyra Shire Council and ADC continue to work together, the Alliance has ceased to operate as originally contemplated.

The Division wrote to the Councils when it became apparent that NESAC was likely to collapse. The Councils were encouraged to work with each other to address the issues that had prevented NESAC from realising its potential. The Councils were also asked to make submissions on how they intended achieving reform post NESAC. All of the Councils responded and a preliminary analysis of the Councils' submissions has been completed. The analysis identified a number of significant concerns. These concerns are discussed later in the report.

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It is important to note that NESAC was not a legal entity. NESAC was both the formal agreement between the member councils and a complex set of working arrangements that evolved since that agreement was entered into.

In October 2006, the former Department released a position paper entitled *A New Direction for Local Government*, which encouraged councils to enter into resource sharing arrangements as a means of achieving local government reform.

The findings of this review should be used as a basis for understanding and evaluating the model adopted by NESAC and its implementation. The findings should not be used to draw conclusions about the efficacy of collaboration, shared services and the like; the evidence as to the merit of these approaches in appropriate circumstances is extensive.

FINDINGS

We have made findings about various aspects of the Alliance including its formation, its governance, its implementation and its collapse.

Formation of the Alliance

F1   The *initial* decision to form an Alliance was not informed by a comprehensive strategic planning process.

The Alliance and its members acknowledge that the decision to form a strategic partnership between the four councils was driven by the need to come up with an alternative to amalgamation.

The Alliance was not the product of a decision making process that identified an operational imperative and/or agreed benefits that warranted the formation of such a partnership.

Given the cost and demand pressures that all councils face, it could be argued that there was and continues to be an operational imperative driving the Councils to harvest benefits available to them from entering into a strategic alliance. However, notwithstanding the presence of such an imperative, it should be acknowledged that there are a range of countervailing operational and political imperatives that may act against the adoption and/or success of a strategic alliance.

Engaging in a systematic strategic planning process can assist councils identify and prioritise these competing imperatives and reach a consensus that the pursuit of efficiencies and service improvements through shared services is the way they want to proceed.

While the Councils ultimately agreed to form an Alliance, they did so under the spectre of amalgamation and without having first engaged in a comprehensive strategic planning process – a process that could have afforded them the opportunity to reach a true consensus and provided a better blueprint for more successfully meeting their goals.

F2   The Alliance developed business cases to allow members to make informed decisions as to processes that should be undertaken by the Alliance.

Once the decision was made to enter into an Alliance, there is evidence that the Alliance undertook a systematic high level process mapping exercise. This was done to identify those processes that should be undertaken by the Alliance. There were 14 business cases developed. This afforded the Councils the opportunity to make informed decisions about the costs and benefits of proceeding, which business cases to implement and how those services/functions could be best undertaken.[2]

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2 It is understood that the process mapping and the development of business cases was undertaken with extensive assistance from a consultant engaged for this purpose. We have not made a finding about this or the specific methodology adopted to develop the business cases.

F3   The Alliance decided to proceed with implementation of a hybrid model where some functional areas did not fall within the ambit of the strategic alliance, others were to be delivered "cooperatively" and others were to be delivered as a shared service.

When the member councils determined which business cases were to be implemented and in what form, it appears some were not determined solely having regard to the originally documented cost/benefit analysis. Some of the "original" business cases apparently identified that the optimum return would be gained from the adoption of a shared services approach. It appears some were modified in order to facilitate an agreement being reached i.e. a cooperative delivery model was adopted instead of the shared service model.

F4   There was significant resistance from the outset to the prospect of a comprehensive shared services model.

While ADC was keen to pursue a comprehensive shared services model, the hybrid model that was subsequently adopted suggests that some of the final decisions on the business cases might be attributable to unwillingness of some members to agree to what they perceived as a loss of control over core services and key staff. Interviews conducted during the review indicated that some councillors and staff remain concerned about this issue.

F5   There does not appear to have been a master project plan for the implementation process. Nor do there appear to have been project plans developed to guide the implementation of individual business cases.

If such plans do exist they were not provided to the Division.

F6   The *NESAC Shared Services Charter* identified many of the key issues that needed to be addressed in order to make the proposed arrangement a success but failed to deal with some significant legal issues.

There is evidence in the wording of the Charter to suggest that thought was given as to the range of matters that would need to be addressed in order to ensure the

success of the Alliance. While most of the relevant factors are identified there are some significant deficiencies in how the Charter deals with those factors.

The Charter fails to adequately deal with some key legal issues. These legal issues and further specific findings in relation to the Charter are discussed later in this report in the *Governance* section. We also comment further about the extent to which the Alliance has been able to fulfil its Charter.

F7   The Charter under which the Alliance operated documented the strategic intent of the Alliance but falls far short of being a strategic plan.

The Alliance's implementation does not appear to have been guided by a formal strategic plan that identified how the Charter would be implemented. There does not appear to have been an agreed timeline or other targets against which the implementation of the Alliance could be measured. There does not appear to have been a proper assessment of the resources that would be required or an adequate process to ensure the required resources were available.

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What worked well?

The member councils reached an agreement to enter into an Alliance whose ambitions were unprecedented in the sector. We acknowledge the efforts of those individuals who championed the idea.

Business cases were developed to inform decision making on the functional areas to be the subject of a cooperative/collaborative arrangement. We would encourage others to engage in a similar process to inform their decision making.

It is important to note that a decision not to collaborate for a particular service or functional area can be valid and appropriate, provided it is informed by an objective assessment of the merits of collaboration and not improperly influenced by irrelevant matters or vested interests.

Areas for further development:

If the Alliance was to succeed, it needed to develop a strategic plan that identified the strategic objectives of the Alliance, the means by which achievement would be measured, the key success factors, the strategies to be pursued, a timeline for implementation and resourcing requirements.

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Given the collapse of the voluntary strategic alliance, the Minister and the Councils should give consideration to other, more durable means of delivering the benefits that were identified by NESAC as being available but which were only partly delivered by the Alliance. **(Recommendation 1)** We recommended that an independent person be appointed to facilitate this process. **(Recommendation 2)** The basis for this second recommendation is discussed in the *Conclusion* section of this report.

Governance

"Corporate governance refers to all the means by which entities are directed and controlled." (Standards Australia, HB401-2004:12) While the Alliance was not a legal entity, the principles of governance outlined in the Standard are still applicable to its management.

We reviewed various aspects of the Alliance's governance practices, including:

- Ethics and values
- Risk management and internal control
- Decision-making processes
- Monitoring and review.

During the review we examined the Alliance's Charter, the Alliance's decision making processes and forums, the internal audit and enterprise risk management systems, the promulgation of Alliance policies and procedures and processes for monitoring and reviewing performance.

We have made the following findings in regard to the Alliance Charter:

F8   The Alliance Charter identified most of the topics that need to be addressed in order to establish a good governance framework.

F9   The Alliance Charter did not deal with some key aspects of governance in sufficient detail and/or in a manner that supports the maintenance of good governance.

F10   The Charter failed to adequately deal with a number of important legal matters including legal liability, ownership and control of assets, arrangements upon termination of the agreement at the end of its term or upon the withdrawal of a member. The absence of a well structured legal agreement exposes the members to unacceptable legal financial and reputation risks.

F11   The governance framework adopted is complex and as such, inherently difficult to understand and administer.

F12   The performance management arrangements that the Alliance had in place are convoluted, make reporting and performance management difficult and as such did not facilitate accountability.

The Alliance Charter states that its intended purpose was to "provide a clear, simple and practical framework within which the Alliance arrangements can function."[3] While there are significant gaps in detail, the Charter does address matters such as:

- Membership
- The term of the agreement
- Objectives (and implicitly values)
- Adoption of a code of conduct
- Arrangements for making of policy
- Establishment and role of the NESAC Advisory Committee
- Lines of responsibility/accountability
- Establishment of a common salary system
- Billing and charging for shared services
- Establishment of a quality assurance mechanism and internal audit process

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[3] NESAC Charter, Clause 1.1

- Dispute resolution
- Communication processes
- Standardisation of Plans and Reporting
- The use of delegated authority.

The Charter adequately deals with the issues of membership, objectives, the adoption of common codes of conduct, the establishment and role of the Advisory Committee and review periods (but not the review process) and the establishment of an internal audit function. The Charter contains a number of value statements as to the manner in which the Alliance was intended to operate. By incorporating these statements in the Charter, the Alliance was well placed to make use of these values to guide the multitude of decisions it needed to make subsequent to its formation.

The Charter also provided for standardisation of plans and statutory reporting. This is commendable. We discuss how well this intention was realised in the *Implementation* section of this report.

While the Charter deals with some governance matters adequately, it fails to deal with others with sufficient clarity, as to how the matter was to be dealt with in practice. Other matters are dealt with in such a way as to preclude proper governance.[4] Particular areas of concern are discussed hereunder and needed to be addressed by the Alliance if it was to continue.

Legal matters

When setting up an agreement between separate legal entities to embark on a joint project such as the provision of shared services, it is of the utmost importance that the agreement is reduced to a well structured and comprehensive legal contract. A well structured contract is an essential control for minimising the risks associated with entering into such an undertaking.

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[4] We do not suggest that this was in any way deliberate.

The agreement serves many purposes including:

- to ensure that all parties understand and are aware of their obligations – financial and non-financial
- a means of articulating how risks are to be shared by the parties (hence an indemnities and insurance clause is an essential part of any such agreement)
- regulating the way in which the shared undertaking is to be governed; setting out how the parties may join or leave the undertaking
- providing a means of dispute regulation
- providing a means of monitoring and reviewing the activities of the undertaking. The Charter serves as the legal agreement between the members. As such, it should address some standard legal issues we would expect it to deal with, but which it does not. The absence of a well structured legal agreement exposes the parties to unacceptable legal, financial and reputational risks and could give rise to complicated and costly litigation with an uncertain outcome should a question of legal liability arise.

The Charter could have been improved by clearly defining the legal liabilities of the members in cases where they (and the staff they employ) provide services to or on behalf of another member. This issue should also be considered when developing service level agreements, which is discussed later in this section of the report.

The Charter provides little guidance to assist the members manage and deal with the risks and consequences that may arise in the event of the Alliance being dissolved at the end of the period of the agreement. It only provides limited guidance in relation to costs if one or more members withdraw from the Alliance during the term of the agreement.

The Charter failed to contemplate a situation where one of the members failed to provide services adequately and the other members suffer losses/damages as a result of that failure. The failure could be the result of incompetence or it could be the result of a force majeure. A well drafted formal agreement should cover these circumstances.

In going forward, it would be prudent for each member of the Alliance to seek their own independent legal advice regarding the legal framework for the operation of the any collaborative arrangements that may succeed NESAC.

Policies

Policies and procedures are fundamental elements of a governance framework; they serve to inform, direct and control the entity and those who are engaged with it such as councillors, staff and suppliers.

Clause 4.1 of the Charter deals with the issue of "Policies" and "Shared Services Procedures". The Charter provides that "each member Council will retain full autonomy to determine and apply policy independent of other Alliance member Councils". We suggest that such autonomy, in relation to operational matters, is incompatible with the efficient implementation of shared services.

Notwithstanding that the Charter provides for total autonomy, it implicitly recognises the difficulty with members retaining such autonomy. It stipulates that *"Each member Council will publish its policy and procedural documentation to other Alliance Councils to facilitate an environment wherein homogenous compatible policies may be standardised for ease of maintenance and application in a shared services environment".*

We were not able to establish that the policies and procedures had been published in manner to make them readily accessible. In any case, we suggest that relying solely on publication to achieve standardisation/compatibility was, at best, a very inefficient way of facilitating standardisation and at worst, unrealistic and unlikely to be successful.

Organisational Structure

One of the stated purposes of the Charter was to develop appropriate organisational structures. It states that the structure is founded upon two fundamental principles:

- organisation autonomy and control for individual councils
- cooperation to provide enhanced and increased service levels.

It goes on to state that for *"the Alliance to deliver results and continue to develop, the Councils, management and staff must balance these competing objectives"* and *"The organisation structures of the Alliance Council must reflect both independent and interdependent roles and functions provided by, and for, each Council"*.

In March 2006, the members adopted a shared services structure for the delivery of 13 core functions. The Charter states that most of the *"shared service positions have been filled or are in the process of recruitment"*. The organisation chart is not included in the Charter or provided as an Appendix.

The Alliance endeavoured to deliver shared services through a structure in which each of the general managers had a portfolio responsibility for the delivery of specified shared services. The general managers also had accountability to their own councils for the delivery of local services.

The Charter states that the general managers *"are responsible to the Advisory Committee of the New England Strategic Alliance of Councils and to each other for the delivery of shared services."* The Charter is silent on how this was to work in practice. The Alliance did not develop an effective means of ensuring that individual general managers were accountable for the performance of their portfolios.

Some members of the shared service teams worked on a full-time basis in such a team. Other members only worked for the shared services team on a part-time basis and had responsibilities for local services for the remainder of their working week.

The Charter provides that staff members working in the shared service teams, irrespective of which Council employs them, are accountable to the relevant portfolio manager for the delivery of shared services. While such a reporting line is necessary, the Alliance did not develop an effective performance management system that would allow portfolio general managers to hold staff accountable for their performance. Such a performance management system is even more important where staff are located at a different site from their manager.

Although the Charter states *"All members acknowledge that shared service delivery will only be successful, when provided across a range of Councils, if the members of*

the shared services team have accountability for that shared service to the respective portfolio General Managers", the structural arrangements that were in place in February 2009 did not provide adequate support for such accountability.

It must be acknowledged by the Councils that it will always be more difficult to manage staff not directly employed by the same organisation/manager responsible for the shared service they provide. The difficulties are further compounded by locating these staff away from their manager/co-workers and co-locating them with staff working for a different organisation/manager. While we advocated for the development of a performance management system to address the difficulties inherent in the aforementioned arrangements, the Councils needed to give careful consideration as to whether it might have been simpler to modify the structure, with proper consultation and change management, so that all the staff providing a given shared service worked for the same council.

Service level agreements

The Charter only makes one passing reference to the development of Service Level Agreements (SLAs). The Charter does not require them to be developed or used.

The Alliance could have used SLAs or standard contracts to govern the delivery of each individual shared service. SLAs/standard contracts, when properly drafted, can be used to define the service to be provided, to stipulate terms and conditions (including the obligations of the parties to the agreement) and provide a means of measuring performance and resolving disputes.

Some of the ongoing concerns that have arisen among the member councils about the nature of the services to be provided, about roles and responsibilities of various parties, about the quality of services and over the costing of services could have been dealt with more efficiently by developing SLAs/standard contracts at the outset. Such agreements could then have been used to resolve any questions/disputes.

Decision making and delegation

The Act deals with how councils operate and specifically how they may make decisions. Sections 355 and 377 of the *Local Government Act 1993* provide councils

with a wide range of options for delegating the exercise of their functions and their decision making powers. The Councils could have taken greater advantage of these provisions to improve their efficiency and effectiveness.

"Decision making" and "delegation" are related matters that the Alliance's Charter could have dealt with more effectively. The Alliance's decision making processes were inherently time consuming; delegation could have helped improve this. There was also potential to improve the manner in which decisions were recorded and followed up.

The NESAC Advisory Committee (comprised of the Mayors and Deputy Mayors of the member councils) did not have any delegated authority to make decisions.

There is little evidence of the significant use of delegated authority from General Managers to each other or to shared services staff, even though the Charter provides for this.

Effectively, for a policy decision to be made, it was necessary for it to be dealt with by the Advisory Committee, then referred to each of the member councils and presumably, if there was a proposed amendment, the process needed to be repeated.

In the absence of any delegation from the member councils, the Alliance effectively had no single governing body. While the NESAC Charter provided that the Advisory Committee was "established to deal with Alliance business" it was not able to make any binding decisions.

While there is evidence that the Advisory Committee and General Manager meetings were minuted, we did not find evidence of systematic recording and follow up on decisions made at these meetings.

It appears that there were no written protocols to govern the conduct of the meetings of General Managers.

During 2008, the Advisory Committee did not meet for a period in excess of six months, whereas its Charter required it to meet bi-monthly.

Leadership

The NESAC Charter requires that the Chairmanship of the Advisory Committee rotate on a 12 monthly basis. While the apparent intent of involving all of the Councils in the chairmanship role is understandable, we suggest that the benefits of this are outweighed by constraining the Alliance members in being able to select the person best able to fulfil this key leadership role and by the potentially disruptive effect of changing leaders on an annual basis.

The structure of the Alliance did not provide for one of the General Managers to exercise a leadership role. While one of the General Managers has been appointed as Alliance Secretary on an annual basis, this role appears to be limited to administrative support. In reviewing its structure, the Alliance needed to give consideration as to whether there was benefit in appointing someone to assume a leadership role in the day-to-day operation of the Alliance.

Standardisation of plans and reporting

The Alliance Charter implicitly acknowledges that there is a need to standardise the format of key documents such as council management plans, budgets and annual reports. Standardising these documents would clearly make the process of using shared services to support their development simpler and therefore more efficient. It would facilitate easier communication, as everyone using the documents would only need to be familiar with one format. While the Charter provided for this, the standardisation was not achieved.

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What worked well?

The members of the Alliance clearly recognised that there was a need to have a formal agreement to govern the operation of the Alliance. It is important that any collaborative arrangement of any significance (such as NESAC) be formalised.

The NESAC Charter identified many of the elements that need to be addressed in the development of a sound governance framework.

The Charter incorporates a set of values that could have provided the foundation for ensuring the continued operation of such alliances, provided they are adopted by all those involved.

Areas for further development:

Note: The following recommendations are generally applicable to councils and are not NESAC specific.

Councils entering into collaborative arrangements should pay particular attention to governance practices and ensure they are consistent with Australian Standard AS8000-2003. **(Recommendation 4)**

Service Level Agreements or standard contracts should be used to govern the delivery of shared services. Responsibilities of both the purchaser and provider should be clearly documented. **(Recommendation 5)**

Councils that are considering entering into collaborative arrangements of a similar scale to NESAC should seek and be guided by legal advice to ensure agreements adequately deal with possible exposure to legal, financial and reputational risks. **(Recommendation 6)**

Issues to be addressed include but are not limited to inclusion of an indemnities and insurance clause, ownership and control of assets, dispute resolution and arrangements upon termination of the agreement at the end of its term or upon the withdrawal of a member.

The implementation and ongoing operation of such collaborative arrangements should be undertaken in accordance with documented operational plans; there should be ongoing monitoring of performance and regular reporting and review. **(Recommendation 7)**

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The apparent failure of the Alliance to fulfil its ambitions can be attributed to a significant degree to weaknesses in its governance framework. The lesson for others contemplating such arrangements is that the pitfalls and adverse outcomes

encountered by NESAC may be avoided by careful attention to the aforementioned recommendations.

Implementation

In this part of the report we discuss the implementation of the Alliance. Our findings and commentary are focused on process and the difficulties the Alliance encountered since deciding to proceed with the implementation.

When we commenced the review it was immediately apparent to us that the Alliance was experiencing significant difficulty in fulfilling its ambitions. The Alliance had previously provided the former Department of Local Government with a copy of a March 2008 report on an internal review of the Alliance, authored by the General Manager of Armidale Dumaresq Council.

The internal review report indicated that significant progress had been made in implementing some of the business cases and that there were significant delays in implementing others. The report states that "the lack of progress and in turn little demonstrable gains" were in areas that were initially identified as offering the most "harvestable gains".

Our findings in relation to implementation are as follows:

F13 Multiple factors have had an adverse impact on the implementation of the Alliance.

F14 Weaknesses in the governance framework have contributed to difficulties in implementing the business cases approved by the member councils.

F15 The NESAC model is organisationally complex both from a governance and structural perspective. As such, successful implementation was always going to be a significant challenge and this has proved to be the case.

F16 The large number of services encompassed by the Alliance and the operational and cultural changes required meant that the implementation process was significant. High-level management skills, resources and time were and remain prerequisites for a successful implementation.

F17 A strategic plan for implementation was not developed, even though the Charter provided for this.[5]

F18 Project and operational plans were not developed to guide the implementation of business cases.

F19 There is a lack of evidence that project plans were developed for the implementation of the approved business cases.

F20 The Alliance did not develop a range of key performance indicators as provided for in its Charter.

F21 The Alliance did not use benefit realisation management to support the implementation process, even though the Charter provided for the maintenance of a benefit realisation register. No register was maintained.

F22 The Alliance did not undertake all of the annual reviews required by the Charter. The Alliance only undertook one significant internal review prior to 2009.

F23 The NESAC Advisory Committee has met on numerous occasions but did not meet at least bi-monthly during 2008, even though the Alliance Charter required it to do so and in spite of the significant issues facing the Alliance.

F24 The Alliance has developed an organisational structure and appointed staff to the positions in that structure.

F25 The member councils adopted a common salary system. This was a significant task that captured the focus of much of the workforce relations effort of the Alliance during the implementation period.

F26 There were delays in releasing council employees appointed to shared services roles and this in turn has had an impact on the implementation of some business cases.

F27 Some employees appear to be unclear about the roles and responsibilities of positions in the shared services structure.

F28 There have been a number of changes in key staff since the Alliance was formed. It is not unreasonable to conclude this has had an impact on the implementation process. As changes in staff is an ongoing possibility, steps needed to be taken to mitigate the risk of the loss of key staff.

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5. Section 5.1 of the Alliance Charter,

F29 Communication and consultation processes used subsequent to establishment of the Alliance have been limited in scope.

F30 The selection, implementation and cost of information technology (IT) was cited by some as a key factor in the poor performance of NESAC and as a justification for Councils leaving. While it is apparent that the implementation of the chosen IT platform was problematic, our view is that there are other more significant factors that explain the collapse and failure of the Alliance.

Implications of Scope and Complexity

The Alliance adopted a complex "hybrid" model/structure, which in turn meant that its implementation was going to be a complex task. This inherent complexity was, in turn, compounded by the wide scope of the services it was proposed to encompass.

The introduction of the Alliance gave rise to a situation where some services were delivered locally and separately by each member council, other services were delivered as a "shared service" but no member council assumed responsibility for the delivery of the service and other services were undertaken "cooperatively".

Having decided to proceed with such a significant and complex project, it was contingent upon the Councils to manage the process diligently and effectively.

Systematic planning of the implementation

One approach to dealing with such a complex implementation task is to undertake systematic planning and monitoring of the process. This does not appear to have occurred.

In the absence of any significant contrary evidence, we have made findings to the effect that the implementation of the Alliance has generally not been undertaken in accordance with a strategic plan, an annual operational plan or project plan. [6]

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[6] We do acknowledge that the Charter details a number of high level strategic objectives; our focus here is the lack of follow up planning to ensure those objectives could be achieved.

As part of the review process, we asked for copies of strategic plans and project plans. In regard to the period post approval of the business cases, we were provided with:

- an Internal Audit work plan
- a Records Management Plan
- a draft strategic plan for the Finance and Budget shared service
- a draft strategic plan for the Information and Communication Technologies (ICT) shared service
- some recently developed draft strategic plans for the Engineering Works sub-portfolios.

The Internal Audit plan appears to be sound and had started to be implemented.

The Records Management Plan has apparently been approved by the general managers but has not been implemented. In examining this plan, we identified issues that would preclude its successful implementation. It fails to adequately recognise the obligations of the individual member councils to comply with the State Records Act.

The recently developed draft strategic plans for Finance and Budget, ICT and Engineering Works, while not being finalised, at least demonstrate there was intent on the part of the Alliance to ensure its future operations were undertaken with the benefit of a more structured approach to planning and decision making. However, we noted that at the time of the onsite assessment that the plans were still in draft form and do not appear to replace any existing plans.

We also noted that the implementation of the Alliance did not result in standardisation of the Councils' management plans, even though this is provided for in the Charter.

Monitoring and Review

As mentioned earlier, one way of managing the implementation of a complex project is to monitor it (and implicitly, take timely remedial action if the implementation

doesn't go to plan). We would expect such monitoring to involve the use of a planning/reporting/reviewing process, the identification and monitoring of key performance indicators and the maintenance of benefit realisation registers.[7]

The Alliance was initially well placed to monitor the implementation because the Charter included a number of high level objectives. The Charter stipulated that the Alliance would *"ensure that a benefits register is maintained to identify net benefits achieved by the Alliance's activities"* and the individual business cases detailed projected costs and benefits. The Charter also provided that the Alliance would *"develop a range of key performance indicators"* and indicated that there would be *"annual reviews"* of the Alliance. Notwithstanding this, we did not find evidence of systematic performance monitoring, reporting and review processes being used over the course of the implementation. This does not suggest that performance issues weren't discussed, but rather, such discussions were ad hoc, were undertaken without having a plan to reference the performance against and did not result in the development of new or revised plans.

The Charter stipulated that there was to be a formal review of the Alliance on a 4 yearly basis. It also provides for annual reviews by the Chairperson and the Secretary of the Alliance. While the Alliance did undertake a review in 2008, we did not find evidence of documented reviews having been undertaken by the Chairpersons and Secretaries of the Alliance.

We also noted that the implementation of the Alliance has not resulted in standardisation of the member councils' annual reports, even though this is provided for in the Charter.

The *Local Government Act 1993* provides for general managers to be employed on performance based contracts. Notwithstanding this, the member councils did not include any explicit requirements in their general manager's performance agreements in relation to responsibilities for overseeing the operation of the Alliance or in relation to their responsibilities for the portfolio of services allocated to them. This is a fundamental issue that needed to be addressed.

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7 See Collaboration and Partnerships Between Councils, p. 36

Advisory committee meetings

We note that the Advisory Committee met on numerous occasions since the Alliance was established. This process involved the coming together of the Mayors, the Deputy Mayors, the general managers and the Chairperson of the New England Tablelands (Noxious Weeds) County Council. It was fundamental to realising the benefits of collaboration, notwithstanding the lack of delegated authority granted to the Committee.

We noted with concern that the Committee did not meet for a period in excess of six months in 2008, even though the Alliance Charter required it meet at least bi-monthly. This occurred following the tabling of the March 2008 internal review report, which clearly demonstrated that there were very serious issues that needed to be addressed by the Alliance and inter alia, the Advisory Committee.

We noted the Advisory Committee resolved at its October 2008 meeting to recommend to the members that the Charter be modified to the effect that the Advisory Committee meet on an "as needs basis or at least four times per year". We suggest there is a need for more frequent oversight by the supervisory body, be it the current Advisory Committee or some other body appointed to undertake this role, such as a sub-committee. We understand that the Advisory Committee subsequently acknowledged the need to meet more frequently in light of the withdrawal of one of the member councils.

We noted earlier in this report that the Charter has provided for annual changes in the chairperson and secretary of the Alliance. With the benefit of hindsight, it could be argued the rotation has been a further complicating factor that needed to be addressed during the implementation process.

We examined a sample of business papers for Advisory Committee meetings and noted a lack of standardisation in the reporting format and a lack of regular and consistent reporting on the performance of the Alliance and its progress in implementing the individual business cases.

Staffing issues

We did not undertake a detailed assessment of the organisational structure adopted by the Alliance. However, it is apparent that an organisational structure was put in place and staff appointed to the positions in that structure.

As the Alliance is not an entity, it has remained the responsibility of each member council to adopt a structure that incorporates its own positions and any Alliance/shared service positions it identified as needing to host.

The process used to develop the structure and place positions in the structures of individual member councils warrants comment.

We were advised that the Alliance undertook a high level process mapping exercise to identify the quantum of work involved in services that were to be undertaken as a shared service and this in turn was used to identify how many shared services positions were required.

Once the structure was determined, the Alliance advertised the shared services positions internally to facilitate the appointment of existing employees (where they were qualified or capable of becoming qualified to undertake the work). As staff were appointed to the shared services roles, the council where they were employed was effectively required to create a new shared services position (and presumably delete the staff member's former "local services" position where it was not going to be backfilled).

The process effectively gave rise to a situation were staff who were part of the same shared service team were employed by different councils and where managers responsible for such a shared service were employed by one council and had staff reporting to them employed by one or more other councils.

We also noted that in some cases, the shared service positions were not full-time but full-time employees were appointed to these roles. This gave rise to a situation where the effort/attention of such employees had to be divided between a shared service role and a local service role. This is a further factor adding to the overall complexity of the Alliance.

We were informed there were delays in releasing employees appointed to shared services roles from their local services role. We were advised that this had an adverse impact on the implementation of some business cases. However, in the normal course of business, when an employee resigns to take on a new role, their former employer has no choice but to address this situation. However, it would appear that individual member councils who "lost" key employees to the shared service structure were not required to take timely action to "release" or replace those employees.

The member councils have adopted a common salary system. This was a significant task that appears to have captured much of the workforce relations effort of the Alliance during the implementation period.

There have been a number of changes in key staff since the Alliance was formed. Notably, two of the general managers who were involved at the outset are no longer employed by the member councils and they have been replaced by two new general managers, one of whom was appointed as recently as the second half of 2008. The Alliance made changes to the portfolio responsibilities of the general managers in October 2008.

We also noted that the Alliance's current Chief Financial and Information Officer was employed in 2006, only a very short time before new financial and information systems went "live". As such, he effectively inherited the systems and the responsibility for implementation without having had the benefit of being involved in the choice of systems or the planning of the implementation process.

It is apparent to us that the Alliance and its implementation had the potential to demand a significant amount of the general managers' time if it was to be successful. This was an ongoing issue that needed to be addressed to ensure that it did not have an adverse impact on their capacity to serve their individual councils.

Communication and consultation

Clause 16 of the Charter deals with communication. It states that the *"Alliance is committed to a high level of communication between the Councils, the elected*

members, the staff, the Unions and the community concerning all aspects of its operations." It then goes on to state that the *"Alliance recognises the fact that the successful implementation of shared services will depend on staff commitment. It is committed to fully consulting with staff concerning the management of change."* We looked for evidence of the claimed commitment to a high level of communication.

We have made a finding that the communication and consultation processes used subsequent to the establishment of the Alliance have been limited in their scope and this had the potential to adversely impact on the performance of the Alliance.

There is some evidence to indicate that there was a reasonable commitment to communication and consultation when the Alliance was being formed and during the initial implementation process. For example, it is apparent that a significant number of staff would have been involved in the initial process mapping exercise and in the development of the business cases. We also note that the member councils were able to reach agreement about the adoption of a common salary system, a process that inherently requires extensive communication with staff and their representatives.

We also note that the Alliance adopted a process to facilitate the reporting and resolution of problems. Essentially, the process allowed any employee to record an issue in an "Issues Register". The employee identifying the issue was required to complete an "Issue Report" describing the problem and recommending a proposed course of action. It was proposed that the Issues Register would be used at regular business meetings to track the status of outstanding issues. While the adoption of such a system is commendable and consistent with a high level of commitment to communication and consultation, we found little evidence that management promoted it and/or supported its use on an ongoing basis. We also observe that it is focused on the negative, i.e. identifying problems; there was scope to broaden it to allow employees to use it to communicate opportunities.

The Alliance established a joint consultative committee but it met infrequently and its deliberations were largely confined to the consideration of the common salary system. We found no evidence of the Alliance seeking to involve or otherwise consult with this committee in the reviews of the Alliance.

As mentioned earlier in this report, we did not find evidence of the members having published their own policies and procedures in a manner to facilitate sharing between the member councils. However, we understand that some common policies and procedures are accessible electronically via public folders.

The Alliance members do not make use of a shared Intranet, although it was suggested to us that one was being developed.

The Alliance published a "NESAC Newsletter" from time to time to inform council employees about the Alliance. While the content on occasions is limited in scope, it did indicate a commitment to communicate with staff.

The original version of the Charter proposed that *"to improve Local Government/Interagency cooperation and efficiencies"* the Advisory Committee would meet with regional managers on a six monthly basis for key government agencies to address *"the alignment of State and Local Government Policies and Strategies, with a view to obtaining more focus and collaborative outcomes".* The Charter then goes on to state that *"Investigations will also be commenced considering the Alliance's delivery of State Government Services, particularly in areas where synergy and/or economic rationale exists".* While these provisions are well intentioned, we did not find any significant evidence that these ambitions were fulfilled. In fact, in the most recent version of the Charter, the aforementioned provisions have been replaced with the following provision:

> *"The Alliance keeps the Minister for and the Department of Local Government informed of its activities by sending copies of the minutes of meetings of NESAC directly to the Minister's Office and to the Department".*

We looked for evidence of the member councils communicating with their communities about the Alliance. The approach varied among the member councils. At the time of the onsite review, there was some information about the Alliance on some of the council websites and there have been media releases from time to time.

There appears to have been a lot of media attention and community engagement when the Alliance was first proposed. Our draft report encouraged the member councils to ensure their involvement in the Alliance was explicitly addressed in their

management plans, their annual reports and as part of their overall approach to communicating with their communities.

During our onsite interviews, some staff and councillors made very positive comments about the extent of contact they had been able to have with colleagues from other councils as a consequence of the Alliance. There is evidence of regular meetings involving staff and councillors from the member councils and the positive impact of such face to face contact should not be underestimated. In fact, we suggest that it was these meetings (along with the commitment of certain individuals) that facilitated the progress that was made in the implementation of the Alliance, notwithstanding other matters that impeded progress.

Implementation of the new Information and Communication Technologies

The Alliance self assessment indicated that the introduction of new information and communication technologies (ICT) had been a significant factor impacting adversely on the overall implementation of the Alliance. As such, we examined the role of ICT and its impact on the Alliance in particular detail. Our detailed assessment on this aspect of the Alliance is provided as an Appendix to this report.

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What worked well?

The implementation of the Alliance has provided ongoing opportunities for councillors and employees from different councils to meet together. Benefits accrued from these meetings such as a willingness to share resources.

It is evident that there are a number of individual employees who have demonstrated a high level of commitment to implementing the Alliance and progress was made in spite of the issues we have identified.

Areas for further development:

The implementation and ongoing operation of the Alliance and/or the shared service/collaborative arrangements that may succeed it should be undertaken in accordance with documented operational plans; there should be ongoing monitoring

of performance and regular reporting and review. Benefit realisation management should be used to support the implementation process. There needs to be ongoing commitment to internal and external communication strategies. **(Recommendations 7, 8, 9 & 10)**

Current operations and capacity to improve

In this part of the report, we provide some commentary on the current circumstances of the Councils and detail our findings about their capacity to improve. Our findings are:

F31 There was limited progress over the last five towards achieving the stated objectives of the Alliance.

F32 The Councils did not share a common vision as to why an Alliance (and the reforms/benefits it could deliver) was needed.

F33 The members of the Alliance had, at the time of the onsite review, varying degrees of awareness of the problems that needed to be addressed and, to varying degrees, were taking action to accept ownership and develop solutions.

F34 There was no clear or agreed process for undertaking the comprehensive review of the Alliance provided for in the NESAC Charter. Such a review and the consideration of its findings was a precursor to making the right decisions about the future direction of the Alliance.

F35 The NESAC Advisory Committee commissioned an independent review of alternative structures after the withdrawal of Walcha. The consultant's recommendations were not accepted.

F36 The Councils have limited capacity and systems to deliver performance improvement. Action needs to be taken to increase this capacity and further develop the systems.

F37 The Alliance has not delivered the significant benefits it identified in the business cases it decided to implement. It is contingent on the Councils to pursue these benefits.

F38 There continues to be no consensus among the Councils to the extent reform is required and/or the means of achieving reform.

In assessing the Alliance's capacity to improve, we looked for:

- Progress made to date

- A shared realistic vision and ambitions for the Alliance

- Ongoing council and other stakeholders commitment to reform

- Awareness and ownership of problems/willingness to change

- Systems and resources to deliver improvement.

Progress made to date

As mentioned earlier, the Alliance provided the former Department with a copy of a March 2008 report on an internal review of the Alliance, authored by the General Manager of Armidale Dumaresq Council. The report indicated that significant progress had been made in implementing some of the business cases, but also indicated that there were significant delays in implementing others. The report stated that the areas where there was a "lack of progress and in turn little demonstrable gains" were those areas that were initially identified as offering the most "harvestable gains".

It is evident there had been some further progress towards realising the potential of the Alliance since the internal review was conducted. It would appear that the financial system was stable. We also found evidence that significant work was underway to develop plans for the future. It is concerning that this progress has been effectively ignored and the plans abandoned.

There has been significant work toward the development of new Local Environmental Plans for the member councils and it is evident that there is a high level of cooperation in relation to this process.

Significant progress has been made in the area of Fleet and Plant Management and we were very impressed by the work of the individual staff member who is primarily responsible for the progress that has been made. In our draft report, we indicated that we were mindful that there were structural, cultural and possibly political barriers that would preclude this function delivering the full extent of benefits that it otherwise could. Our concerns about this appear to have been well founded given subsequent decisions of the Councils.

There are many examples that can be cited by the Councils of where their cooperative efforts are delivering real benefits. For example, Walcha Council cited the provision of its garbage service by Uralla; Uralla cited the work gained by one of its "road" crews in servicing other councils; Guyra has provided inspection services to ADC; and Guyra makes use of the professional services of the Alliance's Chief Financial and Information Officer. However, we must point out that the value of these benefits and others which could be put forward have not been properly assessed and they fall short of being able to be used to demonstrate the Alliance was operating as effectively as it could have.

We have made a finding that there has been limited progress to date in achieving the stated objectives of the Alliance. We have not made specific findings about what progress has been made in relation to individual business cases. Our capacity to make findings about individual business cases was limited by the Alliance not having effectively monitored implementation of the business cases and the inadequacies of its reporting systems. Further work would need to be undertaken if such findings are required.

While we have made a finding of limited overall progress, we acknowledge that significant progress had been made in laying the foundation for the effective use of common systems and work practices. Examples include the information technology infrastructure that was in place, the common salary and payroll systems and internal audit. Again, we must reiterate our concern about Council decisions not to capitalise effectively on this work by resolving to leave the Alliance.

Shared vision/Demonstrated commitment to achieving significant reform

In the draft report, we observed that there was mixed evidence as to the level of commitment to the Alliance. Arguably now, there is significant evidence that there is not a shared vision as to why an Alliance (and the reforms/benefits it could deliver) is needed.

The primary factor that gave rise to the establishment of the Alliance was the prospect of imminent amalgamation. It was this threat and not the potential benefits of the Alliance that underpinned the initial commitment of the Councils (other than

ADC) to the Alliance. In the absence of such a threat, there was a need for all involved to recommit to the Alliance as a means of delivering benefits to their communities. Such commitments have not been made by each of the Councils.

It is apparent from the Councils' responses to the draft report and their subsequent submissions that they all hold different views as to the need for reform and the means by which that reform should be pursued.

Awareness and ownership of problems/willingness to change

During the course of the review, we noted a general acceptance that the way the Alliance was operating needed to be changed. However, it was less clear to us that there was a shared awareness of what needed to be changed or, more generally, that there was a need for significant reform of how each council operates.

At the time of the review we noted what we thought was a universal acceptance of the fact that returning to a "pre-Alliance" state was not an option. However, the subsequent decisions of the Councils to effectively allow the Alliance to be dissolved must bring this finding into question.

In the draft report, we suggested that the consideration of this report by the Councils and the position they took on its findings and recommendations would provide a telling indication of their respective levels of awareness of their current circumstances, their willingness to address those circumstances and their willingness to change.

The subsequent actions of the Councils in effectively abandoning the Alliance suggest to us that they do not have the resolve and collective capacity to deliver the reforms they committed to when advocating a strategic alliance as an alternative to amalgamation.

The current cooperative arrangements that were being used for some of the Alliance activities (and which may be ongoing) are potentially limited in their potential to deliver significant gains but we did not encounter significant/universal awareness of this.

The cooperative arrangements resulted in the retention of existing service structures in each member council. This, along with duplicate management structures, will act as a barrier to reform, given the vested interests in maintaining the status quo. Our concern is greatest in relation to the traditional engineering works functions.

When we made this observation in the draft report, we did not go as far as to endorse any particular alternative or rule out the possibility that a cooperative approach could deliver significant benefits. However, we did suggest that for the cooperative approach to work there must be some more effective means of managing the performance of the function other than what has been in place to date.

We note that there is apparently no recognition of the benefits that might accrue from re-examining the business case for incorporating community services and swimming pools as an Alliance activity. We suggest that there may be opportunities that have been missed.

During the onsite component of the review we were provided with a number of recently developed plans for implementation and ongoing operation of various Alliance services. While these plans were still in draft form, their development was a tangible indication that the relevant staff recognised the importance of the planning process and were prepared to be held accountable for the delivery of the service in accordance with the approved plan. The opportunity has been lost.

During our onsite interviews with staff, it was apparent that some employees were unclear about the roles and responsibilities of positions in the shared services structure. This is an issue that needed to be addressed. While individual staff members acknowledged this as a problem, it does not appear to have been acknowledged more broadly as an issue to be addressed. This could have been addressed if the Alliance continued.

While the Alliance did undertake an internal review in 2008, at the time of the onsite review, there did not appear to be awareness that the Charter required NESAC to undertake a comprehensive review within 12 months of the elections that were held in September 2008. Rather, what we observed at the time of the review was

proposals for change being considered without having been informed by this review process or the findings of the Alliance's own comprehensive review process.

Systems and resources to deliver improvement

As mentioned previously, we were provided with a number of recently developed plans for implementation and ongoing operation of various Alliance services. While none of these plans had been finalised, they at least demonstrated work was being done to put basic systems in place.

The Alliance had engaged an experienced Internal Auditor and appointed an Audit Committee. There is an internal audit plan for the next five years. While we understand that this plan needs to be reviewed (along with the resources allocated to this function), internal audit had the potential to be a strong normative influence across the Alliance.

The Alliance has internal expertise and software to allow it to undertake sophisticated process mapping. Process mapping is a well established methodology that can be used to identify and achieve service improvements. However, collectively, the members of the Alliance have not adopted a common approach to achieving business excellence. There is clear potential for them to benefit from doing so.

In conducting the review, we noted that none of the Councils have adopted a systematic approach to enterprise risk management. There are potentially very significant risk exposures that have not been identified and treated. All of the Councils need to develop and commence implementation of a comprehensive enterprise risk management framework as a priority.

Proposed changes to the Alliance

In our draft report, we noted with concern the possible abandonment of some or all of the business cases by the councils. We suggested that these decisions appeared to us to be premature. We remain of this view.

We noted in the draft report that there were a range of proposals for change being considered by the Councils. The withdrawal of Walcha Council from the Alliance made the consideration of those proposals more urgent than it otherwise would have been. The manner in which the Councils considered and determined those proposals is beyond the scope of this review but may warrant further external review given the decisions that have apparently been made not to pursue them.

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In our draft report we made the point that it was important for the Councils to keep the then current circumstances of the Alliance in perspective. We observed that they were well placed to learn from the last four years. We suggested that all of the Councils (including Walcha) bear this in mind before rejecting continuation of the Alliance as an option.

In our draft report, we suggested a simple first step in going forward would be for each Council to acknowledge that there are significant benefits to be gained by fully implementing the original business cases. Our draft reported suggested that these business cases may need to be updated or at the very least provided to the current councillors for review. The Councils must consider whether the suggestion was acted upon and if not, why?

We observed that the scope of functions and services encompassed by NESAC was significant and the scale of what has been attempted unprecedented. While the Alliance was formed in 2004, many aspects of it did not begin to be operational until 2006. Only in recent times did some of its core systems become stable. The Alliance undertook its initial work without having the benefit of being able to learn from others. Neither did it have access to the Division's guidance paper. Notwithstanding that, they were well placed to reengineer the Alliance, the Councils appear to be willing to largely waste the investments made in the prior four years.

The reformation of the Alliance is no longer a realistic option given the apparent lack of common will on the part of the Councils to be part of such an Alliance. Given this, the Councils will need to be alert to the potential for a break down in internal controls and unanticipated costs as they transition to independent operations.

Alternative proposals for achieving reform

The Division wrote to the Councils when it became apparent that NESAC was likely to collapse due to the withdrawal of some of its members. The Councils were encouraged to work with each other to address the issues that had prevented NESAC from realising its potential. The Councils were also asked to demonstrate how they intended achieving reform post NESAC.

All of the Councils responded and a preliminary analysis of the Councils' submissions has been completed. The analysis identified a number of significant concerns including, but not limited to:

- There is no consensus among the Councils as the best way to achieve reform.

- The submission from Walcha Council indicates a desire to outsource a large part of its operations to other councils. While this indicates an apparent willingness to pursue reform, their proposal demonstrates only limited understanding of how this might be practically achieved beyond entering into a contract/service level agreement with a service provider.

- It is not clear that Walcha Council understands that such significant outsourcing would need to be funded and as such may have an adverse impact on their existing workforce. Put simply, their ideas have potential and desire to pursue efficiency is admirable but their capacity to realise their apparent intentions needs to be tested.

- The submission from Uralla Shire Council is primarily focused on seeking to justify its decision to withdraw from NESAC.

- Uralla Shire Council plan for achieving reform is unclear, lacks detail despite being very long and fails to demonstrate the vision, ambition and capacity to achieve significant reform. It is difficult to see how the Council intends or will be able to achieve significant reform and/or partnerships/collaborations.

- The Uralla Shire Council proposal refers to "relocalization" as an approach to reform. It cites the local printing and posting of rates notices as an example of something that will deliver a significant benefit to the Uralla community.

- Guyra and ADC have proposed a shared executive structure (including each appointing the same person to be their general manager). They assert that this will facilitate a reduction in duplication and ensure efficiencies across both Councils. Such an arrangement would be complex from a governance perspective but at least demonstrates an acknowledgement that reform needs to be pursued. There is a lack of evidence that they have objectively assessed their proposal against other alternatives such as voluntary amalgamation, even though we note that they have considered it as an option.

It is difficult to see how any of the proposals made by the Councils will achieve the benefits of reform promised by the Councils when they entered into the Alliance. None of the proposals submitted by the Councils adequately address this key issue.

CONCLUSION

The Alliance undertook extensive work at the outset to identify the costs and benefits of entering into a strategic partnership. Significant benefits were identified. While many of these benefits have not been realised, the primary reasons for this can be attributed to the complex form of the Alliance and the manner in which it was implemented.

The fact that Councils entered into the Alliance for the wrong reasons must also be considered as a significant factor in understanding why the Alliance was implemented in the manner that it was and why it appears to have been so readily abandoned by some of its members. It is clearly important that Councils enter into alliances for the right reasons rather than being forced to do so as an alternative to being amalgamated. In the absence of genuine commitment, it is arguable that amalgamation would be a better option.

The Councils have failed to make good use of the opportunity that have had since the Boundaries Commission recommended they be amalgamated. The Councils had the opportunity this year, with this review and its own review, to reengineer NESAC to ensure that it delivered the benefits they had identified it was capable of achieving. What was required, beyond commitment, was modifying the operating model/structure, a review and formalisation of a revised legal agreement, attention to

the deficiencies in the governance framework and a more systematic approach to implementation that used recognised project management methodologies.

The draft report made the point that there was an urgent need for the Councils to take action to ensure that the significant investments that were made in the Alliance were not lost by taking decisions that moved them away from having common systems and practices.

In addition to the financial investments, there have been investments in learning about alliances, restructuring organisations, about working together and in developing shared systems. All involved should now know a lot more about what it takes to make an alliance efficient and effective.

It was and is contingent upon the Councils to use the knowledge they had gained and seek to gain a return on the very significant investments made in developing the Alliance.

The Councils appear to be abrogating their responsibilities. It is critical that the Minister for Local Government intervene at this point of the reform process

The focus of this review was NESAC. The attention of all stakeholders now needs to shift to the future and how local government can make best use of its limited resources to serve the New England community.

We recommended earlier in this report that the Minister for Local Government appoint an independent facilitator to conduct a review of the current arrangements for delivery of local government services in the area. Such a review would allow the submissions made by the Councils to this Division to benefit from a comprehensive assessment that has been beyond the scope of this review.

The involvement of an independent facilitator could act as a useful "circuit breaker", by refocusing attention on removing duplication in administrative/management structures and by providing a further opportunity to consult with the community, the Councils and other stakeholders as to optimal delivery options.

It would not be in the public interest to allow the Councils to continue to squander limited resources on pursuing potentially flawed reform strategies. Their proposed strategies need to be tested and it is clear from their past performance that they will need assistance if they are to be successful in achieving reform.

In conducting the review and formulating our recommendations, we referred to the Division's guidance paper on collaboration and partnerships. Many of the areas where NESAC has encountered difficulties are addressed in the guidance paper. NESAC should use the guidelines. We have recommended that the Division continue to promote the availability and use of the guidelines.

There are some areas where the guidelines could be enhanced, particularly in the areas of governance, workforce relations, benefit realisation management and service level agreements. We have made recommendations about this. A resource to assist councils with dealing with workforce relations issues is already under development.

The Charter provides that "*The Strategic Alliance provides a Model that could be quite easily used by other Councils*". Based on our findings, we do not consider this to be the case. However, there are processes such as the development of business cases that could be adopted by other councils. Once the Alliance has made changes to its current model, other councils may well be able to adopt its approach and/or seek membership of NESAC.

APPENDIX: INFORMATION & COMMUNICATION TECHNOLOGY

This Appendix discusses our review of NESAC's decision to deliver the information and communication technologies (ICT) as a shared service and the manner in which that decision was been implemented.

The Appendix details the findings of the review including highlighting better practice and poor practice and any lessons to be learnt from the NESAC's approach.

Findings are made in relation to planning and scoping, implementation and risk management. We discuss the current situation and make some recommendations for further action on the part of the Alliance and its members.

Objectives

The objectives of the review were to determine whether the project to establish shared ICT services was properly scoped and implemented. In doing this, the review focused on acquisition planning, governance and implementation and whether recognised methodologies were used.

The review also aimed to determine whether the shared ICT services are currently managed appropriately. In doing this, the review focused on whether problems and issues identified with the acquisition project have been addressed by NESAC.

Methodology

The conduct of the review included the following activities:

- Discussions and interviews with relevant ICT staff of NESAC and ICT clients within NESAC; and
- Examination of NESAC documents and policies, including NESAC's draft ICT strategic plan.

Constraints

The review of the Alliance's ICT shared services arrangements was limited to examining documentation provided by the Alliance and interviews and discussions conducted over a two-day period. This allowed only a high level examination of

documentation and a limited opportunity to examine in detail material and matters raised by NESAC staff.

Key References

The review of the NESAC ICT acquisition project and shared ICT services referenced the following standards and documents:

- International standard ISO/IEC 15288:2002 Systems engineering – System life cycle processes
- AS/NZS 4360:2004 Risk Management
- NSW Department of Commerce Acquisition of ICT Guideline
- NSW Department of Commerce Project Risk Management Guideline
- NSW Department of Commerce Project Management Guideline.

Background

In the 2003/2004 financial year Armidale Dumaresq Council approved the acquisition of new ICT infrastructure. Council approved a budget for the project that included the completion of a business process review.

It is understood that the project scope had been completed to the extent that tendering could commence. The tendering process was in progress when the proposal to establish the NESAC was adopted. A decision was made by NESAC to expand the scope of the Armidale Dumaresq Council project to satisfy the requirements of NESAC.

The NESAC business case for shared services information systems, issued March 2006, indicates that a significant reliance had been placed on shared ICT services delivering appreciable cost benefits and "a more efficient, effective and responsive organisation". The deployment of shared ICT services, operating on the upgraded platform, was seen as a precursor to, and an enabler for, other resource sharing arrangements across NESAC. The business case states that "the use of a common information technology platform across the four councils underpins the shared service model being developed for the other functional areas".

The NESAC made a decision to acquire 'state of the art' ICT systems to support the shared services information systems and implementation of the full range of software, hardware and network systems occurred in July 2006.

Significant problems were experienced during the implementation of the shared ICT services to the extent that business systems failed and were unable to support key business processes for a considerable period. NESAC reported that since July 2006 a total rebuild of the shared ICT infrastructure has been required to recover from the poor implementation.

Planning and Scoping

The objective of any ICT acquisition project is to obtain goods and services providing a beneficial capability that satisfies identified need and is effective, efficient and represents value for money within an approved budget.

The acquisition must deliver what the stakeholders want, there must be realisable business benefits and the acquisition should be within approved timeframes and budget.

To be successful, an acquisition process should be appropriately planned, applied and managed. The scope of the acquisition should be governed by an approved business case.

A clearly defined project scope:

- ensures that all stakeholders share a common view of what is included within the project
- assists in managing expectations around what will be delivered
- is an essential requirement for measuring the success of a project.

The scope of a project may need to be altered to reflect changes in business objectives or technical developments during the project, but the project's control mechanisms must provide a formal process for managing these changes.

Changes in the scope of a project should only be made after careful consideration and assessment. In the absence of this any significant changes to the scope could jeopardise the success of the project.

The ISO/IEC 15288:2002 Systems engineering – System life cycle processes Standard mentions three pre-implementation processes that result in the production of documentation necessary for a successful ICT acquisition project. The documents are:

- User Requirements Document (URD)
- Systems Requirements Document (SRD)
- Architectural Design Document (ADD).

A critical part of an ICT acquisition plan is the production of these documents, including agreement by stakeholders and approval. The risks to project activities are reduced if these documents are:

- consistent – there are no contradictions within the document or with precursor documents
- correct – no wrong information is included
- complete – matters are adequately addressed
- comprehensive - all relevant matters are addressed.

Figure 1 shows the three pre-implementation engineering processes of ISO/IEC 15288 that result in the production of pre-implementation documentation. We examined NESAC's approach having regard to the processes outlined in the Standard.
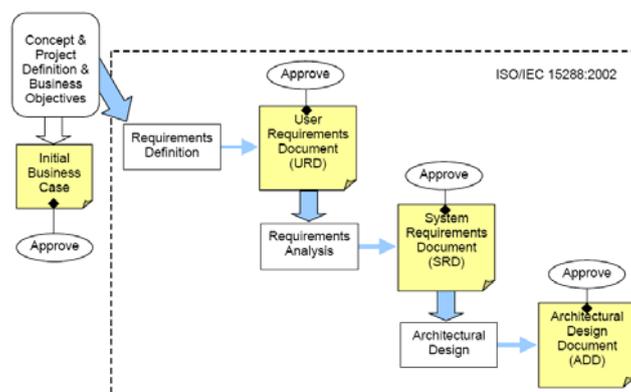

Figure 1: Pre-implementation Processes

Findings

Planning for the original ICT acquisition project by Armidale Dumaresq Council included provision for business requirements analysis. Council had established a separate budget in 2003/04 for the engagement of consultants to conduct the business process analysis.

Armidale Dumaresq Council had conducted system requirements analysis that was sufficient for Council to develop tender documentation for distribution to software vendors.

However, there is no evidence that Council developed comprehensive best practice project documents. It would appear that user requirements (URD), system requirements (SRD) and architecture requirements (ADD) documents were insufficient to guide and control the acquisition project.

It was reported that the initial project scope developed by Armidale Dumaresq Council required significant rework to accommodate the requirements of NESAC and that this change in scope had a corresponding impact on project timeframes and resources, which were not reassessed and adjusted sufficiently.

We note that the "Proposed Business Case Fact Summary Shared Services Information Systems Review", prepared by NESAC in March 2006, specified that implementation of the shared information systems was scheduled for "March-July 2006". This allowed very short timeframes for staff consultation and the completion of a final business case, as specified in the proposed business case, prior to the planned implementation date.

NESAC staff reported that the project scope was further impacted by changes in the business needs and requirements of the NESAC members during project implementation.

It was reported that change control procedures were inadequate to manage the changes to the system and business applications that occurred during implementation and that project staff expended great effort in crisis management

rather than in implementing the new systems in a planned and controlled manner, consistent with agreed and approved project plans.

It was reported that one business unit declined to use the NESAC systems following implementation and has since developed its own business applications.

Current situation

We note that NESAC has recently adopted Information Technology Infrastructure Library (ITIL) resources for ICT project management. The adopted project management model covers the management of:

- project objectives, outcomes and outputs
- project documentation – including project proposal, business case and benefits realisation plan
- project management – including planning and scoping, governance, change management, risk management, resource management.

It is also noted that NESAC has deployed ITIL-based software to manage business process analysis and mapping.

NESAC has created and filled the staff position of Business System Analyst. This position has responsibility for, among other things, the oversight of ICT project management, business requirements analysis, ICT project scoping, ICT stakeholder management and ICT and project risk management.

It was also noted that NESAC has implemented extensive change management and project control and reporting methodologies consistent with better practice.

Implications

The lack of an agreed user requirements specification for the ICT acquisition project meant that the NESAC stakeholders' perspective may not have been adequately understood or interpreted. Appropriate and complete user requirements specifications assists in ensuring that the users' requirements are analysed and interpreted and able to be incorporated in robust system requirements specifications.

User requirements documents (URD) developed using a best practice approach do not normally include assumptions about the nature of the solution, for instance database or network type and configuration.

It would appear that the NESAC acquisition plan was based on acquiring "best of breed" software, hardware and network capabilities without the development of comprehensive, agreed and documented user and system requirements specifications. Adopting an approach such as this can result in unclear system boundaries and scope.

Well-developed and formally agreed user requirements prevent 'scope creep'. They represent a baseline from which controlled change can occur.

The change in the initial project scope, developed by Armidale Dumaresq Council, combined with changes required by stakeholders during project implementation, contributed to the reported failure of the business applications to meet user requirements and expectations, when first delivered in July 2006. It was reported that this resulted in a significant degree of dissatisfaction among the business users and eroded confidence in the NESAC ICT team's capabilities.

The lack of formal and approved URD for the original Armidale Dumaresq Council ICT project meant that risks associated with project planning and scoping may not have been identified and appropriately managed. These risks increased significantly with the expansion of the original project scope to include the requirements of the NESAC.

Adopting an ITIL-based approach to aspects such as project management, project scoping, stakeholder analysis, risk management, business process mapping and change management will provide a framework and discipline for NESAC to analyse its business and help to ensure consistency in describing business processes across NESAC. It will also assist in ensuring stakeholder and user requirements are appropriately identified, analysed and managed.

Recommendations

Agreed and approved project documentation should be developed for all major ICT projects to control the project and prevent 'scope creep'. Documentation should include agreed user and system requirements specifications.

A project risk management plan, addressing risks associated with the project scope, should be developed and approved for all major ICT projects.

We also recommend that NESAC continues to adopt and support a disciplined approach to business systems analysis and ensures that best practice analysis and documentation supports and informs future ICT systems development.

IMPLEMENTATION

Background

Some form of acquisition plan should be developed that provides the acquisition strategy and approach and forms part of the business case. (ISO/IEC 15288)

Acquisition planning should consider the overall project approach and consider issues including:

- the staging of the implementation approach – whether to use incremental or evolutionary development or implement the whole system in a single pass or acquire sub-systems separately
- reference to documents that properly scope the acquisition, such as user requirements documents (URD), system requirements documents (SRD) and architectural design documents (ADD)
- key control and reporting requirements for suppliers, including design authority and acceptance procedures
- acquisition project governance and management arrangements.

Findings

We saw no evidence of an acquisition plan that was used to control the overall approach to the work required to introduce a large and complex ICT acquisition.

The acquisition project contained inherent complexities, including the following:

- The selected applications were sourced from a number of software vendors – this involved a degree of adaption to the software packages to enable integration.
- Integration of selected business applications was required for the exchange of data to support key business functions and the production of key business information and reports.
- The decision to implement the latest versions of the software applications, which required upgrading to substantially untested versions of operating systems.
- The business applications were intended to run across a largely untested NESAC wide area network (WAN) to support the operations of all NESAC member councils.

It was reported that at 'go live' the shared ICT systems failed. A number of reasons were provided for the failure, including the following:

- While the individual applications were tested in a single server environment, no significant testing of all the applications operating across the NESAC WAN was conducted prior to 'go live'.
- Application failures occurred due to failures and problems with the new network operating systems.
- Integration of the business applications and data exchange failed.

It was also reported that problems were encountered with the contractor engaged to specify and develop the network and that the contractor failed to understand the full scope of works. NESAC engaged a second contractor to review the network installation and the work performed by the original contractor.

We note that consideration was not given to staging the release of the business applications across the NESAC WAN or some other form of incremental release. A decision was made to implement all key business systems concurrently.

It was reported that the network infrastructure operated by Armidale Dumaresq Council was not in a state that could be upgraded to accommodate the computing and network requirements of the new NESAC business applications. It was reported that there were numerous single points of failure within the network and little or no network redundancy.

Furthermore, it was reported that Council did not maintain network documentation sufficient to highlight network deficiencies. This necessitated a great deal of investigative work by network engineers and administrators to locate and resolve network failures once the system was in operation.

Current situation

ICT staff of NESAC reported that since July 2006 a total rebuild of the NESAC network and server platform has been required. This has included a significant investment in building a new network with appropriate redundancy and capacity to support the current and anticipated future requirements of NESAC.

It was noted that NESAC has now engaged appropriately skilled and experienced systems and network administrators to rebuild and maintain the network. Observations of the current ICT infrastructure indicate that the problems encountered in July 2006 have been rectified and that the ICT infrastructure now appears to be well managed.

The NESAC network has been rebuilt to include robust disaster recovery capabilities and there was evidence that network documentation is being maintained. While disaster recovery capabilities are included in documentation, we noted the absence of an approved disaster recovery plan.

Implications

Implementing the full range of business applications concurrently was a high-risk approach given:

- the reliance on systems integration

- the need for selected applications to interact and exchange data to support key business functions and to produce business information and reports
- the decision to implement the most recent versions of the software applications, which required upgrades to operating systems
- the business applications were intended to run across a largely untested NESAC wide area network (WAN) to support the operations of all councils in NESAC.

To manage these risks appropriately, emphasis would need to be given to engaging developers and contractors who were experienced with the applications and the technology environment.

Given the size of the project, the inherent complexities involved in releasing a range of applications on new operating systems, across a largely-untested network, the approach taken by NESAC could be regarded as high risk.

A comprehensive review of the existing ICT infrastructure and the production of accurate network documentation and architectural design documents would have assisted in ensuring that the ICT infrastructure was properly scoped to meet the computing and network requirements of the new NESAC business applications.

Furthermore, complete and accurate network documentation and architecture design documents would have assisted the network contractor in implementing the NESAC WAN and may have avoided the initial design deficiencies.

Appropriate network and application testing, involving testing of the multiple application servers prior to implementation would have highlighted network problems and deficiencies before implementation. Also, user acceptance testing using structured test plans should have highlighted problems with the business applications.

The decision to implement the business applications without thorough, structured user acceptance testing was questionable.

The lack of appropriate engagement with the business users through the development of well-defined user requirement specifications and user acceptance

testing may have contributed to the high level of user dissatisfaction with the systems when delivered in July 2006.

RISK MANAGEMENT

Background

Risk management is a vital and integral part of acquisition activities and is a process for organised assessment and control of risks. It involves the identification, analysis and evaluation of the risks presented by the system being acquired, and the activities to acquire it, and the development of cost-effective treatments for those risks. (AS/NZ 4360:2004 Risk management)

Risk management is one of the seven project processes identified by ISO 15288. Failure to implement risk management during an acquisition project is itself a risk to the success of the project.

ICT acquisition projects have a number of common risks. These risks are associated with the accuracy of estimating the work involved and in producing systems that meet business needs in an acceptable way.

The objective of project risk management is to apply a systematic process to reduce cost-effectively the uncertainties that compromise project or business objectives. These uncertainties must be addressed in the project's scope and business case.

Risk management is more than just the management of project risks; it is also the management of the risks that the project may place on the business.

Risk management is an iterative process for identifying, analysing, evaluating, treating and monitoring risks.

The risks associated with a project can be:

- inherent, which result from the nature of the project objectives and scope
- acquired, which result from the selected organisation, approach, technology, methods, tools, techniques, skills and experience that are applied to the project, or

- contextual, which result from events, circumstances or inter-relationships outside or across the project or system boundary and impact aspects of the project.

Inherent risks are more difficult to reduce but can be managed, often through a change in the nature or scope of the project. For example, a project may have a high implementation risk due to the wide scope of the new system. Breaking the project into increments that deliver successively more operational capacity may significantly reduce this risk.

It is normally neither feasible nor necessary to eliminate all the risks associated with a project. However, once they are identified and documented, risks can be cost-effectively treated. Effective management of risk will usually require a balance to be struck between:

- scope and quality of the project's deliverables and the extent to which they satisfy the needs of the business
- timescale for the project
- cost of the project.

A critical part of the acquisition plan should be the production of agreed and approved project documentation. Risks to the ICT acquisition project are controlled, to a large part, by the fitness for purpose of these documents.

Findings

There is little evidence to suggest that sound risk management principles were applied to the ICT acquisition project. This conclusion is based on the following observations:

- There was no evidence provided of a risk management plan for the project or risk register that identified the key risks to the project
- There was no evidence of a commitment by a project sponsor or senior management to a risk management process.

Current situation

There appears to be a lack of documented and approved disaster recovery planning for NESAC. We note that current ICT staff members stated that they have a thorough understanding of the ICT infrastructure operated by NESAC and have considered issues and strategies for managing the impact of disruptions to services. However, this knowledge and understanding has not been documented in the form of an approved Disaster Recovery Plan.

Implications

Not undertaking best practice risk management for an ICT acquisition project can result in risks not being identified and appropriately managed.

The NESAC project contained significant inherent risk due to the complex nature of the project and the significant change in scope and project objectives that were not adequately managed.

The inherent risks could have been addressed through a change in the nature or scope of the project. The NESAC project had a high implementation risk due to the wide scope of the new system. Breaking the project into increments that delivered successively more operational capacity may have significantly reduced this risk.

To avoid the problems encountered during implementation, consideration could have been given to adjusting the project plan and timetable to accommodate the significant change in project scope required by NESAC.

However, estimating the cost and effort to reach user acceptance would have been difficult using inadequate or non-existent user requirement documents. Commencing work with robust documentation decreases uncertainty and risk.

The project had acquired risk due to the range of business applications being installed concurrently on a virtually untested network.

The formation of NESAC, the lack of clear reporting arrangements and project control, and the relationship issues between the various NESAC members created contextual risks.

Risk management is more than just the management of project risks; it is also the management of the risks that the project may place on the business. The NESAC project was seen as critical to supporting shared services across NESAC. Non-delivery, or provision of a system that was difficult to use, severely degraded NESAC's operations and service delivery capabilities.

In order for NESAC to minimise the impact of an emergency or adverse event on its activities, it must consider a range of actions and measures that it can take to prevent and prepare for, respond and recover from the emergency. A Business Continuity Plan (BCP) can be an effective map and record of these considerations. It is an essential component in assisting organisations minimise the negative impact that these emergencies can cause and ensure that organisations are able to successfully survive such events.

Recommendations

All significant NESAC ICT projects should incorporate best practice risk management, including the maintenance of a risk register.

NESAC should complete a disaster recovery plan for its ICT shared services.

NESAC should complete a business continuity plan that incorporates the ICT shared services. The Division's Circular to Councils 07/12 will assist NESAC in developing such a plan.

PROJECT GOVERNANCE

Background

To be successful a project must have, among other things, a project sponsor. Ownership of, and accountability for, a project rests with the project sponsor. The project sponsor is normally the owner and "champion" of the project and the individual with the greatest vested interest in the outcome of the project.

Best practice project management requires a project to have support of senior management. The role of senior management on a project will vary according to its scale and complexity. Senior management will normally monitor the progress of projects that are fundamental to the operations of the organisation or which require significant levels of investment.

Best practice project management requires regular progress reporting. Reports on a project's progress should be available for senior management and other interested parties on a regular basis. The progress reports must provide management with a working understanding of the overall project plan and the progress made against it.

The project reporting format should remain consistent across all projects undertaken by an organisation.

A proven project management methodology should also be used that provides detailed practices and procedures for the implementation of best practice. Use of a single methodology will provide consistency across projects in areas such as management approach, documentation standards, quality management and project reporting.

Observations

There is little evidence to suggest that sound project management principles were applied to the ICT shared services acquisition project. This conclusion is based on the follow observations:

- There was a lack of a clear project sponsor who had ownership of, and accountability for the project.
- There was no evidence of consistent and regular progress reporting to provide NESAC Executive Management with a working understanding of the overall project plan and progress made against the plan.
- There was no evidence of a proven project management methodology that provided detailed practices and procedures for implementation of best practice.
- There was no evidence of benefits realisation planning beyond the broad benefits outlined in the business case.
- Project staff reported a lack of clear project control and reporting mechanisms.

There is evidence to suggest that the project governance structures were insufficient to adequately control and accommodate the project scope, timeframes and deliverables.

Executive management of NESAC are of the opinion that there was substantial project scope creep in the IT systems and the project plan was not readdressed by the project manager. It was reported that this resulted in the implementation of partially configured systems. To correct this, significant resources over the course of the subsequent two years were needed.

It is noted that the project manager and project director resigned in early 2006 and in April 2006, just two months prior to the implementation date, a new project management team was formed.

Discussions with key project staff indicated that the executive management of NESAC became aware of the full extent of the project's problems very late in the project. This would indicate a lack of structured and regular reporting on the project's progress to the executive management of NESAC. It also supports the observation that there was poor project planning and management.

It was reported that there was a lack of clearly defined project sponsorship and control by NESAC executive management. Key project staff reported complex management structures that created difficulties in managing key project deliverables and made the reporting of project problems and issues difficult.

We note that there were a large number of stakeholders across the NESAC membership, with a range of objectives and priorities. No agreed formal project scope meant the stakeholders were provided with unclear project boundaries.

Current situation

At the time of the review, it was noted that ICT governance structures are being established for NESAC. An ICT Steering Committee has been established with membership comprising a mix of technical and operational staff. The Chief Finance and Information Officer (CFIO) is the chair of the committee and the Portfolio General Manager IT is a member. The CFIO and Portfolio GM IT report to the

executive management at least bi-annually on the ICT Strategic Plan, budget and ICT management plan.

We note that NESAC has adopted a project management model that includes project governance. The model requires each project to be assigned a project sponsor. It also requires a stakeholder analysis to be performed for each project and the completion of outcomes/benefits realisation plans.

The project management model will provide NESAC with a disciplined and consistent approach to ICT project management and reporting.

At the time of the review, it was noted that only a draft ICT Strategic Plan was in existence.

Implications

Primary responsibility for a project rests with the project sponsor while the day to day management of the project is the responsibility of the project manager. The effectiveness of the control over a project is directly related to the quality of reporting and communications within the project team and between the project team and the project steering committee.

There is evidence that project governance structures were insufficient to ensure proper project control and responsibility. It appears that there was insufficient involvement by the NESAC executive management in the oversight of the acquisition project and the project was undertaken without the necessary support and guidance provided by an appropriate governance structure.

To avoid the problems encountered during implementation, consideration could have been given to adjusting the project plan and timetable to accommodate the significant change in project scope required by NESAC.

The lack of an agreed and formal scope, incorporating business user requirements, and the lack of appropriate executive management control may have adversely impacted on the project manager's ability to control the scope of the project and to adjust the project plan to accommodate the change in scope.

Executive management's view that the project manager failed to adjust the project plan to address the change in scope may also indicate a lack of project control and inadequate project risk management.

We note the existence of the ICT Steering Committee and the reporting of ICT budget and management plans to NESAC executive management. However, better practice would see the ICT Steering Committee providing regular and structured reporting of major issues and developments to the executive management team. These reports should be prepared and endorsed by the Steering Committee. Furthermore, the Steering Committee should submit and present proposed strategies and business cases for all new ICT project proposals to the executive management team for approval.

<u>Recommendations</u>

We recommend that NESAC review the reporting arrangements for the ICT Steering Committee to ensure regular and structured reporting of major issues and developments to executive management.

We recommend that the ICT Steering Committee submit all proposed strategies and business cases for new ICT projects to executive management for approval.

<u>Conclusions</u>

The review concluded that the project to implement ICT shared services for NESAC appeared to be poorly scoped and initially failed to meet the requirements and expectations of the NESAC stakeholders. NESAC reported that it has taken a significant investment in resources, over a two-year period, to rebuild and reconfigure the business systems to reach a state where they meet user requirements.

While some initial work on business process analysis mapping was conducted by Armidale Dumaresq Council, there was little evidence to indicate that best practice systems engineering methodologies were used during the ICT acquisition project.

The lack of best practice approaches to the scoping, acquisition and implementation of the ICT shared services, combined with the inherently complex nature of the project, and exposed NESAC to a high risk of project failure.

There is also little evidence of best practice benefits realisation or risk management being used.

Poor risk management meant that NESAC was less able to identify, define, prioritise, and treat project risks.

Inadequate project governance provided less than ideal project monitoring, reporting and control.

Given the emphasis placed by NESAC on its ICT systems underpinning the shared service model, there was a significant lack of appropriate and necessary control of the various key components of the acquisition project by the executive management of NESAC.

NESAC failed to establish appropriate project governance, which contributed to project failure and significant cost and time overruns. Project governance appears to have been largely ad hoc, unstructured and contrary to best practice models.

Current management of ICT shared services

It would appear that NESAC has addressed the majority of issues and problems encountered during the ICT acquisition project of 2006.

It has adopted a better practice Project Management Model, which covers the broad range of processes and procedures required to ensure successful ICT acquisition, including the management of project objectives, project documentation, benefits realisation planning, planning and scoping, governance, change management, risk management and resource management.

Consistent use of a better practice project management model should assist in ensuring that NESAC acquire, implement and manage its ICT infrastructure to cost-effectively satisfy the NESAC business requirements.

NESAC has engaged suitably qualified and experienced ICT staff to provide oversight of key areas such as business analysis, project management, and database and systems administration.

It was evident that the NESAC ICT infrastructure is now well-managed. However, NESAC needs to address a number of issues regarding ICT disaster recovery and business continuity planning. While it appears that the NESAC network has been built to a high standard and the problems encountered with the network in July 2006 have been rectified, NESAC does not have a documented and approved disaster recovery plan. The development of such a plan will ensure that the network is fully described and documented and that steps needed to recover from significant disruption to the network and business applications are documented.

Furthermore, no evidence was provided of business continuity planning that integrates ICT recovery plans and ICT risk management.