Benchmarking of Commonwealth and State Government corporate services 2014

Sustainable Productivity

January 2015

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The highlights

2014 Benchmarking

64% of respondents indicated that organisational restructures or cuts to discretionary expenditure have delivered the highest cost savings to corporate services areas over the last two years

Reductions to corporate services budgets are forcing entities to focus on larger and more strategic changes to their operations such as, ICT enabled transformation and sourcing models

A move away from the transactional nature of work in corporate services through changes to technology and sourcing models will bring a greater reliance on specialist staff if entities are to deliver future increases in productivity

25% of shared services and 74% of outsourcing arrangements are perceived to be of higher quality and lower price than the entity could deliver internally

Only

21%

of entities recognise the procurement function as a strategic partner

32%

of entities agreed that the level of residual risk that they accept in their operations is higher than it was two years ago, due to the impact of budget cuts

Aligning ICT services with business needs was one of the biggest challenges faced by

83%

of government Chief Information Officers in 2014

Contents

Foreword

Firstly, let me express my thanks to those entities that participated in our second benchmarking study on corporate services in the public sector.

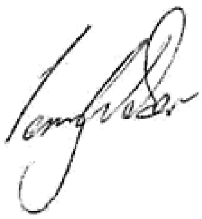
This study provides insights from 20 government entities, including Commonwealth and State entities of different sizes. We are pleased to provide insights from a broad range of entities and hope that the study becomes a thought provoking document for all public sector entities looking to understand and enhance the productivity of their corporate services functions.

As the government continues to drive productivity improvements and greater sharing of corporate services across entities, understanding the current baseline of performance will play an important role in demonstrating whether any proposed initiatives are more efficient and effective than current arrangements.

The 2014 study provides analysis on the cost of corporate services functions in light of other elements such as value, efficiency and effectiveness. It also provides insights on what entities are doing to improve productivity, as well as empirical analysis to better inform strategic shared services decisions.

We look forward to growing this benchmarking study in future years and working with you to continue to provide insights that are important to your entity.

Terry Weber



Lead Partner, Commonwealth Government
PwC Canberra

January 2015

About this report

20

government entities benchmarked, including 16 Commonwealth and 4 State Government entities.

PwC is pleased to release the second government benchmarking report on corporate services. The results of the survey focus on the 2013–14 financial year and includes data from 20 government entities, including 16 Commonwealth and 4 State Government entities, with a median operating expenditure of $182.9 million.

For the purposes of comparison, organisations have been grouped into three cohorts based on their departmental operating expenditure for 2013-14.

This report illustrates key commonalities, trends and outcomes that have emerged from the respondents to the survey. It should be seen as a starting point for further discussions and learnings, rather than a conclusive assessment of corporate services in the government sector.

Benchmarking participants by total departmental operating expenses for 2013-14

Key findings

Over the past two years, many corporate services areas have restructured their organisation or cut discretionary expenditure to meet efficiency targets. These changes tend to deliver immediate savings at minimal cost but do not necessarily result in substantial productivity improvements. As a result, only a small proportion of entities have a high level of confidence that the measures implemented will deliver the intended return on investment over the long term.

The focus for entities over the next three years will shift to larger and more strategic changes such as Information and Communication Technology (ICT) enabled transformation and sourcing models. These measures have the potential to deliver substantial productivity improvements across the entire entity but typically require higher levels of investment, both in time and resources.

This year, the results have demonstrated that:

- A year on year reduction to corporate services costs was delivered through short-term tactical measures rather than larger strategic changes that are aligned to the entities outcomes
- As a result of budget cuts, entities have accepted higher levels of residual risk in their operations
- Larger entities, which spend much more than smaller entities on corporate services, offer the greatest potential to achieve efficiencies on behalf of government, should they receive the investment required to make changes to all aspects of their operating model
- A selective sourcing strategy that includes both shared services and outsourcing could deliver higher quality services at a lower cost for government entities
- Finance functions are experiencing common problems with their supporting technology environment such as the lack of integrated systems and workflow automation. This highlights the potential opportunity to make significant improvements to the efficiency and effectiveness of finance operations through greater cross-entity collaboration
- ICT enabled strategy is fundamental to the effective delivery of government services and outcomes and therefore the alignment of the ICT strategy to business needs is becoming an increasing concern for CIOs
- Enterprise Portfolio Management Offices (EPMOs) play an important role in prioritising strategic investments and executing strategy, and are used by 50% of respondents
- There are opportunities to elevate the role of the procurement function to become a strategic partner to the entity. This can have a positive impact on the entity's ability to improve the value of services received from third parties and other government entities, particularly as entities increase their focus on shared services and outsourcing over the next three years.

Corporate services are fundamental to establishing and maintaining high performing entities and delivering better services. Building an understanding of the cost, value and quality of corporate services supports a robust discussion on how entities can collaborate to create value and provide efficient and effective services in a sustainable manner.

PwC would like to thank the continued efforts of entities that participated in the study. We encourage the participation of entities in future years to provide consistent performance information and a stronger basis for monitoring improvements overtime.

Improving productivity in corporate services

Organisational restructures or cuts to discretionary expenditure have delivered the highest cost savings to corporate services areas in the last two years.

Over the next three years, entities will shift their focus to technology enabled changes and sourcing strategies to improve the productivity of their corporate services.

Government entities have had a long term focus on implementing measures to provide more for less and improve the effectiveness of their operations.

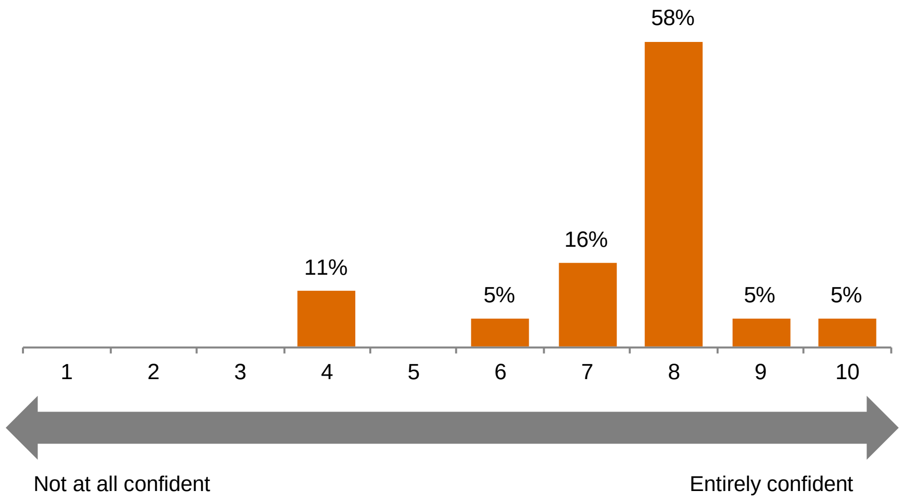
The 2013 benchmarking study found that only 32% of entities were entirely confident that they could deliver against government outcomes (on a scale of 1-10, with 10 being entirely confident), highlighting the imperative for entities to improve their productivity. In 2014, entities were asked about the strategies implemented to improve productivity and only 5% of entities indicated they were entirely confident that the measures implemented will deliver the intended return on investment over the long term. The results suggest that the measures implemented do not address the true drivers of costs, or lack alignment to the strategic intent of the entity, or are simply too difficult to sustain over the long term. This presents a challenge to entities that rely on the savings generated to meet ongoing cost increases.

In the corporate services area, 64% of respondents indicated that organisational restructures or cuts to discretionary expenditure have delivered the highest cost savings over the last two years. The results highlight that entities have been focussing on their internal operations rather than looking externally to deliver savings via shared services and outsourcing arrangements.

Over the next three years, entities indicated that they will continue to implement organisational restructures but also shift their focus to technology enabled changes, process reengineering and developing the skills and competency of their staff to improve productivity and meet efficiency targets. They will also simultaneously look to greater outsourcing and shared services arrangements, particularly in the finance and ICT areas.

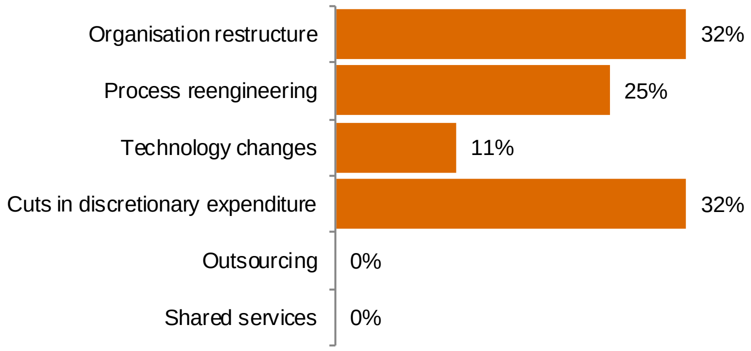
The measures implemented over the past two years tend to deliver immediate savings at minimal cost, but can be difficult to sustain over the long term, resulting in lower levels of confidence among entities. The initiatives entities are focusing on over the next three years have the potential to deliver longer-term sustainable changes, but typically require higher levels of investment, both in time and resources. This makes it increasingly important for entities to understand their current baseline performance in order to demonstrate the value and benefits of investments to the entity in the long term.

Figure 1: Confidence that the strategies implemented to enhance productivity over the past two years will deliver the intended return on investment over the long term.



Respondents: 19

Figure 2: Strategies that have delivered the highest cost savings to corporate services areas in the last two years



Respondents: 19

The cost of corporate services

Corporate services expenditure appears to be reducing relative to the overall cost of the entity.

As entities continue to face budget uncertainty and pressure to deliver productivity improvements, the investment in corporate services is an important consideration for entities looking to build their capability and deliver long term value across the entire entity.

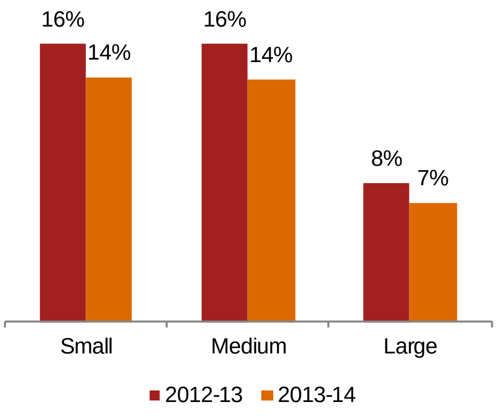
The benchmarking results indicate that entities spent between 7 - 14% of their total departmental operating expenses on corporate services in 2013-14. This is lower than the median result in 2012-13 of between 8 - 16%[1]. The difference in spending suggests that corporate services expenditure is reducing at a higher rate than service delivery areas or, alternatively, may not be growing as fast as other areas.

In looking at the expenditure across different sized entities, the results over the past two years have consistently shown that the cost of corporate services as a proportion of total departmental expenses for smaller entities is almost double that of the larger entities.

This indicates that there is a level of fixed costs associated with corporate services functions and that the larger entities benefit from economies of scale.

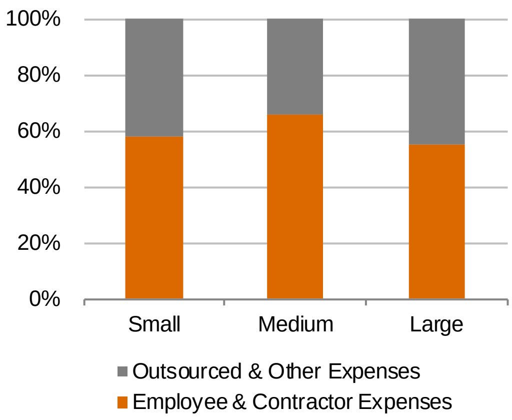
Across each of the corporate services areas, the results show that the largest proportion of corporate spending is on ICT and Human Resources (HR) functions. Approximately two thirds of total corporate services expenditure is allocated to employees and contractors, regardless of entity size. The functions with the highest proportion of outsourced and other costs relative to people costs are the ICT, property and legal functions.

Figure 3: Corporate services costs as a percentage of total departmental operating expenses[1] (median for cohort)



Respondents: 19

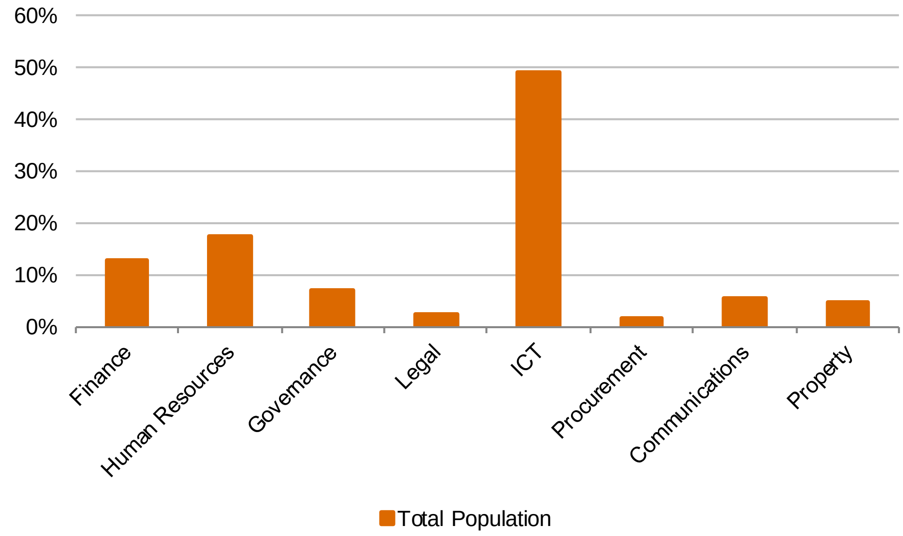
Figure 4: Corporate services spend by cost element



Respondents: 18

1 The 2013-14 cost of corporate services includes eight functions: Finance, HR, Governance (including internal audit), Legal, ICT, Procurement, Communications and Property (excluding property leasing expenses). The 2012-13 costs were reported against the same functions but excluded property which means the overall reduction in spend is actually higher than the reported benchmarking figures.

Figure 5: Corporate services costs as a proportion to total corporate services costs (weighted median for each function)



Respondents: 18

Shared services and outsourcing

Shared services and outsourcing

Only one quarter of entities are actively assessing the potential to increase the use of shared services. This will become a greater focus for government entities over the next three years in an effort to improve productivity and support whole of government collaboration.

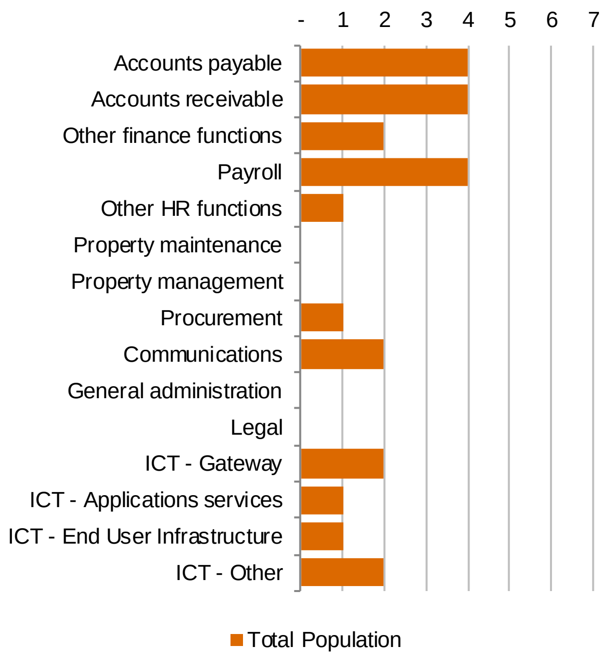
Shared services and outsourcing arrangements have the potential to improve the efficiency, quality of services, transparency and controls for an entity. To maximise the full range of benefits, the implementation strategy and the ongoing process for optimising arrangements will play an important role.

The most common services received or provided via shared services arrangements among respondents are accounts payable, accounts receivable, payroll and ICT services. The outsourcing of corporate services is most common for ICT, property management and maintenance and legal functions.

The consideration of alternative service delivery models for corporate services has never been more important as the government increases its focus on reducing the cost of government administration. While there is considerable scope for greater sharing of corporate services, only one quarter of respondents are actively assessing the potential to increase the number or nature of shared services they provide or receive. Entities are mainly looking to share finance, payroll and ICT services both within and outside of their portfolio. Alternatively, in keeping with the principle that government should not deliver services where others are better placed to do so, entities could also consider outsourcing services to the private sector.

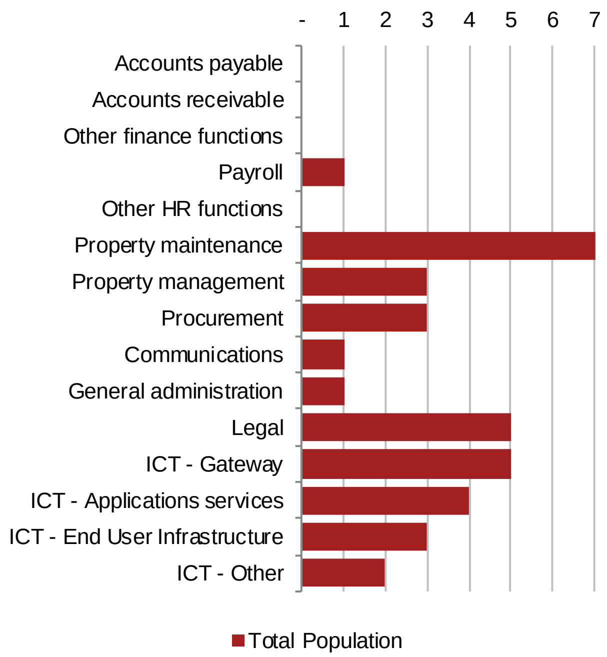
The potential benefits of shared services and outsourcing of corporate services is well recognised by entities and will become a focus for entities over the next three years. However, the results indicate that there is a risk that shared services and outsourcing can potentially lead to lower quality and increased costs.

Figure 6: Shared services arrangements



Number of services: 24

Figure 7: Outsourcing arrangements



Number of services: 35

The quality and value of shared services and outsourcing

Respondents indicated that

25%

of shared services and

74% *of*

outsourcing arrangements are perceived to be of higher quality and lower price than they could deliver internally.

The introduction of a new service delivery model has the potential to improve operational effectiveness, but can be detrimental if not implemented and managed effectively.

Respondents that receive shared services indicated that the perception of value and quality of services is quite varied; almost 60% of the shared services are at a lower price than the entity could internally deliver, however, the results show that only 25% of shared services are of higher quality and lower price.

In all cases, respondents indicated that the services received via outsourcing are of higher quality than they could internally deliver and 74% of services received are at a lower cost.

The evidence suggests that a selective sourcing strategy that includes both shared services and contracting to the private sector could deliver better results for government entities (while supporting the Whole-of-Government agenda). This is supported by PwCs global study on shared services[2] that indicated entities reached higher rates in operating cost savings by applying selective sourcing models, reporting a weighted average of 40% in cost savings.

With a greater focus on shared services within the Commonwealth Government, entities can apply the lessons learned from State Governments and also the private sector to increase the value of introducing such arrangements. According to PwCs global shared services study, the development of shared services based on profit centre principles, rather than cost centre principles, are more successful. With a focus on achieving profits, profit centres generally have more sophisticated service level agreements to provide a sound basis for good customer relations, unambiguous performance targets and measures for corrective action where necessary.

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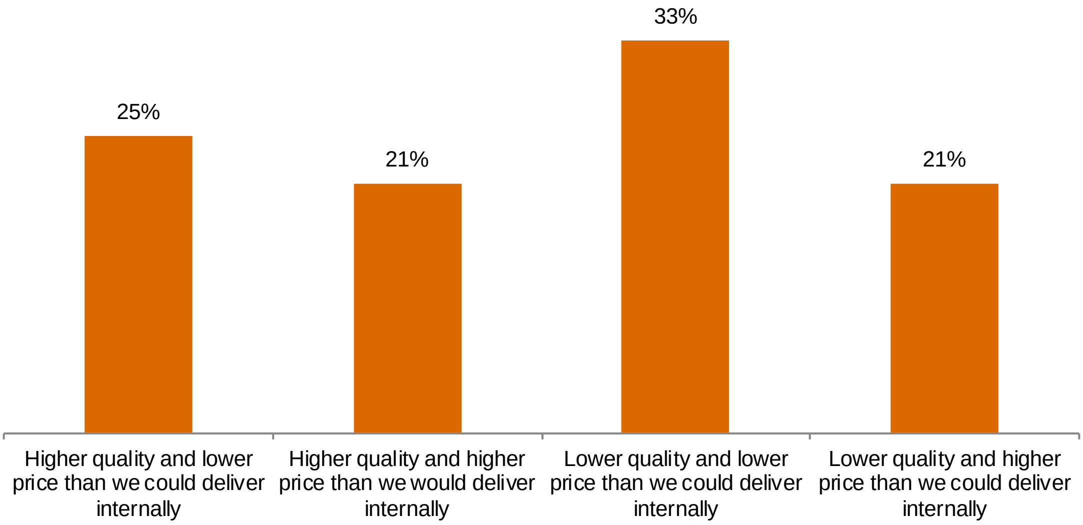
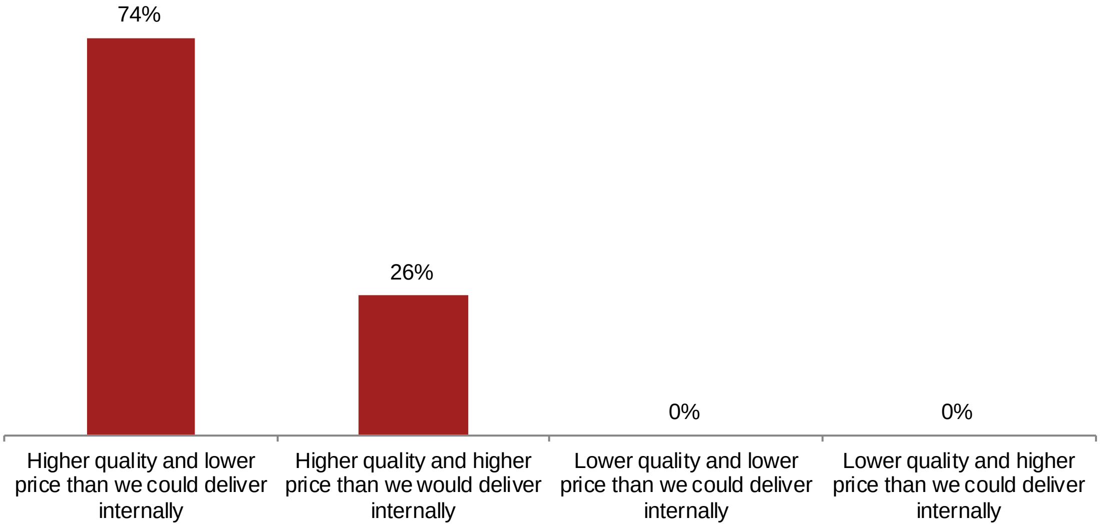
2 Shared service centres ‘the 2nd generation’, A global PwC survey on how SSCs are currently performing and their future potentials PwC, 2011

Figure 8: Perception of the value for money and service level of share services arrangements



Number of services: 24

Figure 9: Perception of the value for money and service level of outsourcing arrangements



Number of services: 35

Implementing shared services

Successfully introducing shared corporate services within the public sector environment can be a long journey due to the increased complexity of stakeholder relationships, public ownership and scrutiny of government activities and a lower appetite for risk.

The National Commission of Audit[3] indicated that government entities could standardise corporate business processes and adopt a staged introduction to optimise the success of shared services arrangements. Furthermore, it indicated that one of the best approaches to implementing shared services is the standardisation of corporate business processes and systems before consolidation.

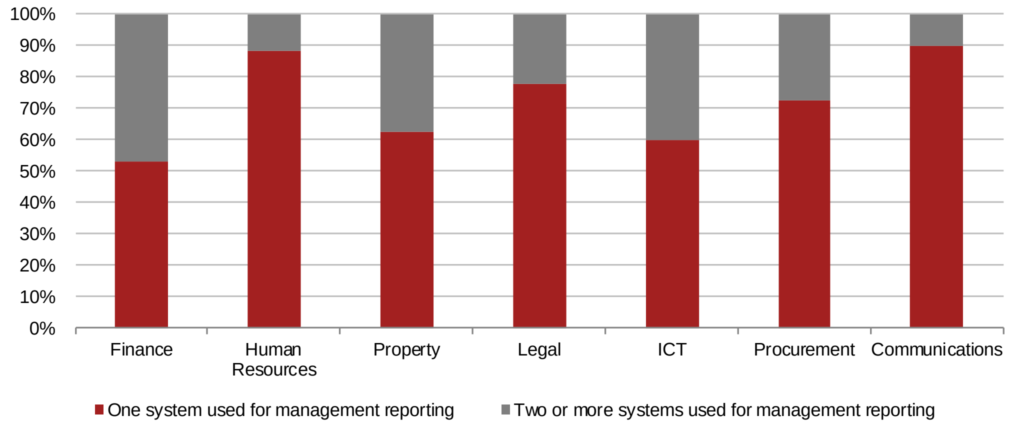
The experience of the private sector in this area suggests that while a common IT platform is important to the successful implementation of shared services, the standardisation of manual business processes is less important where they will be replaced with automated processes as part of the change.

The survey results indicate that entities currently use a diverse range of corporate systems for management reporting (including spreadsheets) and have multiple systems to meet cross-functional reporting needs. In the finance area, almost 50% of entities use two or more systems compared to the HR area where almost 90% of respondents only use one HR system for management reporting. For many respondents, the finance and HR areas use different systems requiring entities to manually manipulate data to provide cross-functional insights on the performance of the business.

While a common platform is not a prerequisite for shared services, it can make a difference to the long term return on investment and managing cross-functional performance.

One of the key lessons from the private sector is that the building of a shared services platform ought to be treated as a long-term, strategic decision and not just as a short-term, cost-saving measure. Long-term benefits of an effectively implemented shared services platform potentially include improved decision making and customer service and additional incentives for public entities to consider shared services implementation. A focus on only the short-term benefits of shared services may render an entity less efficient and effective than it was prior to their introduction. A long-term plan for shared services would likely require a significant upfront investment in a common IT platform both within and across entities.

Figure 10: Number of systems used for management reporting



Respondents: 17

3 The Report of the National Commission of Audit, Commonwealth of Australia, 2014

Finance

Finance

Over the next three years finance functions will have the greatest focus on shared services when compared to other corporate services areas.

Over the next three years finance functions will be focused on technology enabled changes, developing the skills and competency of their staff and process improvements. The finance function will also have the greatest focus on implementing shared services when compared to other corporate services areas. If all elements – people, processes and technology - are aligned, there is no doubt that improvements will enable the finance function to deliver greater insights to the business to drive decision making and improve performance.

Finance partnering with the business

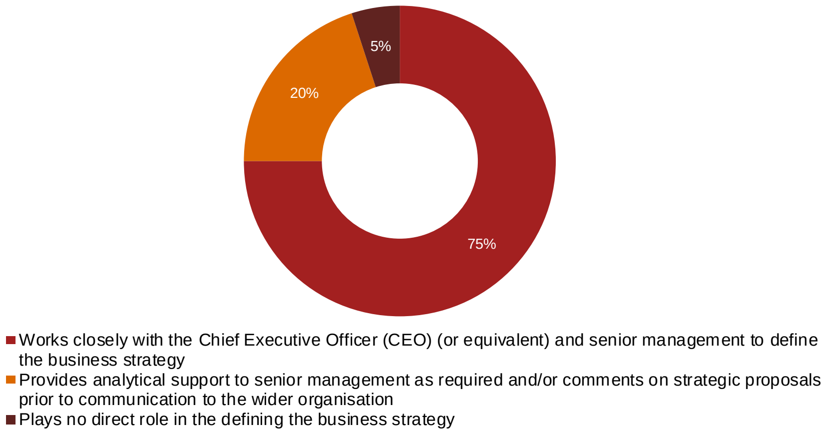
Successful entities require their finance functions to look beyond the core functions of finance, and use their financial acumen and insights to drive new value and improved levels of performance.

This is becoming increasingly important as entities face increasing budget cuts, pressure to deliver productivity improvements and demonstrate progress against strategic objectives.

As a true partner of the business, Chief Financial Officers (CFOs) have an ongoing role to play in anticipating changes in the business environment, bringing issues to the attention of senior management and driving improvements to reduce costs and help entities achieve their objectives in the shortest possible timeframe.

The results show that 25% of CFOs simply provide analytical support to senior management as required, or do not play a direct role in defining the business strategy, compared to 75% of CFOs that work closely with senior management. This demonstrates that many entities are well placed to fully evolve their finance function and support the entity to improve decision making and performance.

Figure 11: The role of the CFO in the development of strategy



Respondents: 20

Reporting

Senior executives require timely and accurate information to support decision making and form effective strategic plans.

In most cases, operating units are able to consistently meet the month end timetable, enabling the finance function to deliver timely reports. However, the results indicate that smaller entities typically take almost twice as long to complete the month-end process when compared to large entities, that only take 3 business days. This is consistent with the 2013 results and suggests that, despite different sized finance teams and technology environments, entities of similar sizes have comparable expectations and the finance function must do what it takes to deliver reports within the expected timeframe. This presents an ongoing challenge for smaller entities, that typically have small teams with overarching responsibility for all aspects of the finance function. The smaller finance teams are required to complete month-end while managing competing priorities, compared to larger entities that have teams dedicated to specific finance functions.

The results show that both small and large entities have a relatively large number of manual journal entries to process each month (45% of respondents) with 37% of entities indicating that they still load information into spreadsheets which require manual manipulation for reporting purposes. This approach increases the risk of manual errors and can be inefficient, indicating that there are opportunities to improve the month-end process and use of technology within the finance function.

Forecasting

Providing month-end data is not enough. Entities rely on the finance function to identify emerging trends, highlight issues and drive actionable insights through the provision of forecast information. The results show that around 65% of respondents prepare forecasts on a monthly basis, and 25% on a quarterly basis; and that there are differing practices among different sized entities. In some cases there are entities managing budgets in excess of $100 million that are preparing forecasts less frequently than entities with an annual budget of under $100 million.

Striking the right balance between improving the month-end reporting cycle to support better decision making and meeting other compliance and external reporting obligations can be a challenge for entities.

With the growing pressure on finance resources, entities need to consider all aspects of their processes and maximise the use of technology to create capacity that is sustainable over the long term.

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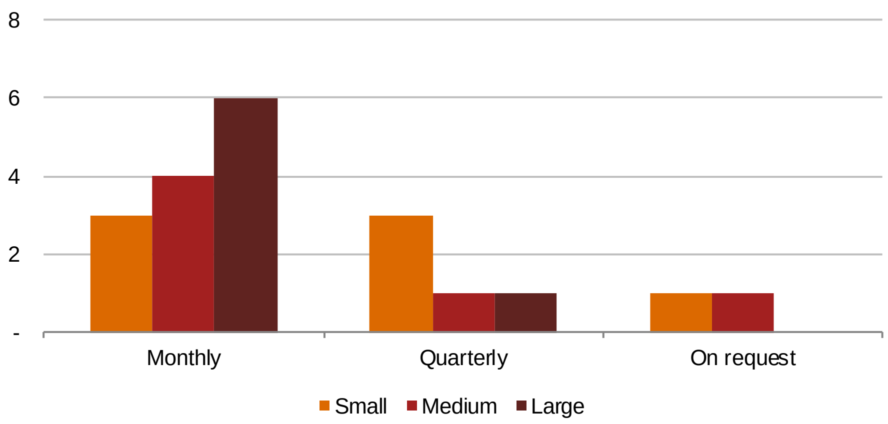
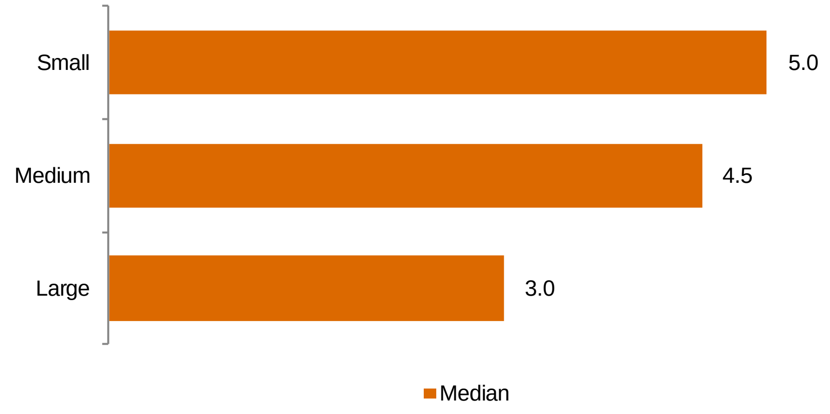
Figure 12: Frequency of forecast preparation



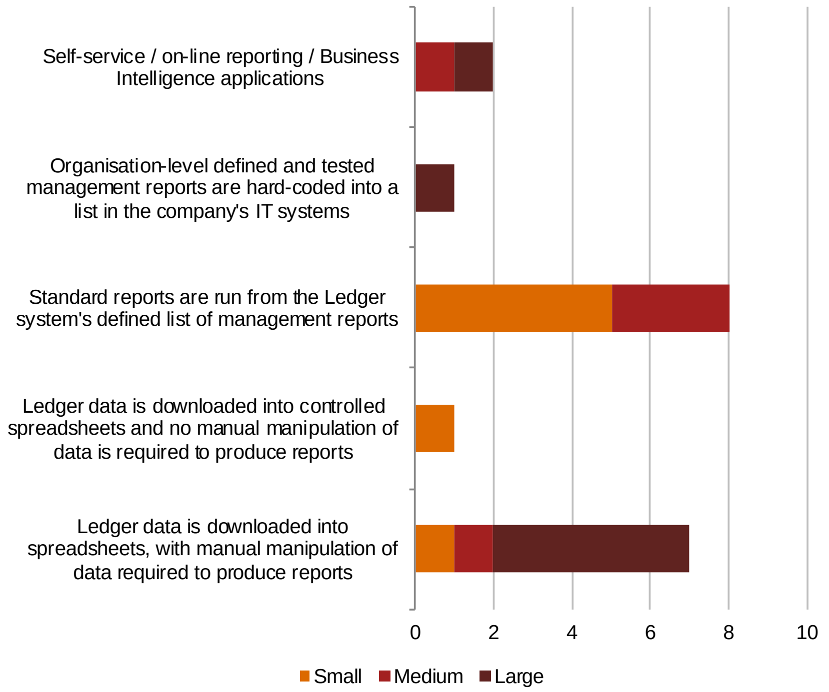
Respondents: 20

Figure 13: Median number of days to complete month end



Respondents: 20

Figure 14: Financial reporting methods



Respondents: 19

The integration of systems and automation of workflow are the two areas of technology that receive the weakest ratings in relation to supporting the finance function.

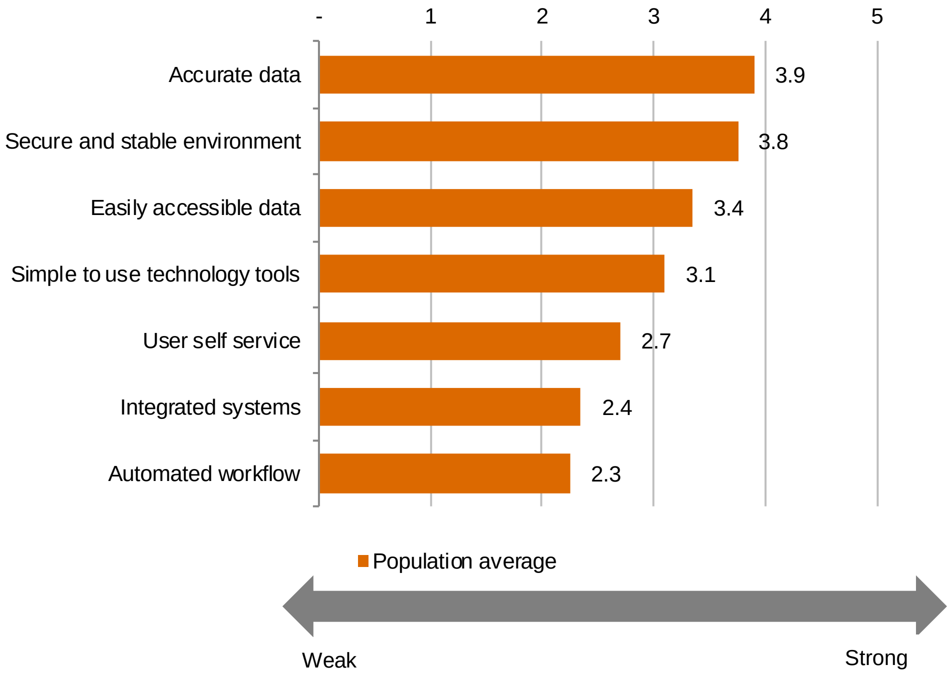
Technology

Sophisticated technology in the finance function can allow entities to focus their efforts on providing analysis and insights to the business, reduce the risk of manual errors and provide greater levels of control and transparency.

Respondents indicated that the technology supporting the finance function provides a secure and stable environment and accurate and easily accessible data. However, the results show that there are specific technology gaps in the areas of workflow automation, systems integration and user self-service.

The gaps identified by respondents are akin to the results of PwCs Finance Effectiveness study[4] of more than 200 companies where automated workflow and integrated systems received the weakest ratings in terms of their ability to support the finance function.

Figure 15: Technology supporting the finance function



Respondents: 19

[4] Unlocking Potential: Finance effectiveness benchmark study 2013, PwC, October 2013

The cost of transactional corporate services

In 2014, the benchmarking study analysed the cost of three transactional areas that are common across entities regardless of their core business: payroll, accounts payable and accounts receivable.

The variability of results highlights that there are significant differences in service delivery models and responsibilities in each area and that entities may not have full visibility of their transactional costs.

Entities with a centralised service delivery model and an activity based costing approach are more likely to report the costs with greater accuracy than those with decentralised models.

For entities looking to improve the productivity in these areas, they will need to look at both the efficiency and effectiveness of their technology and processes and consider alternative service delivery models such as shared services and outsourcing.

Full visibility of the transactional costs in corporate services areas is essential to ensure the most efficient and effective service delivery model is employed.

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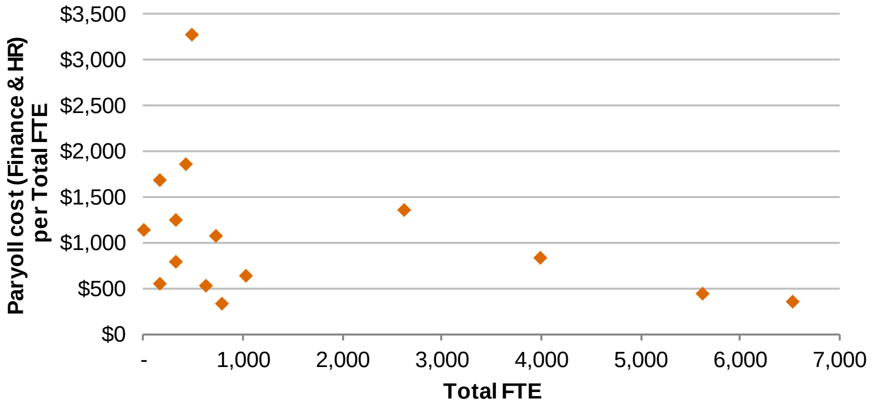
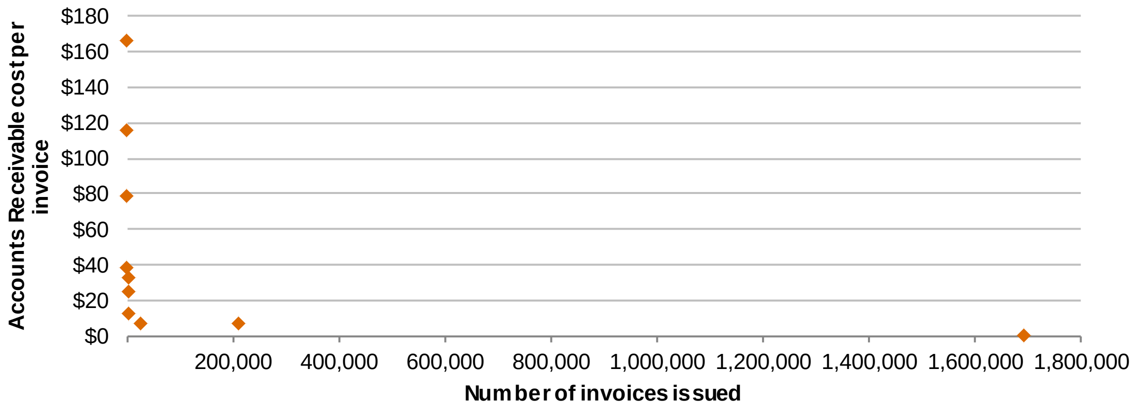
Figure 16: Payroll cost per total Full-time Equivalent (FTE)



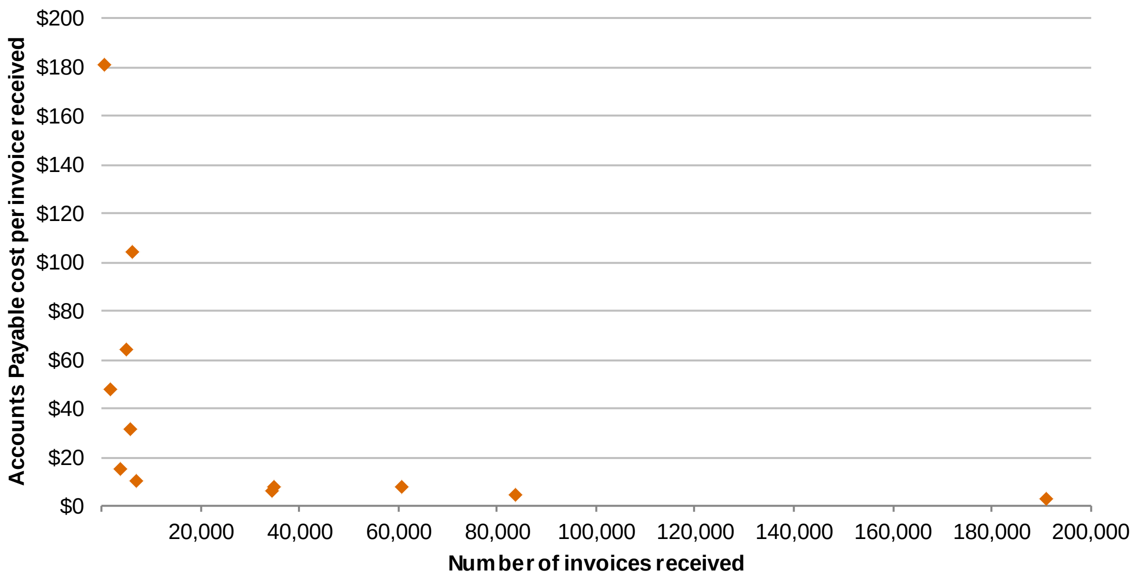
Respondents: 15

Figure 17: Accounts receivable cost per invoice issued



Respondents: 10

Figure 18: Accounts payable cost per invoice received



Respondents: 12

Information and Communication Technology

ICT Strategy

Aligning ICT services with business needs was the biggest challenge faced by government CIOs in 2014.

ICT departments have the potential to make a significant contribution to improving the productivity and efficiency of an entity.

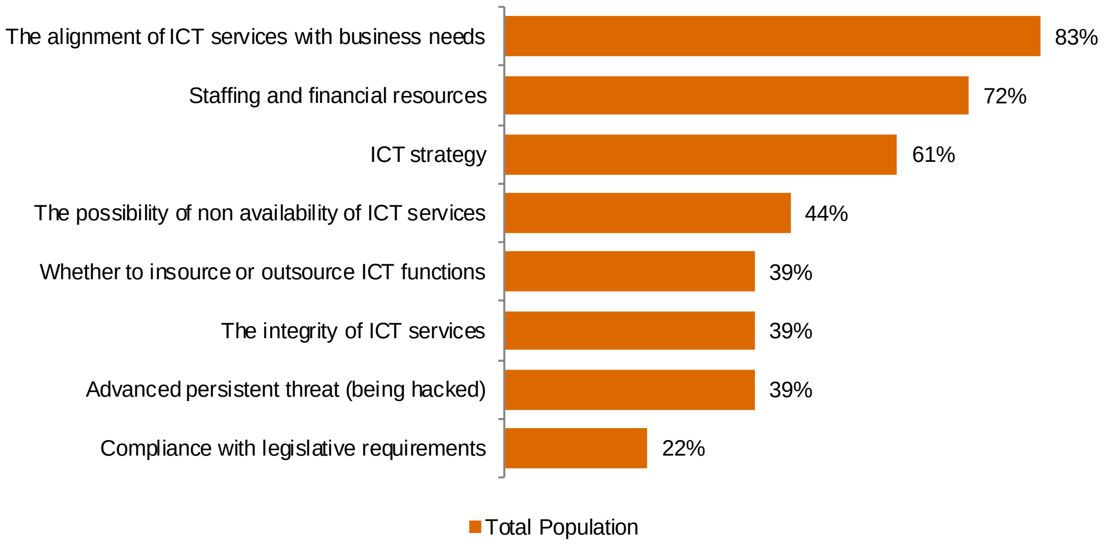
While the highest concern for Commonwealth Government Chief Information Officers (CIOs) in 2013 was the non-availability of ICT services, the Commonwealth and State Government respondents in 2014 indicated that their highest concern is the alignment of ICT services with the needs of the business. There are also a large number of respondents that indicated they are concerned about their ICT staffing and financial resources.

Future focus

ICT departments indicated that they plan to improve productivity over the next three years by implementing technology changes, process reengineering and developing the skills and competency of their staff. They will also have the highest focus on outsourcing to the private sector when compared to other corporate services areas.

Along with these priorities, ICT departments indicated that system upgrades and maintenance is their top priority, followed by the need to revise / develop the ICT strategy, Cloud sourcing and Cyber security.

Figure 19: The CIOs highest concern



Respondents: 18

In 2013, ICT departments indicated that their highest priorities were systems security, systems upgrade and maintenance and to revise / develop the ICT strategy. The 2014 results highlight that systems upgrade and maintenance and the ICT strategy were the highest priorities for ICT departments.

Revise / develop the ICT strategy

The integration of the ICT strategy with the business is an important aspect to ensuring that the technology environment can support and adapt to the long term needs of the business. ICT leaders and the business must therefore ensure that their strategies are closely aligned.

The development of the ICT strategy is not the sole responsibility of the CIO, with the majority of respondents indicating that the funding priorities and budget of ICT departments are typically determined by a Board or Committee.

Systems upgrade / maintenance

72% of respondents indicated that systems upgrade and maintenance is a top priority over the next three years.

Many entities are required to upgrade and maintain complex and customised legacy systems that are difficult to sustain in the long term. Growing on an already complex base can lead to an increased effort involved in maintaining and adding to the knowledge base of systems, increased time to respond to business requirements and rising costs. If left unaddressed, it could lead to an unsustainable cost base and a higher risk of incidents, which are increasingly difficult to remediate.

Cloud sourcing

Cloud sourcing can help entities meet demands from their business and the government for greater agility across their infrastructure, platform and software environments.

With the ongoing need to upgrade and maintain systems, accelerate the deployment of technology solutions and reduce costs, 32% of respondents have already adopted Cloud computing and 47% will look to Cloud computing as an alternative method to delivering ICT services as part of their long term strategy. As a result, entities will face the challenge of relying on legacy systems while moving to Cloud computing solutions. The mix of environments will require careful management to ensure continuity of ICT services while protecting the business from risk.

Cyber security

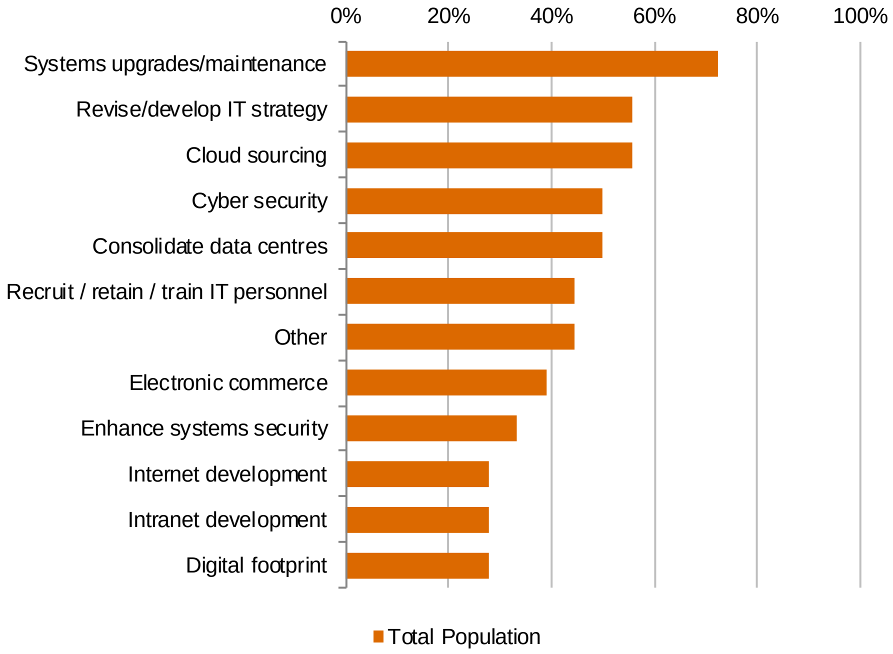
47% of respondents indicated that Cyber security is a priority over the next three years. With Cyber security threats trending upwards and as entities consider alternate service delivery models, such as Cloud, the risks associated with these environments will need to be managed and appropriate security controls incorporated into the design of ICT systems.

A PwC report showed that cyber-attacks globally rose nearly 50 percent over 2013 to 42.8 million - the equivalent of 80 attacks every minute. But despite the rising frequency, impact, and awareness of cyber-attacks, security budgets globally over the past five years have remained stuck at around 4 percent of the total ICT budget[5].

As ICT departments look at new ways to deliver ICT services and protect the business from risk, entities will need to determine if it should build its own internal capability or if the private sector are better placed to deliver higher quality services at a lower cost over the long term.

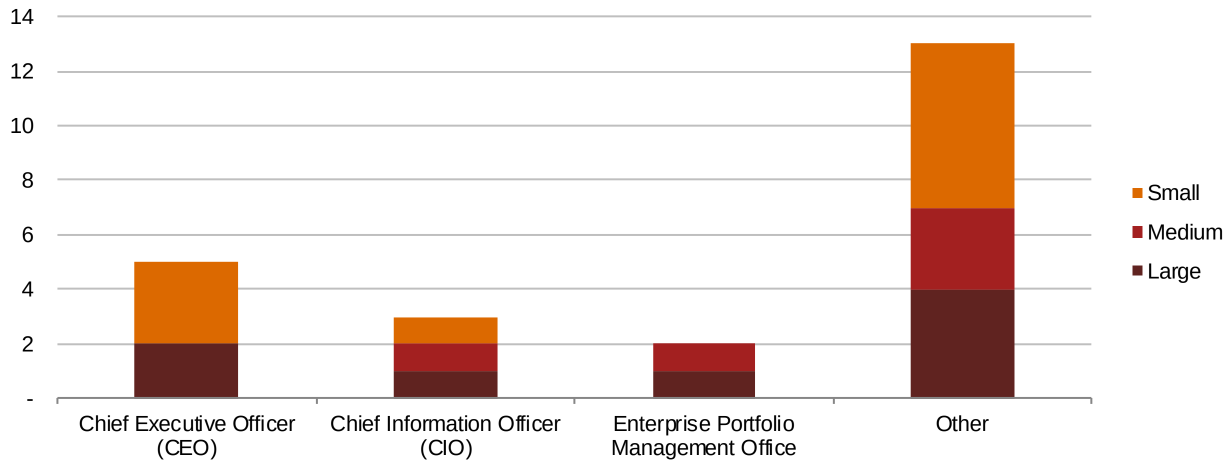
5 Cybersecurity Incidents More Frequent and Costly, but Budgets Decline says PwC, CIO and CSO Global State of Information Security® Survey 2015

Figure 20: Top ICT priorities over the next three years



Respondents: 18

Figure 21: ICT funding priorities and budget



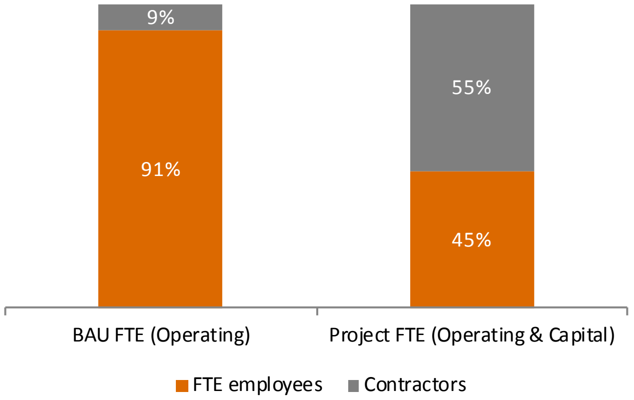
Respondents: 19

ICT staffing

72% of respondents indicated that one of the highest concerns for CIOs is staffing and financial resources. For Commonwealth entities, ICT departments have endured ongoing savings measures as a result of Whole-of-Government reviews and the Australian Public Service (APS) recruitment restrictions have placed even more pressure on ICT departments to do more with less. Furthermore, ICT departments have been subject to contractor reduction targets over short timeframes.

The current ICT workforce profile of respondents shows that APS staff occupy 91% of business as usual roles and 45% of project roles. Having a higher proportion of contractors in project roles can provide entities with the ability to adapt to changing priorities, however, it can present a challenge for entities that lose the corporate knowledge and technical skills upon finalisation of the project.

Figure 22: ICT APS staff and contractors in business as usual (BAU) and project roles



Respondents: 14

ICT outsourcing

57%

of respondents are currently considering outsourcing applications development.

Respondents indicated that they will have a greater focus on outsourcing over the next three years to improve productivity and efficiency when compared to other corporate services areas.

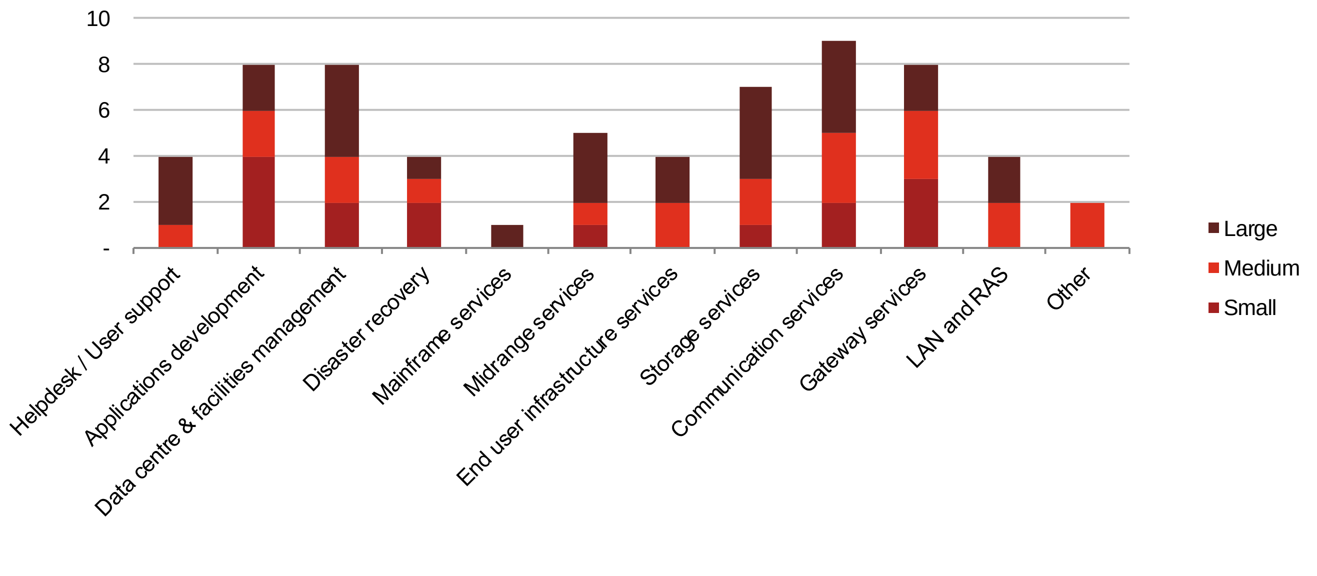
All respondents that receive services from the private sector indicated that the services received are of higher quality than they could internally deliver, however 21% of respondents indicated that they are paying a higher price for the ICT services.

When asked about shared services arrangements for ICT, the results show that 50% of ICT services received through shared services are of higher quality and lower cost, which demonstrates there can be value from both outsourcing and greater sharing of services across government entities.

The results indicate that many respondents are currently considering outsourcing discrete functions, such as communication services and data centres that benefit from economies of scale. Applications development is also being considered for outsourcing by 57% of respondents, particularly smaller entities.

Entities considering a 'buy' or 'build' approach across their software and infrastructure portfolio will need to determine the most appropriate model that is adaptable to its business needs. Electing to outsource the management of ICT services to third party providers will provide entities with the opportunity to focus on their top priorities and improve the strategic management of ICT at the portfolio level.

Figure 23: Areas of consideration for ICT outsourcing



Respondents: 14

Enterprise Portfolio Management

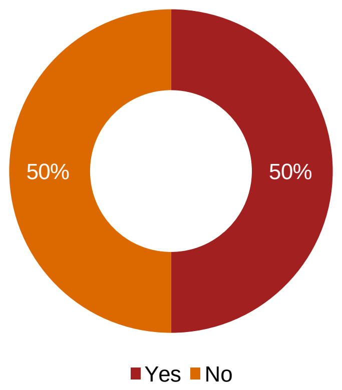
The management and prioritisation of ICT at the portfolio level is critical to the successful delivery of government services.

An Enterprise Portfolio Management Office (EPMO)[6] that is integrated with ICT departments is an important consideration for entities looking for ways to better execute their strategy, improve investment decision making and performance of their portfolio.

PwCs global survey on programme and project management practices found that entities with an EPMO demonstrate consistently higher performance than those managed by other groups or individuals. They are more likely to have portfolios that meet schedule, scope, quality, budget, and business benefits requirements.[7]

The results show that 50% of respondents have an EPMO and only a small percentage of EPMOs set the ICT priorities and budget for the ICT department. For entities that have an EPMO, the median number of staff is three, however, their role and maturity will be different and should be considered when interpreting results.

Figure 24: Entities with an Enterprise Portfolio Management Office



Respondents: 20

Figure 25: Enterprise Portfolio Management Office FTE

Respondents: 8

6 An EPMO is defined as a business unit that prioritises the entity's programmes and projects and provides business areas with tools and templates to ensure programmes and projects deliver and report on the intended benefits.

7 Global survey on the current state of project management (Insights and Trends: Current Portfolio, Programme, and Project Management Practices), PwC, 2012

Governance

Governance

One in three entities agreed that the level of residual risk that they accept in their operations is higher than it was two years ago.

On 1 July 2014, the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) replaced the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act). The PGPA Act establishes a system of governance and accountability for public resources and applies to all Commonwealth entities and Commonwealth companies.

Entities response to fiscal constraints and PGPA Act

The introduction of the PGPA Act has led to some entities taking advantage of the principles-based legislation and, based on their identified risk appetite, reducing the amount of controls or red tape required when processing financial transactions.

The Australian National Audit Office (ANAO) Better Practice Guide Public Sector Governance: Strengthening Performance Through Good Governance (June 2014) states that

"...chief executives, directors and senior executives should establish fit-or-purpose governance arrangements and be willing to adjust them to meet changing needs. Effective governance arrangements contribute to a highly performing public sector, particularly in the light of fiscal constraints and public expectations for public sector services."

32% of entities surveyed agreed that the level of residual risk that they accept in their operations is higher than it was two years ago due to the impact of budget cuts. It was also noted that 69% of respondents have either completed, or are in progress to complete, a reassessment of their financial control framework to identify opportunities for streamlining following the implementation of the PGPA Act.

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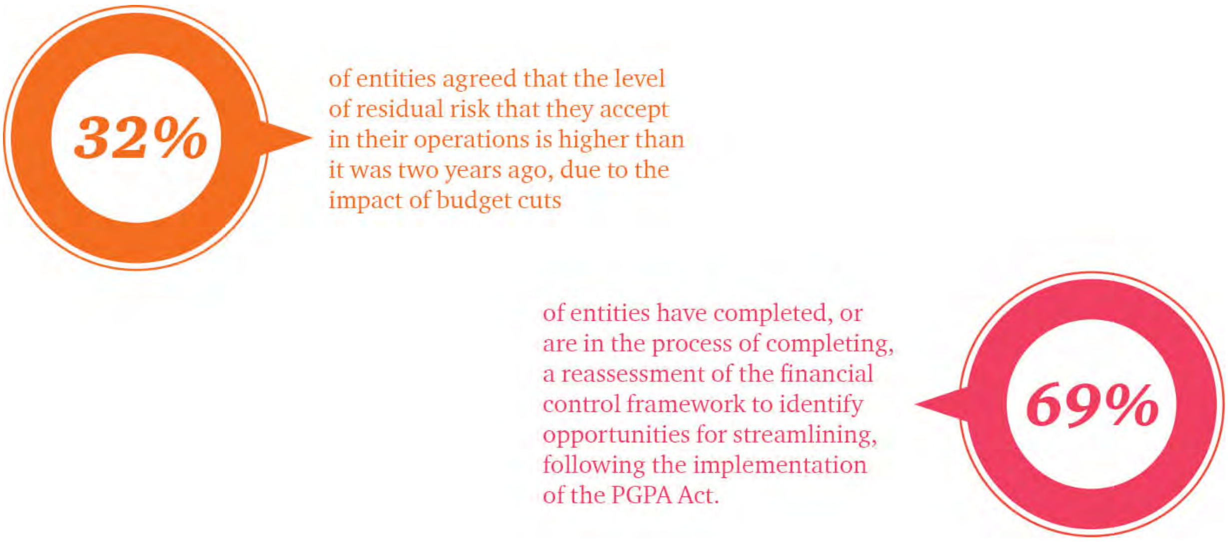
Figure 26: Entities response to fiscal constraints and PGPA Act



Reassessing an entity's risk appetite to reflect an increased level of tolerance for residual risk would provide increased scope to identify opportunities for further efficiencies in the financial control framework, and help demonstrate that an entity's governance function is fit-for-purpose.

PGPA tasks to date have been simple, while future tasks have proven to be challenging

The tasks that entities found simple to implement were those where minimal changes were required because an existing system was already in place that met the requirements of the PGPA Act, including:

- Changing the composition of audit committee membership
- Introducing systems to capture and report on potential conflicts of interest
- Updating their risk management plan
- Updating position descriptions to align with the updated duties of accountable authorities.

The tasks that were neither simple nor challenging include:

- Updating authorising legislation
- Updating references in financial policies and procedure documents (noting that for 30-50% of entities this is still a work-in-progress).

The challenging tasks have proven to be those where it is either a new obligation, reliant on guidance by the Department of Finance that is still being developed, or tasks not scheduled to commence until FY2015-16. Both those entities that had commenced work in these areas and those that had not yet started considered the following tasks to be difficult:

- Developing a corporate plan, including non-financial key performance indicators (Few respondents have completed this task, with 56% of respondents indicating that this is a work in progress)
- Developing a system to capture and report on non-financial performance information (none of the respondents have completed this task, and 50% of indicating that this is a work in progress).

While the challenging tasks are not yet a requirement, they represent the largest change from the FMA Act and CAC Act to the PGPA Act, in particular the requirement that the reported non-financial performance information must be 'auditable' to support the preparation of an Annual Performance Statement (s40 PGPA Act, *Audit of annual performance statements for Commonwealth entities*).

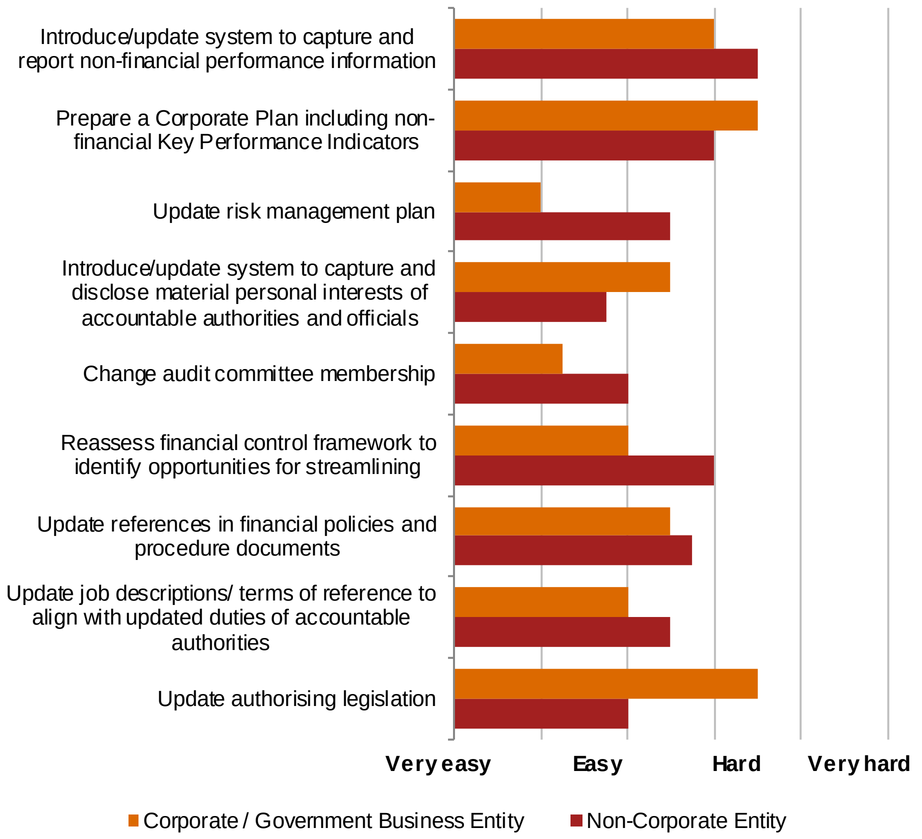
The Joint Committee of Public Accounts and Audit (JCPAA) report *Review of Auditor-General's Reports Nos 10-31 (2013-14) – Regional Cities Program, KPIs and Medicare* (September 2014) noted that a key theme across the ANAO reports was the importance of a robust performance framework and auditable key performance indicators (KPIs). One of the report's recommendations was that the ANAO continue to work towards the implementation of systematic audits of the appropriateness of entities KPIs and the completeness and accuracy of their reporting under the PGPA Act performance measurement and reporting framework.

Given the difficulty of this task and the future attention they are likely to receive, it would be prudent for entities to commence planning of how they will develop non-financial key performance indicators and then implement an auditable system for measuring and reporting this information.

Key differences between Corporate and Non-Corporate entities in the application of the PGPA Act

There were some notable differences between Corporate and Non-Corporate entities in the perceived difficulty of different tasks in the implementation of the PGPA Act.

Figure 27: Key PGPA Act-related changes in order of overall perceived difficulty



Respondents: 11-16

Differences in the experiences of Corporate and Non-Corporate entities in implementing the PGPA Act appear to be due to the degree of change required to bring an entity into line with the requirements of the PGPA Act from either the CAC Act or the FMA Act. For example:

- Updating the authorising legislation was considered harder by Corporate entities as they are more likely to have specific legislation (other than the Appropriations Acts) setting out their function and role than Non-Corporate entities
- Updating the risk management plan was seen to be more difficult by Non-Corporate entities due to the new Commonwealth Risk Management Policy (July 2014) from the Department of Finance being required for them, but optional for Corporate Entities
- Introducing/updating a system to capture and disclose material personal interests was perceived to be harder by Corporate Entities, as this requirement already existed in the *Public Service Act 1999* (s13), which applies only to Non-Corporate entities, and so was likely to be already in place; a similar requirement was included in the CAC Act, however applied only to directors (s27F).

Property

Property

The median number of properties managed per FTE is

4.3

Many government entities are responsible for managing complex property issues and require a highly experienced and skilled property team and effective management information systems to deliver better outcomes.

The results indicate that an entity's property lease expenses, as a proportion of total departmental operating expenses, are quite varied and the median number of properties managed per property FTE is 4.3[8], which is double the median of last year's results.

With the responsibility for diverse property portfolios and additional accountabilities under the PGPA Act, the capability of an entity's property function is becoming increasingly important.

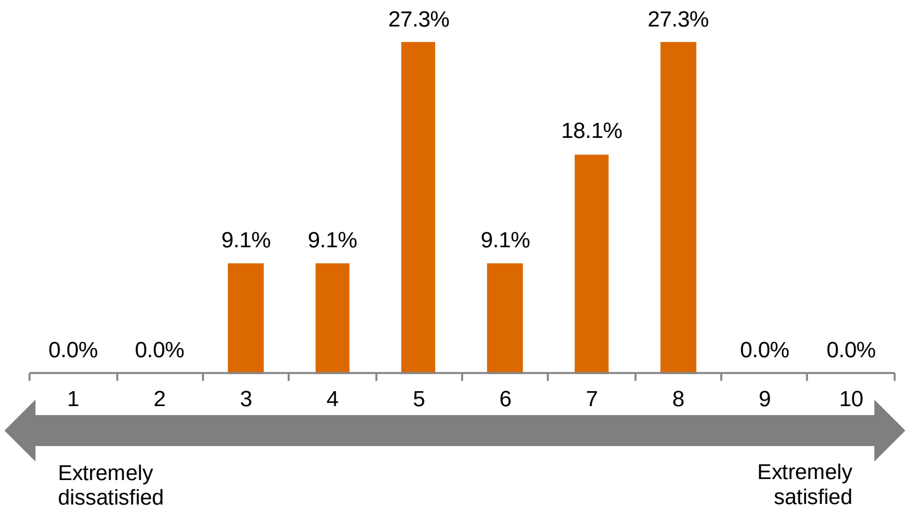
Seven respondents indicated that they outsource their property maintenance and three respondents indicated they outsource their property management requirements. All of these respondents perceive the services received to be of higher quality and lower price than they could deliver internally, however, 73% of respondents indicated that their satisfaction (on a scale of 1-10 where 1 is extremely dissatisfied and 10 is extremely satisfied) with property services received from external providers is 7 or below.

When entities were asked how they would improve the management of property contracts and supplier relationships if given additional funds, respondents reported that they would focus on strengthening the skills and competency of their property team through internal staff development and /or recruitment, and improve their related IT systems. Strengthening these areas is likely to address the potential information imbalance between suppliers and government entities and lead to more informed decisions that maximise value for money.

The National Commission of Audit indicated that property ownership, development and management is a highly contestable market and the remuneration for the required skills in the private sector is relatively high compared to the public sector. As such, entities may not be able to attract and retain the required skills and will need to look to the private sector in order to strengthen their capability. This extends beyond functions such as leasing and facilities management and includes elements of portfolio data analytics and internal customer relationship management.

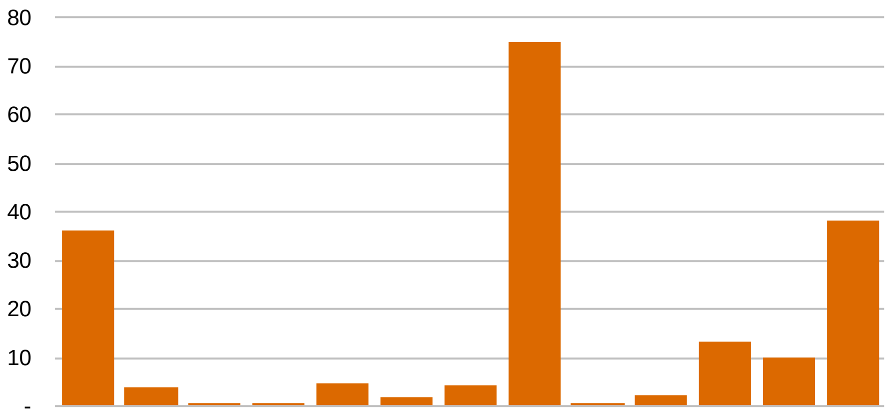
8 The size, geographical breadth and sourcing arrangements should be considered when interpreting the results.

Figure 28: Satisfaction with property services received from external entities (such as facilities maintenance, leasing and portfolio administration and management)



Respondents: 11

Figure 29: Number of facilities managed per property FTE



Respondents: 13

Strategic procurement

Strategic procurement

Only 21%

of entities recognise the procurement function as a strategic partner.

High-performing procurement functions do more than purely focus on the purchase to pay process. They are tightly integrated with the business units they serve, have an in-depth understanding of the supply market and take a strategic approach to procurement. This includes having a clear sourcing strategy, adopting category management and effective contract management.

Procurement as a strategic partner

Procurement functions within government entities vary in their size, role and areas of responsibility. Some procurement functions only look after the entity's procurement framework and provide guidance to staff conducting the actual procurement, to ensure compliance with the governments' procurement rules; however other procurement functions also provide supplier analysis and conduct the higher risk / value procurements for the entity.

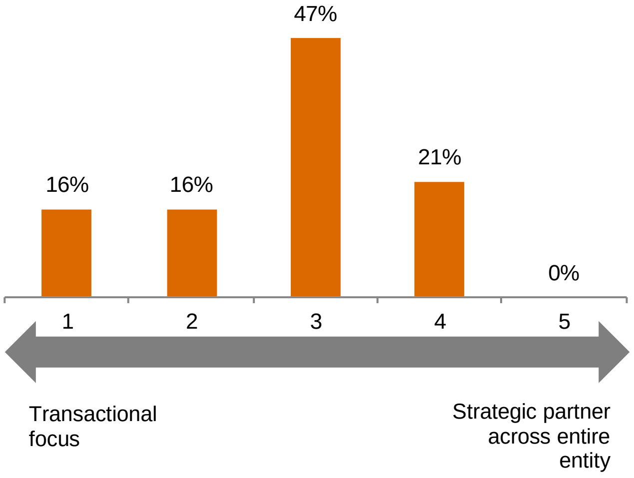
The results indicate that only 21% of entities recognise the procurement function as a strategic partner, however, this may be limited to a few individuals within the procurement function. In some instances procurement is still regarded as bureaucratic and adding limited value.

Understanding of category management and strategic sourcing

For the procurement function to add substantial value to the entity, a good knowledge of strategic sourcing and category management processes will ensure improvements to both pricing and contract terms when leveraged against the identified suppliers.

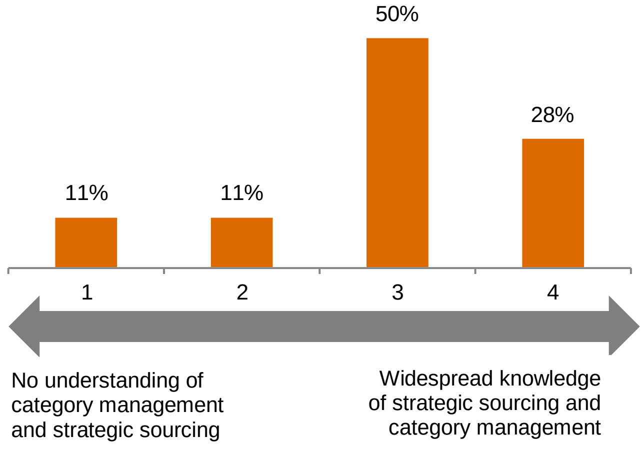
Almost one third of respondents indicated that there is widespread knowledge of strategic sourcing and category management processes in the procurement function. At the other end of the maturity scale, 22% of entities indicated that there is little or no understanding of strategic sourcing or category management processes and techniques and their focus is transactional and administrative in nature.

Figure 30: Procurement as a strategic partner



Respondents: 19

Figure 31: Understanding of category management and strategic sourcing



Respondents: 18

Supply market knowledge

More than half of the respondents indicated that there is infrequent supply market research conducted and supply knowledge tends to be stronger amongst customers than in procurement. Some analysis of the supply market is built into the sourcing process however, procurement will only rarely attempt to analyse suppliers' cost base as part of sourcing engagements or compare performance against other similar entities. This limited knowledge can make it challenging for entities to improve the value of third party spend and find savings for the entity.

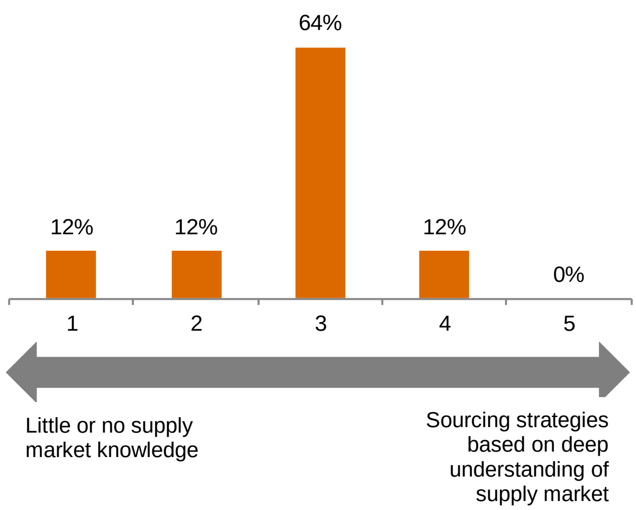
Formalised contract management

Procurement in the government sector requires greater accountability than it does in the private sector as it is responsible for ensuring that the expenditure of relevant money represents value for money, encourages competition, is representative of efficient, effective, economical and ethical procurement practices, is accountable and transparent and addresses procurement risk.

In terms of contract management frameworks, 33% of respondents have formal contract management framework integrated with their sourcing strategy, while the remaining entities have basic contract management processes documented and in place, supported by a formal contract management structure.

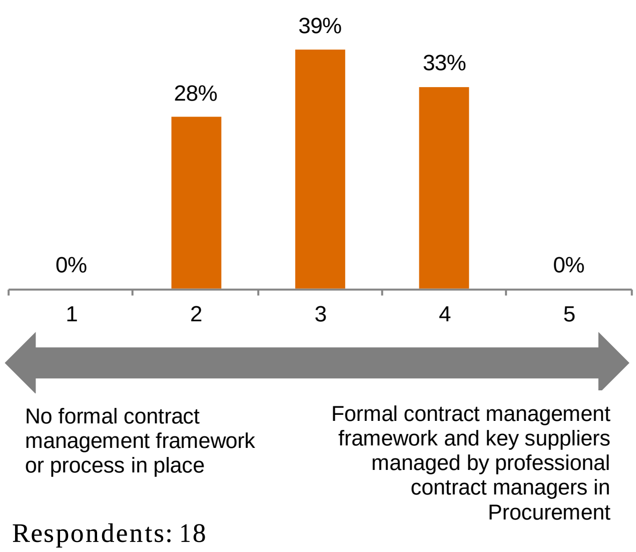
With Whole-of-Government procurement initiatives as well as entity based procurement reform projects, individual entities will need to shift their focus from transactional based procurement services to becoming a strategic partner. This requires entities to gain a thorough understanding of the supply market and to take a more strategic approach to category management and contract management. This will increase capability to achieve value for money and often allow entities to reduce costs without having to reduce government service levels and hence are less painful way of reducing costs than many other measures.

Figure 32: Supply market knowledge



Respondents: 17

Figure 33: Formalised contract management



Respondents: 18

People

People

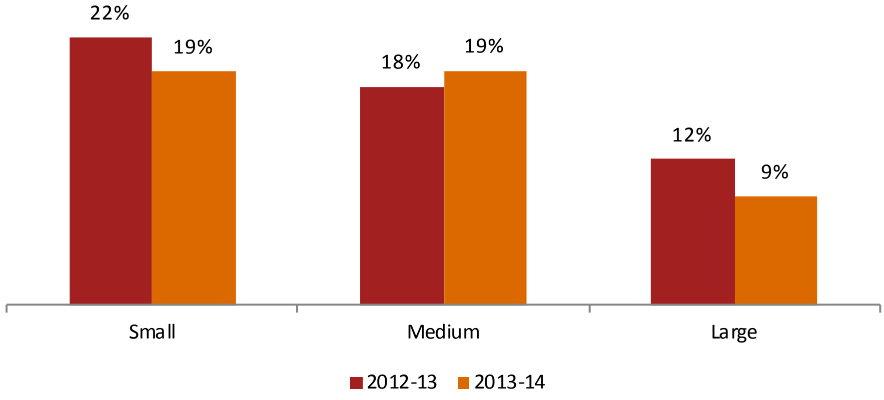
Corporate services employees represent between 9 - 19% of an entities total workforce.

People costs are a major component of corporate services expenditure and represent more than two thirds of total costs for the finance, HR, governance, procurement and communications functions. This highlights the importance of having the right talent in place to deliver results.

Corporate services employees represent between 9 - 19% of an entities' total workforce (compared to 12 - 22% in 2013). As in 2013, ICT services represent, by far, the largest proportion of the corporate services workforce, followed by HR and finance functions.

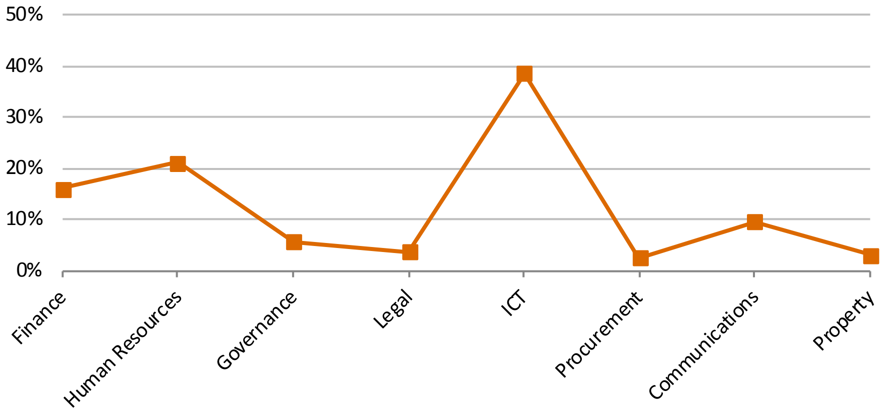
A move away from the transactional nature of work in corporate services through technology changes, shared services, and outsourcing will bring a greater reliance on specialist staff if entities are to deliver future increases in productivity. Consequently the results show that many entities are looking for increases in productivity through the development of staff skills and competency particularly in the area of ICT.

Figure 34: Corporate services FTE as a percentage of total staff



Respondents: 18

Figure 35: Percentage breakdown of total corporate services FTE by function



Respondents: 17

Diversity

Women account for

41%

of SES positions and

43%

of EL positions.

Diversity in all forms is linked to greater opportunities for innovation through the sharing of experience. The Australian Government values women and men as co-contributors to the economic and social well-being of Australia and is committed to building a multicultural Australia. Trends within government are seeing a steady increase in the role of women within executive positions and those that identify with an ethnic/cultural background. With greater emphasis on innovation to improve productivity in all entities it will be interesting to see if this trend can be strengthened and built on into the future.

Women in the APS

The Australian Public Service Commission (APSC) reported that the representation of women in the Australian public service has increased steadily since 1998, but has now reached a plateau. In 2013-14, women held 39.6% of the total senior executive positions in the APS (39.2% in 2012-13) and 58.0% of the total workforce. [9]

The benchmarking results largely align with those of the APSC showing that 43% of the executive level staff within corporate services are women. Consistent with last year, communications, legal, HR and finance functions have the highest representation of female staff, while ICT and property have the highest proportions of male staff.

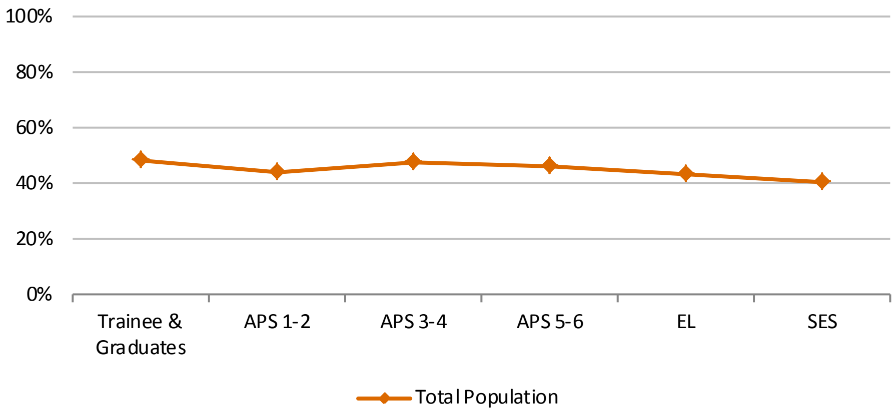
These results may vary in the future based on the success of the Commonwealth Government's Australian Chapter of the Women in Public Service Project, which is a recent initiative that is designed for women who wish to pursue a career in areas where social change and public policy is contested or delivered. These areas include law reform and enforcement, government and community services.

Ethnic/cultural diversity in the APS

From an ethnic and/or cultural perspective, the survey results show that employees within corporate services who identify with another ethnic and/or cultural background are more prominent in the finance, ICT and governance functions relative to total staff within that function.

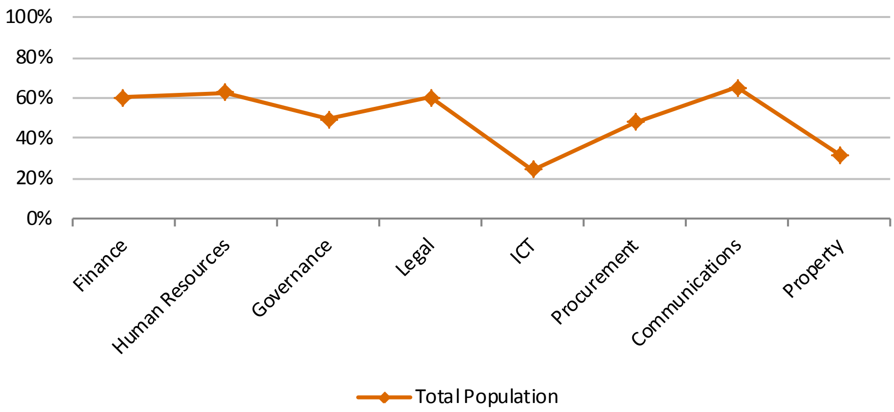
[9] State of the Service Report 2013-14, Australian Public Service Commission, 2014

Figure 36: Percentage of women in corporate services by APS level (or equivalent)



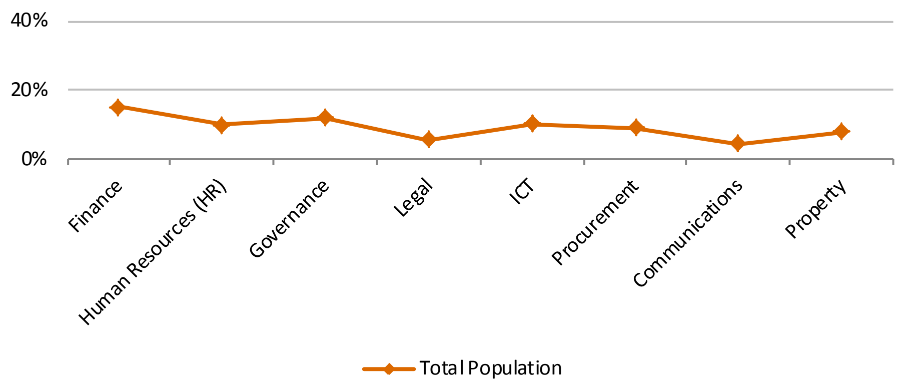
Respondents: 17

Figure 37: Percentage of women by corporate services function



Respondents: 16

Figure 38: Ethnic and/or cultural diversity by corporate services function



Respondents: 12

Span of control

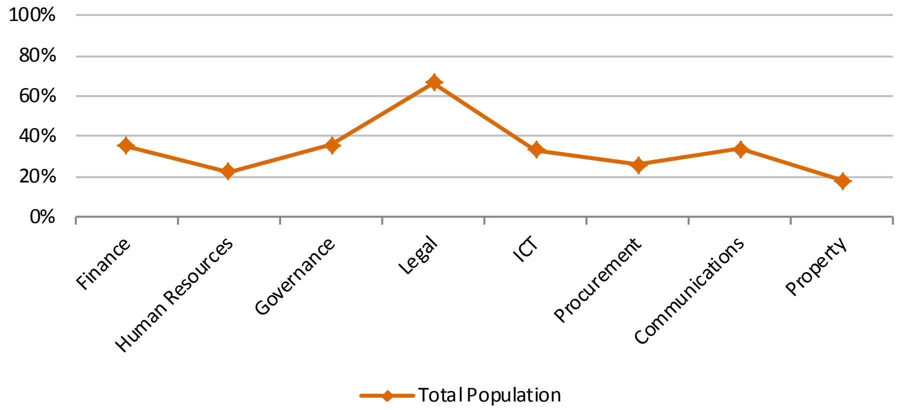
Legal services functions have the lowest span of control which may be reflective of the required level of seniority and skill in these areas as well as outsourcing arrangements in place.

Organisational span of control refers to the number of FTE employees each managerial staff member oversees. In the context of public service entities taking part in the Benchmarking Study, this span refers to the ratio of full time equivalent SES and EL staff to APS 1-6 staff (or equivalent for State entities).

The better practice, efficient span of control is considered to be more than six people per executive staff member. This means that there is clear ability for 'doing' and 'overseeing', optimising the hierarchy of the entity and ensuring clear delineation of tasks, responsibilities and accountabilities.

The results indicate that the function with the lowest span of control is legal services. This may be reflective of the required level of seniority and skill in these areas as well as outsourcing arrangements in place. The 2013 results nevertheless showed that legal services, internal audit and ICT had the lowest spans of control.

Figure 39: Span of control – percentage of EL and SES FTE by function



Respondents: 17

Contractors

Any restrictions to contracting arrangements will have the most significant impact on ICT departments which have the highest number of contractors.

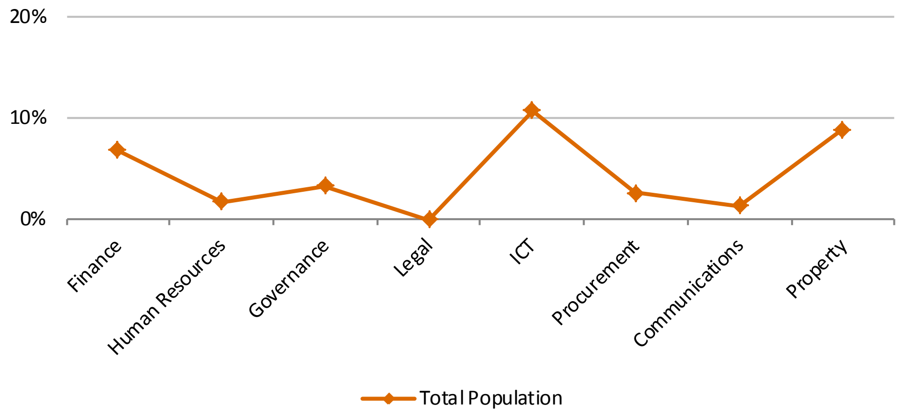
It appears that the Government's freeze on the extension of contracts has played a significant part in the reduction of the contractor pool across corporate services. This, together with staff reductions, will continue to place pressure on corporate service areas as they seek to manage seasonal increases in work.

While the results indicate that the number of FTE staff currently working under contracting arrangements within corporate services is minimal, any restrictions to contracting arrangements will have the most significant impact on ICT departments which have the highest number of contractors.

This development has raised another potential area of risk for entities: the loss of corporate knowledge. A negative follow on effect on productivity is expected as existing or new staff seek to bring themselves 'up to speed'.

Entities will need to be more innovative in the way functions that employ large percentages of contract staff operate and look to alternative ways to deliver services in these areas (including further use of shared services, outsourcing and increasing automation). Additionally, an increased focus on transferring knowledge held by staff specialists to ongoing APS staff, as well as investments in internal training and skills development will be necessary to ensure function continuity and resilience.

Figure 40: Contractors compared to Full Time Equivalent (FTE) staff



Respondents: 12

Restructuring

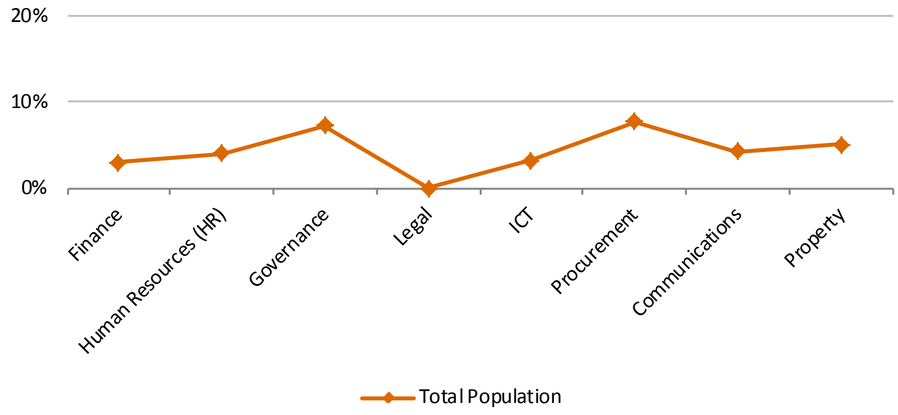
Restructuring in public sector entities is a continuous process, with Machinery of Government changes and attempts to streamline processes and reduce costs being a significant cause of restructuring in corporate services. A result of this is often the redundancies of public servants.

Redundancies in corporate services remain a fairly low percentage of the numbers of staff leaving the entity. This could be due to the significant reliance on Human Resources and, to some extent, finance staff during periods of downsizing. Once organisational restructures in other areas of the entities are completed, there is the potential for staff numbers in corporate services to reduce in an attempt to streamline processes.

This may be obtained through recruitment freezes, restructuring, or in line with the move to a shared service model or the outsourcing of functions.

Corporate service executives and leaders will need to ensure their focus on change management, employee engagement and motivation in times of change to ensure that productivity levels are upheld.

Figure 41: Employee redundancy by function as a percentage of total FTE



Respondents: 11

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- Samuel Robinson, Manager (Risk Assurance, Governance)

PwC would be happy to discuss any aspect of this benchmarking report, including further detail on any of the topics covered. Please refer to the contacts page to learn more about benchmarking at PwC.

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