

**APPENDIX C:
PRE-FEASIBILITY ANALYSIS 1
LOCAL GOVERNMENT RATES AND
PROPERTY SERVICE**



Systemic Sustainability Study

Pre-Feasibility Analysis

Local Government Rates and Property Service

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Local Government Rates and Property Service

1.0 Executive Summary

The SSS Taskforce (Services team) noted that consolidated service delivery for Local Government could be delivered through commercial models that centralise standard components of activity and that deliver an administrative efficiency without putting Local Government at risk of losing control of their information and Statutory obligations.

This proposal is for the establishment of a Rates and Property Service which can ultimately deliver outsourced administrative facilities to Local Government.

The service is primarily targeted towards small and medium sized Local Governments, particularly Local Governments in regional areas where technically qualified and experienced officers in Local Government ratings and property services are currently difficult to recruit. However the longer term potential for the sector to centralise ratings and property management activity is within the intended capability of the service. The SSS sets out a ten year vision for the sector. This initiative is proposed in the form of pilot activity and feasibility testing prior to its establishment in 2010, and targets progressive growth over a three to five year period thereafter. This ensures well developed business process management, and consistent measurement of longer-term viability as a self sustaining commercial venture.

It is recognised that currently the ratings function, and the associated management of property databases and classification processes, are duplicated within organisations. These functions sit under a standard regulatory structure, but vary in accordance with each Local Governments zoning and planning approvals. It is also recognised through the establishment of this service that the core business of Local Government is to deliver services to the community, and that the sectors role as a revenue collector, when objectively challenged, is a function that on balance is non-core to the primary purpose of Local Government.

A centralised rating facility, non-mandated, can supply the sector with a competent, efficient, and independent service to oversee the back-end administrative functions associated with the issuance and collection of rates assessments and the related tasks of maintaining Local Government property records. With the right mix of technical knowledge, expertise, service, technology, administration and management, a rates and property service can free up significant capacity within the sector. Aligned with the SSS Taskforce recommendations, this initiative can rationalise service delivery whilst retaining local representation and governance.

Various structures and development models require further research and testing, particularly in the areas of systems and commercial costing. Prior to proceeding, to develop services as outlined within this plan, a commitment through the SSS process is required to deliver the shared intent of the sector in support of the concept.

2.0 Background

2.1 Objectives of Initiative

The ratings function is complex, and represents more than a regular billing process. Regulated under the financial management provisions of the *Local Government Act 1995*, ratings are levied in accordance with Council budget cycles. The Council Business Systems of Local Government are critical to an efficient ratings service. With transient populations and changing circumstances, the integrity of data available to Local Government for ratings is often out of date, causing frustration for residents. Integration with State Government agencies for the timely processing of subdivision and valuation information has a flow on effect for the sector in the form of rework and updates of assessments.

The future impact of voluntary structural reform as envisioned through the SSS is likely to require more complex systems for managing and maintaining ratings registers. Local Governments in regional areas, particularly those that struggle to maintain the technology or human resources to manage the process, could benefit from the availability of a professionally managed service. Additionally, the function would be far more cost effective under the guidance of a specialised ratings team that served multiple organisations under a regional service delivery structure. The service would provide whole of rates cycle administration, from the issuance of notices, to the management of enquiries, through to the collection of accounts, including overdue debtor's ledgers. Management of Council records, property data, electoral roll and other administrative duties that integrate with the ratings process would be included within the service development.

Specific objectives of a centralised ratings service are as follows:

- 1) To overcome the Human Resources shortfall for ratings staff in regional areas where it is difficult to recruit administration staff and provide them with the training and knowledge of the ratings process.
- 2) To manage contracts for systems, mail house services, electronic payment services, legal collection services and other related activities of the ratings process under a comprehensive and consistent set of terms and conditions.
- 3) To show leadership to State Government by centralising an administrative function and creating a significant administrative efficiency (non-duplication of resources).
- 4) To deliver a high quality and optimum performance-managed service to WALGA members that saves time and money for their organisations.
- 5) To establish a business entity that has vested ownership within the sector, allowing the ratings function to be costed on a commercial basis, and returning dividends to Local Government that are reinvested into the sector.
- 6) To improve ratepayer satisfaction by providing a smooth rates service with ease of access for service enquiries and payment options.
- 7) To create technical capacity for Local Government by applying advanced technology and systems for ratings that would otherwise be inaccessible.

3.0 Proposal Description

3.1 *Proposal Structure*

This concept is predicated on a Regional Service delivery structure, which retains a presence within Regional Organisations of Councils (ROCs) to deliver services under a “hub and spoke” model.

The management of contracts, systems, business process control, and the knowledge base that supports the service would be overseen in a centralised location. However, regional staff which spend a portion of their time at the centralised location for training and developing expertise, and would return to their regional areas to process activity within their ROC. The retention of ownership and presence within the regions is pivotal to the intentions of this initiative.

WALGA, through its business development activity, has supported the research and development of a commercial rates and property service pilot. At this stage, it is proposed that private sector involvement be incorporated into the pilot, which places a commercial imperative behind the service and provides the start-up investment necessary for ensuring that the initiative is fully resourced. WALGA has proposed an 18 month research and pilot phase, with no commitment to be provided beyond the scope of the pilot prior to evaluating the effectiveness of private sector involvement.

3.2 *Identifying Efficiency*

The level of expertise brought by dedicated Rates Officers with technical knowledge and a full commitment towards the functions associated with ratings will be of benefit to organisations that incorporate rating services as a component of a broader administration role. The management of enquiries can be consolidated through a shared sector knowledge base, and quality improvements to the rates process can minimise rework through upfront activity to issue timely and accurate assessments.

Contracts for related services need to be purchased once under a whole of sector structure. Examples include address verification software, mail house and printing services, payment gateways and website design, call management and automated collection services. The quantifiable cost savings associated with volume aggregated procurement for Local Government services are significant.

Currently, no Local Governments are utilising technology for electronic bill presentment, and this development is beyond the commercial viability of a small Local Government. However, collectively the opportunity to remove the physical printing and postage of an account and replace this with an email invoice will be a realisable saving, and common to a range of billing agencies into the near future.

Central to the ability of the service to function will be a technology platform that is consistent and secure for all service users. The system will need to have remote access functionality, and directly transfer data for ratings and property in real time. Any duplication of systems information removes the administrative efficiency and poses a risk of inaccuracy.

Similar to initiatives in other States, the systems that underscore this service development will be integral to its success. There is a broader application through other SSS related service development pertaining to accounts and office administration that require a common platform, and potentially managed IT services for network administration. Once established, the rates service may be able to diversify its activities and become a billing agency for other Local Government fees and charges such as licenses and service fees that are not built into the ratings cycle. LGANT in the Northern Territory have established a central business unit for technology into the new Local Government organisations that will operate from 1 July 2008. The LGAQ in Queensland have also established shared services facilities, however these have yet to be operationalised on a full scale.

Efficiencies have not been fully costed at the proposal phase, however some information has been prepared to project the current cost of the rates function and to identify the potential viability of a pilot program.

4.0 Research: Cost of Rates Process

When assessing the viability of the rates service, it is important that the facility is commercially costed so that the true cost of the function is represented back to the sector. The assumption, when applied, is that the full cost of ratings (inclusive of overheads) will be more cost effective through a centralised facility. The cost of recruiting and training qualified staff, and the ability to avoid duplication of functions, will sit alongside non-quantifiable benefits such as the building of a central knowledge base for enquiry management.

An extrapolation of rates function cost information to a sector level would indicate that currently the overall cost for Local Government to manage the collection of ratings at an activity cost level is \$32 million, or 2% of its total operating expense budget of \$1.8 billion per annum.

4.1 Efficiency Assessment: Human Resources

When discussing the recruitment and retention of Rates Officers for Local Government, it is common for Local Governments to note that the skilled and experienced resource base is minimal, and that workloads on existing staff are substantial. Anecdotal feedback from Rates Officers supports that the complexity of the rates process as a function is consistently underestimated and undervalued within the sector, and that the amount of enquiries received is always difficult to manage during the peak rates period.

This observation is further confirmed by earlier research undertaken by the Rates Officers Network. Surveys were run in 2003 and 2005 across sizeable Councils to determine the number of assessments per Council and the numbers of rates officers. The range across Councils in 2003 was 4,953 assessments per officer through to 11,534 assessments per officer, with an aggregate of 7,700 assessments per officer. In 2005 the range was more pronounced (2,500 to 12,940 assessments per officer). The 2005 sample spanned 24 organisations with 95 rates officers across the group of 660,000 assessments.

The aggregate figure for measuring workload for rates teams is an allocation of 7,000 assessments per rates officer.

The research undertaken by the Rates Officers Network was motivated by the requirement to highlight the resource shortage that the sector has encountered over the past few years. The group has advocated that the level of technical and specialist knowledge required is high, that the time involved in processing the rates function is significantly underestimated, and that additional resources are needed to balance out workloads.

Conclusions drawn from further analysis of rates resource structures demonstrates:

- A higher resource ratio exists for Rates Officers to number of assessments for Councils in regional areas than it does in metropolitan areas.
- The level of “efficiency” varies within the metropolitan area due to the size of the ratings team, the number of assessments, and the complexity of assessments.
- The number of rates officer positions currently employed within Western Australia is estimated to be between 400 and 450 FTE’s.

Traditionally smaller Local Governments have had a small number of rateable properties and have been able to case manage their workloads. At a sector level, there are 88 organisations with less than 2,000 rateable properties each. The combined number of assessments across this group of Councils is 60,000, which is equivalent to the Cities of Joondalup or Stirling, which have teams of approximately 7 to 9 staff with additional resources over the peak rates season.

Not all of the 88 Councils have dedicated rates officers, as the function is integrated into the administration of finance. However should activity be centralised across this group of 88 Councils, the consolidation of resources would be very significant, estimated as a reduction of approximately 60 FTE resources into a team of approximately 8 specialist staff.

4.2 Efficiency Assessment: Operating Cost

Efforts have not been made by the Rates Officers Network to activity cost all components of the rates cycle. Material to “process map” the rates process has possibly been developed by some organisations in the form of a procedure manual, however it has not been developed in a broad context to encompass property and associated functions.

Aggregated purchase costs will drive down the overall cost per assessment through centralisation. Ultimately the collective efficiency of a centralised rates service will be measured through single cost allocations for overheads including systems, contract management, and call management activity. Prior to identifying the extent of centralised savings, it is necessary to measure the cost of the ratings function in true terms. Broad estimations have been obtained through research and discussion with rates and finance officers, and by collecting budget information from Local Governments.

Cost modeling for an external facility should recognise the costs of liaising, communicating and referring certain categories of enquiries both to and from Council. Whilst minimised through real time database updates, such communications will exist and should be taken into account when attempting to measure efficiency. Although the administration time for a Council to directly respond to rates related activity at the front counter can be heavily reduced, it cannot be fully eliminated.

Direct ratings activity that involves channeling enquiry traffic towards an outsourced facility will be a cost that is not currently recognised through Corporate overheads. The Council, executive and administration officers will need to allocate time towards rates management outside of the scope of an outsourced service to account for Governance, for example the setting and communication of rates valuations.

Whilst difficult to define, a distinction between rates and transactions that relate to property valuation, subdivision, property changing hands, and other property related matters would be required. Property activity leads to adjustments that impact current and subsequent ratings processes which add to the cost of a program.

Some of costs of the ratings process are recoverable through the allocation of fees and charges, administration fees for the ESL Levy, recoup of debt collection fees, and interest allocations on early collection.

A review of several Local Government budget indicated that a medium sized Council (10,000 to 12,000 assessments) would expend approximately \$450,000 per annum on overheads dedicated to the rates team at an activity cost level.

Indicators also suggest that it would cost approximately \$90,000 for a small Local Government with less than 500 assessments to oversee the ratings cycle when fully extrapolated. A Local Government with 1,000 assessments would spend approximately \$105,000 on the ratings function.

To test this very broad estimation, the total annual collection of rates across the sector is estimated at \$900 million, and the total cost of \$32 million represents 3.5% collection cost for the total value of the entire ratings base. Both figures would be broadly indicative of the resource requirements currently applied to the ratings function. Therefore, if a centralised service cost less than 2% of the value of an organisations annual expenditure as an outsourced managed service, it would be expected to represent a value proposition to the organisation.

CCI Economics, through a pre-feasibility study into Shared Services, estimated that approximately \$12.9 million in potential savings could be available to the sector in moving towards shared provision of the rating function. This represents a reduction of approximately 40 per cent of the expenses associated with collecting rates revenue.

There are different methods for modeling costs, and for the purposes of delivering a managed service, the financial indicators for identifying efficiencies would be measured in four distinct areas:

- Efficiency through Human resource costs
- Efficiency through the removal of duplication, leading to a reduction in the cost of issuance and collection per notice
- Efficiency through the aggregation of technology costs including licensing and development
- Efficiency through improved communication with State Agencies to manage the flow of property information.

The efficiency of the service, to be developed over time, is contingent on the habitual behavior of ratepayers.

Currently about 70% of ratepayers respond to their notice with a single annual payment in full. About 20% pay in the form of quarterly instalments. The remaining 10% of

notices default and require recovery action. The reduction and elimination of defaulting payers improves the effectiveness of a managed service.

4.3 Structural considerations

A WALGA venture to provide a managed rates and property service would not be mandated. Due to the complexity involved and the critical need to run a professional, accurate and efficient program that optimises the collection of rates, it has been proposed that a pilot program be run in the rating periods of 2008 and 2009 to test the process of ratings using the outsourced model for regional service delivery.

It is not intended that a managed facility would commence as a whole of sector facility, but that the venture could progress to this level if successful. For the short to medium term, it is envisaged that metropolitan Councils and large Councils would retain an internal ratings function due to the volume of activity and integrated business processes which accompany it. However the regional and small to medium sized Local Government market would have a compelling commercial incentive to outsource their rates function into the future if an efficient and effective service was available to them. It could be projected that more than half of regional Local Governments would opt to utilise the service by the time it is into its third year of activity on the basis of cost effectiveness alone. As the technology and systems of the business are refined to become even more efficient and cost effective, the service would be able to compete in the market as a viable alternative for all Local Government organisations irrespective of size. The motivation of a large Council to use an external service would be contingent on their confidence in the reliance and technological independence of the facility, a cost benefit analysis of outsourcing, and other factors such as a frustration in recruiting and retaining suitably qualified and experienced staff.

A number of issues and complexities surrounding both a trial service and a full entity development would need to be addressed at an operational level. Some of these are as follows:

- The business would not have discretion to adjust or waive ratings and therefore a degree of referral back to the Local Government for relief and hardship determination, calculation errors, exemptions and variances in calculation would be required.
- Local Governments charge differential ratings, specified area rates, and various fees and charges through the rates process. The ability of this information to be transitioned directly between systems is critical to the success of a centralised facility.
- The accrual of interest on payments collected is revenue that would need to be remitted to Local Government or retained within the service, according to the cost model applied. This includes interest accrued on rates installment payments.
- Local Government charges out interest (e.g. 11% for current year) on late payments. This would either be revenue to the service, or alternatively returned to the Local Government according to the cost model applied to the terms of service.
- The collection and remittance of the FESA Levy for Emergency Services is a function of the Local Government. Local Governments receive an administration

fee to manage this function. Whilst the remittance of the FESA levy direct to Local Government would remain, recognition of the cost of collection of the FESA levy would need to be modeled into the service cost of an external rates service.

- Security protocols for dialing into systems to update profiles (potentially including property related data), and protection and network security would need to be developed.
- The levying of Underground Power charges as an instalment (inclusive of interest) is delivered through ratings. This is a complex and highly time consuming area to manage, and would need to be within scope where applicable. It is unlikely that any of the regional Local Governments within the proposed trial would have underground power charges. However terms of service for the levying of Underground Power and any other Specified Area Rates would need to be agreed with any Councils utilising the service for both process and cost.
- Commonly Local Government charges administration fees per instalment payment and an upfront administration fee for items such as special instalment arrangements. The ability of a centralised service to levy and collect these charges, including the legislative base would need to be determined. Local Government sets fees and charges through the adoption of its annual budget.

4.4 Cultural considerations

To assess the potential benefits of state wide sharing of the rating function, CCI Economics conducted a survey of local governments examining their resources expended in the ratings function. The survey included attitudinal questions. Although only six responses were received to the survey, the commentary relating to this exercise from CCI is as follows:

While there are substantial savings available to the local government sector, of over 40 per cent of rating expenses, considerable work needs to be done in ensuring that the shared service arrangement matches local government operational activities. Many respondents stated they would be reluctant to consider a shared service arrangement with the rating function because of its importance for many of their operational activities. Respondents stated that:

“65-70 per cent of the rating effort is applied to managing the property database according to zoning, land use, DLI titles information and land transfer. The property database is relied upon for the rating function and other Council activities such as planning, building, health and property records.”

“(Respondent) experimented with the outsourcing of rate notice printing and distribution finding that the absence of an in-house quality control check of notices before distribution created sufficient negative customer service reaction as to outweigh the perceived benefits of outsourcing.”

“Some ratepayers expect face-to-face contact with a Council employee when enquiring about rates.”

“Collection of rates is a personal business in small regional centres.”

To adequately address these significant concerns would require a much higher level of engagement of the sector in a feasibility study. A higher level of engagement is also necessary to appropriately interrogate the link between the rating expense and the magnitude of the rating task. This is particularly important considering many local governments do not have sufficiently sophisticated financial reporting systems to enable them to apportion administrative and overhead costs appropriately. This came out in the survey when respondents stated their annual rating expenses at a level lower than their wages for its rating officers.

4.5 Service Pilot Structure

To meet the evolving structure of the proposed service it is proposed to run a pilot initiative (establishment in 2008 and operational in 2009) with two regional groups of Local Governments.

Through the pilot initiative, development towards research and design, technology and project management will progress in order to identify the end model. An independent feasibility study will be recommended concurrent to the pilot development. Following the pilot and review of a rates round under shared regional operations, if deemed viable, efforts will be progressed to transition the activity into a new entity that is vested into the sector through WALGA.

A pilot will test the cost assumptions associated with the development of this concept. The adjustment of estimations to properly cost and market a service beyond the trial period would be on the basis of experience and the testing of assumptions relating to aggregation. The trial offers an opportunity to discontinue if unsuccessful or not cost effective to Councils, without excessive sunk costs due to the establishment of a full independent entity.

To date, a concept has been presented to the Midwest Regional Council and to SEAVROC (South East Avon Voluntary ROC). Subject to the willingness of these regions to develop this concept in conjunction with WALGA, both Councils are ideally placed to lead the sector into a new form of regional service delivery.

6.1 *With the participation of both Regional organisations, the total trial would involve 12 Councils with a combined total of approximately 10,000 residential assessments, and \$18 million worth of rates collections.*

To accomplish this, an operational team would be required consisting of one project officer and two support staff, one based in each Regional Area.

It is estimated that collectively the 12 Councils would annually incur \$1,160,000 worth of activity cost to oversee their rates collection independently. However the cost of a trial is only estimated to be \$300,000 per annum, excluding systems development costs. As most trial participants currently use the same existing technology platform, and this can be adapted, it will be proposed to retain this for the duration of the trial. However broader systems development and configuration would be required for full service development and scoping this activity would occur concurrent to the trial.

4.6 Summary of Cost/Benefit Analysis

Beyond the stage of a pilot, the motive for a managed service would be subject to a full feasibility study with a broad focus on the whole of sector needs. At the optimum level Local Governments issue approximately 900,000 residential assessments, and this could be managed based on initial projections cross a specialised team of approximately 85 staff. The full model of a sector level managed service would operate primarily under a call centre service structure, and involve specialist technical staff to oversee technology, contracts and process improvement, with approximately 60 dedicated technical rates service officers.

On a sector basis, an estimated administration of 85 staff and an operating budget of approximately \$20 million could potentially oversee the ratings function as a whole. This would in turn represent a sector level saving of an estimated \$12 million (37.5%) from current levels of expenditure.

5.0 Review and Evaluation Process

A full feasibility study is required into the further development of a Rates and Property Service concept.

Criteria proposed to measure the success of a pilot, and to feed into further feasibility assessment are proposed on the basis of potential performance indicators:

- Proposal is accepted and supported by pilot organisations and Councils
- Technology and service providers to pilot deliver service, support and aggregated benefits
- Participating pilot organisations overall satisfaction with trial collection process
- Participating pilot organisations satisfaction with service levels
- Participating pilot organisations satisfaction with efficiency (minimisation of ratepayer contact)
- Participating pilot organisations satisfaction with cost savings
- Proportion of revenue collected without manual intervention
- Proportion of assessments issued without adjustment or correction
- Percentage of revenue collected within six weeks of assessment notices issued
- Supplier relationship satisfaction with technology providers
- Supplier relationship satisfaction with art and print provider
- Supplier relationship satisfaction with bill payment provider
- Cost of pilot does not exceed estimations
- 85% target for collection of overdue accounts within four months of due date

6.0 Conclusions

The operational efficiencies that can be generated by a managed service are very significant, and in realistic terms could eliminate the current cost of running multiple systems and processes for small to medium sized Councils in regional locations in the short to medium term.

However, to initiate a shared service arrangement for the rating function alone is to underestimate its role within Local Government administration. By commencing with ratings and property, the integrated needs of the administrative cycle are addressed. The success of such an initiative could lead to broader integration with other SSS projects for shared service delivery into the future.

This paper has proposed the development of a centralised ratings and property facility by way of a pilot so that the assumptions and complex ratings and property processes can be tested at an operational level as a managed service. The pilot will identify many practical issues that can be addressed, costed and resolved prior to the potential establishment of an entity. The longer-term viability of a dedicated centralised ratings and property business can also be better assessed through the evaluation of a pilot process.

Consistent with WALGA's strategic intentions to enhance Local Government capacity and to source capability from the private sector to develop new and innovative products for the sector, the Association is ideally positioned to deliver a significant new business development to the sector in this area.