



# Financial Management Maturity Assessment

Lithgow City Council

Office of Local Government NSW

May 2017

**Document status**

Ref	Version	Approving director	Date
7228	Final	Dan Bonifant	May 2017

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# 1 Introduction

## 1.1 Background

Lithgow City Council has engaged Morrison Low to assist in the implementation of Council's Detailed Performance Improvement Plan (DPIP) that has been submitted to the Office of Local Government (OLG) in response to the proposed Performance Improvement Order (PIO) and Council's subsequent submission.

The proposed PIO requires Council to develop a Performance Improvement Plan that contains financial modelling and strategies which demonstrate financial sustainability to ensure that Council's forecast spending is responsible and sustainable, aligning general revenue and expenses.

Council is also required to

- review key strategic and financial documents
- develop a range of Fit for the Future solutions, including
  - a revised long term financial plan
  - financially modelled scenarios
  - demonstration of sound financial management principles.

Council's DPIP is wide ranging and far reaching, and the specific areas where Morrison Low will be assisting and supporting Council are

- the review and development of Council's Long Term Financial Plan (LTFP), incorporating a FFTF improvement plan and strategies
- an asset management review and a review of Special Schedule 7 (SS7)
- a financial management maturity assessment to understand Council's financial management maturity status and an improvement plan with specific priority actions
- support and advice to ensure the DPIP is delivered to the Government on time and to the standard required.

This report addresses the Financial Management Maturity Review.

## 1.2 Introduction

One of the reasons why the proposed Performance Improvement Order was issued by the Minister was the failure by Council to follow the principles of sound financial management (set out in Chapter 3: Section 8B of the Act) with respect to ensuring that Council's forecast spending is responsible and sustainable, aligning general revenue and expenses.

Following are the provisions of Section 8B Principles of Sound Financial Management of the Act that apply to Council are:

"Council spending should be responsible and sustainable, aligning general revenue and expenses.

- (a) Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.

- (b) Councils should have effective financial and asset management, including sound policies and processes for the following:
  - i. Performance management and reporting
  - ii. Asset maintenance and enhancement
  - iii. Funding decisions
  - iv. Risk management practices
- (c) Councils should have regard to achieving intergenerational equity, including ensuring the following:
  - i. Policy decisions are made after considering their financial effects on future generations
  - ii. The current generation funds the cost of its services"

The Morrison Low Financial Management Maturity Model (FMMM) and assessment tool is based on, and builds upon, the UK National Audit Office's financial management maturity model and has been further developed and adapted to meet the needs of local government in New South Wales. It draws on our experience in local government in New Zealand and Australia. It has been created to rate a council's current financial management maturity with an ability to set future targets for improvement. The maturity model provides organisations with a roadmap to improved compliance with the principles of sound financial management as described in the Local Government Act. The roadmap is an opportunity to establish achievable incremental governance and process improvements across a council.

Sound financial management enables decision making for the optimal allocation of resources. Sustainable financial planning considers the potential needs and aspirations of future generations. Sound and sustainable financial management is achieved through an integrated strategic planning and governance framework.

The assessment is undertaken onsite with a review of Council's financial management practices and relevant financial management and governance documents. The work has been aligned with our standard methodology with no weightings applied to any of the assessment criteria.

## **1.3 Methodology, Framework and Processes**

### **1.3.1 Methodology and framework**

Our methodology is based on achieving consistent and repeatable results which can be applied across a range of councils, while recognising the differences between councils in terms of size and capacity. Our standardised assessment methodology and practices have been used as well as a standard reporting format, with findings relating to each category which summarises the findings on which the assessment was made.

The framework describes the key elements of sound and effective financial management within five financial management categories. It sets out a clear pathway to progressively improve the sophistication of financial management practices. While the framework describes five distinct levels of achievement, councils are able to define the most suitable level of improvement goals.

The Financial Management Maturity Framework also provides a tool that a council can use to

- determine its financial management requirements according to the nature, complexity and associated risks of its operations
- assess its existing financial management capabilities against the criteria that have been determined

- identify any gaps between those criteria and its existing financial management capabilities and any stretch targets the council wishes to set. Having identified these gaps, a council can then prioritise the actions and work toward developing the appropriate level of financial management capability and maturity
- review alignment to the Integrated Planning and Reporting, Fit for the Future benchmark processes and legislative financial management principles.

Our financial management methodology aims to strengthen financial management through understanding current circumstances. The model has various stages that allow a council to evolve as it defines, implements, measures, monitors and improves its financial management processes. These steps have been categorised into five capability levels with the overall assessment rating result. These levels represent a continuum along which the council can continually assess and enhance its financial management maturity regime.

The five capability levels and rating scores of financial management maturity are:



The framework and model has five categories, each with a number of components/activities, and each of these are assessed against best practice elements and assessment criteria. Therefore, the combination of activities, elements and assessment criteria are the main building blocks that determine the financial management capability of a council.

### 1.3.2 Financial management systems and processes

Staff holding key roles within the Council that have responsibilities for financial management within the organisation (strategic, operational and financial) were interviewed over two days.

The independent assessment evaluates each council against the following categories and components / activities. Assessment criteria are used to score/rate a range of best practice elements for each component/activity.

### Governance and Leadership

- Financial Governance
- Systems of Control
- Financial Capabilities
- Training and Development

### Planning

- Integration of Financial Reporting and Monitoring
- Robust Streamlined Systems
- Business Support
- Staff Understanding and Commitment

### Decision Making

- Expenditure and Cost Drivers
- Income Streams and Fee Setting
- Major Project Evaluation
- Project Implementation and Monitoring

### Monitoring and Forecasting

- Financial Management and Forecasting information
- Indicators Financial and Non-Financial
- Financial and Operational Management Systems
- Improvements to Systems, Processes and Reports

### Reporting

- User Design of Reports
- Timely reports
- Clarity of Reports
- Use and Feedback on Reports

As a minimum assessment outcome, councils should be at C: a core level of competence representing a capability level where financial management practices are in place that are adequate in a stable environment. This will enable the council to develop but will not be sufficient in challenging circumstances. The council will be able to further improve financial management practises as a result of needing to change as opposed to having a proactive improvement program to drive change.

Overall, the council will be in a position to manage its operation well in a stable and non-changing external environment. Councils will be challenged by external influences and may not be in a position to maximise their response. Generally, these councils will be able to achieve some improvements to their operating result through budget reductions and business improvement programs. On occasions they will not deliver projects and programs on time and budget as a result of not anticipating and/or proactively managing risks and changing circumstances.

An assessment against each category based on an A – F scoring is provided as well as an overall score again based on A – F.

The table below sets out the ranking system.

Assessment	Description	Standard
A - to A	Near to <i>At best practice</i>	≥ 8.0
B- to B	<i>Above Average</i> to <i>Advanced</i> level of competence	6.01 – 8.00
C- to C	<i>Sub-core</i> to <i>Core</i> level of competence	4.01 – 6.00
D- to D	<i>Some</i> to <i>Basic</i> level of competence	2.00 – 4.00
E- to E	<i>Awareness</i> to <i>Limited</i> competence	≤ 2.00
F	Nothing	0

### 1.3.3 Financial management benefits

The Financial Management Maturity Model establishes an assessment of where we are and where we would like to be, and creates an improvement journey. The incremental improvements to governance and business processes can translate into the following significant key benefits:

- Demonstrated responsible and sustainable financial management
- Integration of traditionally separate strategic and operational organisational functions
- Clear and achievable process improvement goals and priorities, and guidance for quality governance improvements through measurable and relevant benchmarking
- Improves internal cooperation, team work and communication
- Provides a more robust, reliable and consistent financial management framework and process
- It can deliver productivity improvements as well as cost reductions
- Creates an impetus for delivering improved financial management development skills for the finance team and budget owners across the council
- It engenders greater commitment and thus a more timely response to key processes
- Better services and enhanced customer knowledge and relations



## 2 Summary of Audit Results

Category	Assessment
Governance and Leadership	D-
Planning	D-
Decision Making	D
Monitoring and Forecasting	D
Reporting	D
<b>Overall Asset Management Assessment</b>	
	<b>D</b>

The overall score of **D** would indicate that the Council is at a **Basic** level of competence in financial management. Based on our experience in financial management practices, systems and processes, this result means Lithgow City Council has basic financial management processes in place for day to day business operations only.

The Council has in place basic financial management systems, practices and process that enable it to operate on a day to day basis only. The current standard of financial management capability will not allow Council to improve its operations. There is a level of awareness that Council and staff need to make significant improvements, however the current environment does not have the capacity or support to drive these changes and, as a result, improvements are rarely implemented.

The outcome is that Council and staff know there is an essential need to improve current financial management systems, practices and processes, which was raised through the interview process and the review of documentation. Council's current financial planning and monitoring process does not manage budget overruns in a timely manner resulting in significant year end variations between budget and actual. Despite having a project management framework in place, project delivery is adversely impacted due to change in priority driven by community expectations. Adhoc amendments to budgets tend to be Council's response to changing funding capacity/requirements, which can have an impact on service delivery in terms of quantity and quality.

To improve the financial management practices and processes of Council more work is required in all areas, with a priority on financial governance and leadership and financial planning.

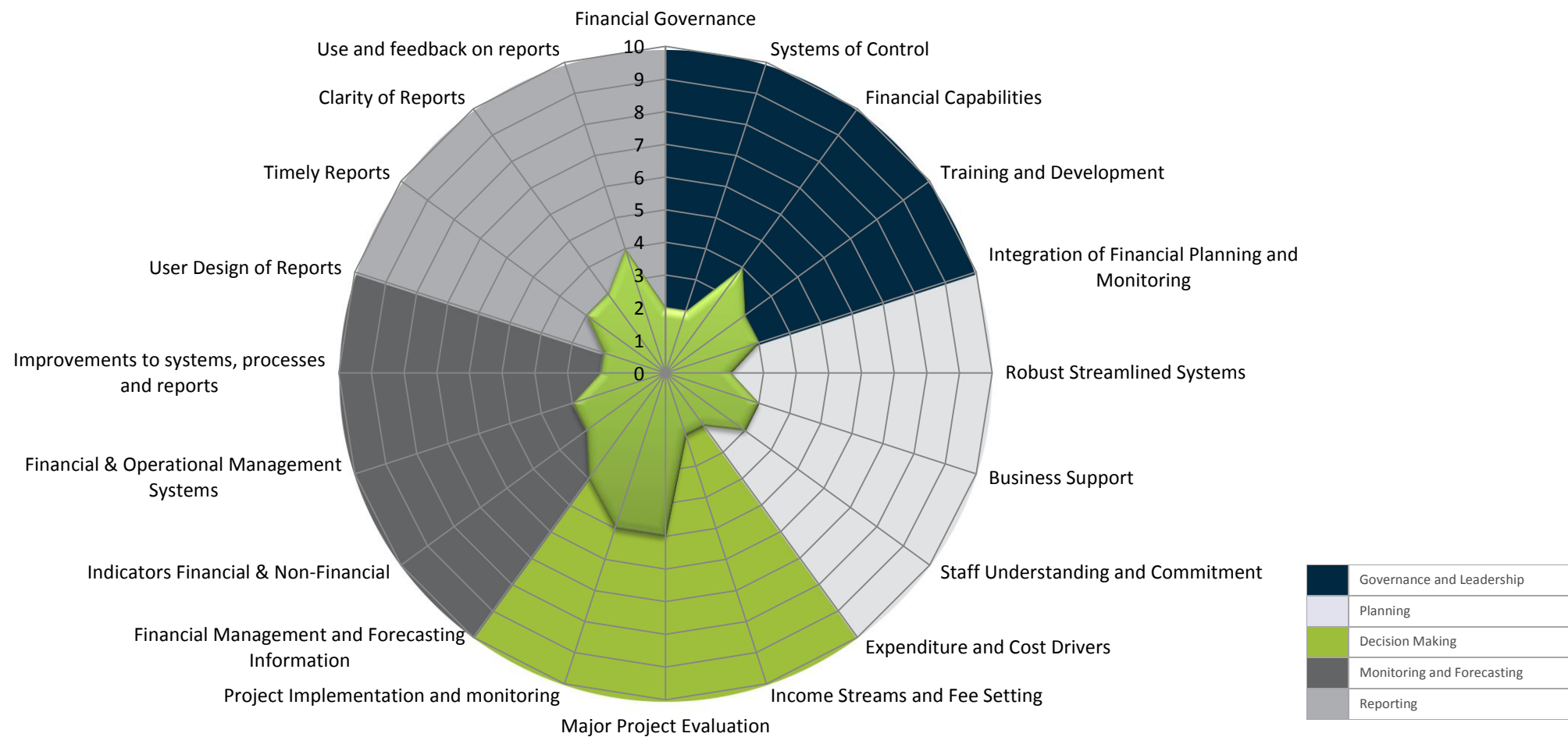
### 3 Financial Management Assessment

Following is the outcome of the financial management maturity assessment depicted in bar and radar charts. This is then followed by the expectations and findings for each component/activity.

Table 3-1 Financial Maturity Assessment Chart - Lithgow City Council

Lithgow City Council	Current Score	Desired score 3yrs	Priority (1-3)	1	2	3	4	5	6	7	8	9	10
<b>Governance and Leadership</b>	<b>2.8</b>	<b>6.0</b>											
Financial Governance	2	6											
Systems of Control	2	6											
Financial Capabilities	4	6											
Training and Development	3	6											
<b>Planning</b>	<b>2.8</b>	<b>6.0</b>											
Integration of Financial Planning and Monitoring	3	6											
Robust Streamlined Systems	2	6											
Business Support	3	6											
Staff Understanding and Commitment	3	6											
<b>Decision Making</b>	<b>3.5</b>	<b>6.0</b>											
Expenditure and Cost Drivers	2	6											
Income Streams and Fee Setting	2	6											
Major Project Evaluation	5	6											
Project Implementation and Monitoring	5	6											
<b>Monitoring and Forecasting</b>	<b>3.0</b>	<b>6.0</b>											
Financial Management and Forecasting Information	4	6											
Indicators Financial and Non-Financial	3	6											
Financial and Operational Management Systems	3	6											
Improvements to Systems, Processes and Reports	2	6											
<b>Reporting</b>	<b>3.0</b>	<b>6.0</b>											
User Design of Reports	2	6											
Timely Reports	3	6											
Clarity of Reports	3	6											
Use and Feedback on Reports	4	6											
<b>Overall Performance</b>	<b>3.0</b>	<b>6.0</b>											
Governance and Leadership	2.8	6.0											
Planning	2.8	6.0											
Decision Making	3.5	6.0											
Monitoring and Forecasting	3.0	6.0											
Reporting	3.0	6.0											

Figure 3-1 Financial Maturity Assessment Radar Chart - Lithgow City Council



## 3.1 Governance and Leadership

### Overall category score

D-

#### 3.1.1 Financial governance

We would expect Council to be able to demonstrate that it has regard to achieving intergenerational equity by fully considering the financial effects of policy decisions on future generations. Council examines and reviews the link between community strategic priority, investment, costs and service delivery to ensure the current generation pay for its services. Council and executive team cooperate to assess key infrastructure investment, improvements and long term forecasting, and councillors are highly engaged in the process.

Council fosters a culture of professional questioning and peer review, and advice from non-executives is highly valued by executives. The Council and executive team receive financial information on a regular and timely basis, which ensures that they have a high level of awareness on current financial matters, and are able to actively examine the link between service delivery, costs and investment.

Council clearly recognises the importance of financial information throughout the organisation and staff are provided opportunities and incentives to drive continuous improvement.

#### Findings

There appears to be limited engagement between the executive team and Council staff on strategic and complex operational issues and opportunities through the LTFP and budget process. Councillors have a conflict between meeting the community needs and maintaining good financial management practices. This also impacts on determining and delivery of community strategic priorities over the longer term. Council currently has an LTFP and budget that do not meet industry standards and often change due to community demands. Some parts of the organisation have regard to intergenerational equity, however the practice isn't common and staff have limited knowledge or understanding of it.

#### 3.1.2 Systems of control

We would expect Council to demonstrate that it has a highly effective system of internal control, which is both well understood and widely adhered to. Where non-compliance with policies does occur it is extremely rare and is usually on an exception basis in relation to specific issues which are then acted upon.

Systems, procedures and processes are routinely improved and updated, with active removal of those which are ineffective or redundant. Challenge to the processes is welcomed to introduce improvements.

The overall risk register for the Council and the departmental/business risk registers should contain an assessment of the residual risk. Key controls should be implemented and any additional controls identified that may be necessary to manage the risk. Risks should be actively assessed and the risk register reviewed and updated.

## Findings

There are core level internal controls in place for financial transactions. Internal controls around asset management, budget and LTFP preparation, review, monitoring and reporting are very basic. They are not always adhered to, and the shortfalls are somewhat known. Policies are in place and being changed. There is a nominal risk register in place. There is a high level of uncertainty as to whether the Audit and Risk Committee is actively functioning. Corrective actions aren't being managed and actioned.

### 3.1.3 Financial capabilities

We would expect that councillors, the executive team and managers should demonstrate a strong financial awareness and knowledge requisite to their role. The executive team and managers should include staff with relevant local government financial skills and expertise. Councillors should have a strong a level of comprehension of the strategic financial operations of Council.

The Council, executive team and staff at all levels maintain and demonstrate the financial management expertise they need for their roles. The responsible accounting officer is a qualified accountant with industry accreditation and is in attendance at the executive team and Audit and Risk Committee meetings. A financially qualified independent member chairs the Audit and Risk and Improvement Committee.

The roles and responsibilities of the finance team should be reviewed on a regular basis to ensure that there are no knowledge or skill gaps within the team. All members of the finance team should have the appropriate qualifications for their role, and should undertake relevant training. Financial management objectives should form a part of all operational managers' key performance measures.

## Findings

Overall there is limited financial management capability across the organisation and there is not a consistent approach to the financial management process in place. There is limited training available. Council's Finance Manager is a qualified accountant and performs the role of the responsible accounting officer (RAO). The ROA is not attending the executive meeting or the Audit and Risk Committee. There is limited induction practice for new starters.

### 3.1.4 Training and development

Council must have a comprehensive corporate training and continuous professional development program in place, with councillors routinely afforded the opportunity, and are actively encouraged, to attend relevant industry forums and financial management development.

Council should actively encourage and promote professional development of all of its staff in order to ensure that it continues to achieve best practice business operations. Staff should be able to demonstrate a good level of financial management expertise when being considered for senior roles within Council, and training is available and actively encouraged for operational managers who wish to develop their financial expertise.

## Findings

There is a training and development policy. Councillors are offered the opportunity to attend relevant industry forums and take part in financial management development; however these opportunities are not often taken up. There is no training program in place, however some financial management training is available for specific roles but there is no specific financial management program to provide basic financial knowledge to all staff who have financial involvement. Historically Council has limited staff attending conferences, financial professional and or user groups. As an organisation, Council has some appetite for learning with some individual's further upskilling by taking various external courses and advance studies.

## 3.2 Planning

### Overall category score

D-

### 3.2.1 Integration of financial planning and monitoring

We would expect that the Integrated Planning and Reporting (IP&R) framework be fully implemented and aligned with a current strategic asset management and workforce plans, with consideration of a long term (20-30 year) infrastructure forecasting model. The Long Term Financial Plan (LTFP) is current and is fully integrated within the IP&R framework including a comprehensive prioritised capital works program, asset maintenance strategy and workforce resourcing.

Council and senior management fully understand the strategic direction of the organisation in the short, medium and longer term. Financial planning is supported with timely forecasts and budget reports that are updated regularly and enable early, proactive, remedial action to take place if changes emerge.

Planning processes include active engagement with councillors, community, staff and external stakeholders in order to obtain feedback and coordination where required.

## Findings

Council has a community strategic plan that sets out strategic goals, a delivery program and operational plan. There is a lack of alignment that demonstrates how Council will achieve the outlined objectives. Currently there is no effective LTFP in place with the annual budget independent of the LTFP. There is a reactive approach to financial planning. Information used for creation of plans seems to lack the robustness to engender confidence in the forecast outcomes. The uptake and use of the Finance One system is spasmodic with a level of resistance.

### 3.2.2 Robust streamlined systems

The LTFP should include and perform sensitivity and scenario planning for all key areas, incorporating scanning the external environment that may impact on both the short and long-term plans of the Council.

The LTFP planning process should be led by operational managers with the finance team providing necessary and effective support. Financial planning and monitoring objectives are built into operational managers' key performance measures and job descriptions.

Financial plans are clearly communicated to staff (who are consulted about them as well). All staff routinely scrutinise budgets and suggest areas where efficiency improvements and savings can be achieved. Budget setting is viewed as a collaborative process between the finance team and operational managers.

The outcomes of the financial planning process, and the process itself, are regularly reviewed by the executive team to identify areas for improvement. The executive team seek input from staff and external stakeholders where appropriate, and regularly delete redundant planning processes.

### Findings

Council's LTFP and budget development and management appears to of been centralised around the General Manager and executive with staff historically excluded from this process with the finance section following instructions. Business staff tend to rely on the finance section for review and change to budget estimates as some feel restricted in raising issues. Annual budget estimates are altered mainly due to external pressures . There was a consistent theme that engagement in, and communication of, the financial plans across Council needs to significantly improve.

### 3.2.3 Business support

We would expect that the LTFP has ten year forecasts so that longer term environmental factors and risks are incorporated, with business unit plans having two - three year forecasts. The LTFP includes modelling of different scenarios including identification of a range of different income and expenditure profiles.

Regular financial/management reports are presented and considered by the executive to ensure budgets, capital works programs, business unit plans and cashflows are in line with expectations.

Financial planning produces timely information so budgets and forecasts are able to be regularly and proactively updated.

### Findings

Development of a fully integrated LTFP is currently in progress, including scenario modelling. There was no evidence of business unit plans being in place, however capital works programs and planning were evident. Reports to the executive are irregular and require better information for key business decision making. Cash flows are being done on weekly basis. Provision of reliable and timely information for budget and forecasts reviews is inconsistent.

### 3.2.4 Staff understanding and commitment

We would expect senior staff to proactively drive and promote the involvement of staff and the benefits of the integrated planning and reporting framework and the associated financial management processes with a particular focus on the financial planning and budget elements.

Staff have an understanding of the key elements of sound financial management practices around the financial planning process and are committed by completing and delivering in a timely manner.

## Findings

There were inconsistent views from staff regarding the level of involvement of staff in the development and review of the LTFP and annual budget. It is apparent that the practice has been that the executives develop the plans with minimum input and scrutiny from staff at lower levels. However very recently level three staff have become somewhat involved in the financial planning process. There are also views that detailed budgets have been prepared and adjusted with limited feedback. There was a consistent view from staff of the limited capability, understanding and knowledge of financial management. Staff are committed to improving however there is a lack of focus, clarity and direction.

## 3.3 Decision Making

### Overall category score

D

### 3.3.1 Expenditure and costing methodology

Managers and staff have a sound understanding of different costing methods including the impact on long term sustainable outcomes, including full life cycle costing. They are aware of the full implications of changing costs and the reasons.

Council constantly reviews forecast analysis assumptions to understand which costs can be influenced and controlled to make responsible decisions on major projects and services.

The organisation often seeks benchmarks within and outside of their industry group in order to drive continuous improvement.

## Findings

Costing methodology/approach is limited and inconsistent across the organisation with very limited reviewing. Methodology changes depends on the department undertaking the estimate. Often estimates are made with little understanding of financial implications. There was no evidence of life cycling costing considerations or approach. Minimal benchmarking is performed within the industry.

### 3.3.2 Income Streams and fee setting

We would expect a comprehensive and current revenue policy reflecting the considerations, assumptions and scenarios for inclusion in the LTFP. The policy should be forward looking for long term forecasting purposes. There should be pricing methodologies used in order that managers understand the margin on the costs being recovered and the contribution to overhead costs. Staff routinely evaluate and review fees and charges to ensure cost recovery is either achieved or to understand why costs aren't recovered.

Managers are proactive in exploring and optimising current and new income streams and, where permissible, are in a position to adjust fees resulting from the change in demand of services.



## Findings

Council has a revenue policy incorporated into its Delivery Program and Operational Plan document. It doesn't appear to be aligned and integrated with the Resourcing Strategy and LTFP. The standard practice is to adjust fees and charges by a fixed percentage without the application of any price setting methodology evaluation or benchmarking review. There is minimal strategic consideration in pursuit of income optimisation and new income streams. There is no review process in place that evaluates fees and charges to ensure recovery is achieved and there is minimal understanding when cost aren't recovered.

### 3.3.3 Major project evaluation

We would expect that the Council has a responsible approach in investing in sustainable infrastructure for the benefit of the local community by considering intergenerational equity and the longer term impacts of the projects on the financial capacity and performance of Council.

The Council uses a business case approach for responsible decision making on projects and a benefits model that demonstrates the financial, economic and social benefits to the broader community.

Management and staff use business cases, incorporating life cycle costing, to evaluate and determine major capital works and the availability of funding. There is a balanced funding strategy between renewal and new asset expenditure.

## Findings

There is an internal budget bid process for projects and capital works with some major projects coming from Council. Council's project management framework incorporates a business case approach for evaluation and decision making. However there is inconsistent knowledge, use and awareness of the project management framework. There was no evidence of life cycle costing and consideration in the limited project evaluation process and is due the lack of detailed asset management plans. Council is currently developing a funding strategy between renewal and new asset expenditure.

### 3.3.4 Project implementation and monitoring

Council should have in place an organisational wide project management methodology, framework, procedures and templates to ensure a consistent approach to project management outcomes with financial and risk management incorporated.

They also operate a program management approach to ensure that all program and projects are coordinated and aligned to the Council's IP&R. Progress is monitored and significant variances cause both programs and projects to be reappraised.

Project and program financial management practices are aligned with those of Council and they use post project review and monitoring.

## Findings

Council's project management framework and standard work procedure (SWP) are applied and used differently across the organisation. There is lack of consistency that often results in a different approach and outcome. As a result, some projects not meeting their objectives, outcomes, target timeline and budgets. There is a level of integration between Pulse, SWP, Operational Plan, LTFP and reporting. However there is a requirement to review the alignment and effectiveness of the integration. Overall, the project management system needs to be reviewed to ensure consistency, along with sound financial and risk management approaches, and rolled out across the Council.

## 3.4 Monitoring and Forecasting

### Overall category score

D

### 3.4.1 Financial management and forecasting information

We would expect that the draft LTFP and budget are considered and endorsed by Council three months before the start of the financial year. Changes from the IP&R community engagement process should be incorporated to reflect Council's final decision.

All managers should have access to live financial and business related information through tailored system access providing reliable data for key business decision making.

Financial management and forecasting reports are made available to all managers within seven working days after the period end and including estimated accruals.

Council considers the quarterly report and budget review and forecasts within 25 days of the period end.

## Findings

The LTFP and budget are approach within regulatory timeframes. There is very limited forecasting and monitoring of budgets and the LTFP. Forecasting is particularly limited as there only a base case scenario in the current LTFP. There is little consideration of longer term financial implications of major expenditure decisions, particularly whole of life costing. The Finance One financial system allows managers access however most financial reports and information are provided on request by the finance area. Council consideration of quarterly reports could be more timely.

### 3.4.2 Indicators financial and non-financial

There should be a comprehensive range of performance indicators with strategic outcomes and measures for the Community Strategic Plan (CSP), performance measures and targets for Operational Plan and financial and non-financial indicators for the Resourcing Strategy. In addition, each key function of the business should have performance related measures. All the IP&R measures and indicators should be reported jointly in the quarterly report to Council. There is a focus on measures which demonstrate value for money and customer satisfaction.

Council uses KPIs and other measures to benchmark themselves against others in a bid to continually improve performance.

## Findings

The quarterly report to Council is voluminous making it challenging for all readers to find and interpret the information sought. There is a level of uncertainty as to the number, type and quality of financial and non-financial measures, targets and indicators. There is a limited range of financial indicators used in a bid to improve financial performance. There was no evidence of business unit performance measures being reported. There is a strong focus on customer satisfaction; however it does not necessarily demonstrate value for money. There is limited use of benchmarking.

### 3.4.3 Financial and operational management systems

We would expect that systems are regularly reviewed to maintain quality and performance and real time data is trusted and is held in only one place within the systems with appropriate controls in place.

Managers routinely use the financial systems to produce accurate, timely forecasts without assistance. They actively seek out new information to manage their business efficiently.

## Findings

Council uses a reliable finance system to maintain quality and performance. The finance system has been in place of over 10 years and some staff are still cannot use the system effectively due to the lack of knowledge, understanding and training in the procedures and system. As a result it is not used by managers for forecasting or performance reporting. Due to the very limited use by staff it often leads to accessing incorrect information.

### 3.4.4 Improvements to systems, processes and reports

We would expect that the improvements to systems, processes and reports form part of the Council wide business improvement strategy. Improvement strategies and actions are incorporated into Councils IP&R documentation.

Executive management are supportive of managers and staff taking ownership and responsibility for improvements to systems, processes and reports. There is organisational support and resources that enables improvements to be implemented to meet the user requirements.

## Findings

Although some Council staff and managers have suggested improvement changes to executive management, most staff do not actively participate and take a pro-active approach in identifying and actioning improvement changes. There seems to be some level of support and encouragement offered to meet the user requirements, however there was very little evidence of a culture of business improvement nor a Council wide business improvement strategy.

## 3.5 Reporting

### Overall category score

D

#### 3.5.1 User design of reports

There should be a comprehensive set of relevant and linked reports designed to meet the requirements of all internal users. These reports should allow drill down, be easy to access and use and have reliable and trusted information. The system should also allow the development of bespoke reports on an as-needed basis.

There is a regular review, including involvement of users and stakeholders, of these reports to ensure they remain current, reflecting any external and internal changes. There is a monitoring process that assesses the regularity of the use of the reports.

Council and management reports have commentary including risks and opportunities. The external reports, namely the quarterly IP&R reports, annual report and financial statements are at best practice standard providing concise information.

#### Findings

The limited reports generated from the finance system are new and difficult for most users to interpret in a meaningful way. There is little financial training to understand the financial reports. Most reports are not designed with user requirements in mind and aren't relevant to the user needs. The system contains mostly accurate and reliable data in great detail. The system is not user friendly resulting in very low usage. This is further exacerbated by the lack of training and support. There has been little work done to improve the format and detail of the reports.

#### 3.5.2 Timely reports

Reports are delivered to allow decisions to be made in a timely manner. The information is current and can be relied upon. The drill down function provides as much detail as the user requires

Council quarterly reports are produced within 25 days after period end that enable Council to exercise financial review and diligence in timely manner.

Audited external financial statements are publicly available within two months of the year end and the Annual report is produced with Council sign off within three months of the year end.

#### Findings

Council IP&R quarterly reports are produced internally to meet the compliance obligations. These reports are reviewed by the executive management as part of the process. In terms of management reporting there appears to be no set procedure on how often the reports are to be produced. There was a level of inconsistency reported by staff as to the frequency, type, quality and timing of reports that are presented to the executive.

### 3.5.3 Clarity of reports

The quarterly reports to the Council contain the key financial and performance data needed to understand the progress status of key financial and business targets together with relevant commentary. The monthly reports to senior management contain the key financial and performance data needed to understand the status of Council operations, any merging risks and opportunities.

External reports contain information that clearly depicts the status, achievements and performance of the Council. Internal and external users/stakeholders have had been afforded input/feedback.

#### Findings

There is irregular management reporting with limited access and use of electronic reports. The reports produced require enhancement in relation to more relevant financial and performance data to ensure short and medium term business decisions are accurate. Some staff were of the view that their reports were confusing and difficult to understand. Quarterly reports are verbose, making it difficult for the user to find specific information, but they generally have all the necessary information. Other external reports meet compliance requirements with some room to improve presentation of data and information.

### 3.5.4 Use and feedback on reports

Council is committed and engaged in ensuring that all reports are of a high quality and meet the needs of the users. Executive management play a leadership and support role for all users who are encouraged and afforded the opportunity to participate in and provide feedback on the usefulness, quality and relevance of the reports.

Council is open to user feedback and is responsive in considering and making changes that deliver a better outcome for the user.

#### Findings

Council has some involvement and engagement with the external stakeholders. Financial performance reports are issued quarterly to the community, however there is no evidence that suggest feedback sessions are in place for stakeholders to scrutinise and provide feedback on these reports. Council as whole is open to feedback and suggestions. There are some staff who do actively raise concerns and submit their feedback on management reports but the implementation is often a challenge to be accomplished. There is no agreed process for staff suggestions and feedback and therefore improvement changes aren't a priority.

## 4 What Lithgow City Council is Doing Well

Although Council's overall financial management systems, practices and processes are at a basic level of competency there are a number of practices that are requisite foundation elements for sound financial principles. These include

- robust financial delegations are in place
- WHS system and processes are largely embedded and working well
- very responsive to community's needs
- a project management framework is in place for managing major works
- sound capital project reporting
- proactive supervision of construction projects
- good investment in systems including Tech One, Finance One and Pulse
- Finance One system is highly reliable with information current and largely accurate
- reserve programs are in place for S94, waste and sewer funding
- attracting grants for capital works and reporting to government
- the finance area is generally proactive and appear to have good working relationships with key users.

## 5 Summary of Needs, Issues and Barriers

The primary objective and outcome for Council is to ensure that there are sound financial management principles in place with a range of financial management practices and process embedded into to day to day operations, allowing Council to respond and take advantage of an ever changing external environment. Advanced financial management practices will allow council to adapt to a range of challenges by identifying risks and opportunities that would improve overall performance.

These practices and processes do not need to be complicated or overly sophisticated.

As a minimum, Council must have in place a scenario-based LTFP that integrates asset management and workforce planning requirements with current and relevant assumptions for longer term forecasting. Supporting this is a proactive executive team who is engaged with councillors and staff to ensure strategic issues are captured, assessed, prioritised and incorporated into forecasting scenarios.

There is a need to have in place strong internal systems of financial management control and governance. This can be achieved by having a robust Audit and Risk Committee with members with the requisite skills and experience.

A key success factor to apply sound financial management principles is the financial management capabilities and capacity of the Council. Councillors and staff should have the skills, knowledge and experience to effectively undertake their role. To sustain and improve this, a training and development program should be in place to keep the skill set current and to develop the capability of individuals and Council.

In order for Council to make sound financial decisions a consistent and standardised approach to costing and pricing is required to ensure budget preparation, monitoring and forecasting is reliable. Coupled with this there should be a project evaluation approach that allows Council to determine the priority of projects for its community.

To ensure Council can evaluate the progress of the CSP outcomes and the Operational Plan services and projects it is essential that relevant and timely financial and performance information is available. A range of financial and non-financial indicators are critical along with robust management systems, practices and processes that support the financial monitoring and forecasting processes.

Council needs to be able to demonstrate its effectiveness and timeliness in the delivery of services and projects. There needs to be a comprehensive set of external and internal management reports that enable effective management of the budgets, services and projects. These reports should be regular, easy to use with current information. All reports should concisely convey information that is relevant to users and stakeholders.

## 6 Recommendations and Next Steps

Based on the onsite interviews and review of some of Council's financial management related documents and our understanding of practices and processes, we consider that the High (H) priority actions should move Council to a Core level of competence. All the following prioritised actions should be Council's Financial Management Improvement Plan. We would recommend the High (H) priority actions should be Phase 1 of Council's financial management improvement and be incorporated into Councils FFTF Improvement Plan for implementation.

Action	Priority
Implement Fit For The Future (FFTF) Improvement Plan strategies and actions	H
Develop a Resourcing Strategy and Operational Plan annual review process to ensure all relevant staff have the opportunity for input and feedback	H
Reactivate the Audit and Risk Committee	H
The responsible accounting officer attend executive and Audit and Risk committee meetings	H
Develop a Council wide financial management training and development program	H
Assist and support Councillors' attendance at LGNSW Financial Management forums	H
Improve and embed accountabilities and ownership for budget development, management and monitoring across the whole Council	H
Create an Internal Communication plan for the IP&R process	H
Review Councils process for the capture and allocation of maintenance and capital works expenditure	H
Consider additional staff resources for financial planning and asset management areas to enhance Council capacity.	H
Develop a costing methodology for budget estimating that can be used across the whole Council	H
Review the Revenue Policy annual fees and charges setting approach with the objective of optimising income through cost recovery	H
Develop a management reporting schedule that details frequency, type, format, content and timing of reports	H
Provide ongoing financial systems training to budget owners to ensure ease of usability and access to financial information	H
Develop a comprehensive suite of tailored financial reports (management and users) for internal use that are available electronically with drill down capacity	H
Provide training to staff so they can access and use of the financial system; produce, use and understand the financial reports	M
Improve water and sewer funds long term financial planning	M



Action	Priority
Provide training and support to staff for Councils Project Management framework	M
Council put in place an Enterprise Risk Management approach with guidelines for assessing and managing Council risks	M
Train staff in the use of Councils Risk Management approach	M
A financial policy and practices/procedures review program be developed	M
Incorporated Financial Management practices and information into the staff induction program	M
Improve the alignment between the CSP, Resourcing Strategy, Delivery Program and Operational Plan	M
Evaluate the use of debt to decrease backlog to enhance intergenerational equity and improve asset quality and services.	M
Develop an approach to incorporate community requests into the IP&R process that maintains equity and Council's strategic direction	M
Develop a deeper understanding of Council business operations by key staff to ensure budget development is accurate and aligned to IP&R requirements	M
Introduce whole of life costing, initially for significant projects	M
Develop and implement a funding strategy for renewal and new asset expenditure allocation	M
Establish a business improvement process that explores new income streams and different cost recovery approaches for current fees and charges	M
Undertake a review of the alignment and integration of Finance One, Pulse, project management framework and SWP	M
Streamline the Council quarterly report for ease of use and greater clarity	M
Review Councils Quarterly Report indicators and make them more accessible.	M
Review Councils' financial and non-financial measures, targets and indicators for management reporting that create a logical and hierarchical approach.	M
Develop a Council wide approach to major project evaluation using the business case approach	L
Develop capacity to create bespoke financial reports to meet specific requests	L
Create a report feedback process for external and internal users that captures comments, improvements and concerns for action/implementation	L
Develop Business Unit Plans with a 2-3 year time horizon	L