

CPA Australia Podcast

Episode 41 - Transcript

Intro: Hello and welcome to the CPA Australia podcast, your source for business, leadership, and public practise accounting information.

Phu Nguyen: So welcome everyone. Welcome to this podcast. Today's podcast is Adapt and Thrive with Smaller Government. So, I'm going to give the audience a little bit of context about what we're going to be talking about today, and introduce you to Rob Spence who is the CEO of the Municipal Association of Victoria.

In government, at all levels, whether it be federal, state, or local, I think it's fair to say that it's getting more challenging, increasingly difficult, to raise tax related revenues. Whether they be income tax, land tax, or different levies, rates, et cetera. So with that context in mind, we would naturally need to explore how to raise additional revenue, but we also need to look at the expense side of the equation, and how as finance professionals, we can actually adapt and thrive in an environment that sometimes requires us to do more with the same, and very often actually requires us to do more with less.

I'm going to hand it over to Rob Spence. Give a bit of introduction to yourself, Rob, and we'll run through some questions.

Rob Spence: Yep, so I am an accountant by qualification, so way before most of the people who will be listening even thought about accounting. Operated as an accountant and auditor for a number of years, inside the state bureaucracy, and was involved in some of the big audits in the state. Like the then State Electricity Commission, Gas and Fuel Corporation, and so on. Then, I had the opportunity to audit Bass Strait Oil Royalties which took me into the oil industry space.

Then, from there, moved into policy in the oil industry space, and then regulation in the oil industry. Then, from there, into various jobs inside the state, and then made the transition across to local government, initially into the Department of Local Government, and then to the City of Footscray, the City of Brimbank as the CEO, and then ultimately to the MAV. I've been a the MAV now for 20 years, so yeah, done a lot of things, and I think it's an example of what you can do with an accounting background, with the things you can learn in accounting, and where they can take you to be the CEO of an organisation, for example.

Phu Nguyen: Great. Thanks for the introduction, Rob, and I think your background experience in the public sector is going to be incredibly useful for this podcast. So, in terms of competencies and skills, many of the people listening will have finance and accounting related backgrounds. What sort of skills and capabilities will become more crucial in an environment where we can expect potentially smaller governments?

Rob Spence: Yep. I think the challenges for people in the finance area I think is to retain a level of flexibility and to be constantly looking at ways to improve the way you operate, but to

focus on those things I think where you can provide the greatest benefit. I mean, my take on it in the local government space at the moment is I think there are two areas where there are serious gaps.

I'm not saying in all councils. I'm saying in a significant number of councils. One is in the quality of the treasury function, effectively on the revenue side. How you maximise your revenue, but how you use the dollars that come in, and maximise the benefit out of those. What we see in my organisation is a high level of conservatism in the way that councils operate, and really an alliance to particular banks and so on, which I don't think necessarily provide the greatest benefit.

On the other side I think the most obvious thing that we see is the lack of management accounting in the local government sector, and I'd say that'd be common across significant proportion of the public sector. What's the service cost? Your capacity to drill down and understand what the costs are, and whether the costs justify the benefit. I think they're two areas that I'd be focusing on as a starting point.

Phu Nguyen: Right, okay. That's useful insight, Rob. In terms of I guess looking forward, in the medium and long term, what do you see the role of finance professionals and how do they add value to the organisation in that medium and long term?

Rob Spence: Yeah, so my experience says that I need my finance executives sitting at my right hand, okay? Because like in the business I run, which is relatively small in size and numbers, but is dealing with, we're currently just on 200 million in size, the finance executive is critical in just about every decision we make. So, I see the finance role as being one that is fundamental to the successful operation of a business, and the challenge for finance people, for accountants, is to recognise that benefit you can add and have the front and the push to get yourself in the space where you can have the influence, I think.

Because there's big risk if you're running a complex business and you remote from just like human resources, you've got to have your people right, and that bit humming to have the services right. If you haven't got the finances right, exit stays left in my view.

Phu Nguyen: Sure. So, it sounds like the finance profession is becoming more and more important in terms of being that right hand. Do you see that changing in any sort of shape or form into the future? If it changes, what does it look like?

Rob Spence: I think as the businesses are becoming much more complex, and in the public sector, if you look at the state departments now, they're massive entities with multiple functions, and finance is key to holding the ship together. I see that in local government, as well. I think going forward, there is such a strong place for finance people and one of the things I regret when I look at our sector is that very few finance people ever get to CEO roles.

That says to me something about the ... I think as a finance person, you've got to be careful not to become a recorded message. Recorded message, I mean you know the way things happen so you always go about it in the same way. I'd be recommending to

anyone who has aspirations to push the limits, be constantly looking at new ways of doing things. Think smart, and make yourself really important in the business.

Phu Nguyen: Staying relevant it sounds like. Great. So, Rob, I guess we move onto another key skillset going forward, technology. There's a lot of talk about technology, whether that's both in the private or the public sector. What sort of role do you see technology playing in the future of government?

Rob Spence: Well, there are all sorts of issues in this sort of spread of the technology space. If you look at local government in Victoria, in the technology side with software and so on, we've got multiple providers providing services to councils. Are we getting the economies of scale and benefit out of that? My take on it is that some of the councils get themselves into lock in agreements where it's cheap in, but high maintenance. The benefits we can get out of much better collaboration amongst the sector in terms of following the lead of some of the big councils who've got the capacity to bring the small councils along. I think they're really opportunities.

But the whole shape of the way we're doing business is going to change really rapidly, I think. We're seeing it now. The interface between the citizen, the fact the citizen communicates so quickly the council now on any issue. We're moving into much more democratic processes where the citizen gets asked questions about what's good and bad. That influences the whole way the organisation operates, so I think, and again, those key roles of finance sit really as a cornerstone in that space, I think.

Phu Nguyen: Great. I guess switching a little bit here, Rob, but in terms of reflecting on your own career, and you've had quite a distinguished career, obviously you're background in accounting as you mentioned. For those listeners out there, what are the different considerations you had in the early start of your career, during the middle part, and obviously now into very senior roles?

Rob Spence: Yeah, so I have great pleasure in meeting young accountants or young auditors. Ernst & Young are our auditors at work and they're all these great young people come in. You can see, auditing can be a grind. What I say to them is, and I think the lesson I learned as a young auditor was, I learned so much looking at businesses and how they operated, and what I saw as good management practise and not good management practise, which built my skills going forward to I think make me a better manager.

So, as a starting point, I'd say be a sponge. Just look at what's good, look at what's not good, build your knowledge base and be prepared for how you can contribute from that knowledge base and your own skill going forward.

Phu Nguyen: Sure.

Rob Spence: Then, in the other phases, it's just build, build, build. I'd like to see accountants having the ambition to get to the top and really influence the business.

Phu Nguyen: That's great. In terms of I guess shaping and influencing the organisation, how do accountants go about shaping and influencing, really making a difference to the organisations they work in?

Rob Spence: I think it's a few things, isn't it? It's how you get yourself, how an accountant, finance person positions themselves inside the organisation as a key go-to person. Someone who's trusted for advice, and respected for advice, and provides sensible advice, and helps people to dig themselves out of a hole if they've got a problem. Not being, "I'm sorry, this is the rule. You can't." I think that's a real help, so you become trusted advisor for basically anyone in the organisation.

I think providing that support mechanism and confidence to senior management, which I'd hope you're part of anyway, is really a key, I think, to me. Yeah.

Phu Nguyen: Taking a perspective on I guess the opportunities really in local government, state, and federal, what do you see as the greatest opportunities for the sector? How can finance professionals be a part of that?

Rob Spence: I think across the public sector, we go through these cycles of expansion and contraction and we go through periods of reform which can be quite complex. I think for the accountant, the finance person, I think observing the political space and where the movements are, and being prepared for those moments I'd say are an important thing to have in your kit bag.

We're seeing the state government expand, articles in the paper in the last few days about the way salary bills for departments blowing out. We're seeing local government contracting. In these cycles, you get opportunities, you get opportunities when the businesses contract, for finance people, because how do you sharpen the business? Where are the savings potentially to be made? How can you maximise revenue? All of that stuff comes out of the finance people, and in a growth mode, it's exactly the same. You've got to manage finance through growth, so yeah, I think. I hope that answers the question.

Phu Nguyen: What I heard from there, Rob, which was really insightful was the ability to adapt and the ability to adapt to the environment in which you operate. There's opportunities, like you said, during a period of contraction and expansion equally. So, how important do you think that ability to adapt and the resilience is for financial professionals?

Rob Spence: I think it's absolutely critical. I think you need to be really observant about the environment you're operating in. If we get a change of state government in Victoria next year, we'll see in my view, a contraction of the public sector. If I was the finance person in the state, I'd be thinking about that now, and what actions have to, what things can I do to assist the organisation to progress through that and what it might look like?

In the local government sector, we're on a slow drip, aren't we? It's the blood drops out the end of the finger every five minutes, as rate capping and these controls have their effect on the sector. It'll be a much slower drift I think in local government than state,

but you need to be observant where the opportunities are, and really, read the papers. Watch the politics. Because if you're in the public sector, it will always set you up for an understanding of what's ticking and be prepared for it.

Phu Nguyen: So it sounds like as financial professionals, you really need to keep abreast of the issues of the day.

Rob Spence: Absolutely, yeah. It's easy I think for finance people to not get and not necessarily understand the political space.

Phu Nguyen: Sure.

Rob Spence: But I think it's important then you thinking through how you can position yourself from an employment viewpoint, but also how you can position the organisation going forward, if you've got a sense of where the directions might be.

Phu Nguyen: Yeah, great. That's a very useful insight, Rob. I just want to touch on a topic which you've mentioned earlier, and you've mentioned this word collaboration in your opening remarks. So, can you expand a bit on collaboration and where you see the most significant opportunities for collaboration?

Rob Spence: Yeah, so I mean, the role we have at the MAV is effectively as a collaborator. We run joint procurement and we run the local government funding vehicle. We've just set up a WorkCover mutual for councils. Our sector, when it's disaggregated, a lot of the components of the sector are not small enough to really leverage much. A City of Melbourne, like a massive business, revenue in the 400 millions about, somewhere there, like massive horsepower.

You get to the bottom end where the total revenue will be 12 million and these councils have the same controls and restrictions on them and the same legislative service requirements as the City of Melbourne. So, the way to assist them to do what they have to do is basically to get together with a whole lot of others and build the economies of scale to actually get the outcomes that are necessary.

If you can get on the back of a City of Melbourne, for example, or a Port Phillip, or a Yarra, or any of the big guns, then that really can add value.

Phu Nguyen: I guess the point there really is about the scale, isn't it, Rob? With the finite resources you do have, it's about trying to get the most out of those resources. How do you leverage scale in order to assist with that?

Rob Spence: That's right. I mean, there's some classic examples. We did the roll out of Fire Services levy on behalf of the state, because we wanted to smooth the impact on our sector, and we found that some councils are running on technology that's from 1998 and others are at 2017 and thinking about what 2025 looks like.

You're never going to get the 1998s up unless you've got someone helping them to get there, so that's what you have to do, I think.

Phu Nguyen: I think this is just from personal experience, I'm aware of the MAV's role in securing financing for the sector. I mean, I think that was a great example of collaboration and trying to do something at scale that produces a real benefit. Can you just elaborate a little bit on that particular example as a practical example of what can occur?

Rob Spence: We had a few cracks at trying to put together a vehicle that could assist the councils to get finance. Then, the Defined Benefit call occurred on local government and we got hit with, what? 400 million dollars. I should remember the number 'cause I was the Chair of the superfund at the time we made the call. We had a look at it and thought, "Is there a way that we could put a vehicle in place that could allow the councils to go to the wholesale market?"

We worked with Ernst & Young as our advisors, and first of all, we ran a tender just to test, just going straight to the banks, and that worked. Then, we put together a vehicle where we've got a trust, the councils determine what they want to borrow, we aggregate the debt, it's separated from a council viewpoint. No council's backing another council. We bring it together and then put it to the market. We've currently got over ... We've got about a third of the total sector debt through the vehicle at the moment.

We're rated higher than the banks, so we're one notch above the banks in terms of rating, through Moody's, and it's proved very successful. When you put it together, you find that there's a significant market appetite for this very secure investment from the market, because councils, everybody's house is basically on the line if a council gets into strife. It's well backed.

Phu Nguyen: I mean, it's a practical example of how you're able to save effectively save interest costs.

Rob Spence: Absolutely.

Phu Nguyen: For the sector. Fantastic. So, in terms of I guess reflecting upon your career, Rob, and you've talked about your experiences in both local government at the most senior level, as well as state government, and now at the MAV. What has been I guess a couple of good examples of case studies where you've seen finance play a significant role in driving positive outcomes? What are some things that you've seen along the journey that have been really useful, that people out there listening might learn from?

Rob Spence: Yeah, I think I'd say of all the big things that we've done, finance has been key to it. When I was in the state looking at the tax base and how you improve it and how you maximise the returns out of Bass Strait, as an example, the finance people were at your right hand as you worked through those issues. In local government, it's been exactly the same. I see the finance people as a critical go-to group if you want things to happen in the local government sector, in terms of reform and so on.

You need them onboard to assist with change, because they are so influential in making things happen. Yeah, so I couldn't pick out one as a particular example. I mean, certainly with the local government funding vehicle, a classic example. I think one of the issues that I didn't discuss earlier when we were talking about the role of finance people, I think in the local government sector, I'd like to see if the finance people are not doing it, I'd like to see them putting more effort into thinking about risk.

So, I know we have risk people in the councils but I think again, in your council, with the issue of fire and Docklands, the potential consequences of that if it was a council problem, demonstrates to me why finance people need to be thinking about if we cop the 200 million dollar hit here, and it actually landed on our balance sheet, how in the hell would we deal with it?

Phu Nguyen: Sure.

Rob Spence: What risk have we got in this business and what protections have we got? I think it's an important issue to be thinking about.

Phu Nguyen: And I think for those who are out there listening, what might not be so evident at the surface, and Rob's been pointing out throughout, is I think the role of finance professionals, and certainly my experience working in the profession is that it's evolving over time. The skillsets and the things you need to be thinking about are broadening. Whether that be technology, whether that be about the risk you've just talked about, whether it be you're reading the political climate of the day. It really means that you need to be a bit more rounded as an individual in order to succeed going forward.

Rob Spence: Just to say to people, just keep trying to expand your knowledge and your experience and be a go-to person. Be a really trusted and respected advisor and your capacity then to influence will be significant.

Phu Nguyen: That's good advice. Rob, in terms of, and we've touched on a couple of these things. We've touched on technology today, we've touched on collaboration, we've touched on broadening the skillsets that finance professionals bring to the table, being trusted advisors. Are there any other further efficiencies that you can think of, that the sector should be exploring further and taking advantage of? What might they be?

Rob Spence: I think in the local government sector, being clear about ... I mentioned before what service costs are. A proper management accounting approach to it. But also, those areas where you have the capacity to levy revenue that you're not using effectively at the moment I think is an important step that people need to be thinking about.

I think another area that I'd be turning my mind to if I was in the finance area is trying to emphasise into the organisation how cost down, the sort of stuff you see in the private sector, in the motor industry. "We require 2% cost down" across procurement et cetera, are critical drivers I think in the local government sector to achieving efficiencies. What we see, because we do a lot of work in the procurement space, is we see procurement being remote from those critical drivers of efficiency.

But we know from work we did with some consulting firms a few years ago that there's about 400 million dollars potentially to be saved with efficient procurement in the sector. I suppose the link I'm making to finance is the concept and the ideas for the cost down drivers can come out of the finance people, because they can emphasise into the business how those changes can drive efficiency.

Phu Nguyen: I think you touched on a really good point here. It's something that I certainly reflect upon as well, and that is the link between procurement and finance professionals. If you think about local governments, state governments, and federal governments, often services are either delivered directly through people and staff, or they're delivered through contractors. So, the opportunity to leverage particularly on the contractor side, and the procurement expertise I certainly see as becoming more prevalent.

So can you maybe give us some examples of where the MAV's been involved in procurement activities, and the types of activities you've been involved in, and what the outcomes might have been from those exercises?

Rob Spence: Yeah. So, one of the things we've been doing is assisting councils to develop. We've developed a dashboard where the councils can actually see where they're spending money, where the big contract spends are, and where the small stuff is. What we've seen is the transactions under \$1000 are significant in numbers but they're basically all being ... The vast majority of them are being done through a full invoice, like order, invoice, payment process, which our estimate is it probably costs for a relatively small invoice, I think around 70 bucks to do the transaction, right?

The potential savings by driving efficiency in that mass at the bottom is significant, but what we've also seen is what the local government legal spend is, and how what looks to us the same questions being asked multiple times. Are there ways to drive efficiencies that way? We've run tenders on motor vehicles and fuel et cetera, and it's having an effect, but the critical thing and I think in our role, is to bring about system change in the sector so that people are much more attuned to where the efficiencies can be made.

But one of the things that really has frustrated me is when we run events for procurement people, one of the first question I ask when I present is, "Who's given targets in the procurement area in relation to cost and cost down?" Nobody at the last session we ran are getting any targets. They just go about procurement in the normal process, without those drivers to push for efficiency, and they're frustrated by it, because the targets are not set for them.

Phu Nguyen: It sounds like this huge opportunity there in terms of procurement savings going forward.

Rob Spence: That's right and I think real opportunities to do things together, to do things more efficiently. The use of credit cards for small transactions if you've got the controls right. One payment instead of multiple payments for little stuff. All of that adds up. In football terms these are all the one percenters that ultimately add to a really efficient machine.

Phu Nguyen: I think this is drawing from my own experience, but in terms of that, I think as a sector it is quite in its early infancy in terms of procurement. We certainly know looking at the private sector, and you look at automotive, you look at some of these other sectors, mining, where they've really had a focus over a longer period of time, around how they can extract greater value through procurement. I think it is a real opportunity for the sector to take a hold of, and it is something that is growing in momentum, but needs to grow at a faster pace, in my view.

Rob Spence: Yeah, and we've got the volume to get the leverage if we're together. If we're separate, we don't get the volume, we don't get the capacity to leverage. We've got someone working for us who worked for Robert Bosch in the relationship with the motor industry, and Ford and Holden or Toyota would say to Robert Bosch, "3% cost down this year, same product, or improved product. You deliver it or you haven't got a contract."

Phu Nguyen: You've got a greater negotiating power together, don't you?

Rob Spence: Absolutely. If you're together.

Phu Nguyen: Great. So, in terms of what we've talked a lot about the cost side of the equation. We haven't spoken a whole lot about revenue. Do you see there are opportunities for governments, whether it be state, local, or federal? What are the opportunities to increase revenue and what might that look like?

Rob Spence: Yeah, well, I mean we're dealing with one at the moment which is the state government's move to go to annual valuations in the local government sector, which affects their revenue because it gives them a chance to pick up additional land tax, because instead of having two yearly land tax valuations in a rising property market, they're missing out on one year in uplift, which is about 200 million plus probably, 225 or something.

Every second year they would get that hit, so to me, it's looking at those areas where we have inefficiencies in the process, and ensuring we maximise in a legitimate way, the tax take. For councils, it's about supplementary valuations and how quickly they're turned around, and making sure we're not sloppy about those things. The parking fines and stuff is always a very sensitive issue, setting targets and so on.

I think one of the strengths of the local government sector is it's a strength and a weakness in that you effectively generally know what your revenue's going to be. It's not like a private sector organisation where you could get a massive dip just if you go off the boil in terms of the client base. You generally know what your revenue's going to be in local government, but the challenge then is to be sophisticated enough on the revenue side to make sure you're getting everything you should get, and looking for other opportunities to ease the burden on rates, and charge those people who are using services.

That's why the management accounting bit's important, because if you don't know what the service costs, then how are you going to be able to do the charging? Yeah, I think

strengths and weaknesses in it, but I think we could put more emphasis on treasury function, maximising the dollars we've got, like the big councils I think do it pretty well. Smaller ones, not so well probably. But also how we can maximise the revenue. New opportunities for tax pretty hard, I think.

Phu Nguyen: Okay, that's great, Rob. In terms of I guess just reflecting upon the career that you've had to date and everything that you've learned along the way, for those accounting professionals who've chosen to work in government, whether it's local, state, or federal, do you have some pearls of wisdom? That would really help those listening to really engage with the sector and develop their careers, and progress onto as you said, senior roles as they possibly can in the sectors that they operate.

Rob Spence: Yeah. I mean, I've had a really fortunate career. So, I started off in housing and worked with the people who were struggling in public housing. I was in the beginnings of ASIC. I was in the first investigations team at the State Company's Office, and saw how it was pretty rough in those days, in terms of the ways the corporate sector, some of the corporate sector operated.

Auditor General, I worked in jails and mental hospitals, and schools, and did all sorts of stuff. Then, with the oil industry, flying in Bass Strait on helicopters and Learjets and seeing all that amazing technology. Was on the board of the State Electricity Commission for a period. Phenomenal experience, all came off an accounting background, but a willingness to push myself or do things to expand my knowledge and so on. Not just be locked into accounting and finance, but say I want to have a crack at different things.

Yeah, I think I'd just say to people, always look at yourself and think, "Am I a recorded message? Am I doing the same thing year after year after year, or am I trying to create something that's a bit different? Am I moving with the times all the time?" Never knock back opportunities I would say.

Phu Nguyen: That's a useful reflection there, Rob. What I hear there, and I'm just reflecting back what you said is, there's some people and you've outlined quite a varied, in my perspective, quite a varied career and different experiences, but it's not just fallen on your lap. It's actually something that you've consciously tried to grow every year and as you said, reflecting back, it's not resting on your laurels and saying, "Well, am I growing as an individual?" Continuing to push yourself, and continuing to push those boundaries.

Rob Spence: Yeah, so I've never had a career strategy at all. The only reason I ended up in accounting was because really, a teacher that I still see, imagine how old he is, in the city, said to me, "I think you should go and do accounting and I think you should go into the state public service" and I did. I just followed his lead, but when opportunities came up, or I had an idea, I'd put it forward, and you just move with it, and things happen. You have good times, you have bad times, you have slow times in a job, and then all of a sudden, it'll open up and off you go again.

My recommendation to any of the youngies out there, just absorb the knowledge and just really look for opportunities and just keep pushing yourself up, yeah.

Phu Nguyen: Just one final question from me, Rob. It goes to the heart of I guess hard skills versus soft skills and how you've seen that evolve in terms of importance for finance professionals. What's your reflections on that?

Rob Spence: Well, the hard skills are important. The soft skills are equally important. If you haven't got the ... I mean, the soft skills have become much more critical in the management functions now.

Phu Nguyen: When you reflect upon soft skills, what are you referring to? What are the key soft skills that...

Rob Spence: I think being able to read people. Emotional intelligence bit. Being able to work with people. I suppose the way I operate is with the staff, I'm tuned to generally how the staff look as if they're feeling, and if I've got someone who I'm worried about, or I think doesn't look very happy, I'll just have a chat to them over a cup of tea and see how they're going, and if they've got a problem, we try and solve it.

The thing that I learned in local government that I didn't get in the state was that if you can get the team, the councils I was running might have had, what? 1400 staff or something at it's maximum. If you can get the team generally aligned to where you want to go to, and you're harmonious in the unit, then the successes will come, because the staff, some of the best fun I've had is working with the guys who clean the streets.

You can get to sit with them and have a yack and say, "I'm getting some complaints about street cleaning. What do you think the problems are?" "Oh, the bloody managers, you know? They want us to do it this way, but in fact it doesn't work, but we can't change it." Be tuned to what your staff are thinking and what are the issues are, and if you can get them all operating harmoniously, then the output becomes phenomenal I think.

I think one of my greatest frustrations in looking at that amazing array of skills in the state bureaucracy is the system doesn't allow people to flourish. It's too constrained, whereas in local government, in the right environment, people can flourish. In local government, you can actually see the things that you are doing are right through to fruition, without having 50 or 60 other people prove it. I describe it like driving a truck, as against driving a racing car, in terms of the comparison between state and local. Local's very much like that. You turn the wheel, the joint moves.

Phu Nguyen: Great. So, I'd like to thank you, Rob, for your generous time today, and in particular your insights over what has been a very successful and distinguished career in both local and state governments. Thank you. It's been fantastic.

Rob Spence: It's been a pleasure, and for those accountants out there, just have a good and see where you get to. That's what I'd say. It's a great profession, honestly. It is a great profession.

Outro: Thanks for listening to the CPA Australia podcast. To download the transcript and find more information on today's episode, visit www.cpaaustralia.com.au/podcast/41.