



Report into Employee Recognition Practices (Redacted)
Full investigation - *Ombudsman Act 1972*

Complainant	Ombudsman 'own initiative' investigation, section 13(2) of the <i>Ombudsman Act 1972</i>
Agency	[redacted]
Ombudsman reference	2022/02313
Agency reference	[redacted]
Issue	Whether the employee recognition practices of the council amount to maladministration in public administration

Jurisdiction

A complainant submitted a complaint to me under the *Ombudsman Act 1972*. I determined that an investigation of that complaint was not in the public interest.¹

However, during the assessment of that complaint, it was brought to my attention that the council in question has certain generous employee recognition practices. In December 2022 I enquired with the council and established that this was correct.

In January 2023 I commenced an 'own initiative' investigation under section 13(2) of the *Ombudsman Act 1972*.

Investigation

My investigation has involved:

- assessing the information provided by the complainant
- seeking responses from the council
- considering previous investigations with similar factual circumstances
- considering the Code of Ethics for the South Australian Public Sector (**the Code of Ethics**)
- considering the 2016 'Reward and Recognition Good Practice Guide for South Australian Public Sector Managers' (**the Reward and Recognition Guide**)

¹ *Ombudsman Act 1972* section 12H(1)(c).

- providing the council with my provisional report for comment, and considering its response
- preparing this report.

Procedural fairness

As this was an Own Initiative investigation, the only party that was provided with a copy of my provisional report was the council.

In response to my provisional report, the Chief Executive Officer (CEO) advised that he had given immediate effect to some of the foreshadowed recommendations. The employee recognition practices examined in this investigation have ceased. The CEO advised that the council will work through a process to determine an appropriate reward and recognition program using the Reward and Recognition Guide as the baseline, and will review and update the Human Resource Management Manual to reflect the new agreed program.

The CEO also made some submissions about whether the threshold for maladministration has been reached. I have considered the CEO's response and have addressed his submissions where necessary in the body of this report. Ultimately, the CEO's response did not persuade me to alter my conclusions.

Background

1. Commencing in 2008² the council implemented a range of employee recognition/staff appreciation practices.
2. The council CEO³ provided the following explanation as to how the practice commenced:

The funding of an 'Employee Recognition' or 'Staff Appreciation' function was likely first considered as part of the process for the formulation of the 2008/2009 draft budget. In August 2007 Council received a rebate from the Local Government Association Workers Compensation Scheme of \$60,486 in recognition of Council's overall safety, rehabilitation and claims performance. The rebate amount was 40% more than the previous three year's rebates, and in acknowledgement of employees' efforts and commitment to improving safety and reducing Council's injury claims liabilities (which is a contributing factor to the amount of the rebate revenue received each year), Council agreed to include a budget allocation based on approximately 10% of the rebate to be used to hold an employee event in recognition of the employees outstanding performance in improving safety across the organisation.

Council also agreed to consider future budget allocations for a function to be held on a regular basis, at intervals of 18 to 24 months and to acknowledge the achievements of employees and their commitment to Council through Service Awards. Although considered as part of the budget formulation process, Council's support of an employee recognition function and service awards was formalised in 2011 when the Council endorsed the reviewed Human Resource Management Policy.

² Three of the four different employee recognition schemes commenced in 2008. However, the fourth scheme commenced as early as 1990.

³ The current CEO commenced at the council in 2020.

3. The CEO explained that despite the inclusion of the employee recognition practice within the policy, the budget allocation was still considered and approved by Council each year and was not an automatic annual allocation.
4. I note that the council in fact had four different employee recognition practices, which I detail below.

Biannual employee recognition function

5. The council held a recognition function in 2008, 2010, 2011, 2013, 2016, 2018 and 2021. It appears that the function was usually a dinner, and that the expenditure related to venue hire, catering, transport and entertainment.
6. The following table sets out the amount spent at each function:

Financial year	Function expenditure
2008/09	\$5189
2009/10	\$5762
2011/12	\$6056
2012/13	\$4401
2015/16	\$5700
2017/18	\$6655
2021/22	\$3530

7. The total amount spent on employee recognition functions has been \$37,293.

Employee service awards

8. The employee service awards and gifts are given at the employee recognition function. As outlined above, the practice was formalised in 2011 within the council's Human Resource Management Policy. The practice was expanded in 2012, adding two new milestones and associated gifts.
9. In 2015, the council revoked the Human Resource Management Policy and replaced it with the Human Resource Management Manual. No practical changes were made to the employee service awards.
10. The milestones and associated gifts are as follows:

Bronze 5 years	Cheese plate/board and knife or equivalent gift to the value \$40
Silver 10 years	6 glasses and a wine set or coaster and a bottle of wine, champagne or spirit or equivalent gift to the value \$100
Gold 20 years	Engraved watch, 2 wine glasses and a bottle of wine, champagne or spirit or equivalent gift to the value \$200
Platinum 30 years	Gift equivalent to the value \$350
Diamond 40 years	Gift equivalent to the value \$500
11. Between 2008 and 2022, the council spent \$6,066 on employee service awards and gifts.

Staff incentive scheme

12. In addition to the employee recognition function and service awards, in July 2008 the then CEO introduced a staff incentive scheme to reward staff who 'promote positive behaviour and innovation in the workplace, to assist the council to achieve its objectives.'
13. The scheme involved the nomination of an individual who meets one or more of the scheme criteria. The nomination must be supported by two members of staff and approved by the CEO and Senior Management.
14. The criteria referred to is as follows:
 - 1.1 Recognise an innovative change or idea which, when implemented has resulted in a significant efficiency and/or budgetary savings to Council
 - 1.2 Outstanding personal effort; (examples)
 - Supporting another staff member
 - Completion of a project on or ahead of time
 - Recognition of going the 'extra mile' for a customer
 - Recognition of making that extra effort for the benefit of Council or the community
15. The scheme was discontinued in 2020. Between 2008 and 2018, the council spent \$10,208 on the scheme.

Retirement gifts

16. In 1990 the council commenced the practice of giving a gift to employees leaving the council service. The value of the gifts was as follows:

2-4 years service - \$50
5-7 years service - \$75
8-10 years service - \$100
10 years or more - \$150
17. My investigation was provided with the Staff - Retirement Gifts - Officers and Employees Policy from 2001, being the earliest policy the council still had on record. However, the 2001 policy states that it replaces the Retirement Gifts Policy that was adopted on 7 February 1990.
18. Between 2001 and 2022, the council spent \$6734.52 on retirement gifts to 71 employees.

CEO submissions in response to my notice of investigation

19. The CEO indicated that the council continued to use the amount of the rebate received from the Local Government Association Workers Compensation Scheme as a guide to setting the amount for consideration of a budget allocation, in recognition of the fact that the rebate is directly related to the council employees' performance in relation to safety, rehabilitation and injury claims.
20. The CEO submitted that it is in the best interest of the community for the council to have an effective, efficient, committed and engaged employee group. However the CEO also indicated his appreciation for the fact that there are many ways that

organisations acknowledge and celebrate the service and contributions of their employees, noting that councils are dealing with public money. The CEO indicated that he was reviewing a range of matters related to organisational management and performance.

Relevant council policies

21. The Human Resource Management Policy version 1 (2011) relevantly states:

24. SERVICE GIFTS

Council shall purchase a gift for employees who are leaving Council and have completed the following service period or more

- 2-4 years service - \$50
- 5-7 years service - \$75
- 8-10 years service - \$100
- 10 years or more - \$150

Gifts of a higher value may be purchased on a case by case basis, where Council or the CEO deems such value to be suitable to the length of service and the position/s held.

25. STAFF INCENTIVE AWARDS SCHEME

Council wishes to acknowledge and reward staff who promote positive behaviour and innovation in the workplace, to assist the Council to achieve its objectives.

Council will promote an ongoing Staff Incentive Awards Scheme. An annual budget will be allocated to give financial recognition through vouchers to employees. Nominations based on the current scheme criteria will be considered by the Senior Management Team from time to time.

26. STAFF RECOGNITION AWARDS FUNCTION

Council will support the budget allocation of a bi-annual function to recognise the achievements of staff and tenure of employment...

22. The Human Resource Management Policy version 2 (2012) added two additional tiers of staff incentive awards as detailed above (platinum and diamond).

23. The Human Resource Management Policy version 3 (2013) added an additional tier of service/retirement gifts, with a \$200 gift to be given for 20 years of service.

24. The Staff Incentive Awards Scheme policy (2008) sets out the available rewards:

A - Dinner voucher for the value of \$100

B - Gift voucher \$50 - examples - Kmart, Massage, Bottleshop, Clothing shop, fishing shop

C - Other - \$ value as determined by the Management Team

25. The Staff Incentive Awards Scheme - Employee of the Month policy (2011) describes the following changes to the scheme:

Nominees will be put forward at the first Management Team meeting each month, with the final decision on the recipient at the CEO's discretion...

For the 2011-2012 year, there will be an award presented to one employee each month, to be known as EMPLOYEE OF THE MONTH. The recipients name will be promoted on and [sic] Employee of the Month board in the three work locations and will received [sic] a gift voucher at a value as determined appropriate.

26. The Employee Recognition and Staff Incentive Awards Program policy (2014) describes the following changes to the scheme:

Managers will be allocated a number of gift cards to the value of \$50.00 (or other value as determined in line with an annual budget allocation) based on the number of full time equivalents in their works teams each financial year. The Manager has a discretion to award the gift card to an employee in their team, or another work areas team, if they believe that employee has met one or more of the scheme criteria. Employees may also make recommendation of recognition to management in relation to their peers.

Details of awards made are to be recorded on this form. Managers will advise the Senior Management Team at the next meeting if and who they have award [sic] a gift card to. The awards will generally be presented at team meeting level.

The Reward and Recognition Guide

27. I discuss the Reward and Recognition Guide in more detail below. However, I consider it would be useful to provide an overview of the Guide, and to outline examples of reward and recognition practices which are considered acceptable as per the Guide.

28. I acknowledge that the council is not a state government department and as such, the Guide does not strictly apply to it. However, the council is funded by ratepayers and has obligations to spend public money transparently and accountably. I consider that the information in the Guide is useful and can provide guidance to local councils.

29. The Guide outlines the following under 'What is Recognition' and 'Why is it Important?'

Employee recognition acknowledges and honours the positive contributions a person makes to their team, organisation or community. This can include their unique contribution, expertise, character, efforts and dedication to their work or achieving results.

The High Performance Framework notes that high performing organisations effectively engage their workforce, and that a key way of engaging employees is through recognising high performance...

Employee recognition provides an opportunity to acknowledge specific contributions or the value of the expertise and experience of an employee or a team. Both formal and informal recognition should be approached in a fair and ethical manner.

Employee recognition is a return on an employee's effort, dedication and work achievements. It is governed by mutual respect and is expressed regularly through a host of simple gestures such as a sincere thank you, as well as symbolically through receiving an award where appropriate.

The sincerity of words and actions is what gives recognition its dignity and worth.

30. The Guide provides numerous examples of ways in which public sector agencies can reward and recognise their staff which have little to no cost involved. These include:

- recognise an employee who is doing something really well
- write a note or email to the employee thanking them for their efforts
- provide flexible working arrangements
- recognise the accomplishments of employees and teams at team meetings publicly
- select the individual to represent the team at meetings.

31. The Guide also provides some examples which necessarily incur a modest budget. This includes an event morning tea/afternoon tea/lunch/dinner to acknowledge and celebrate achievements. Another example in the Guide is an annual service plaque for years of service.

Whether the employee recognition practices of the council amount to maladministration in public administration

32. At the outset, I comment that this is not the first time I have investigated an agency regarding their employee recognition practices.
33. On 10 March 2017 I concluded an investigation into HomeStart Finance. HomeStart had a 'formal' and 'informal' employee rewards and recognition program. Examples of expenditure included a staff Christmas party including food and drinks, bottles of champagne as gifts associated with staff recognition awards, the purchase of alcoholic drinks at an employee farewell party and the purchase of alcoholic drinks to reward staff for assisting in relocating the office to new premises.
34. I found that HomeStart committed maladministration in public administration through excessive expenditure on alcohol for the benefit of staff.
35. On 25 November 2019 I concluded an extensive investigation into the corporate credit card practices of the City of Onkaparinga, in which I found that some instances of expenditure amounted to maladministration in public administration. One such category of expenditure was gifts of flowers for staff and I specifically found that it was not appropriate for the agency to fund the purchase of flowers for staff in the event of employee resignations. Another such category was gifts of alcohol to staff as a 'gesture or sentiment of thanks for going above and beyond'.
36. I determined that such expenditure was inappropriate and amounted to maladministration.
37. The South Australian Auditor-General has also investigated the issue of rewards and recognitions being used by the City of Charles Sturt.⁴ The Auditor-General showed detailed consideration of the issue and made several findings. The relevant 13-page section of his report is annexed to this report.
38. In summary, the recognition practices of the City of Charles Sturt which were under scrutiny included:
 - recognition of 25 years of service with a gift to the value of \$575
 - the employee becomes a member of the 25-year club and is invited to attend an annual lunch with the Executive (for example, the cost of one lunch was \$2,945)
 - farewell celebrations (limited to \$50 per event)
 - Christmas social function including catered food, alcoholic drinks, music and entertainment (limited to \$50 per person)
 - recognizing an individual or team for going 'above and beyond' with a gift up to the value of \$40
 - gift vouchers as prizes for team building exercises.
39. The Auditor-General found that all of the above practices were inappropriate on the basis that they did not align with the council's business purpose; the costs incurred for the 25 year milestone were unnecessary and excessive; alternative rewards could be used that have little or no cost to the ratepayer; these practices were not a proper use of public money and did not align with the expectations of the public.

⁴ Auditor General Report 2 of 2020 - Examination of credit card use and management - City of Charles Sturt

40. Regarding the Christmas social event, the Auditor-General commented:

In our opinion, the business benefit to the Council from funding a Christmas event is not clear. We consider that costs incurred for music/entertainment and alcohol are an unnecessary and inappropriate use of public money...

In our opinion these strategies are not consistent with the principles of reward and recognition but relate more to supporting staff wellbeing and morale. Such events would typically be organised and funded by an entity's social club, and are activities separate from the entity and not funded by public money.

The Council may decide to contribute to a social club event (either financially or by allowing the use of Council facilities). Generally, it is our view that it is not necessary or appropriate to use public money to fund social events.

Where the Council makes a financial contribution to a social event or a gift to an employee, it also exposes the Council to the risk of negative public and Parliamentary scrutiny of its use of ratepayer and taxpayer funds. It is imperative that it can demonstrate that it has observed the expenditure principles...and, without any doubt, its expenditure can withstand public and Parliamentary scrutiny.

Consideration

41. Whilst there have been four types of employee recognition practices used by the council, each has been substantially for the same purpose. I have therefore considered whether the employee recognition practices, as a whole, amount to maladministration in public administration, in addition to considering whether the four employee recognition practices are appropriate.

Recognition function event

42. The Reward and Recognition Guide recommends that recognition take place immediately after a particular accomplishment. I am mindful of, and agree with, the Auditor-General's comments that it is not appropriate for a public agency to fund a Christmas party. Having a regular function that is not tied to any particular achievement is akin to a social event, rather than a recognition event.
43. It would be acceptable for the council to hold a modest funded morning tea for a particular team, in order to recognise a particular accomplishment. In my view, it is not necessary or appropriate for the council to hold an expensive bi-annual recognition event.

Service awards

44. I note that service awards and retirement gifts based on the amount of years spent working at the council do not recognise any particular achievement, apart from being employed and paid to do the job a public servant was contracted to do.
45. However, I accept that some agencies may see the benefit of recognising milestone years of service with a certificate or plaque. Such a practice is discussed in the Reward and Recognition Guide.

Gifts

46. Public officers are held to a higher standard than employees in private enterprise in relation to the receipt of gifts and benefits other than their salary, and should not be seen to be receiving additional benefits.
47. In my view it is inappropriate for a public agency such as a council to provide gifts to its employees using public money. Any such gifts, if they are to be given, should either be funded by the social committee or by collection amongst the employees.
48. It follows that service awards should not include a gift; a staff incentive scheme should not include the use of gift cards; and it is not appropriate to give retirement gifts which have been publicly funded.

Maladministration

49. I now consider whether the four employee recognition practices of holding a recognition event; distributing service awards and gifts; distributing gift cards for the purpose of an incentive awards scheme, and giving retirement gifts, amount to maladministration in public administration.
50. Maladministration is relevantly defined in section 4(2) of the Ombudsman Act:

(2) *Maladministration in public administration* -

(a) means

- i. conduct of a public officer, or a practice, policy or procedure of a public authority, that results in an irregular and unauthorized use of public money or substantial mismanagement of public resources

...

51. The suite of policy documentation provided indicates that the expenditure was authorised. The expenditure therefore does not meet the criteria for expenditure that was 'irregular and unauthorised'.
52. I have considered whether the employee recognition practices resulted in the substantial mismanagement of public resources.
53. I have based my determination on a number of considerations, including:
 - the benefit (real or perceived) gained by the public from the expenditure
 - the public's expectations of government agencies
 - the appropriateness of the amount of the expenditure
 - the nature of the expenditure
 - whether the expenditure was reasonably necessary for the carrying out of the council's functions.
54. It is widely accepted that public officers should not expect to receive anything other than their salary. I accept that reward and recognition plays an important role in effective management. However, reward and recognition need not require large expenditures of money.

55. The Reward and Recognition Guide clearly outlines that a budget allocation is not necessary for reward and recognition, and sets out a number of examples for rewarding employees where a budget is not required. The Guide also sets out that agencies should:

Always remember that funding for recognition activities will be coming from the public purse. Consider how the administration of your reward will appear to taxpayers and whether it can be easily justified. To help you gain perspective on the possible implications of your chosen activity, consider how you would feel if it were to be published in the media.⁵

56. The total amount spent by the council on employee recognition, during the period under investigation, is \$60,301.52.

57. I have considered the CEO's submissions regarding the rationale for introducing the employee recognition event and awards in 2008. That is, in acknowledgement of employees' efforts and commitment to improving safety and reducing the council's injury claims liabilities, after the council received a 40% increase in rebate from the Local Government Association Workers Compensation Scheme. Broadly speaking, I do not consider that employees should be rewarded for following work, health and safety protocols. That is a core requirement of every public sector employee and should not require special recognition.

58. Even if it were the case that significant cultural and policy changes were implemented in 2007-2008 that improved the workplace safety of the council, and that were deserving of a one-off recognition event for employees, I consider it highly unlikely that such significant improvements were repeated each year in order to warrant a recognition event.

59. Noting that the specific details of some of the four schemes evolved over the years, I consider that some of the schemes at various points in time had unclear guidelines and afforded too much discretion to the management staff. For example:

- the criteria for the staff incentive scheme are highly subjective
- whilst the Human Resource Management Policy sets out amounts for the service gifts, depending on length of service, the Policy also states:
Gifts of a higher value may be purchased on a case by case basis, where Council or the CEO deems such value to be suitable to the length of service and the position/s held.
- between 2008 and 2014, there was no specific limit on the amount of the gift card for the staff incentive scheme, variously being described as '\$ value as determined by the Management Team' and 'a gift voucher at a value as determined appropriate'
- in 2014 the policy was updated with more guidance but was still discretionary, stating 'gift cards to the value of \$50.00 (or other value as determined in line with an annual budget allocation)'.

60. Having unclear guidelines which afford a large amount of discretion reduces accountability and is open to misuse.

⁵ Guideline of the Commissioner for Public Sector Employment, Office for the Public Sector, 16 November 2016, page 14.

61. Further, employee recognition practices should be consistent in order to avoid any actual or perceived favouritism. Having a wide discretion often results in some employees receiving higher value gifts than other employees, which reduces trust and cohesion in the workplace. The Reward and Recognition Guide states:
- Make sure that your reward or recognition process is transparent, so that it cannot be perceived by employees as favouritism. Make sure that you will be able to apply the same level of recognition for any colleagues who accomplish a similar achievement...
62. I do not consider that the public could be said to have benefitted from the employee recognition practices. Whilst appropriate staff recognition practices can lead to staff who are more motivated to provide high quality services, staff recognition practices ordinarily do not need to be funded with ratepayer moneys.
63. I also comment that there is no evidence before me that the council conducted any reviews to determine whether its employee recognition practices were effective, or led to improved services to the community or improved employee performance.
64. I do not consider that the employee recognition practices meet the standards expected by the public of public agencies. The expenditure was not reasonably necessary for the carrying out of the council's functions.
65. The council has spent in excess of \$60,000 on employee recognition. Whilst I acknowledge that the majority of this expenditure was incurred over a period of some fourteen years, nevertheless this is a substantial amount of money. For context, it appears that the council has approximately 75 employees.
66. Whilst the information provided by the council indicates that in fact it budgeted \$61,881 for employee recognition over this time period, and thus has spent under the amount budgeted, I do not consider that anything turns on this. I consider that the nature of the expenditure was inappropriate and not in the public interest.
67. Whilst rewarding and recognising staff for their achievements is appropriate, I do not consider it is appropriate to do this with gifts or alcohol, particularly when suitable boundaries on such rewards are not in place.
68. It is not my intent to conclude that it is wholly inappropriate for a public agency to spend any public monies on recognition of employees. As the Reward and Recognition Guide indicates, it is acceptable to fund a modest morning tea to recognise achievement, or to present service awards in the form of certificates or a plaque.
69. However, I agree with the Auditor-General that in most cases, reward and recognition should have little or no financial cost to a public agency.
70. Given my views that the employee recognition practices of the council were inappropriate and did not provide benefit to the public, it follows that my view is that the practices constituted mismanagement of public resources.
71. I have considered whether the mismanagement was substantial. The practices have continued over many years, despite the relevant policies being reviewed by the council a number of times. The amount that has been spent is considerable, noting the lack of public benefit or other factors which would make the expense in the public interest.

72. In my provisional report, I expressed the tentative view that the mismanagement was substantial, and therefore constitutes a practice of a public authority that results in the substantial mismanagement of public resources.
73. In response to my provisional report, the CEO submitted that in principle, he accepted the findings of my report and the proposed recommendations. However, he asked for further consideration as to whether the matters identified in my report reflect 'substantial mismanagement of public resources' and therefore constitute maladministration. He noted that my consideration of 'substantial' is not limited to just the dollar value, and also includes the length of time over which the employee recognition practices occurred. However, he provided the following submissions:
- At the time that the employee recognition program was introduced, resources like *the Guide* were not available and, as *the Guide* identifies, reward and recognition within the public sector, (or local Council's) can be highly complex. Furthermore, on the basis that the total amount spent on the employee recognition programs since 2008 represents 0.092% of the total employee costs for the same period and 0.024% of Councils operational expenditure, I ask for further consideration as to whether it is fair and reasonable to treat this expenditure as 'substantial mismanagement of public resources'.
74. I accept that in 2008, the Reward and Recognition Guide had not yet been produced. I also acknowledge that the practice of providing these types of 'perks' to employees has previously been accepted and common practice. However, over time, values change and the expectations of the public change. These types of rewards have, for some time, been considered to be inappropriate for public sector employees.
75. I note that the Reward and Recognition Guide was published in 2016, although I accept that as the Guide is not strictly applicable to local councils, the council may have been unaware that it existed at that time. However, I consider that both the elected members and the council administration should have been aware that the expectations of the public have evolved. At each time the council's policy documentation was reviewed, the council should have turned its mind to the appropriateness of the expenditure. I also note that the office of the Independent Commissioner Against Corruption (ICAC) has been in existence since 2012, with information about what constitutes maladministration being made available to all public sector agencies including local councils since that time. In addition, reports about investigations into maladministration are regularly published by my Office (and occasionally by the ICAC), which generally receive media attention.
76. I acknowledge the submission that the funds spent comprise a very small percentage of the council's budget. However, taking into account the considerations listed at paragraph 53 of this report, I remain of the view that the ratepayers did not appear to receive a benefit from this expenditure; the expenditure did not meet the expectations of the public; the amount that was spent on employee recognition was not appropriate; the expenditure did not have a justifiable basis taking into account public policy considerations and the wide array of available employee recognition options which have little or no cost; and the expenditure was not reasonably necessary for the carrying out of the council's functions.
77. I, therefore, confirm my provisional view that the expenditure comprised the substantial mismanagement of public resources.

Opinion and Recommendation

In light of the above, I consider that by holding employee recognition events and giving gifts to employees in line with its four employee recognition schemes, the council committed maladministration for the purposes of section 4(2)(a)(i) of the Ombudsman Act.

I note that following my provisional report, the council has now ceased the employee recognition practices that were subject to this investigation.

Therefore, I recommend under section 25(2) of the Ombudsman Act that the council review its Human Resource Management Manual and remove or vary reference to its employee recognition practices (clauses 24, 25 and 26).

Final comment

I now report the council's maladministration to the principal officer of the council as required by section 18(5) of the Ombudsman Act.

In accordance with section 25(4) of the Ombudsman Act the council should report to the Ombudsman by **31 May 2023** on what steps have been taken to give effect to the recommendations above; including:

- details of the actions that have been commenced or completed
- relevant dates of the actions taken to implement the recommendation.

In the event that no action has been taken, reason(s) for the inaction should be provided to the Ombudsman.

I have also sent a copy of my report to the Minister for Local Government as required by section 25(3) of the *Ombudsman Act 1972*.



Wayne Lines
SA OMBUDSMAN

17 April 2023

Appendix 1:

Excerpt from the Auditor General Report 2 of 2020 – City of Charles Sturt

8 Credit card payments for reward and recognition expenses

What we found

Recognition of service

The Council's recognition of service policy, dated May 2015, was overdue for review when we started our examination.

We were not satisfied that the recognition of service policy clearly aligned with the Council's business purpose. It is unclear how incurring the expenditure in line with this policy contributes to achieving the Council's objectives and performing its functions, the business benefit to the Council and how it encourages behaviours that support the Council's values.

We also considered that the extent and value of the recognition of service rewards specified were unnecessary and excessive.

Recognition of achievement

The Council introduced a recognition of achievement policy, dated September 2019. It outlines the ways the Council recognises employee and volunteer achievements and contributions to the community and the organisation.

We were not satisfied for all Council recognition programs that there was a clear link in this new policy to recognising a high standard of employee performance or alignment to business purpose. Further, the reason for the recognition was not, in our opinion, clearly aligned with the Council's business purpose.

We consider gifts to staff, other than in rare circumstances and where the business purpose is clearly justified, are not a necessary or appropriate use of public money given that employees are remunerated for performing their roles in line with their employment agreements.

The recognition of achievement policy and guideline also apply to the Council's volunteers. However, the recognition programs are specific to employees. The nature and extent of recognising volunteer contributions are unclear.

What we recommended

Recognition of service

The Council should review its internal policies and guidelines regularly and by the due date.

The Council should consider streamlining its policies by having one policy on recognising achievement that covers all recognition programs.

The Council should review its recognition of service policy to provide further direction and guidance on the proper expenditure of public money to ensure:

- the reason for the recognition is clearly aligned to the Council's business purpose
- the expenditure is necessary and the amount spent demonstrates prudent expenditure behaviour.

Recognition of achievement

The Council should review its recognition of achievement policy and guideline, dated September 2019, with specific focus on staff performance and the expenditure principles. The Council should consider keeping volunteer recognition separate by providing for it in its volunteer policy.

In doing so, to inform any decisions on future practice, the Council should survey its community to understand the public's expectation of what sensitive expenditure may or may not be funded by public money, or coordinate with other councils to gain this information.

The Council should review its recognition of achievement transactions to ensure the new policy and guideline are implemented and operating effectively. We expect the Council will consider the policy improvements we identified against its current priorities and risks to determine the time frame it considers reasonable to review its policy and review relevant transactions.

8.1 Introduction

8.1.1 Relevant law

Section 99 of the LG Act describes the functions of a council's CEO, which include:

- managing the council's daily operations and affairs to achieve its strategic objectives
- giving effect to the human resource management principles prescribed under section 107 of the LG Act and applying proper management practices.

Section 107 of the LG Act requires a CEO to implement sound human resource management principles to ensure, for example, that employees are given reasonable access to training and development, treated fairly and consistently and given regular reports on their performance.

8.1.2 Council policy

Recognition of service

The recognition of service policy, dated May 2015, applied for the period we examined

(1 July 2016 to 30 April 2018). It recognises long-serving employees whose continuous service exceeds 25 years.

We note that this policy had not been reviewed since 2015 despite having a next review date of May 2017.

Recognition of achievement

Before we formally communicated our examination findings, the Council introduced the recognition of achievement policy, dated September 2019, and guideline, dated May 2019. This policy outlines the ways the Council recognises employee and volunteer achievements and contributions to the community and the organisation.

The Council promotes the importance of interaction and collaboration amongst both employees and volunteers, which supports its commitment to attracting and retaining people and maintaining a constructive workplace culture. The Council also recognises that expenditure must represent value to its community, be reasonable for the circumstances and be publicly defensible.

8.1.3 Relevant credit card expenditure

Of the 33 transactions we examined, two payments related to expenditure incurred in line with the recognition of service policy dated May 2015. They involved a gift to an employee for their 25-year work anniversary and the annual 25-year club lunch expense.

We also examined four payments that related to staff recognition where there was no specific policy during the period we examined and when the expenditure was incurred. These transactions included gift vouchers to employees for work performance, prizes for a team building activity and a Christmas lunch for a group of volunteers.

8.2 Examination approach

We examined the Council's recognition of service policy dated May 2015 which:

- was current at the time of conducting our examination
- applied during the period we examined (1 July 2016 to 30 April 2018).

When we assessed the six credit card transactions against the expenditure principles explained in section 3.3.2, we identified a need for the Council to review its staff recognition practices.

In September 2019, before we formally communicated our examination findings, the Council introduced the recognition of achievement policy and guideline.

In completing our examination, we reviewed this policy and guideline only to determine whether the matters we initially identified were addressed. We did not assess whether Council staff complied with the new policy, as it applied after the period examined and the examination work was completed.

Principles relevant to employee recognition

We acknowledge the importance of staff recognition in workplaces. We also acknowledge that publicly funded workplaces need to be highly aware of justifying the use of public money for any purpose. For our examination we considered the principles outlined in:

- the SA recognition guide
- the SA Ombudsman's report on the investigation of HomeStart Finance dated 10 March 2017.

Like the Council, the SA Government strives to be a high performing sector that attracts, develops and retains a highly talented workforce, encourages innovation and continuous improvement, and focuses on improving public value.

The SA recognition guide supports recognising employee performance achievements and positive behaviours. The guide states:

Employees who feel valued, encouraged and appreciated for the work that they do are more likely to be engaged, contribute effectively, work innovatively and perform highly in their roles.

Ultimately, comprehensive recognition ensures the attraction and retention of a quality workforce that is adaptable to change and dedicated to achieving results.

The guide outlines core principles to consider when developing and implementing recognition strategies and programs. While this guide is not applicable to the local government sector, these core principles can apply to any entity, like the Council, that is funded by public money and that strives to be a high performing organisation. The core principles are also consistent with the expenditure principles outlined in section 3.3.

The guide also notes that best practice research highlights that reward and recognition within the public sector can be highly complex. It suggests that a reward and recognition program does not have to be costly and gives examples that have no budget implication. It also highlights the following:

The belief that remuneration (eg distributing cash bonuses or gift cards) is the best way to provide incentive to employees has often been popular with management. However, this approach is not always the best and only way to reward employees.

In the Public Sector, we are funded by the public purse and we need to look at innovative and alternative methods of reward.

Always remember that funding for recognition activities will be coming from the public purse. Consider how the administration of your reward will appear to taxpayers and whether it can be easily justified. To help you gain perspective on the possible implications of your chosen activity, consider how you would feel if it was to be published in the media.

The SA Ombudsman reported that:

... it is widely accepted that public officers should not expect to receive anything other than their salary. In my view, public officers are also expected to avoid any perceptions of receiving anything more than their salary ...

... Whilst rewarding and recognising staff for their achievements, and creating a positive work environment are appropriate, I do not consider it is appropriate to do this with alcohol or gifts, particularly when suitable boundaries on when such gifts may be awarded are not in place.

We assessed the Council's recognition of staff policy and guidelines against the following principles to determine whether they promoted the proper use of public money.

Aligned with business purpose

The reason for recognising performance is aligned with business purposes where it contributes to achieving the Council's objectives. It also encourages behaviours that support the Council's values.

Necessary and appropriate

The expenditure is necessary for the Council to achieve its objectives.

The nature of the reward is appropriate and relevant to the performance or behaviour that is being recognised.

The value of the reward is modest or has no additional cost to the Council.

It is important that the reward can be easily justified and reflects proper and prudent expenditure of public money.

Fair and transparent

The recognition programs are fair and apply to all employees. The recognition strategy is most effective when implemented at the time of the performance achievement. This reinforces the positive behaviours, provides motivation and encourages high standards of performance.

It is important the standards of performance being recognised are clearly defined and documented, recognised in line with policy and applied consistently across the Council to enhance fairness.

8.3 Findings

8.3.1 Timing of policy review could be improved

Recommendation

The Council should review its internal policies and guidelines regularly and by the due date.

A policy and the related guidelines should be reviewed at the same time.

The Council should consider streamlining its policies by having one policy on recognising achievement that covers all recognition programs.

Finding

The recognition of service policy had a next review date of May 2017. The review was overdue when we started our examination in May 2018.

We also noted that there is a difference of five months between the review dates of the recognition of achievement policy and its guideline. In our view when policies are reviewed the related guidelines should be reviewed at the same time to ensure practices and documented procedures are consistent with and support policy requirements.

The recognition of achievement policy establishes recognition of service as one way the Council recognises its employees and refers to other related policies, including the recognition of service policy mentioned above.

8.3.2 Review of recognition of service policy needed to ensure proper use of public money

Recommendation

The Council should review its recognition of service policy, dated May 2015, to provide further direction and guidance on the proper use of public money to ensure:

- the reason for the recognition is clearly aligned to the Council's business purpose
- the expenditure is necessary and the amount spent represents prudent expenditure behaviour.

Finding

We acknowledge and support the importance of councils recognising employees who are dedicated to their work and make long-term contributions to achieving the council's objectives and providing services to its community.

Consistent with the SA recognition guide, we also acknowledge that establishing reward and recognition can be highly complex in entities that manage and spend public money. In our view, it is important that a council carefully considers the expenditure principles when developing and implementing any recognition programs.

The Council officially recognises long-serving employees whose continuous service exceeds 25 years under its recognition of service policy as follows:

- the employee receives a gift of their choice to the value of \$575. The gift is presented to the employee by the Mayor, the CEO or a General Manager
- the employee becomes a member of the 25-year club. 25-year club members are invited to attend an annual lunch with the Executive

- for each subsequent five years of service, the employee receives a dinner or gift voucher¹⁹ to the value of \$250.

The credit card transactions we tested included a \$750 payment for the annual 25-year club lunch. This amount was a deposit and the total cost of the lunch was \$2945.

We also reviewed a \$415 payment for a gift to an employee for their 25-year work anniversary.²⁰

8.3.2.1 Policy intent is not clearly aligned with business purpose

The purpose of the expenditure was consistent with the Council's recognition of service policy. This policy does not clearly explain how reaching the required number of years of continuous service is aligned with the Council's business purpose. It is unclear how incurring this expenditure (ie gifts and an annual lunch) contributes to achieving the Council's objectives or performing its functions, the business benefit to the Council and how it encourages behaviours that support the Council's values.

Reaching the required number of years of continuous service is a significant personal service achievement. It does not necessarily align with achieving, and therefore warrant recognising, high performance.

In our view, it is important that any recognition program that recognises an individual's significant achievements are clearly aligned to business purpose and high performance.

In our view, the Council had not clearly demonstrated the proper use of public money by incurring the expenditure for the annual lunch. This was because, in our opinion, the Council had not clearly justified the business benefit of this annual expenditure to recognise a significant personal service achievement.

8.3.2.2 The extent and value of the loyalty of service reward was considered unnecessary and excessive

When spending public money, it is important that the value of the reward can be easily justified and is demonstrably reasonable for the performance being recognised.

A core principle in recognising employees is that it is immediate. An employee achieves this milestone once and it is timely to recognise this achievement on, or close to, the employee's 25-year anniversary.

In our view, it is not necessary for the Council to incur all these costs in recognising an individual's 25 years of continuous service. The extent of the loyalty of service reward, in our opinion, is excessive. The Council should review the frequency of the years of service being rewarded (ie every subsequent five years after 25 years, an annual lunch) and identify alternative rewards that have little or no cost to the ratepayer.

¹⁹ Vouchers are bought from restaurants and stores within the Council area.

²⁰ The employee also received a \$160 gift voucher. The total gift value was \$575 in line with the policy.

In our view, paying for an annual lunch was not a proper use of public money. In our opinion it was not necessary for the Council to incur this cost in addition to a gift to recognise an individual's 25 years of continuous service milestone.

8.3.3 Policy guidance for staff recognition could be improved

Recommendation

The Council should review its recognition of achievement policy and guideline to ensure:

- all recognition programs are aligned with its organisational objectives and values and are consistent with the policy's principles
- staff are recognised for a significant standard of performance to achieve the Council's objectives and deliver services to the community. The standards of significant performance for each recognition programs should be clearly defined
- adequate records are maintained to explain the reason for the recognition and how it is for the Council's business purpose
- the nature of all rewards is appropriate and relevant to the performance or behaviour being recognised
- it is necessary to incur the cost and the value of all rewards is modest or at no additional cost to the Council and is relevant to the performance or behaviour being recognised
- the total cost of all recognition programs is modest and withstands public and Parliamentary scrutiny.

The Council should consider doing the following in reviewing its policy:

- to inform its decision on future practice, survey its community to understand the public's expectation of what sensitive expenditure may or may not be funded by public money, or coordinate with other councils to obtain this information
- research the expected benefits to the Council and its community of any proposed monetary recognition practices
- consider keeping volunteer recognition separate by providing for it in the Council's volunteer policy.

The Council should review its recognition of achievement transactions to ensure the new policy and guideline is implemented and operating effectively. We expect the Council will consider the policy improvements identified against its current priorities and risks to determine the time frame it considers reasonable to review its policy and review relevant transactions.

8.3.3.1 Some recognition programs are not clearly aligned with business purpose and policy intent

Finding

The recognition of achievement policy, dated September 2019, applies to all Council employees and volunteers. It was introduced after we completed our examination work and

was not in place when the expenditure transactions we tested were incurred.

We note that the new policy and related guideline include the following principles:

- any expenditure must represent value to the Council's community, be reasonable for the circumstances and be publicly defensible. The guideline provides maximum expenditure limits
- recognising employee and volunteer performance to encourage behaviours that support the Council's values
- recognition will be fair, consistent, transparent, clearly stated and easily accessible for all employees and leaders
- achievement will be recognised as soon practicable
- recognition is largely orientated towards appreciating and valuing employee contributions and efforts rather than providing financial rewards.

Some recognition programs, in our view, are not clearly aligned with the Council's business purpose and policy intent of recognising significant achievements and performance. In our opinion, the standard of performance being recognised should be higher than satisfactory given staff are already remunerated for performing their roles.

We were not satisfied that for all Council recognition programs there was a clear link to recognising a high standard of employee performance or alignment to business purpose. Further, the reason for the recognition was not, in our opinion, clearly aligned with the Council's business purpose. The following are examples of this.

Employee farewells

The Council funds farewell celebrations for its employees to recognise their achievements and efforts while working within the organisation. We note the policy limits the amount of public money spent to \$50 per event.

In our opinion there was not a clear business benefit obtained by the Council in funding these farewell events. Further, in our view, these events are not consistent with the principles provided in the recognition of achievement guideline, which states that:

Recognition is a key part of our "Living Blue" culture and allows us to attract, motivate, reward and, ultimately, retain employees who strive for excellence.

Recognition of achievement will be attributed as soon as practicable following the achievement.

We consider that costs incurred for farewell events are an unnecessary and inappropriate use of public money.

Christmas social functions

The recognition of achievement guideline provides that the Council funds a Christmas event, held after hours, for all staff to thank them for their efforts and what they have contributed

to the community throughout the year. This is in addition to recognising the significant achievements and performance of an individual or a team.

The guideline sets the cost of the Christmas event, which includes catered food, drinks (including alcohol) and music/entertainment, at a maximum of \$50 per person.

We were not satisfied that the recognition of achievement guideline clearly identifies the significant performance and achievements being recognised by sponsoring an annual social event.

In our opinion, the business benefit to the Council from funding a Christmas event is not clear. We consider that costs incurred for music/entertainment and alcohol are an unnecessary and inappropriate use of public money.

The SA recognition guide states that recognition is most effective when it is specific and provided immediately after the performance achievement.

In our opinion these strategies are not consistent with the principles of reward and recognition but relate more to supporting staff wellbeing and morale. Such events would typically be organised and funded by an entity's social club, and are activities separate from the entity and not funded by public money.

The Council may decide to contribute to a social club event (either financially or by allowing the use of Council facilities). Generally, it is our view that it is not necessary or appropriate to use public money to fund social events.

Where the Council makes a financial contribution to a social event or gift to an employee, it also exposes the Council to the risk of negative public and Parliamentary scrutiny of its use of ratepayer and taxpayer funds. It is imperative that it can clearly demonstrate that it has observed the expenditure principles outlined in section 3.3.2 and, without any doubt, its expenditure decision can withstand public and Parliamentary scrutiny.

Community expectations

In recent years, some councils' expenditure behaviours have been subject to public criticism because the nature of some expenditure (ie what public money is spent on) was not considered reasonable by the public. It is publicly known that the Onkaparinga Council has been subject to significant public criticism over its expenditure behaviours. While we have not examined the Onkaparinga Council's expenditure, we have sought to understand how it responded to the public criticism.

To inform its decision on future practice, the Onkaparinga Council surveyed its community to understand the public's expectation of what sensitive expenditure may or may not be funded by public money. The Onkaparinga Council considered the survey results when it developed its new hospitality expenditure guidelines.

In a council agenda paper, a public document, the Onkaparinga Council highlighted any expenditure where community sentiment did not align with its business practice. It also explained why some business practices were important and would continue, but that it would aim to minimise any associated costs (eg catering).

We consider that the Onkaparinga Council took appropriate action to seek, understand and consider its community's expectations on expenditure behaviours. It was then better informed to respond and develop its policies. We did not review the Onkaparinga Council's revised expenditure policies and guidelines in our examination.

8.3.3.2 Gifts to staff were not always necessary or appropriate

Finding

The Council's recognition policies provide for gifts to staff for:

- recognising an individual or a team for 'over and above' performance and achievements. The value of the gift is up to \$40 per individual per year
- retirement, where a gift is selected from a range of Council specific gifts up to the value of \$50
- achieving 25 years of continuous service. The employee receives a gift of their choice to the value of \$575
- every five years of service after achieving 25 years of continuous service. The employee receives a dinner or gift voucher to the value of \$250²¹

Where a gift is not listed in a policy or guideline, it is not permitted unless approval has been given by the CEO.

The SA Ombudsman's March 2017 report on the investigation of HomeStart Finance reported that:

... it is widely accepted that public officers should not expect to receive anything other than their salary. In my view, public officers are also expected to avoid any perceptions of receiving anything more than their salary ...

... Whilst rewarding and recognising staff for their achievements, and creating a positive work environment are appropriate, I do not consider it is appropriate to do this with alcohol or gifts ...

Consistent with the SA Ombudsman's view, it is our view that remuneration derived from positions held by Council staff should be considered sufficient and appropriate monetary compensation for performing their duties. This is informed by the low tolerance of taxpayers and ratepayers to this type of public expenditure we have noted in the past. Accordingly, we consider gifts, other than in rare circumstances and where the business purpose is clearly justified, are not a necessary or appropriate use of public money.

²¹ Vouchers are bought from restaurants and stores within the Council area.

For the transactions we reviewed, in our view payments for the following gifts were not a proper use of public money:

- the 25 years of service gift
- gift vouchers to employees for work performance
- gift vouchers as prizes for team building activities.

We consider it was unnecessary for the Council to incur these costs and it was inappropriate to reward an employee with a gift. The expenditure decisions were not transparent as the records did not adequately explain the standard of work performance being recognised.

Further, the SA recognition guide outlines key considerations when providing reward and recognition, which include:

Keep the Code of Ethics in mind to ensure that your reward or recognition can be upheld, in particular, against the Professional Conduct Standards (eg the use of government/public resources, conflicts of interest and acceptance of gifts and benefits).

8.3.3.3 Recognising volunteers

Finding

The recognition of achievement policy and guideline also apply to the Council's volunteers. However, recognition programs are specific to employees. The nature and extent of recognising volunteer contributions is unclear.

We note that the Council's volunteer policy, dated March 2018, covers the management of volunteers. The Council's Volunteer Service Development Officer is responsible for the corporate recognition of volunteers. The staff who coordinate volunteers organise volunteer recognition and years of service celebrations. The policy does not provide any further guidance and direction on the recognition programs for volunteers.

The Council's website describes the ways it recognises volunteers:

- reference made in the Council's annual report
- volunteer newsletters
- celebrating national volunteer week
- certificates for length of service.

The transactions we reviewed included the cost of a Christmas lunch for 44 volunteers. This is not specifically listed on the Council's website as a potential recognition option.

The Council has 330 volunteers. They are a highly valuable resource in delivering services to the community. We acknowledge the importance of the Council recognising volunteer contributions. We also consider it is important that any recognition programs are consistent with the principles outlined in section 8.2.

In the absence of policy guidance on volunteer recognition programs, it is unclear:

- how the Council considers it acceptable to recognise volunteers
- how recognition programs are applied consistently across the Council to ensure it is fair and available to all volunteers
- how the Council ensures the total recognition program cost is necessary and appropriate.

8.3.4 Council response

The Council reviewed and updated its internal policies for credit card use, recognition, and hospitality, gifts and employee expenses before the examination was finalised. It will further review these policies to consider our recommendations.

The leadership team was provided with guidance on ensuring a prudent approach to reward and recognition and that it is fully transparent and accountable. This approach is further supported by all credit card transactions being published on the Council's website for public information.

The Council is considering undertaking an internal audit of its internal policies and the way they are managed and applied across the organisation. This will include reviewing recognition of achievement transactions to ensure they align with Council policy. The outcomes of this review would be presented to the audit committee and the elected body.

The Council is committed to creating and driving a performance-based culture that is focused on accountability and delivery. In doing so, the Council understands and values the importance of recognising the achievements of its workforce. This recognition is largely orientated towards appreciating and valuing staff contributions and efforts rather than providing financial rewards. The Council is focused on building a workforce that is passionate, engaged and appropriately recognised for effective and efficient delivery of services and projects to the community while living the values in the way they work.

The SA recognition guide provides guidance on reward and recognition and the benefits of a high performing workplace to the community. The Council recognises that not all rewards need to be financial and that this is reflected in its current practices and the revised recognition and hospitality, gifts and employee expenses policies.

The Council considered our assessment and interpretation was often contrary to the Public Sector's best practice guidelines in what would be considered a reasonable cost in certain circumstances to demonstrate the value it wants to acknowledge in staff who 'go over and above to deliver value and benefit to the community'. The Council stated that many of the transactions we examined were one-off reward and recognition transactions. These transactions were approved by officers with authorised delegations, having been deemed appropriate and reasonable for the circumstances of the transaction.