Reconceptualising Shared Services

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Abstract

The potential of shared services is a persistent theme in local government. Its advocates argue that it offers a practical way for councils to share experiences and resources. Tackle common problems and take advantage of economies of scale which is preferable to amalgamation. But so far it has promised more than it has delivered. Recent case study research on a new approach to shared services within two of New Zealand's local government regions suggests that issues of structure, and of how shared services are conceptualised, may both be critical factors in realising the full potential of shared services. These regions have used council owned companies for reasons of culture and accountability, and in one case reconceptualised shared services as inherently the management and sharing of information through technology, rather than specific physical activities. There is evidence that this reconceptualisation can overcome both political and managerial resistance, and underpin a separation between questions of service scale, and scale appropriate for effective local governance. The potential outcome is the ability on the one hand to realise economies of scale, and build strategic capability, whilst on the other enhancing the autonomy of individual councils and strengthening local governance.

Key words

Shared Services, New Zealand, Leadership, Local Governance.

1. Introduction

Endeavours to improve the efficiency and effectiveness of local government have been a persistent theme both of politicians in higher tiers of government and of interest groups, especially business. The two contenders for improvement which receive most coverage both in the research literature and in popular discussion are amalgamation and shared services. Arguments from the literature have generally favoured shared services over amalgamation.

Bish (2001) in a comprehensive review of North American research dismisses the argument for amalgamation as a product of flawed nineteenth-century thinking and a bureaucratic urge for centralized control. He does so making the very reasonable point that the presumed economies of scale which will result from amalgamation are a function not of the size and scale of individual local authorities, but of the services for which those local authorities are responsible, and the point at which economies of scale will be optimised will be very different for different services. The case against amalgamation is also reinforced by the absence of any significant post-facto evidence that amalgamation achieves either the promised savings or the anticipated efficiency gains (McKinlay 2006).

Despite this, the major strategy for seeking to improve local government performance in developed countries such as England, Canada, Australia and New Zealand has been amalgamation, typically forced or at least significantly encouraged by higher tiers of government. This approach has been reinforced by a clear lack of confidence in the potential of shared services to provide the desired improvement in local government performance. Queensland's Local Government Reform Commission whose report triggered a major restructuring of Queensland local government (Local Government Reform Commission 2007), dismissed shared services as an option with the following comment:

> Regional co-operative structures and shared service arrangements generally offer less efficiency and economies of scale than could be achieved through amalgamation (essentially because of the additional overheads they incur). However, they may have applicability in areas where amalgamation is not being recommended by the Commission.

The Royal Commission on Auckland Governance which reported on the establishment of a single strong unitary authority for the whole of the Auckland region (Royal Commission 2009), considered whether it should retain existing district and city councils as a second tier of local government. The Commission was very aware of the failure of previous attempts to improve efficiency across the region through the use of shared services[1]. It rejected the idea of a second tier commenting:

> The Commission considered the possibility of retaining the existing territorial or thorough cheese and limiting their powers, by removing from

[1] a failure attributed by one senior official who had been very closely involved with the negotiations, in a personal communication, as resulting from resistance on the part of second and third tier managers to what they perceived as threats to their personal empires.

their responsibilities relating to regional infrastructure and assets and development, and requiring councils to share services. The Commission concluded that this approach would be difficult to implement and would not necessarily achieve the organisational and cultural change required.

In England, despite a strong government emphasis since the Gershon review (Gershon 2004) on shared services as a means of achieving efficiency gains, progress has been at best relatively patchy. Deloitte (2010) in an overview of shared services in local government in England identified a number of inhibitors including:

- An absence of expertise, the cost of the initial investment and capacity.

- Behavioural and political obstacles, linked to individuals' careers or the risks of reducing headcount.

- A desire by elected members to maintain self-determination over front-line services and back-office support functions.

- Resistance to sharing control with another local authority.

The New Local Government Network, a leading UK think tank on local governance, notes on its website (www.nlgn.org.uk) that:

> the scale and scope of shared services remains extremely limited. Managerial, political, geographic and professional protectionism have too often impeded these reforms and led to their untimely demise. However, the UK's fiscal deficit and the imperative to make huge reductions in public spending are now making such apathy and insularity an unaffordable luxury. While the Government is committed to avoiding formal local government reorganisation, Ministers have advocated once again a much more widespread take-up of shared services and functions.

It does seem that, in England at least, the harsh reality of reduced funding is encouraging a renewed interest in the potential for shared services. A 2010 survey of Council attitudes to shared services undertaken by the law firm Browne Jacobson in conjunction with Ipsos Mori (Browne Jacobson 2011) reveals a shift in attitude since its previous survey in 2008. The survey findings include the comment "It appears on the surface that some of the barriers of the past are being seen as less of a hurdle as the full impact of austerity hits home." In some specific areas changes are quite marked. In 2008 half of public sector managers cited workforce opposition (53%) and lack of a collaborative culture (51%) as significant obstacles. In 2010 only 6% of senior managers regarded opposition from unions and staff as the biggest single obstacle, with 7% identifying the lack of a collaborative culture as key.

If this change is indeed happening, then it looks as though England may be moving ahead of much of local government in jurisdictions such as Australia, Canada and generally New Zealand. Dollery et al (2009) supports the view that although there has been some interest in shared services in Australia, progress has not been significant and substantially held back by many of the same barriers as had been identified in research on English local government.
Even in British Columbia which has had a long established tradition of eschewing forced amalgamation and relying, instead, on encouraging collaboration especially through regional districts (a form of voluntary collaboration), recent work suggests that there are still considerable difficulties from time to time in achieving the level of collaboration required (Regional District Task Force 2010).

The New Zealand experience has been similarly limited with some report of successful individual collaborations but a general sense that, especially in terms of any substantive activity, local government is still reluctant to go down the shared services route (a view which the Royal Commission on Auckland clearly held). Recent case studies undertaken as part of fieldwork for a report supported jointly by the Local Government Association of South Australia, and Local Government New Zealand, Consolidation in Local Government: A Fresh Look, point to a potentially encouraging development, with a new approach to the development of shared services based on a re-conceptualisation of the essence of the shared services endeavour.

2. New Zealand: Context

Apart from the Auckland Council, a major unitary authority representing one third of the country's population, New Zealand local government comprises two principal forms of local authority; regional councils and territorial authorities (which may be either city or district councils). There are currently 11 regional councils each of whose boundaries encompasses all or part of a number of territorial authorities (the 12th, the Auckland Regional Council, it is now subsumed within the Auckland Council) across the country. Their functions are primarily environmental management (including responsibility for air and water quality), land transport, the coastal zone out to the 12 mile limit and pest and noxious weed control. Territorial authorities are responsible for the bulk of local authority service delivery, including water and sewerage services, local roads, arts culture and recreation, local regulation (including district planning and building consents) minor health regulation and a wide range of other essentially local services. There are in addition four small unitary authorities each combining the functions of a regional council and territorial authority within their own boundaries, and one very major unitary, Auckland.

The second important contextual issue is the unique statutory framework which New Zealand has regulating the ability of councils to establish what are referred to as council controlled organisations (CCOs); these include companies owned or controlled by a council (or councils), trusts and other incorporated entities. The legislation gives councils wide powers to establish CCOs subject only to a requirement that they first consult their communities. Importantly, the legislation also includes extensive provisions regulating the relationship between councils and CCOs (see below). The intention is to strike a balance between the powers which normal commercial directors have to direct the company with limited interference from shareholders, and the demands for public accountability expected of any council owned activity.

3. The case studies

Case studies were undertaken of two regionally-based shared services initiatives, one in the Waikato region and one in the Bay of Plenty region. Both regions contain a mix of urban and rural councils. The Waikato region is dominated by a single city, Hamilton which is the centre of the region's business, educational health and public service activities. In the Bay of Plenty although Tauranga has a somewhat higher proportion of the regional population, Rotorua is the centre for a number of central government activities within the region, and educational and health services are more evenly distributed between the two centres. Both regions also contain smaller largely rural councils with limited resources and capacity purely because of their size. And in common with much of New Zealand local government, both regions were very aware of the pending restructuring of local government within the Auckland region, and concerned about the implications for their own regions. Both drew the inference that one consequence of the Auckland restructuring would be an increased emphasis on the efficiency and capability of local government in other parts of New Zealand.

Both had some previous experience of various forms of shared service - in the Waikato region a number of councils had been working on creating a joint capability for building consents; in the Bay of Plenty the regional council had played a role in providing IT support for smaller territorial authorities, and had led joint contracting for the purchase of aerial photography services, the contract for which was coming towards the end of its term. Personal relationships were an important factor in both cases. In the Waikato three key chief executives had a very close working relationship (Hamilton City, the Regional Council and the largest rural authority). In the Bay of Plenty chief executives of the regional council, Tauranga City and Western Bay of Plenty District Council (which surrounds the city) had been building a close working relationship through a joint long-term strategic land-use planning initiative, Smart Growth.

Waikato

The Waikato region was the first of the two regions to establish a regionwide share services initiative. The immediate trigger came out of the councils' rating responsibilities. Regional councils and territorial authorities both have rating powers. Prior to 2002 territorial authorities were obliged to act as collection agents for their regional councils. As the result of new rating legislation which came into effect in that year, collection of regional rates became optional for territorial authorities. The Hamilton City Council advised the Waikato Regional Council that it would no longer collect rates on its behalf - basically as a side effect of a major IT upgrade within the city. One consequence of this was a recognition not just by the Regional Council, but by a number of the territorial authorities within the region that they would each need to develop a new valuation database[2]. The precise means of doing this was seen as an administrative decision within the authority of individual chief executives (reflecting the split of responsibilities under New Zealand's local government legislation between elected members on the one hand and the chief executive on the other).

The task of developing a shared valuation database was seen as an appropriate one for a shared services approach. Led by the regional council, the councils took legal advice on the appropriate form for a shared services undertaking. The advice they were given was that they should establish a council owned company - under the legislation a council controlled organisation (CCO) - in which they would all be shareholders.

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[2] In New Zealand and local authorities must revise their rating valuations at least once every three years. Most local authorities relied on Quotable Value New Zealand (previously the government's valuation department) to provide rating valuations but councils in the Waikato concluded it would be more cost-effective to develop their own.

Briefly, a CCO operates under a legislative framework which includes a strong measure of accountability by the board of the company to the council owner(s). This includes the development of what is known as a statement of intent, developed by the directors in consultation with the council, which sets out matters such as the areas of business in which the company intends to engage, its performance requirements, its accounting policies, how often and how it will report to the council and a number of other matters. The board of a CCO is required by law to manage the company in accordance with its statement of intent. Importantly the council owner(s) has the power by resolution to require the Board of Directors to change the statement of intent, thus giving the council much greater influence than shareholders in a conventional company.

Two crucial decisions were taken as part of establishing the shared services CCO which had a major impact on its effectiveness. They were:

- Because of the number of councils involved (a total of 13) not all councils should be represented on the board. This was seen as necessary to ensure that the problems of bringing busy chief executives together for regular meetings could be managed. The constitution provided for six directors, with two each representing just one local authority (the city and the regional council) one representing two and three each representing three.

- Rather than establishing its own administration, including financial reporting, the new company should use the services of the regional council.

In practice, the board structure has proved problematic. The effect has been that the majority of the region's chief executives do not take a direct part in deliberations on the activities of the company. Those who are not board members are briefed by their representative prior to each board meeting, but that brief does not extend to giving the board members themselves discretion to commit the other councils they represent if any significant changes are suggested. This can seriously delay decision-making, and also helps undermine the collegiality which is important for an effective shared services organisation.

The decision to utilise the services of the regional council, rather than establishing its own administration arrangements, looked sensible in terms of cost minimisation but had an unintended and unfortunate consequence. The chief executive of the shared services company was unable to obtain timely financial information and was thus unaware of a significant cost blowout in the shared valuation database project, a blowout which seriously undermined the credibility of the shared services undertaking.

The Bay of Plenty

The Bay of Plenty did not face the same rating issue as the Waikato region (the Bay of Plenty councils opted to continue collecting rates on behalf of the region). Instead, the decision to establish a shared services activity was able to be a more considered one. Among the relevant considerations were:

- The belief on the part of two of the region's key territorial authority chief executives that in order to retain their local identity, they needed a strategy of radical collaboration - driven by a positive search for better outcomes rather than simply as a post-Auckland anti-amalgamation strategy.

- A recent history of successful collaboration on one-off issues (for example aerial photography).

- The availability of the Waikato region's legal advice on possible structures.

- An interest at the executive level in options for sharing access to selected services, especially IT in areas such as aerial photography and GIS.

The Bay of Plenty councils generally followed the Waikato approach with the establishment of a CCO but with three crucial differences:

- Each council should be represented on the board by its chief executive. One reason was the importance of building a collegial approach; this was seen as requiring the commitment of all chief executives (an important factor here was that one of the key chief executives was a member of the Institute of Directors with a very good understanding of corporate governance and of the differences between corporate governance in a commercial environment and within a local authority). The fact that the board now meets six weekly has played an important role in building trust and relationships among the region's chief executives as a quite separate outcome from the company's shared services activities.

- The CCO should have its own administrative arrangements, including control over its own financial reporting.

- In order to build credibility, it was seen as important to start with 'low hanging fruit' so as to achieve some early successes, rather than focus on a single major and complex project with the attendant risks if the project did not deliver the expected outcomes.

The chairman, and now the board as a whole, has placed a strong emphasis on principles of good governance including ensuring that directors understand the different interests they represent - as directors, as shareholders, and as chief executives of the company's clients. This includes ensuring directors understand that their obligation is to act in the best interests of the company, and not to favour their shareholder or client interest. It is now the practice that, if a director appears to be speaking from his or her shareholder or client interest, other board members will point out the director has stepped outside the director role.

The Bay of Plenty shared services company (formally titled Bay of Plenty Local Authority Served Services Ltd - BOPLASS) has established a successful record in delivering savings in a number of conventional shared services areas, primarily procurement of services and consumables (for example insurance and stationery, GIS and aerial photography). If this were all it had done, then it would simply be just another example of local authorities sharing a range of peripheral services with some reasonable benefits but no significant impact on their overall operation.

The potentially crucial breakthrough in thinking about shared services is a consequence of the region's involvement with the government's broadband initiative. For some years, New Zealand's central government has been engaged in a series of endeavours to encourage the widespread adoption of broadband services. The potential to connect up the councils of the region became a trigger for BOPLASS to rethink the nature of shared services. Its chairman now takes the view that the most useful way to think about shared services is as an exercise in sharing information. BOPLASS has established a 1Gbps fibre network linking the major councils in the region, and is putting in place microwave links to connect to the remaining councils. This connection is allowing a rethink of the way in which shared services are developed and managed, and of how councils access information about any particular shared service. It is providing an opportunity to develop capability which all councils can utilise even although they may lack the individual scale or financial resource to do this in any other way. A prime example is the development of GIS. BOPLASS will support a single centre of excellence which will serve all of the councils within the region (and any councils from outside the region which wish to join in with the service). The fibre network link will enable any other council instantly to access and utilise GIS data in respect of its area.

It is allowing the councils within the shared services consortium each to develop areas in which they can build specific strengths so that, for example, one council may specialise in debtors control, one in HR, and one in payroll management another in rating administration and so on. The fibre network is also expected over time to allow a seamless approach to administering a range of regulatory activities including building consents. There is also significant front office potential. With the ability of any council, from any office, to access all of the data held by councils across the region, each council office where ever it may be can act as a point of contact for a resident or ratepayer from anywhere in the region, and use the ability to access any council's database to answer questions about that resident or ratepayer's property or other concerns.

An immediate benefit from this approach is to strengthen local democracy. The argument that smaller councils should be amalgamated with their neighbours because they simply lack the capability or capacity to provide their districts with the full range of local government services loses much of its force. Councils of whatever size should have the ability to provide their communities with a full range of services (front office or back office) because of the "centres of excellence" approach and the way in which that is supported by data sharing and access. It also minimises the threat to council autonomy, and to incumbents on staff. Because it is a distributed model, the "centres of excellence" approach does not mean that services are removed from councils to be undertaken by some separate entity. Elected members should retain a sense of control over the services which the council provides, and staff will generally have opportunities for career development, rather than face the prospect of redundancy.

4. Conclusions

One conclusion of broad application which emerges from the case studies is the critical importance of people and personal relationships. Both shared services initiatives depended critically in their early days on the close personal relationships between key chief executives.
One, Waikato, effectively failed to realise its potential when those personal relationships ceased as the three chief executives whose personal relationships had been fundamental moved on to new positions. The new appointee to the position of chief executive at Hamilton City Council, whose role was pivotal in the development of any shared services strategy,

opted for a different approach focused on developing capability within his council rather than through a shared services structure. As a consequence what could have been additional shared services initiatives failed to gain any traction. The other, Bay of Plenty, has had the strong backing of two committed chief executives sharing a belief in the need for radical collaboration coupled with an understanding of the importance of good corporate governance among other things as a way of building a strong team. The recent resignation of one of those two chief executives has seen the partner councils within BOPLASS actively encouraging the recruitment process for that chief executive's replacement to specifically seek someone committed to a shared services approach.

The sense that even BOPLASS with its acknowledged success remains strongly dependent on personalities highlights an issue which merits further research; what is it within local government arrangements in jurisdictions such as England, Canada, Australia and New Zealand which makes apparently logical measures to improve efficiency so dependent on the whim or preference of individual executives (and politicians) notwithstanding the occasional consequences? It seems clear that one reason governments are so willing to intervene in the structure of local government is a sense that those responsible for decision-making within local government lack a sufficient commitment to ensuring efficient performance, especially when it does come to initiatives such as shared services. Is it a combination of the monopoly position of individual local governments as the deliverer of local government services, and a lack of any genuinely informed public understanding of the extent to which resistance to change costs ratepayers/citizens?

This paper has presented two different applications of a specific governance model in the development and delivery of shared services - a council owned company operating under New Zealand's council controlled organisation framework. The importance of attention to good governance is highlighted by comparison between the two companies. BOPLASS has placed very significant emphasis on building a unified board, maintaining and enhancing board commitment, and applying principles of good governance. The Waikato shared services company, in contrast, adopted a board structure which has made it difficult to build a unified sense of purpose. The contrast between the two also emphasises the importance of managing business risk. The Waikato decision to start with a single major and complex project set the scene for undermining the confidence of participating councils , when costs ran significantly ahead of budget, whereas the BOPLASS emphasis on achieving early successes has helped build the trust needed to undertake more challenging activities, such as the fibre-optic network. But the greatest interest from the case studies is the potential for shared services generally of the way in which BOPLASS has reconceptualised the idea of shared services.

The recognition that the common element in shared services is information, and the combination of effective information management and seamless access to data by all participating councils is leading to a major change in attitude especially on the part of council managements. Although it is still very much 'early days' in realising the full potential of this approach to shared services, including the 'centres of excellence' model, the potential to reshape the way that local government addresses shared services is clear.

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