



## **Shared Services the New Zealand Scene**

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## Setting the Context

OK – so you have left the office behind – you have turned off your phone – so now what?

Are you going to be able to use the lessons you will hear here – or will this session just confirm your worst fears. I guarantee that you will learn something over the next two days – and if you don't, then you can't have had your ears open.

So – get ready to open your mind to what might just be possible.

This conference is focused on helping you to see your way clear to think about something that you might just try – and benefit from.

So what are the key ingredients?. In kicking this off this conference, I think that we need to give some thoughts on

- What do we mean by “shared services”?
- Why is it important to be thinking about it now and what are the drivers?
- Some history and context to put in place where we are and where we've come from.

There are of course many more questions which we hope will shed some light on over the next two days.

### **Firstly ....what do we mean by “shared services”.**

In simple terms “local authorities (and others) doing things together”

We are talking about any local authority “doing stuff” with one or more others, and also with the private sector- so that they are **no longer solely responsible** for the activity.

You are now **co-dependant**. You are in the **collaboration mode**.

Over the next two days we are interested in exploring arrangements which are primarily between local authorities. Private sector or central government partnerships are thus not the focus – but rather incidental or perhaps secondary to our deliberations.

There are a number of scenarios we could be looking at :-

- 1 Arrangements where several local authorities are working together with themselves or a central government agencies? Or
- 2 Arrangements where several local authorities might source services from a single private sector provider?
- 3 We could be talking about “front end” service delivery, or “back office” capacity and capability sharing? Or
- 4 The potential for joint work at the level of policy and strategy?
- 5 Our prime focus is doing it with our own kind – rather than outsiders. This does not mean that other aspects are not interesting or important, just that they are not our focus at this event.

So all of these scenarios may be covered.

While there are some different issues between “front vs. back office” and “operational or service delivery vs. policy collaboration”. I think that there are common themes amongst them all.

And from the programme – you will see that there are examples of several types to workshop through over the next 2 days.

## **2 - Why Now?**

So why hold a conference on shared services now -in April 2007. The concept of shared services is not an entirely new one.

The Auditor-General's report in May 2004 identified a number of case studies and some "first steps" towards thinking about Shared Services. So why now – three years later?

Two related things....

Firstly, that it appears to be "an idea whose time has come" it is "in the air". We have some great examples to study that have been progressing quietly – yet positively.

Secondly, looking at the broad environment in which we operate, and in which we will operate in the future, there appear to be some important strategic drivers that look likely to make it a more important rather than less important activity for the future.

An idea whose time has come, perhaps. Certainly we feel the time has come to focus on thinking about it.

### **3. Some History**

Lets look back a bit to see where we've come.....

20 years ago the predominant model of public sector organizations was that they did not just ensure that things happened – they actually did them themselves.

Each local authority had its own internal capacity for delivering all the things that it was responsible for. In many respects each local authority was an "island unto itself". Remember roads, rates and rubbish? (not that long ago for some it would seem!) The biggest decision was buying a new grader.

From the mid 1980's there were major changes in thinking about the role and organization of the public sector.

In particular, this focused on re-examining the interface between public and private sectors.

In the 80's and 90's, the Private Sector was seen as the more effective and efficient model. Local Government re-organisation in 1989 helped to drive these changes.

Many activities of the local authorities that looked or were seen as “commercial” operations were hived off – into LATEs (as they were then called) or privatized.

Contracting with the private sector was the way of the future for construction of works and the delivery of services.

Local authorities were to operate in, and where possible through, markets. Contractual and other relationships with the private sector became an important part of how local authorities got things done.

**But interestingly - there remained very little emphasis on local authorities working with one another – perhaps the round of amalgamations in 1989 were seen as having “solved” the issues of the capacity of local authority to undertake their roles.**

Indeed the “managerialist” ideas that were a key element of the thinking of the time strongly emphasized the role of Chief Executive’s and other senior managers as autonomously “sailing their own ships”. Some early attempts to partner were not often successful.

Can any of you here remember the difficulties of trying to convince other councils of the potential benefits in a common approach to GIS in the early 90’s?

It is interesting to note that a GIS case study is being discussed here at this conference.

Having said that – the establishment of Local Government Online – in which I was involved – along with others here – Mike Manson and David Smith – was essentially a natural case of a shared service one portal being set up for the benefit of the sector. It was an idea of its time and we seized the opportunity.

At the same time relationships between central and local government organizations became more distant than they had previously been.

The restructuring of the state sector either abolished or made major changes to many of the central government agencies with which local authorities had their closest relationship – most notably the Ministry of Works.

The idea that there were elements of both local and national interest in key local infrastructure also retreated. A once large range of schemes that made central government funding and assistance available for local authority works largely vanished - outside of the roading sector.

At the political level - the prevailing theology was that there should be a clear separation between the roles of central and local government (to ensure clear accountability). Famously a mayor who raised local concerns at the level of Police resourcing in his district was told that if he wanted to take an interest in such things he should stand for Parliament. In other words - it was not his role to “get involved”.

By the end of the 1990s the limitations of this approach were becoming obvious. Indeed a major policy offer was made by Leader of the Labour Party, at the Local Government New Zealand Conference in Auckland in 1999 as part of the lead up to that year’s Parliamentary Elections. It was proposing a fresh approach – a partnership with local government. Perhaps it is the way of the world that one decade’s problem becomes the next decade’s solution.

So while the 1980’ and 90’s may have seen significant advances in terms of efficiency at an operational and managerial level, it was becoming increasingly clear that in big picture terms the expected benefits were not really flowing.

But our thinking had advanced from local authorities being organizations that “did stuff” - to being organizations that were operating through a range of relationships to get others to “get stuff done”

The focus began to shift from producing outputs to achieving outcomes. From the “bottom line” (generally simply financial and viewed in a very short term timeframe) to sustainability, and a concern with a range of wellbeings. “Joined-up-government” and “partnership” replaced a clear separation of roles between levels of government as the new relationship paradigm of the moment.

The LGA2002 (which now governs us all) is probably the quintessential expression of this line of thinking - about the governance and management of the public sector.

And one of the key threads of the LGA2002 - in a series of 'hints and nudges'- is in the direction of higher levels of collaboration not just between local authorities and other players in the community, but also among local authorities themselves.

For those of you who feel the need to check it - the principle in section 14(1)(e) is a gentle invitation to "collaborate, and co-operate" not just with other organisations in the community but also with one another.

Section 15 is intended to promote "communication and co-ordination" among regional councils and territorial authorities. I hasten to add that anyone contemplating a new shared services initiative should not necessarily base your experience at the triennial meeting round as necessarily a good example of co-operative endeavour.

Perhaps more significantly - the dynamic of identifying Community Outcomes presupposes a regional or sub-regional approach at the level of community planning. This front end of strategy and policy development has obvious implications for what follows and a number of regions adopted this approach with the first of the community outcomes consultation rounds – with varying levels of success.

I note on the agenda we have a presentation from Taranaki on this very matter.

So ... the underlying concept of a local authority has moved a long way from that of an organization that necessarily produces goods and services on behalf of the community. It is now one that that makes "decisions" in response to identified community needs, and has a relatively free hand as to which of a wide range of arrangements and relationships we can then employ someone to achieve those results.

This someone could be our own resources, it could be the private sector or the not-for-profit sector. It could be central government.

**But it could also be with another local authority - which is what we here to consider.**

### **Working with others.**

It's interesting. Over the past 20 years we have accumulated a wealth of experience in working through and with the private sector. We are familiar with the use of "arms-length" entities (CCO's in the current parlance), and are "learning as we go" at working with various central government agencies and not for profit groups within their respective areas of particular expertise.

However – and almost perversely - we have not had a major conversation within the local government sector about how to work with each other. Why is this? Why have we not worked more closely within our sector - before contracting out to the private sector.

### **Key drivers for change.**

So what's making us think about this now? The reasons surely go beyond the drivers that are seeded through the current legislative framework.

Over the past 20 years - we have moved a long way from the pre 1989 model.

There is no reason to suppose that the next 20 years will see any less change.

We can never see the future as clearly as we might like. But we can start from what we know and start to ask ourselves the "forward looking" questions.

Looking ahead - what are the "the big forces" that will create the future environment of local government?

### **Staff**

One stand-out candidate is the challenge of attracting the necessary skills and expertise to local government - this task is certainly not going to get easier.

The biggest worry that I have as a CEO – is to be able to sustain a full and capable (and indeed affordable) workforce. Clearly this is not a problem that this sector faces alone – we compete on the open market with all employers.

## **Levels of Skills**

Another major challenge is the required skill level of knowledge and expertise that our organizations are going to need across a range of areas are likely to continue to increase, and to include higher degrees of specialisation. In part this is simply driven by advances in our knowledge and sophistication as a society.

## **Higher Expectations**

But its is also driven however by higher public expectations and by the response of the legislation to this. Let's take a very topical example ...The new Building Act.

**E.g.** A key consequence of this legislation is that the building inspector of 2015 will be required to have a higher level of technical knowledge and expertise than his or her counterpart of 2005, let alone 1995. Not only will the average levels of expertise of our staff be driven up through time, but there will also be degrees of specialization within that workforce.

At the same time we have a generally aging workforce within an aging population. Furthermore the markets for the skills in which we will compete are becoming increasingly national – if not global. So how do we organise ourselves to compete? Small organizations typically do not provide the space for high levels of specialization, and provide very limited career paths. Hopefully the SOLGM sponsored recruitment and retention programme will help.

Do we need to be aggregating our organizational capacity into big enough clusters to provide more scope for specialists? Or should we simply rely on being able to buy-in the expertise from the private sector? And even if we do, we will still need a higher level of expertise to effectively manage smart purchasing and monitoring of those contractual arrangements?

This may emerge as a particular challenge for rural and provincial areas. Small communities are typically the domain of flexible generalists rather than specialists.

On the other hand metropolitan councils are likely to face a different set of challenges. In metropolitan areas the public are increasingly blind to local authority boundaries. They typically identify themselves as living in Auckland (or perhaps of a

suburb) rather than the respective city ie: Manukau City or Rodney District. They move from one district to another within the city at regular intervals to live work or play. Their idea of “local” is the “metropolis” - not the “district”. So I will be interested to hear from the case study on the regional library initiative in Auckland – which will tease out the challenges that service collaboration such as this can pose.

There is likely to be pressure for greater standardization across the metropolis and the region. This is the same dynamic that sees us moving towards greater harmonization of regulation between NZ and Australia, and even more broadly for NZ to subscribe to global standards such as IFRS.

A great example which I experienced first hand for smoothing the path through planning processes was the “Smart Permit system” which the councils in Silicon Valley – San Carlos, Palo Alto and other have introduced. In this area, 8 councils have got together and with the help of a major IT supplier and have utilized technology, the internet and have eliminated differences between each of their own planning ordinances to enable standard processing of building and planning permits. This included notification processes. It is a great example of the sort of the things that are possible if you have the drive and the determination to make it happen.

The lessons I learnt from that project and from Mike Garvie– City Manager of San Carlos - when I visited them in 2003 were the following:

- **Streamlining processes takes time**
- **Collaboration on new technology takes a lot of perseverance & work**
- **There are initial and ongoing costs**
- **The public expects us to keep going**

I am sure that we will see other great examples over the next few days. One for example might just be the Combined Planning project in the Wairarapa which sounds interesting and was one of the potential projects we identified at the Southland Shared Services Forum.

There are also case studies on adoption of the Hamilton City development manual as a regional tool, and on the attempt to develop a single set of Dog Control bylaws among Auckland local authorities.

Will ratepayers – your customers in provincial and rural New Zealand become less inclined to accept lower service levels than those they see when they “go to town”? To what extent can non-metros overcome the lack of economies of scale by working more closely together?

In the area of economic development, “the game” is increasingly one played between cities and regions. These regions are increasingly collaborating – driven by the combination of need, and carrots placed before them by NZ Tourism and the attraction of Major Regional Initiative funding. It is amazing to see the range of responses to the Ministry of Economic Development’s Regional Assistance Fund? The differences between regions and their capacity to co-operate and collaborate are huge. Regions that cannot get it together and play the game on that basis are non-starters. For example – over last 5 year period Southland has managed – through its collaborative agency Venture Southland – to attract \$3.2 in MRI funding and has leveraged that with other agencies to a total of \$19.5m

Over the same period – Otago has failed to get a single project approved.

**So joined-up thinking can be of major benefit to you and your communities.**

Finally – no look into the future from 2007 can be complete without some consideration of the possible implications of climate change and global warming. Just last week I went to Al Gore’s movie “An Inconvenient Truth.”

Clearly we are past the stage where it can plausibly be argued that climate change is not happening. However we are still some way short of understanding exactly how it will play out - and what the consequences will be in specific places at local level.

One thing that is clear however is that the effects in question relate to the behaviour of natural systems; winds, mountains, rivers etc. These will be essentially issues affecting catchments and coastlines - rather than the human “communities of interest” used by the LGC in creating the boundaries of cities and districts.

So should we not now be at the point where we should be starting to work through identifying the sorts of impacts that may occur and the options for mitigation? New challenges will be in store for us to address these new issues. Shouldn’t we work together?

And for once in Otago, we have agreed to support our regional council to move this project ahead – as a shared service or collaborative initiative.

### **Community Views.**

So what do our communities think of all this? Do they care?

One thing I think you will agree with – is that despite all the criticisms - communities value their own locally elected representatives – their own Mayor and Councillors. The thought of losing them is an anathema to most.

But are there the same feelings for the Council staff?

Now – some of your frontline people are no doubt highly valued by your community. And I bet that in most of your customer surveys, satisfaction levels with staff will commonly score higher than do elected members. But most members of the community still have a belief – completely unfounded as you know – that the council could operate with a whole lot less people. Why – because they cost money and earn way over the market salaries!

So if the prospect of sharing resources/services is likely to

- Improve services.
- Reduce or contain costs.
- Strengthen and retain local democracy and governance or
- Sustain the council's operational future

then the prospect of a shared service initiative gaining public acceptance is or should be an easy sell. I believe that provided service levels are being upheld and hopefully improved – your communities will be supportive of most shared service offerings. It's all in how the proposal is promoted – and in particular – how your own people who are affected by the proposal - how they promote it.

But cost is not always the key driver – so don't assume that it is. Sometimes the most important thing for our citizens is quality and reliability. For example....

In September 2003, I made a presentation to a group of Mayors and City Managers in Hastings – Dakota County – Minnesota. This was part of a SOLGM Management Exchange which I was lucky enough to go on in 2003. This group were exploring ways of achieving greater cost effectiveness and were keen to explore ways to collaborate further – and wanted to hear ideas from others.

Subsequently they set up a forum – not unlike the one which we established in Southland – and went on to build - as one of their initiatives, a combined communications centre for the purpose of dispatch and control of emergency services - including Police, Fire and Ambulance services. (\$20 million US) This involved 12 city councils as well as the Dakota County Council.

Interestingly – but perhaps not surprisingly; following a survey of citizens – it was found that quality of the service was overwhelmingly the most important consideration for citizens (81%) compared with 49% for the next highest which was cost impact.

In the same survey, respondents were asked if their unit of local government was doing the right amount of partnering with other local governments to deliver services – or should it do more or less?

55% responded that their local unit should do more, while only 7% thought it should do less. Has anyone here done any similar activity? I am sure we would all be interested to hear of the results.

In then surveying the staff of the 12 city councils in Dakota County – more than 60% felt that their council should do more in partnering with other units of local government. What would your staff think? Would it represent an opportunity – or a threat?

### **Lessons Learned.**

A key lesson learned in this Minnesota case was the need to (as per their ICMA Best Practices Symposium case study) and I quote ***“build trust and respect between elected officials and officers across jurisdictional boundaries – without which no project can move ahead.”***

### **Other lessons ...**

- There are benefits to be gained.
- Implementing multi council change is a real challenge
- Forward Planning is essential.
- Communication, communication, communication.
- Not all councils will have the same commitment to any one project.
- The biggest challenges are from internal staff, not the politicians.
- At the end, it always comes to people.

There are many more lessons out there – which is what we are to here to learn. So this is an important starting point - and is just as valid here – as in Minnesota.

### **Summary**

So is shared services the answer to some of the challenges we face, or part of the answer, or will we all look back in 10 years time and see it as having been a fashionable red-herring, or perhaps as an opportunity missed?

Will a successful local authority of 2017 be one:

- where a council makes decisions drawing on the advice of a shared regional pool of strategic planners and policy advisors? and,
- where finance and asset management is pooled on a regional or sub-regional basis?, and
- Where the regional library service runs a clustered service for neighbouring districts to the differing service levels as specified by each of the different councils – as with Auckland? and,
- Where the jointly owned regulatory services shop enforces controls across the various districts with a consistent approach to local by-laws and regulations - except where councils have explicitly decided otherwise?.

As you will see all of these things are possible. Is this the future? Or just a dream? Or could it be your worst nightmare – if forced upon you or if not managed and planned well.

## **What is the alternative?**

If local government is not seen to be responding effectively to the challenges facing it, it seems inevitable that this will fuel calls for that eternal “solution in search of a problem” – otherwise known as amalgamation. And we know that communities do not often respond positively to these proposals.

There may also be greater political interest at the national level in a strengthened overview and co-ordination role for regional councils.

So can shared services yield improvements in efficiency and improved service levels without the high cost of amalgamations, in terms of the loss of autonomy and representation?

I believe it can, but we need to get on with it .....we need to make progress.

We are at a point where there seem to be sufficient “push factors” in our environment to require us to start seriously looking at where the opportunities lie, and start making progress towards them.

While there may not be a major appetite for amalgamations politically, the push could still come.

Over the next two days there will be a large number of case studies presented telling the stories of a range of shared services arrangements from across the country.

I think this is an excellent start. but I also think we need to do more.....

Hopefully this will prompt us to start the necessary conversation about shared services and to share our distilling of some common understandings about a whole range of related issues.

What has worked.....What hasn't?. What problems do such arrangements seem to address, and what new problems they give rise to. What governance arrangements best suit the situation?

When I first became a Chief Executive 12 years ago – the wise father of a close friend of mine handed me a piece of paper. I still have that piece of paper. On it were written two quotes. The one I like the most - simply reads

**“Make no small plans. They hold no magic to stir men’s blood!”**

Be bold. Stay in control.

Do not flinch from the challenge – if you do not embrace the opportunity– another set of circumstances will increasingly run your agenda.

And if at first you do succeed, try not to look astonished.

Many thanks and best wishes for a great learning experience.