



Local Excellence

Councils Working Together for Communities

Financial Sustainability

Information Paper 7

Service Delivery Framework & the Role of Shared Services

Revised January 2012



Introduction

This Information Paper is one of a series of Information Papers about Financial Sustainability and Financial Governance in Local Government.

The series of Information Papers was originally published in 2006 to 2011 as part of the Financial Sustainability Program. The history of that program and a complete list of Information Papers and other resources, including a glossary of terms and abbreviations, is provided on the LGA's "Financial Sustainability" web page: <http://www.lga.sa.gov.au/goto/fsp>.

The entire series of Papers was revised in early 2012 to take account of legislative changes and other developments. These Papers are addressed to, and written primarily for the benefit of Council Members and staff, but they are also available as a resource for the general public and students of Local Government.

Service delivery

In 2009-10, South Australian Councils managed more than \$18 billion of infrastructure and other assets and provided \$1.6 billion of services.¹

Councils work together in many different ways to deliver services to their communities. The models through which Councils co-operate in service delivery range from participation in structured legal entities, such as

- the [LGA Mutual Liability Scheme](#);
- the [LGA Asset Mutual Fund](#);
- the [Local Government Finance Authority](#);
- [Local Super](#);
- the [LGA Workers Compensation Scheme](#);
- [Local Government Corporate Services](#);

and a variety of subsidiaries which undertake common functions on behalf of various Councils through to other formal and informal arrangements with other Councils, other spheres of government and the private sector.

The 2005 [Independent Inquiry into the Financial Sustainability of Local Government](#) noted that there were many forms of cooperation and integration between Councils but nevertheless challenged Councils to do more. Specifically the Inquiry report recommended:

“That, in canvassing alternative methods of delivery, councils consider further resource-sharing initiatives, especially involving the smaller councils, ranging from working together more effectively to more formalised regional groups, area integration and whole-of-sector initiatives.”

This paper examines the overall framework within which Councils deliver services and the delivery models they use with a particular focus on the role of shared service delivery and describes the range of shared service delivery.

The [Local Government Act 1999](#) (“the Act”) sets out the responsibilities of Councils to use their resources efficiently. The Act outlines arrangements for joint delivery of services with other Councils, governments etc. and the requirements when entering into commercial arrangements. Specific provisions regarding the establishment and operation of subsidiaries are also outlined in the Act.

¹ Source: Local Government Grants Commission 2009-10 database report.

A Framework for Service Delivery

Councils have a range of responsibilities and accountabilities, in providing services to their communities, which cover:

- ensuring that community assets are looked after and maintained;
- ensuring that policy decisions of the elected body enhance community planning and facilitate growth and prosperity in the community;
- ensuring that management and staff implement policy decisions effectively and efficiently and with a sufficient level of autonomy;
- working with other spheres of government and agencies so that the community receives the appropriate level of services and funding to meet its needs; and
- ensuring that revenue-raising effort and other fundraising available is sufficiently balanced to meet expenditure responsibilities and policy choices made on behalf of the community.

In determining service provision choices and adopting a policy framework for service provision it is essential that Councils are clear about the "business of Local Government" and have a strategic management planning framework that supports the service provision choices they make. Key questions that should be asked include:

- Are the services being provided consistent with Council's vision, strategic management plans including long-term financial plan and infrastructure and asset management plan?
- Is Council providing the right level of services to meet its community needs?
- Is Council advocating with other spheres of government for the provision of services, where appropriate?
- Is Council providing services in the best way it can – is there room for improvement?
- Should Council be providing services directly itself or be facilitating the provision of some services either in conjunction with others (resource sharing) or through a third party?
- Does Council have an employee relations environment that easily enables it to examine its service provision approaches, make changes to the way the services are provided or adopt new delivery methods?

Councils have a number of delivery models within which they may elect to provide services. These include:

"Own Right" Service Provision – Council exclusively uses its internal resources to provide services.

Contestability - assessing and comparing the efficiency and effectiveness of a current means of service provision by comparison with other providers (private and/or public).

Competitive Tendering - exposing the provision of Council services to competition through a formal tendering process irrespective of whether the service has been traditionally provided by Council employees or an external provider. The tendering process may involve "in house" staff teams tendering with external providers for specific projects, services and activities.

Contracting Out - contracting with an external organisation to provide a service for Council.

Collaborative Ventures - undertakings or projects which have been developed as a result of two or more parties (Councils, Governments, private sector, community groups) working together to achieve common objectives. This is the model relied upon by the various Councils engaged in resource sharing activities (i.e. shared service delivery).

Subsidiaries - establishing, under the Act, a separate incorporated body either in Council's own right or in collaboration with other Councils to provide a service for the Council or each of the constituent Councils.

Before any delivery model is chosen a Council should attempt to assess the potential consequences, both financial and otherwise.²

The remainder of this paper focuses on collaborative arrangements that result in shared service delivery with another Council or entity.

What is Shared Service Delivery?

Shared service delivery simply means the provision of a service in collaboration with another Council or other entity. It involves Councils working together or with other organisations to do things more efficiently or effectively than they could do by themselves. Typically this could involve participation in:

- sector-wide service arrangements;
- regional service arrangements;
- professional or other interest-based forums;
- joint activities with another Council (or Councils);
- joint activities with the private sector;
- joint activities with other spheres of government.

A table setting out the range of shared service delivery models in South Australian Local Government is included as Attachment 1.

Communities ultimately reap the benefits of shared service arrangements by their Councils. These benefits accrue to ratepayers in a number of ways including:

- the achievement of greater economies of scale;
- access to a wider range of skills through sharing of skills and knowledge between Councils;
- access to a wider range of specialist services;
- reducing duplication of service delivery in a Council area or region;
- the creation of centres of Local Government service excellence;
- the sharing of risks with other entities;
- greater utilisation of capital and other assets;
- improved access to technology;
- strengthened relationships with other Councils and Local Government entities;
- strengthened relationships with other spheres of government; and
- strengthened relationships with private sector entities.

² See LGA Financial Sustainability Information Papers:

- No. 22 - *Risk Management Plan*; and
- No. 27 - *Prudential Management*

at <http://www.lga.sa.gov.au/goto/fsp>

The sharing of service provision between Councils is often a means of improving efficiency without the potential reduction in democratic representation that might, for example, arise through the amalgamation of Councils.

What does the Act require?

The [Local Government Act 1999](#) contains a number of provisions which govern the manner in which Councils deliver services in collaboration with other entities.

Section 7 sets out the functions of Councils and includes:

- to establish or support organisations or programs that benefit people in its area or local government generally;
- to manage, improve and develop resources available to the council.

Section 8 charges Councils with the responsibility to:

- ensure that their resources are used fairly, effectively and efficiently;
- participate with other Councils (and State/national governments) in setting public policy and achieving regional (State and national) objectives;
- ensure the sustainability of their long-term financial performance and position; and
- co-ordinate, with the State, the planning and delivery of services in which the State has an interest.

Under Section 36 Councils may enter into any kind of contract or arrangement and may act in conjunction with another Council, authority, or person. Section 48 sets out the prudential requirements that govern Councils' participation in any commercial activities, and Section 49 sets out the provisions governing Councils' contracting and tendering activities.

Councils may engage in commercial activities or enterprises and may establish a business or participate in a joint venture, trust, partnership or other similar body (Section 46). However, a Council must not participate in the formation of a company³ or acquire shares in a company (Section 47). Instead, a Council may establish a single-Council subsidiary (Section 42) or join with one or more other Councils in establishing a regional subsidiary (Section 43). Subsidiaries may be established to:

- provide specified services;
- manage or administer property or facilities;
- carry out specific activities; or
- perform functions of the establishing Councils.

A single-Council subsidiary may not perform the regulatory functions of the establishing Council whereas a regional subsidiary may perform the regulatory activities of the constituent Councils, providing that it does not also perform a significant and related service activity. The establishment of a subsidiary does not detract from the powers of Councils to act in relation to the activities covered by subsidiaries.

A Council also has the power to commission, at any time, an efficiency and economy audit of any part of a Council's operations.⁴

³ The only exception is "a company limited by guarantee established as a national association to promote and advance the interests of an industry in which Local Government has an interest."

⁴ [Local Government Act 1999](#) Section 130A. See the LGA's Financial Sustainability Information Paper No. 5: *Efficiency & Economy Audits*, available at: <http://www.lga.sa.gov.au/goto/fsp>

What are the issues for Councils?

Participation by Councils in shared service delivery arrangements can lead to improved efficiency in operations and assist Councils to achieve or maintain financial sustainability. Councils should examine all possible options available to them for co-operative service arrangements: from participation in sector-wide arrangements established under the auspices of the LGA to informal or formal arrangements with neighbouring Councils, other governments and the private sector.

Participation in a joint service arrangement in no way diminishes a Council's responsibility to prudently and transparently manage its activities. When considering a shared service arrangement, a Council should clearly identify, for each opportunity:

- the services, functions or activities to be undertaken and the standard to which they will be provided;
- the form and content of any business plans and how Council will be involved in their preparation;
- how funds for the service provision will be made available to the provider;
- the limits on the provision of funds by the Council;
- how budgets will be approved and varied;
- how revenues will be applied;
- profit sharing and dividend arrangements;
- requirements for audit of the activity;
- the regularity and comprehensiveness of financial and performance reporting;
- ownership of any assets used in the service provision;
- issues relating to insurance and risk management: and
- how any residual liabilities will be met on the winding up of the arrangement.

Councils are encouraged to continually identify and pursue opportunities to achieve greater efficiencies in their operations through shared services and other arrangements.

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Attachment 1: South Australian Local Government Joint Service Delivery Opportunities and Examples

MODEL	DESCRIPTION/ CHARACTERISTICS	ADVANTAGES	DISADVANTAGES
Statutory Model	Body created by its own legislation – e.g. the LGFA under the Local Government Finance Authority Act 1983 to centrally manage borrowings for Councils and investment of their surplus funds.	Accountability and transparency – subject to Parliamentary scrutiny and audit by the Auditor-General	<ul style="list-style-type: none"> • May not be an appropriate vehicle to provide a wide range of services • Limited by the need to amend the legislation and/or prescribe regulations to alter the framework in which it operates • Potential risk of the LGFA Board focussing on maximising its profits at the expense of helping Councils minimise their net interest costs
LGA Business Units Model	<p>The LGA has established a number of separate business units managed by LGA Standing Committees e.g.</p> <ul style="list-style-type: none"> • the Mutual Liability Scheme and the • LG Workers Compensation Scheme <p>These two schemes both trade under the banner of Local Government Risk Services. They also involve State Government representation on their respective Standing Committees.</p>	Schemes operate under specific sets of rules and complete publicly accessible annual reports	The need to have other government representation could be an issue

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Attachment 1: South Australian Local Government Joint Service Delivery Opportunities and Examples
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MODEL	DESCRIPTION/ CHARACTERISTICS	ADVANTAGES	DISADVANTAGES
LGA Corporate Model	The LGA is the sole owner of a Trustee company, LGCS Pty Ltd (trading as "Local Government Corporate Services") which provides purchasing and procurement services and advice to the Local Government Sector.	<ul style="list-style-type: none"> • This body operates in compliance with relevant companies legislation • This model has some attractions given its purchasing role • Able to provide a range of services to all Councils • Able to achieve economies of scale and potential savings • Able to provide geographic focus (metro/regional) • Able to manage outsourced contract(s) 	Need to explore whether this model has capacity to provide a broader range of services beyond its existing portfolio
LGA Corporate Contractual Model	The LGA provides a range of services to benefit Councils via contracts with private sector organisations. This includes significant property and workers compensation insurance services with Jardine Lloyd Thompson. Other contracts currently in place cover industrial relations and legal services.	This model could be applied to other areas	The issue of creating a structure which would not be seen as privatisation may need to be addressed
Combined LGA Business Unit Model/Corporate Model	A combination of the above models	Could be applied to a number of activities	Need to be careful to separate the commercial and policy roles

MODEL	DESCRIPTION/ CHARACTERISTICS	ADVANTAGES	DISADVANTAGES
<p>Single-Council Subsidiary</p>	<p>A Council may establish a single subsidiary:</p> <ul style="list-style-type: none"> • to provide a specified service or services; or • to manage or administer property, facilities or activities on behalf of the Council; or • to perform a function of the Council. 	<ul style="list-style-type: none"> • Able to operate as a corporatised organisation without same constraints as a Council business unit/department • Able to provide a range of services to Council • Able to achieve economies of scale and potential savings • Able to engage professional expertise • Able to provide geographic focus (metro/regional) • Able to manage outsourced contract(s) 	<ul style="list-style-type: none"> • Liabilities incurred or assumed by a subsidiary are guaranteed by the Council • Must conform with the principles of competitive neutrality • Subject to all of the constraints of the legislation e.g. mandatory business plans, reporting etc.
<p>Regional Subsidiary set up by two or more Councils</p>	<p>Two or more Councils (the constituent Councils) may establish a regional subsidiary:</p> <ul style="list-style-type: none"> • to provide a specified service or services or to carry out a specified activity or activities; or • to perform a function of the Councils under this or another Act. <p>If a regional subsidiary is established to perform a regulatory activity of the constituent Councils, the subsidiary cannot also perform a significant and related service activity.</p> <p>Examples exist in waste management and environmental health services.</p>	<ul style="list-style-type: none"> • Able to operate as a corporatised organisation without the same constraints as a Council business unit/department • Able to provide a range of services to Councils e.g. waste management • Able to achieve economies of scale and potential savings • Able to provide geographic focus (metro/regional) • Able to manage outsourced contract(s) 	<ul style="list-style-type: none"> • Liabilities incurred or assumed by a subsidiary are guaranteed by the constituent Councils • Must conform with the principles of competitive neutrality. • Subject to all of the constraints of the legislation e.g. mandatory business plans, reporting etc.

MODEL	DESCRIPTION/ CHARACTERISTICS	ADVANTAGES	DISADVANTAGES
<p>LG Groups and Committees</p>	<p>Groups and committees formed under the auspices of LGA to share ideas and expertise and provide advice to the LGA State Executive. Examples include:</p> <ul style="list-style-type: none"> • Metropolitan Local Government Group (MLGG); • SA Regional Organisation of Councils (SAROC) 	<ul style="list-style-type: none"> • Able to act on collective interests of LG as a whole • Able to develop “single voice” to other Governments • Able to engage the best knowledge and skills in the sector • Can be formalised or ad hoc depending on the issue 	<p>No guarantee of obtaining unanimous approach or commitment to issues</p>
<p>LG Professional Organisations</p>	<p>These are organisations which are created to pursue particular issues or provide a forum for categories of LG professions. Examples include the:</p> <ul style="list-style-type: none"> • Local Government Managers Association (LGMA), • Financial Management Group (SALGFMG); and • SA Institute of Rate Administrators (SAIRA). 	<ul style="list-style-type: none"> • Able to act on collective interests of LG as a whole • Able to develop “single voice” on particular issues • Able to engage the best knowledge and skills in sector 	<p>No guarantee of obtaining unanimous approach or commitment to issues</p>
<p>Regional Association of Councils (ROCs) – better known as Regional LGAs. Many of these are established as Section 43 regional subsidiaries.</p>	<p>ROCs are 'partnerships' between groups of Local Government entities that agree to collaborate on matters of common interest. They are diverse in size, structure and mandate, but all satisfy the criteria that members:</p> <ul style="list-style-type: none"> • join voluntarily • demonstrate their commitment in the form of financial and/or in kind contributions • have agreed to a constitution or some other formal set of objectives • recognise a range of common issues and interests • nominate representatives to the ROC's executive board. 	<p>Resource sharing is an integral part of a ROC's operation</p> <ul style="list-style-type: none"> • Collaboration and action at a regional scale • constituting a forum through which the experience, ideas and efforts of member Councils can be captured and cultivated • Undertake research on a regional perspective • Undertake regional strategies integrating economic, social, environmental and cultural development • Provide advocacy, brokering and facilitating role 	<ul style="list-style-type: none"> • No guarantee of obtaining unanimous approach or commitment to issues • Not always achieve outcomes in an expeditious manner

MODEL	DESCRIPTION/ CHARACTERISTICS	ADVANTAGES	DISADVANTAGES
Council to Council	A Council providing service(s) to one or more Councils e.g. payroll, planning, HR, plant and equipment	<ul style="list-style-type: none"> • Able to achieve economies of scale and potential savings • Able to utilise professional expertise • Able to overcome skill shortage • Able to provide geographic focus (metro/regional) • Able to manage contract 	Need to be careful to separate the commercial and policy roles
Council to Council (reciprocation)	Two or more Councils forming an “alliance” to share resources on a portfolio basis e.g. people, plant and equipment, I.T., libraries. An alliance may be based upon professional expertise at each Council e.g. one Council taking responsibility for libraries, another for I.T. etc.	<ul style="list-style-type: none"> • Able to achieve economies of scale and potential savings • Able to utilise professional expertise • Able to overcome skill shortage • Able to provide geographic focus (metro/regional) • Able to manage contract 	Need to be careful to separate the commercial and policy roles
Lead Councils	A Council taking the lead and sharing knowledge and expertise with other Councils e.g. wetlands. The Local Government Research and Development Scheme may assist Councils that take a lead role in a project where the outcomes have widespread applicability across Local Government.	<ul style="list-style-type: none"> • Other Councils able to use/share expertise of lead Council • Not “reinventing the wheel” 	Other Councils not being recognised for their contribution/input/investment

MODEL	DESCRIPTION/ CHARACTERISTICS	ADVANTAGES	DISADVANTAGES
Private Sector Direct	Private sector organisation /company providing a service(s) direct to a Council/Councils e.g. remote accounting, I.T., cleaning, consulting	<ul style="list-style-type: none"> • Able to achieve economies of scale and potential savings • Able to engage professional expertise • Able to overcome skills shortage • Able to provide geographic focus (metro/regional) • Able to manage outsourced contract(s) 	<ul style="list-style-type: none"> • The issue of creating a structure which would not be seen as privatisation may need to be addressed • Need to be careful to separate the commercial and policy roles • Need to have a clear and robust contractual framework
Private Sector Management	Private sector organisation /company managing a service(s) for a Council/Councils e.g. a sports facility	<ul style="list-style-type: none"> • Able to achieve economies of scale and potential savings • Able to engage professional expertise • Able to overcome skill shortage • Able to provide geographic focus (metro/regional) • Able to manage outsourced contract(s) 	<ul style="list-style-type: none"> • Need to be careful to separate the commercial and policy roles • Need to have a clear and robust contractual framework

MODEL	DESCRIPTION/ CHARACTERISTICS	ADVANTAGES	DISADVANTAGES
<p>State/Local Collaboration</p>	<p>For example, PLAIN Central Services (PCS) provides centralised services to Public Libraries in South Australia.</p> <p>Key roles include:</p> <ul style="list-style-type: none"> • Provision of the Information Technology infrastructure and network system • Provision of free access to the internet • Selection, cataloguing and delivery services for new materials • Contract negotiation and management for statewide purchasing • Accounting and reporting functions associated with acquisition of new materials • Statewide courier and delivery services • Facilitation of inter library loans • Provision of specialised materials <p>Formal agreement between the relevant State Minister and the President of the Local Government Association</p>	<ul style="list-style-type: none"> • Provision of a range of services to all participating Councils • Economies of scale and potential savings • Ability to engage professional expertise • Ability to provide whole of State coverage • Ability to have contract managed by representative board 	<ul style="list-style-type: none"> • Involvement of other sphere of government may be problematic • Need to have clear operating charter • Need to ensure equitable outcomes for all stakeholders • May not be appropriate vehicle to provide a wide range of services