

Shared services in local government

Local government has been given priority status on the transformational agenda of South Africa. As the sphere of government closest to the people and responsible for basic service delivery, local government is continually striving to improve its efficiency and effectiveness, while facing the challenges of resource and capacity constraints.

Service sharing has been identified as a potential mechanism for improving the performance of local government. District municipalities could play an important role in this regard, by supporting local municipalities and possibly taking part in the establishment of shared service centres (SSCs) in local government. A number of municipalities, many at district level, are already starting to explore the notion of shared services, either in the programmatic transformation of how they work or as an ad hoc coping mechanism.

This article explores the notion of shared services between district and local municipalities, with a focus on the role of district municipalities.

Why shared services?

One of the fundamental motivations for service sharing is the potential cost benefit, such as the savings resulting from bulk procurement, reduced administration costs and reduced duplication of functions. While cost reduction is an important reason to share services, there is an added value in that the opportunity arises for government to focus on its core business of delivering services to its citizens.

Furthermore, in the context of local government in South Africa, one of the most compelling justifications for

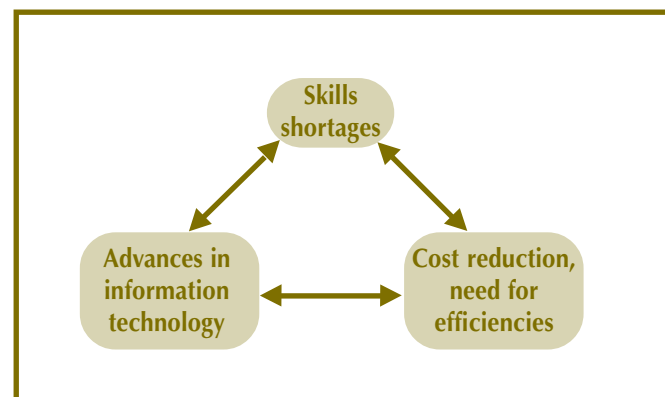


Figure 1: Three main drivers motivating shared services

considering SSCs is to address the shortage of, and growing demand for, specialised capacity and skills. Additionally, SSCs provide an ideal platform for the upgrading and synchronisation of information technology (IT) systems utilised by local government. The benefits of this include greater efficiency in operations as well as greater compatibility of systems between the units or departments linked to the SSC.

In light of the current status of local government in South Africa, three fundamental drivers which could motivate service sharing have been identified and are illustrated in Figure 1. For each district and its local municipalities, the central driver is likely to differ: where some may be responding to demand-side factors such as skills shortages and the need for greater efficiency (doing more with less), others may use shared services as a response to supply-side factors, such as advances in IT. For some it may be a combination of these three factors.

Potential role of districts in shared services

The role of district municipalities has been under debate for some time now, and there is an argument for districts to take on emergent roles as co-coordinators and facilitators of development, as well as playing a more prominent role in supporting local municipalities. Many districts have taken on the task of development facilitation, which means acting with other partners to build relations for development. However, the notion of shared services gives district municipalities an opportunity to consolidate a role for themselves both as providers of support to local municipalities and as potential platforms for the sharing of services between municipalities.

The SSC concept has emerged internationally as a structure through which 'back office' activities are shared with a view to promoting efficiency in the use of resources. The types of skills which could be shared include human resources, IT management, procurement and financial services. This is based on the assumption that human resources and business systems can be shared in such a way that costs can be cut while service effectiveness (responsiveness to consumers particularly) is increased.

At local government level, the SSC approach could involve service sharing between a district municipality and the local municipalities within its area of jurisdiction. Not only could this enhance the efficiency of service delivery,

but it is also likely to improve intergovernmental relations between the tiers of local government. Several districts already share their internal audit function. In addition, there have been initiatives in a number of districts across the country to establish the concept and pilot the shared services approach.

The local value of shared services for South African municipalities lies in the sharing of technical skills or other specialist skills that municipalities find difficult to recruit.

Legal basis for shared services

Current legislation provides a firm legal basis for the sharing of these functions. The Municipal Structures Act (Act 117 of 1998) states the following:

- 88.(1) A district municipality and the local municipalities within the area of that district municipality must co-operate with one another by assisting and supporting each other.
- (2)(a) A district municipality on request by a local municipality within its area may provide financial, technical and administrative support services to that local municipality to the extent that that district municipality has the capacity to provide those support services.
- (b) A local municipality on request of a district municipality in whose area that local municipality falls may provide financial, technical and administrative support services to that district municipality to the extent that that local municipality has the capacity to provide those support services.
- (c) A local municipality may provide financial, technical or administrative support services to another local municipality within the area of the same district municipality to the extent that it has the capacity to provide those support services, if the district municipality or that local municipality so requests.

The legislation highlights that the stronger municipality, be it a local or district municipality, can play the leading role in providing support. Similarly, the stronger municipality could be the platform for any shared services centre envisaged and this can shape the model which is used.

Exploring shared services

There are a number of arguments supporting the implementation of service sharing initiatives in local

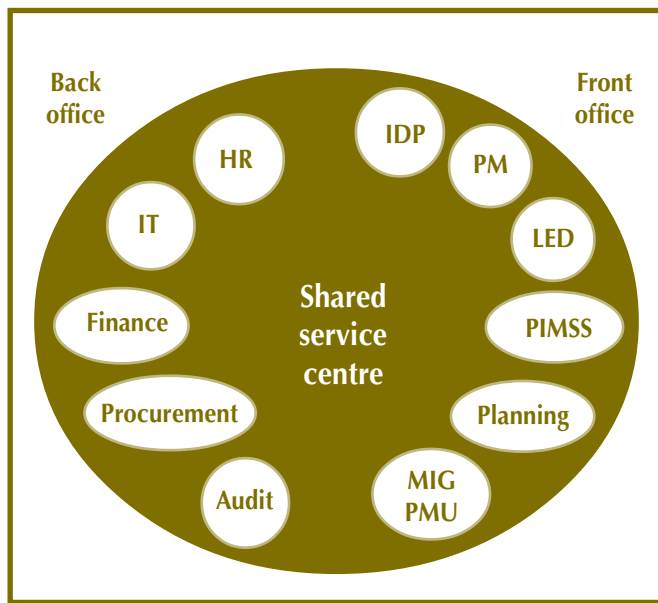


Figure 2: Scope of shared services

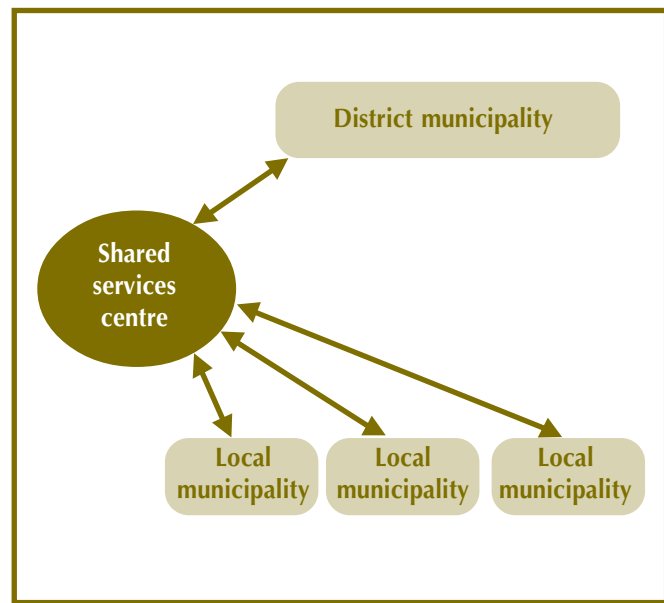


Figure 3: Independent municipal entity

government in South Africa. SSCs could potentially yield efficiency gains, improve effective service delivery, address skills shortages and enhance intergovernmental relations. However, SSCs do not necessarily offer a blanket solution to South Africa's local government service and skills problems, and there are important factors for consideration when contemplating the implementation of shared services.

Scope of shared services

A legal and conceptual framework for 'municipal services' is provided in Chapter 8 of the Municipal Systems Act (Act 32 of 2000). This legislation embeds the notion of the service authority and service provider roles. Section 78 provides for a mechanism for a service authority to decide on the form that service provision will take for these municipal services. This section stipulates how a municipality should set about appointing another municipality to provide a service or how two or more municipalities can set up an independent entity for the purpose of delivering that service.

However, section 88 of the Municipal Structures Act provides a framework for the governance, administration, planning and development functions, where the value of shared service thinking is most likely to have an impact. The following schematic reflects some of the services to be considered for shared services. It makes a distinction between the traditional back-office functions and the planning and development functions.

Models for shared services in local government

The structures described below are potential governance and operating models for municipalities sharing services at district level. Three models are presented: an independent entity, a district agency and a local agency. Each has its own pros and cons, which depend on a district's needs, the location of its current capacity and the level of intergovernmental cooperation in that district.

Independent entity

This refers to the creation of an entirely new entity, separate from the local and district municipalities, where the SSC functions independently to act as a service provider to the municipalities.

District agency

Here the SSC is structured as part of the district municipality, which then provides an organisational platform for the centre and manages and governs it. This works best where the district municipality is well capacitated.

Local agency

The third option is to place the SSC with the most capacitated local municipality. In many cases large local municipalities possess more capacity than the district municipality and all other locals put together.

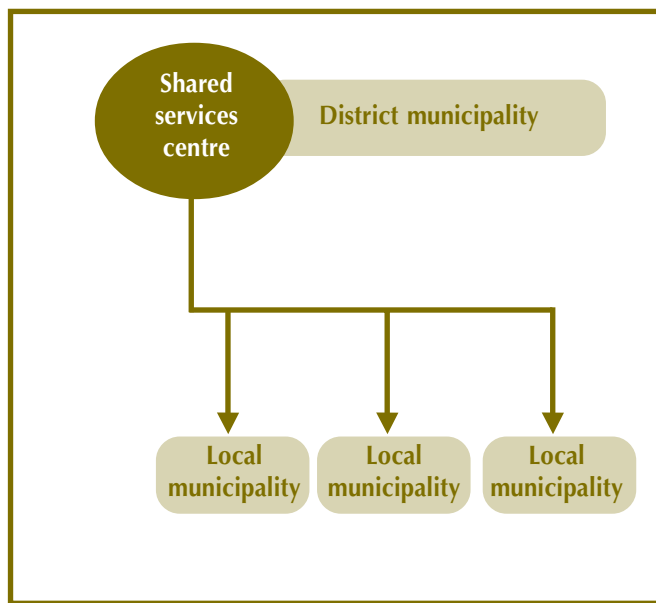


Figure 4: District agency

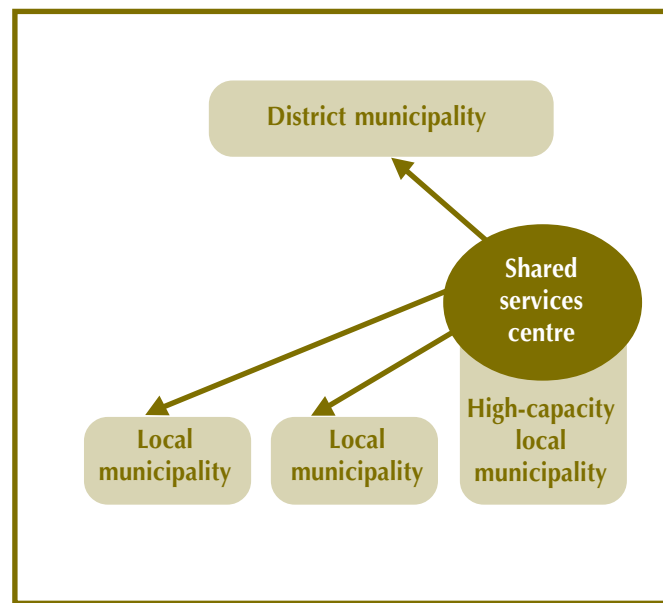


Figure 5: Local agency

Cost recovery

Cost recovery needs to be considered from two important perspectives:

1. **Establishment costs.** Decisions need to be made about where these will be recovered from – donor funding, district funds, national government or a combination of these.
2. **Long-term running costs.** Ideally these should be recovered from the ‘client’ municipalities, but additional funding may need to be sourced from elsewhere.

Key success factors

While shared services have the potential to yield a host of benefits, the establishment of SSCs in local government is likely to be a costly and time-consuming endeavour. Some key factors need to be resolved locally, such as those already discussed regarding the scope and model of the SSC, as well as mechanisms for funding the establishment and operational costs in the long run.

Here are some suggested key success factors for sustainable and successful shared services between district and local municipalities:

Local initiative

Is this a one-size-fits-all recipe or a voluntary home-grown solution based on local conditions?

Ownership

Are all affected municipalities clearly in ownership of this development?

Cooperative climate

Are intergovernmental relations conducive to the sharing of services?

Geographical proximity

How extensive is the district?

Strong leadership and vision

Is there strong leadership and vision to drive this?

Communication and change management

How will myths and fears be dealt with?

Identity

How will the identity of individual municipalities be protected?

Comment

No two SSCs are the same, and contextual factors are likely to determine whether sharing services is an appropriate way of addressing the needs of local government in each district. In districts where the right conditions exist for municipalities to implement shared services, it is an option that may significantly ease some of the capacity constraints that municipalities are grappling with.

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