

# **A SHARED SERVICE CENTRE FOR MUNICIPALITIES IN THE OVERBERG**

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## **DECLARATION**

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## **ABSTRACT**

Government needs to provide a robust framework to adapt to the ever-changing environment of those that they serve. Whether or not there are reform procedures involved, the intended benefits depend as much on how they are implemented as on the exact nature of the changes.

The municipalities in the Overberg face various challenges, as a result of the continually changing environment within which local government operates. It is therefore important for government to constantly implement new ways to improve service delivery.

Many of the municipalities in the Overberg, particularly those suffering under budget and staff capacity pressures, are motivated to adopt new and improved ways to enhance service delivery and to reduce costs. Municipalities in the Overberg have developed their own ideas on how to reduce costs, save time and improve service delivery. A practical way to address these challenges is to consider the option of shared services. This requires different ways of operating: new skills have to be acquired and many changes in management issues need to be addressed.

The most common reason for some of the municipalities in the Overberg to be involved in a shared service initiative is to obtain relief from short-term budget pressures. Although this factor is an excellent motivator, one of the major related challenges is the time required to complete this initiative, which almost always takes more than one budget cycle. The ability to implement any form of shared services requires organisational change, which, in many organisations, is the most difficult challenge to confront.

For Overberg Municipalities to implement a successful shared service venture it will be important to have a good plan that clearly describes the processes to be followed and the different steps of how to successfully implement and set up such a shared service centre.

## OPSOMMING

Die regering moet 'n robuuste raamwerk daarstel om aan te pas by die ewigdurende veranderde omgewing van diegene wie hy bedien. Of daar veranderings prosedure is of nie, die beoogde voordele is eweveel afhanklik van hoe dit geïmplementeer word as van die presiese omvang van die veranderinge.

Verskeie uitdagings word deur munisipaliteite in die Overberg in die gesig gestaar as gevolg van die ewigdurende veranderde omgewing waarin plaaslike regering opereer. Dit is dus belangrik vir die regering om gedurig nuwe maniere te implementeer ten einde dienslewering te verbeter.

Verskeie munisipaliteite in die Overberg, veral die wat gebuk gaan onder begroting en personeelkapasiteitsdruk, is gemotiveerd om nuwe verbeterde maniere aan te neem om dienslewering te verbeter en kostes te verminder. Munisipaliteite in die Overberg kom reeds 'n geruime tyd aan met hul eie idees om kostes te verminder, tyd te bespaar en dienslewering te verbeter.

'n Praktiese manier om hierdie uitdagings in munisipaliteite in die Overberg aan te spreek is om die opsie van gedeelde dienste te oorweeg. Dit vereis verskillende maniere van funksionaliteit met nuwe vaardighede wat bekom moet word en verskeie veranderingsbestuurskwessies wat bestuur en oorkom moet word.

Die mees algemeenste rede vir sommige van die munisipaliteite in die Overberg om betrokke te raak by 'n gedeelde diens inisiatief is die verligting van kort termyn begrotingsdruk. Alhoewel dit 'n uitstekende motiveerder is, is een van die grootste uitdagings in baie gevalle, die tyd wat vereis word om hierdie inisiatief, wat in die meeste gevalle oor meer as een begrotingsiklus strek, te voltooi. Om enige vorm van gedeelde dienste te implementeer vereis organisatoriese veranderinge wat in baie munisipaliteite die moeilikste uitdaging is om te konfronteer.

Vir Overberg munisipaliteite, om 'n suksesvolle gedeelde dienste onderneming te begin en te implementeer is dit belangrik om 'n behoorlike plan op te stel wat die prosesse wat gevolg moet word en die verskillende stappe aandui.

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## **ABBREVIATIONS**

<b>ACDP</b>	African Christian Democratic Party
<b>ANC</b>	African National Congress
<b>CoJ</b>	City of Johannesburg
<b>DA</b>	Democratic Alliance
<b>DCA</b>	Department of Community Affairs
<b>DIF</b>	District Intergovernmental Forum
<b>GPG</b>	Gauteng Provincial Government
<b>DPLG</b>	Department of Provincial and Local Government
<b>GIS</b>	Geographic Information System
<b>GSSC</b>	Gauteng Shared Services Centre
<b>HR</b>	Human Resources
<b>ICTs</b>	Information and Communication Technologies
<b>ID</b>	Independent Democrats
<b>IDP</b>	Integrated Development Plan
<b>IT</b>	Information Technology
<b>ITAC</b>	Information Technology Association of Canada
<b>KPIs</b>	Key Performance Indicators
<b>LED</b>	Local Economic Development

<b>LGSETA</b>	Local Government Sector Education Training Authority
<b>MJSU</b>	Multi-Jurisdictional Service Utility
<b>MSIG</b>	Municipal Systems Improvement Grant
<b>NDEAT</b>	National Department of Environmental Affairs and Tourism
<b>NPM</b>	New Public Management
<b>ODM</b>	Overberg District Municipality
<b>PAE</b>	Post-Autistic Economics
<b>PID</b>	Project Initiation Document
<b>PIMSS</b>	Planning and Implementation of Management Support Services
<b>PM</b>	Performance Management
<b>RSSC</b>	Revenue Shared Service Centre
<b>SCM</b>	Supply Chain Management
<b>SLAs</b>	Service Level Agreements
<b>SSC</b>	Shared Service Centre
<b>SOEs</b>	State-Owned Enterprises
<b>SWOT</b>	Strengths, Weaknesses, Opportunities and Threats
<b>UNRISD</b>	United Nations Research Institute for Social Development
<b>WITs</b>	Work Improvement Teams

# CHAPTER 1: INTRODUCTION

## 1.1 BACKGROUND INFORMATION

The rationale behind this study can be traced back to the transitional phase of local government. Prior to the 1994 elections the focus was on basic service delivery to specific parts of the different municipal areas. Post 1994, after the elections, many new pieces of legislation came into effect and local governments were legally obliged to plan differently in order to deliver services that were more inclusive to the whole community.

Hollis et al (1992:4) is of the opinion that local government is more than an administrative system and more than the management of services. It forms part of the country's government system as whole. Miller (2005:27) is of the opinion that government is reforming and changing in order to deliver quality services through innovative and effective ways and to compete in the global market.

Government has undertaken a number of initiatives to improve efficiency and effectiveness of service delivery, specifically at local government level. An initial concept in the development of public sector reforms was New Public Management (NPM). With the introduction of NPM the focus was more on results and outputs than on inputs. NPM resulted in a smaller public service, more public-private partnerships and the decentralisation of functions. NPM defines a theoretical framework for the radical reform of public administration systems. NPM is a way to describe how private sector techniques are applied in public services.

A more detailed description of the NPM initiative will be discussed in Chapter 2, and the different types of public sector reforms illustrated. Isaac et al (1997:23) is of the opinion that the NPM is challenging some of the traditional concepts of accountability. Osborne and Gaebler (1992) summarised the shift from resource input to output and outcomes as being advocated in the NPM in terms of the following principles: empower communities rather than simply deliver services; encourage competition rather than monopoly; be mission driven rather than rule

driven; outcomes instead of inputs should be funded; the needs of customers should be met instead of bureaucracy; the focus should be on the customers; decentralise authority; and make use of the marketplace to solve problems instead of creating public programmes.

Wallis et al (2007:17) is of the opinion that there are two different meanings that can be attached to the reform process. Firstly, a positive connotation can be derived by indicating that the status quo has been changed by a new set of circumstances through the reform process. Secondly, reform also suggests some initial undesirable state of affairs that can be improved by means of a specific reform process.

Against this backdrop the Republic of South Africa (1996), introduced the Integrated Development Plan (IDP). However, it was the second round of IDPs, after the local government elections of December 2000 as contained in section 35(1)(a) of the Republic of South Africa (2000), which states that: *“An integrated development plan adopted by the council of a municipality is the principal strategic planning instrument which guides and informs all planning, management and development in the municipality;”* that has consolidated the new system. The rationale behind IDPs was to have a strategic planning process for municipalities in place in order to optimally utilise scarce resources.

Today integrated planning or integrated development planning is used in a multi-faceted context and can include all aspects of municipal focus. In this study the term integrated development planning will therefore be used in this broader context and will thus not limit the functions that can be performed by any suggested model.

However, in the first round of strategic planning, many municipalities lacked the internal capacity to conduct the integrated development processes. This mainly occurred as a result of the confusion about the nature and purpose of IDPs. Many of the integrated development planning processes and the IDPs did not meet the basic requirements of integrated, strategic development planning. As a result of this, many municipalities handed over the preparation of IDPs in their entirety to consultants, as a very costly exercise.

In 2001, the Department of Provincial and Local Government (DPLG) introduced Planning and Implementation Management Support Service (PIMSS) centres at district level. This was done by informing district municipalities via letters and workshops about the establishment of the centres to provide support to municipalities. The concept was largely an emergency response to the lack of planning capacity within district and local municipalities. It was also aimed at assisting municipalities with the IDP processes, to establish critical linkages to economic development at local government level; to provide strategic support on integrated development planning systems; to provide legislative mechanisms to further developmental local government; and to align budgeting and performance management processes.

PIMSS centres were initially introduced with a limited scope of activities, and involving (only) specific functions pertaining to the assistance of development processes. The idea of PIMSS centres was very limited in terms of their functions. Their main focus was on providing assistance to municipalities on IDP-related activities from one central point. Municipalities requested assistance from PIMSS centres for many functions other than those that PIMSS centres were allowed to perform because they were outside the scope of the PIMSS duties. These requests included financial reform functions, such as the procurement of goods and services, and internal auditing.

Funding for the establishment and operation of PIMSS centres was made available through donors such as the German Government, the German Agency for Technical Co-operation, and The Netherlands Embassy. DPLG, through the Municipal Systems Improvement Grant (MSIG), provided funding to the PIMSS centres for operational costs, with the qualification that funding for PIMS centres would only be available until June 2007, as was published in the Republic of South Africa (2006).

The intention of DLPG and provincial government, as communicated via letters to district municipalities, was that district municipalities should be seen as the vehicle to support and fund PIMSS centres within their own budgets in the form of shared services centres from 2007. It can thus be concluded that the establishment of PIMSS centres has lead the way for the implementation of the concept of Shared

Services Centres (SSCs) at local government level. More detail about SSCs will be provided later (see chapter 3).

Since its inception in 2003, the Overberg PIMSS centre has operated as a shared services model. This is especially true since the PIMSS centre has rendered services to four of the five municipalities in the Overberg, including town planning services, IDP processes, performance management, economic development, and other functions. The main income streams of the PIMSS centre were derived from national MSIG funding, the Overberg District Municipality (ODM) and local municipal financial contributions, as well as funding from outside sources such as the Development Bank of South Africa.

From the above, it is clear that support centres in some form or another are here to stay. It is envisaged that more services can be rendered based on this type of shared services model. The funding regime and staff provisions might however change, based on the functions that any model for a support centre will have to deliver in future. The functions or services of such a support centre or SSC can include many more functions than the PIMSS centres across the country. These services may include financial support services as well as human management resource functions.

Government commenced with public sector procurement reform in 1995. Several interim measures were introduced as part of the reform process. Several deficiencies, such as inconsistency in policy application, lack of supportive structures, fragmented processes, and lack of accountability, existed previously, when goods and services were acquired by government.

Against this background of the changing environment of government and specifically local government, and of ways to improve service delivery and reduce costs, this study will focus on introducing a shared services option between the municipalities in the Overberg.

## **1.2 THE RESEARCH PROBLEM**

Funding for the PIMSS centre, which was the only support unit to municipalities in the Overberg since 2001 was only available until June 2007. This widened the gap in support needed for services in the arena of municipal development planning that was previously rendered by the PIMMS Centre to municipalities on request, as well as other required support services that could be included in such a support centre.

The assumption is made that municipalities in the Overberg will need an existing or new centralised structure to address duplication and reduce the cost of providing services internally and externally or where capacity is lacking. In this study the researcher will consider various services that can be delivered in a shared service context as well as different SSC models, which may be similar to the PIMSS centre, but different in composition. A strong focus will be on the process to implement a successful SSC that will cater for the changing needs of the municipalities.

In light of the fact that each municipality in the Overberg region is required by law to perform certain functions, some functions of which can be very costly, the question arises as to which service delivery mechanism would be most appropriate to deliver a service that simultaneously offers a solution to the funding problem and other challenges that municipalities face with regard to implementation of services and compliance with relevant legislation and regulations.

This study will strive towards finding an alternative service delivery mechanism in the form of a SSC to be established in the Overberg, to address service delivery challenges in the different municipalities in the region. The NPM reform process will serve as an introduction to government initiatives to reform the public sector, and can be linked to many other reform processes in local government in the Overberg.

## **1.3 RESEARCH DESIGN AND METHODOLOGY**

The researcher will mainly follow a qualitative approach to determine the process that municipalities in the Overberg must follow in order to decide on a service delivery mechanism to be implemented that will be best to support and assist the municipalities after the closing of the Overberg PIMSS centre. This study will include

a combination of empirical data and a literature review, with a specific focus on existing information on SSCs.

Data exists on the functioning of the Overberg PIMSS centre as a support unit and the researcher will make use of this information in order to lay a foundation for the study and the model that will eventually be chosen by municipalities to render the SSC service.

Information on existing shared services will also be used to highlight the benefits and other supporting issues related to SSCs. A comparative study between municipalities in the Overberg will be done to assess the capacity and resource constraints.

The researcher will use all the information gathered and subsequent conclusions drawn from the different studies to make recommendations on a suitable shared services process that could provide the necessary support to the municipalities in the Overberg, in order to choose a SSC option that is tailor-made for them.

## **1.4 OUTLINE OF THE DOCUMENT**

The respective chapters provide a broad background of the transitional phases and reform initiatives of local government to assist municipalities to provide services beyond basic services to the community and to enhance institutional capacity.

The literature review will be used to obtain a broad perspective of the NPM processes and the concept of SSCs. The NPM processes are closely linked to many aspects of the public sector reform process and will lay a foundation for a support model that can be used in local government in the Overberg to improve service delivery and institutional capacity.

Based on the information obtained on SSCs the study will also describe the realities that municipalities in the Overberg face and their readiness to implement a SSC by introducing the different options for a SSC unit. This study will be concluded with final recommendations.

This thesis is thus divided into six chapters, the content of which can be summarised as follows.

#### Chapter 1: Introduction

This chapter provides the background to and purpose of the study. It focuses on the PIMMS Centre as an initial support centre for the municipalities in the Overberg, and leading the way for a SSC, to improve service delivery. The research problem is stated and the research design and methodology described.

#### Chapter 2: The Changing Role of Government: New Public Management

This chapter describes the reform processes in government and how private sector techniques are applied in public services. It defines a theoretical framework for the reform programmes of Public Administration systems. It lays the foundation for various reform initiatives in government to provide improved services to the people.

#### Chapter 3: Shared Services as an Alternative Service Delivery Mechanism

This chapter comprises a literature review of SSCs. and a case study pertaining to a success story of a SSC. This chapter further provides a sound theoretical base from which a shared services initiative can be developed and implemented. It also highlights the benefits and challenges of having a SSC.

#### Chapter 4: The Case of the Overberg Municipalities

The findings of service delivery needs and capacity in the Overberg are reported and discussed here. The chapter also focuses on the readiness of municipalities to be involved in sharing services. Furthermore, it highlights the benefits and challenges of a SSC for municipalities in an Overberg context. It also focuses on different functions that can be shared in the Overberg based on the assessment that will be done. Finally, it introduces different models of SSCs to be considered for implementation to address the shortages of service delivery capacity in municipalities.

## Chapter 5: A Proposed Framework for a Shared Service Centre in the Overberg Municipalities

In this chapter the researcher draws from existing information on how to set up a detailed process in order to decide on, and implement, a successful SSC for municipalities in the Overberg.

## Chapter 6: Conclusions and Recommendations

This chapter highlights the important aspects of the study. Conclusions as well as recommendations on the implementation of a SSC in the Overberg local government context are presented and recommendations made for a specific model to be implemented.

### **1.5 SUMMARY**

This chapter provides an introduction and background to the study. It seeks to provide the reader with a sense of what the intention of the researcher is and what the study will cover.

From the background it is clear that the establishment of SSCs in the Overberg is not a completely new idea to municipalities. The PIMSS Centre, which provided services to municipalities, based on a small-scale SSC concept, has paved the way for SSCs in the Overberg.

SSCs are just one of government initiatives to reform the public sector to improve service delivery. The next chapter will commence with a description of government reform processes to improve service delivery. The focus will be specifically on New Public Management as a way to introduce different ways of conducting government business and processes.

# **CHAPTER 2: THE CHANGING ROLE OF GOVERNMENT: NEW PUBLIC MANAGEMENT**

## **2.1 INTRODUCTION**

Government and the Public Service are compelled to continuously search for better ways to improve their service delivery. Over the past two decades a paradigm shift has taken place in government. Laffin (1989:171) refers to the public service as being transformed from a 'model' employer to a market employer. Public sector management reforms are the order of the day in South Africa.

One such reform programme is the New Public Management (NPM) system. The main principles of NPM are based on the notion that the public service must be managed like business units, preferably outside of the formal public sector. Burger (2005) is of the opinion that, if not entirely commercialised or privatised, systems of profit and expense centres, accrual accounting programme budgeting, zero-based budgeting, financial accountability and delegated authority enable managers to manage business units competitively, to deliver the best output. This is also true for the public sector.

Burger (2005:1) is of the opinion that it is not easy to capture public sector reform in an abbreviated manner because it encapsulates many dynamic theories and practices that often vary in its entirety. Pollit and Bouckaert (2000a:97), as quoted by Burger (2005:1), are of the opinion that the only predictable element in this theory is that public sector reforms will always occur because the final result of social stability will never be attained.

Pollit and Bouckaert (2000b:6) are of the opinion that public management reform is a means to multiple ends. They argue that these multiple ends include savings in public expenditure, an improvement in the quality of public service delivery, more efficient operations of government and effective policies.

Against this introductory perspective, this chapter will attempt to define public sector reforms at the hand of the NPM concept. The scope of this chapter covers a review

of the relevant literature on the NPM as a wave of public sector reform. It also focuses on how the application of NPM principles can contribute to improve service delivery in local government.

## **2.2 A NEW FORM OF GOVERNMENT**

Governments change constantly to improve service delivery. Many writers have attempted to propose different models, forms and ideologies for government to explain these changing conditions.

Pollit and Bouckaert (2000b:8) argues “*that public management consists of deliberate changes to the structures and process of public sector organizations with the objective of getting them (in some sense) to run better.*” The authors furthermore proposed that structural change may include the division or merging of organisations in order to better co-ordinate and improve service delivery. Process change may include the redesign of systems and processes.

One of the ideologies is the NPM approach, with a strong focus on private sector and business approaches, in order to utilise resources more effectively and efficiently. Drechsler (2005:1) is of the opinion that the NPM has been the most important reform movement in the last quarter of a century. The idea to reinvent government as proposed by the NPM notion may however not be acceptable, and seem risky to those who regard government as something that is fixed and does not change.

Osborne and Gaebler (1992: xix) use the notion of an ‘*entrepreneurial government*’. The use of ‘entrepreneur’ in combination with government is (at any time) fairly uncommon. Entrepreneurial actions are usually undertaken by businessmen and businesswomen in the private sector, based on market demands and beneficial bottom lines.

J B Say, as quoted in Osborne and Gaebler (1992: xix), put this all into context with his theory about entrepreneurs. According to Say “... *the entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.*” This definition of Say applies to both the private and the public sectors. When this concept is applied in the public sector it refers to people who do

exactly the same as suggested by Say. Public sector institutions constantly use their resources in new ways to increase both their effectiveness and efficiency and maximise productivity. The entrepreneurial government focuses on results, promotes competition both inside and outside of government, reduces bureaucracy, and decentralises authority. In this approach, clients of government become customers who can exercise a choice between various service providers.

Lynn, (2006:142) is of the opinion that public managers are assumed to be entrepreneurial who create public value on the same basis as the private sector does. He furthermore noted that the assumption with NPM was that uniform market-like incentives were to be introduced which would create more accountability than the old Public Administration rule bound bureaucracies.

Osborne and Gaebler (1992) identify ten principles that, according to them, guide the fundamental transformation of public systems. These principles are summarised as follows and lay the foundation for the reform processes that Overberg municipalities can adopt:

a) Catalytic Government: Steering Rather than Rowing

Steering refers to the provision of guidance and direction, which is different to rowing, which refers to producing goods and services. Isaac, et al (1997:50) describes this notion as government ensures that something desirable is done but not necessarily doing it directly. Osborne and Gaebler (1992:30) is of the opinion that the different sectors in the economy (public, private and non-profit) must provide the goods and service that they produce best, separately or as a collective. Government is best in providing policy, direction to the economy, social equity, and in preventing discrimination. Examples of this steering method include government regulations for town planning and spatial development matters, equitable share grants for poor households, and an economic development strategy to guide economic development in the area.

b) Community-Owned Government: Empowering Rather than Serving

In this approach, community-owned governments are in control of services rather than the bureaucracy. Communities are more involved in the process of service delivery Osborne and Gaebler (1992:52). Isaac, et al (1997:50) supports this notion by emphasising the idea of enabling communities to take responsibility for their own affairs, assisted as necessary by 'social entrepreneurs', rather than having services handed down to them. An example of involving the community in government activities is through the public participation process of the annual integrated development process that the municipality is legally obliged to carry out. Communities give input on how they want politicians to run government and prioritise their needs for councillors to consider during the budgeting process.

c) Competitive Government: Injecting Competition into Service Delivery

Osborne and Gaebler (1992:84-89) believe that competition, rather than imposing regulations, can improve the quality and the cost-effectiveness of government services. The authors argue that competition can perhaps be the most important element for improving the cost effectiveness and quality of government services. They believe that "*competition rewards innovation, monopoly stifles it*". A service will not necessarily be contracted out or turned over to the private service through competition. It merely suggests that competition can bring an end to government monopolies. The varieties of competition include public versus public, private versus private and public versus public competition. Isaac, et al (1997:50) supports this by providing examples such as competitive tendering and market testing. Other examples of this type of government include supply chain and government procurement processes.

d) Mission-Driven Government: Transforming Rule-Driven Organisations

Many of government's internal rules are eliminated and their administrative systems simplified by mission-driven governments Osborne and Gaebler (1992:113). The major issues that need to be addressed are personnel and

budgeting. Personnel systems should be restructured to offer market-rate salaries, broad job classifications and pay bands, performance-based pay hiring systems that allow managers to recruit and hire the most qualified people, promotions and layoffs by performance rather than seniority, and streamlined appeal processes for employees who are fired. Isaac, et al (1997:50) emphasise that the focus must be on organisational purposes and underpinning values such as strategic orientation.

e) Results-Oriented Government: Funding Outcomes, not Inputs

Osborne and Gaebler (1992:146-154) describe this kind of government approach as a way to shift accountability from inputs to outputs or results. The performance is measured. The following themes were suggested by the authors for result-oriented governments: “... *what gets measured gets done; if results are not measured, it is not easy to differentiate success from failure; if success can not be seen then it can not be rewarded; if success can not be rewarded failure is probably rewarded; if success can not be seen, there is no lesson to learn from it; if failure can not be recognised it can not be corrected and; if results can be demonstrated, it is more likely to win public support*”. Isaac, et al (1997:50) agrees that success rather than failure should be rewarded and that appropriate performance indicators must be in place.

f) Customer-Driven Government: Meeting the Needs of the Customer, not the Bureaucracy

Government must realise that the needs of its customers are not homogenous as a result of our complex and diverse society. Therefore a one size-fits-all government can never work. This approach focuses very strongly on the needs of the customers by giving them a voice, through methods such as focus groups, to listen to their customers, surveys and put the resources in the hands of the customers to collectively make a decision on how to spend or utilise it (Osborne and Gaebler, 1992:194). This is done, for example, by allocating a certain amount of the council’s budget to a specific ward where the community together with the ward committee decides on what projects they want to be implemented with the allocated ward budget. The community as a whole is the primary customer, not the individual customers.

g) Enterprising Government: Earning Rather than Spending

Government is under constant pressure to keep local taxes and tariffs down. Isaac, et al (1997:50) is of the opinion that the focus in this approach is on earning as well as on income generation rather than spending money. Osborne and Gaebler (1992:198-209) identify four ways to generate revenue from assets:

- 1) *Making use of the profit motive.* Governments can make profits through the land they own and the services they provide.
- 2) *Charging user fees.* Governments can charge a user fee to those who benefit from a service that involve private goods and which benefits the community at large.
- 3) *Making investments based on expected returns.* Enterprising governments focus on both cost and potential returns on expenditure, which require a longer term thinking. When applying this method, initial spending by government can pay off with greater savings later.
- 4) *Turning managers into entrepreneurs.* Several techniques can be introduced to allow managers to become entrepreneurs in the operation of their duties. Managers can be provided with incentives to make and save money by allowing departments to keep the funds they earn or save. Another technique may be by introducing a loan pool against which managers can borrow money to use for innovational purposes.

h) Anticipatory Government: Prevention Rather than Cure

This approach seeks to prevent problems rather than to provide services or solutions to correct them. Isaac, et al (1997:50) describes this approach as being proactive rather than purely reactive. Budget systems, accounting systems and reward systems are redesigned to create appropriate incentives. The central idea that drives this approach is that prevention costs less, and is much easier, than suppression. Techniques to implement this approach successfully as described by Osborne and Gaebler (1992: 219-249) include:

- 1) *Prevention versus crisis management.* Many public institutions are only promoting crisis management. In order to save costs, governments should realise the superiority of preventative measures rather than to act only in reaction to a situation.
- 2) *Future commissions.* These commissions comprise citizens in a community who must identify and develop goals. Subcommittees are formed to ensure that private agencies achieve these development goals.
- 3) *Strategic planning.* This method has been used in the private sector for many years. Strategic planning is described as a process of examining an organisation's or community's current situation and future trajectory, setting goals, developing strategies to achieve those goals, and measuring the results.
- 4) *Long-term budgeting.* Many government organisations budget only for short-term purposes or a particular financial year, with little regard for the long-term financial impact.
- 5) *Accrual versus cash accounting.* This method suggests that including the cost of future obligations as expenses will enhance the long-term focus.
- 6) *Cross-departmental budgeting.* This method allows users to view the impact of a budget decision in one area on other departmental or institutional funding streams.
- 7) *Regional concerns.* In this regard the impact of decisions made in neighbouring and other jurisdictions, and by anticipating regional problems, has proven to be beneficial for many government institutions.

i) Decentralised Government: From Hierarchy to Participation and Teamwork

This approach involves transfer of the decision-making authority to those individuals and organisations at the bottom of the organisational hierarchy. Osborne and Gaebler (1992:252) are of the opinion that decentralised organisations seek to empower those individuals who are in the best position to develop effective and innovative solutions to problems. It is generally found that these individuals are at the bottom of the organisational hierarchy. Isaac,

et al (1997:50) supports this notion by agreeing that decision-making should be moving closer to the point of service delivery.

Advantages to decentralisation are that the organisation becomes more flexible. An organisation is then able to respond and attend to customer needs and changing environments. Decentralisation also enables innovation by devolving some of the decision-making to lower level employees. Entrusting employees with some degree of decision-making authority also leads to increased productivity.

Another element of decentralisation is teamwork. Government institutions are task-oriented and their goal is to achieve results. A good way of achieving decentralisation is to build teams to accomplish an immediate goal. In order to enhance government's ability to respond to future challenges networks across departments are developed

j) Market-Oriented Government: Leveraging Change through the Market

This approach focuses on utilising a market mechanism instead of an administrative programme to provide goods and services to the public. Market-oriented governments are reinvented through the application of market-oriented incentives. According to Osborne and Gaebler (1992) the most effective way for government to meet the public needs is by steering the decisions and activities of its role players through restructuring the marketplace. Government does not always have the resources to fulfil all the public's needs. The authors suggest that government can create incentives for the public to find alternative ways to meet their needs by certain interventions in the market Isaac, et al (1997:50) supports this and also suggests that it should include the use of the price mechanism, which include differential pricing. Examples of market-oriented government include community projects that are driven by the community itself.

To summarise, it can be said that government can reinvent itself by involving the community to implement any agenda. The ten principles discussed above can serve as a checklist to implement new ways of acting and thinking by any public institution.

In order to have a clear understanding of this public reform initiative one must also look at the various components that NPM consists of.

### **2.3 WHAT DOES THE NEW PUBLIC MANAGEMENT ENTAIL?**

Lane (2001), is of the opinion that public sector management in the twenty-first century will be to only a limited extent the continuation of the way in which the public sector was managed in the twentieth century. The standard governance approach has become outdated as a result of the many changes that public institutions have experienced as well as the changes in public management theory.

It can be argued that the idea of NPM is to add a new approach to the public sector and not to completely replace older frameworks. The positive contribution of older systems and frameworks are integrated into the NPM approach. It can also be argued that the theory of NPM represents the most recent paradigm change in which government and the public sector is to be governed (Lane, 2001). The difference between NPM and other public management theories is that it is more outcomes-oriented, through better management of public budgets.

There has been a growing realisation that the NPM is more private sector based, with a strong focus on greater cost efficiency in the public sector. NPM, furthermore, provides incentives and disincentives to promote a more efficient and transparent public management (World Public Sector Report, 2005:i).

K R Hope, as quoted in MacLaughlin, et al, (2002:210) is of the opinion that the basic features of the NPM concept revolves around the notion that a specific function can be applied in the public sector on the same basis as in the private sector. Aucoin, 1990 as well as Bale and Dale, 1998 support this notion and are of the opinion that it includes the following elements:

- Private management practices in the public sector;
- Highlighting efficiency;
- A stronger focus on output, measurement and performance targets;

- A movement towards private ownership, competition and contracting out of services; and
- Decentralization of management control.

Many theories and definitions related to NPM have been introduced for the purpose of better understanding this concept and its various components.

### **2.3.1 Definitions**

Many have debated the concept of NPM and attempted to define it in various contexts. The following definitions and viewpoints are some of the ways in which NPM is described.

Osborne and Gaebler (1992) provide a more textbook approach to the new emerging form of government. Citizens are seen as customers and the administrative role is streamlined by converting policy alternatives into market choices. The approach to NPM, as proposed by these two authors, focuses on results and promotes competition inside and outside government. The authors believe that the ten principles described in their book, *Reinventing Government* (1992), are the fundamental principles behind the NPM approach.

Encouraged by business-model prescriptions and privatisation of government, a debate has emerged on the primary responsibilities of public managers. Some believe that public managers should provide a choice of services to citizens at the lowest cost while others believe that public management's responsibility extends beyond this, to promote public values such as accountability, equity and a citizen voice through involvement.

The authors recognise the fact that these principles will not solve all the problems of government. However, they argue that the major problems that bureaucratic governments experience can be solved if experiences of other organisations, which have used these principles successfully, can be used as a guide.

### **2.3.2 Elements of New Public Management**

Some of the key elements of NPM as described in an article of the United Nations Research Institute for Social Development (UNRISD) include various forms of decentralisation within the public sector. These elements include the devolution of budgets and financial control; and the creation of autonomous agencies, increasing the use of markets and competition in the provision of public services, e.g., contracting out of other market-type mechanism;, and an increase in the emphasis on performance, outputs and customer orientation (UNRISD, 05 Sep 2006).

Many researchers have argued that most governments promote competition between service providers. Citizens are empowered by devolving control from bureaucracy to the community. Performance of government agencies is measured by focusing on outcomes and not on inputs. Governments are driven by their goals, and not by rules and regulations. Clients are redefined as customers with choices. Governments proactively prevent problems before they emerge rather than to trying to solve them afterwards. Authority is decentralised and participatory management embraced. They focus not only on providing public services, but on motivating all sectors into action in order to solve their community's problems.

Studies have shown that performance contracting and contracting out have become common policy options in a number of crisis states (UNRISD, 05 Sep 2006). The latter has been adopted as an instrument to reform state-owned enterprises (SOEs), by holding them accountable for the performance of the enterprises through a reward and sanctions system, while granting SOE managers more operational freedom. Performance contracts are used across a number of sectors, including utilities, transport, telecommunications and agriculture. Contracting out is becoming an important service delivery tool in government (e.g., solid waste removal and road maintenance as well as ancillary health services such as cleaning, laundry and catering) (UNRISD, 05 Sep 2006).

While many of these NPM practices seem to be beneficial (in some cases) to the public sector, there is potential for, and real limitations associated with, applying some of these elements. Institutional and other problems may be some of the constraints for implementing NPM. Other constraints on implementation capacity

include the capacity and ability to manage a network of contracts, the development of adequate reporting and monitoring systems, and the difficult institutional and governance environment.(UNRISD, 05 Sep 2006).

### **2.3.3 Public and Private Management**

The issue of public and private sectors being similar or dissimilar has been debated by many, over many years. Related questions are: How alike or unlike are the private and public sectors? Can and should government be more businesslike? Is management generic?

Lynne (2001) argues that public and private sectors are alike to the extent that public and private management involve similar skills, knowledge and temperament; that many ideas, practices and principles relating to corporate success can also be applied to solve problems in the public sector; and that managerial needs in the public sector can be addressed by drawing from the large pool of private sector managers. However, that differs from a structural and craft perspective in that the public sector must have access to sources of knowledge, techniques and skills to suit its unique character. In this context the structural perspective refers to the formal means for overseeing and constraining the exercise of state authority by public managers. The craft perspective refers to the specific tasks that are performed by specific individuals in a specific managerial role.

According to Rainey (1997:17) the basic elements of public and private management that are fundamentally unlike are the following:

- a) public interest differs from private interest,
- b) public officials are accountable to democratic values rather than to material interest, and
- c) the Constitution requires equal treatment of persons, and rules out the kind of selectivity that is essential to sustaining profitability in the private sector.

Meaningful conclusions can be drawn from the above discussion in that the distinction between public and private management is arguably definitive from

structural, craft and institutional perspectives. Different kinds of social interests are being served by the two sectors, which require distinctive skills and values to serve these interests. However, the distinctions may at times be blurred or absent. Lane (2001) is further of the opinion that lessons learned and knowledge transfers across sectors through the implication of this argument can be useful and should never be rejected on ideological grounds.

### **2.3.4 Reasons for Introducing Management Changes**

A recent study done by Ter Bogt (2006:8) has shown that there are several important reasons for introducing management changes and also for the rapid way in which changes are introduced.

According to the author the internal and external factors that have resulted in management changes in local government and provinces are as follow:

- Social stability that has been reduced and the constant demand for change by the public - the effects of these factors are that changes that are implemented are less long-lasting;
- A focused culture which makes professional managers and politicians more aware of what the public wants, to be client-oriented and to work fast and efficiently;
- Awareness of the role that local government plays in development together with external private and public role-players. Officials therefore need to be businesslike experts;
- Commercialisation of society is becoming a general trend;
- A public that is more vocal about their demands on the cost and quality of services' responsibility and transparency of authorities;
- Politicians often lose interest in changes that takes longer to produce results as a result of critical attitudes of many journalists and citizens towards the authorities and their preference of political electorate;
- Detailed regulations and new rules of national government such as more stringent requirements on responsibility and legitimacy;

- National government has transferred some responsibility with regard to policy-making and the implementation thereof to provincial and local government which resulted in increased financial risks;
- Officials that are better qualified with a specific focus on NPM and the significance of rational and businesslike management;
- Changes globally as well as the influence of articles in professional journals, trends and congresses;
- New professionals and politicians;
- A reduction in the role that government plays in certain areas and to transfer some of the responsibilities to the citizens and private sector;
- The desire to improve efficiency and service by increasing internal cooperation and to pursue a central policy;
- Politicians making a visible effort to carry out activities, partly as a result of the more stringent demands of citizens;
- Change within an organisation can occur as a result of a serious problem within an organisation unit.

Many of the internal factors for change can be influenced by external factors. It is evident from the above that the external factors have played an important role in the frequent introduction of management changes. Factors relating to the internal affairs of the organisation can also be as a result of external pressure. Furthermore, it can be argued that these pressures can also serve to encourage employees to pay more attention to the image of their local government organisation.

Kraemer, (1973) is of the opinion that problems that arise from change can be categorise into three main clusters namely developmental, programming and operational problems. According to the author developmental problems are the most complex because of unclear goals and policies. Programming problems are created as soon as developmental problems are understood and applicable values, norms or goals are articulated. Programming problems are addressed through creating effective strategies which are embedded in policies and programs. Once the strategy is set, the problem becomes operational. Operational problems are addressed through development of specific budgets, priorities, regulations, and etcetera (Bryson and Crosby, 1992:11).

Ferlie, et al (1996:88) has acknowledged the impact that change in an organisation has on transformation. Many authors (Dunphy and Stace, 1988; Gersick, 1991; Beckhard and Pritchard, 1992; Romanelli and Tushman, 1994; and Blumenthal and Haspeslagh, 1994) argued that transformational change has a radical impact and is therefore more strategic in its nature. Tichy (1983) defined strategic change as a change that affects main systems such as strategy, structure, technology or control systems and which impacts across the organisation.

In the light of the above challenges and preconditions the Economic Commission for Africa (2003:50–57) has made the following recommendations for the successful implementation of public sector reform programmes:

a) NPM Techniques:

This includes performance oriented civil service, Total Quality Management, decentralisation, pay reform, commercialisation and customer driven government. Fundamental changes in the accounting system can be introduced to accommodate cash accounting and capital and accrual charging. A competent, efficient and accountable system of governance aimed at attracting private investors must be institutionalised. Work Improvement Teams (WITs) can be established to enhance the quality of services. The emphasis of reforms in government must be placed on systems that enhance efficiency in the public service, value for money, and financial and managerial activity. The author recognises the fact that not all of the methods outlined above will be applicable in every situation in different organisations.

However, NPM is derived from the belief that mistakes can be avoided, defects can be prevented, and waste can be eliminated. NPM aims to continuously improve results in all aspects of government work, from high-level strategic planning and decision making to detailed execution of work elements (Economic Commission for Africa, 2003:50–51).

Nevertheless, it must be noted that any of these changes, reforms and management competences cannot be acquired over night. The development

depends largely on the complexities of public management problems and the handling of these problems as well as establishing and revising beliefs about efficiency and management in the process (Metcalf and Richards, 1990:22).

b) Capacity Building:

The demand of citizen–client calls for a new form of civil service and procedures whereby services rendered by government are scrutinised in the same way as in the private sector. In order for government to respond to these calls, government must be provided with adequate material, human and financial resources. Governments should invest more in human capital.

Trained and highly developed staff, complemented by a political will in the organisation, has become an essential element for public sector reform agendas to be successful. Government should also invest in building capacity in policymaking and in management skills of public officials, given that public service reforms depend on policy. Government must adopt a competency-based approach to the training and development of public officials. Strategic plans must be in place to form the basis for effective public service delivery (Economic Commission for Africa, 2003:51–52).

c) Decentralisation:

Decentralisation in its various forms is a means of achieving public service effectiveness and ensuring that public administration and management are more responsive to citizens' needs. Decentralisation improves the quality of decision making by involving all the stakeholders and achieving an improvement in the flow of information.

Substantive measures to strengthen the capacity of decentralised organisations include: delegation of authority to managers at lower levels in respect of finance and personnel management; empowerment of communities through the revitalisation of municipal governments; establishment of mechanisms to enable the private sector and other organisations to engage in processes of public policy formulation that enhance local democracy,

accountability, efficiency, equity, effectiveness and sustainability in the provision of social services; and providing training to citizens on their rights and obligations. (Economic Commission for Africa, 2003:52–53).

d) Enhancing Local Financial Management:

Financial systems that are sound and transparent should be encouraged, and training to municipal management staff and particularly personnel in the tax division must be a priority. Areas of local budgeting, local accounting, financial analysis and local tax systems must be the focus of this training (Economic Commission for Africa, 2003:53).

e) Ethics and Accountability:

Ways in which ethics and accountability in public service reform programmes can be enhanced include: promoting and fostering conditions of service that enhance professional and ethical standards; promoting and advancing sound policies on recruitment, training and public personnel management; creating, upholding and strengthening the effectiveness and integrity of public institutions' accountability; enforcing legal instruments; establishing regulations and codes of conduct that promote and enhance ethics and accountability; establishing coalitions with the private sector to expose and combat corruption; ensuring impartial and systematic prosecution of violators; promoting public reporting to encourage transparency; establishing commissions to enforce the laws against corruption; and establishing and strengthening the Public Complaints Commission (Economic Commission for Africa, 2003:53–54).

f) Information and Communication Technology:

The application of NPM tools is not possible if adequate information and communication technologies are not available and operational. The following measures are recommended to this effect: governments should commit themselves to creating an enabling environment for the development of information and communication technology (ICT); government should identify

mechanisms to encourage national and provincial manufacturing of suitable ICT equipment. Information must be available to end-users in the language most accessible to the public; cyber laws must be available to increase legal validity; the media as watchdog must continuously report on the State in a constructive manner; and the policy and legal environment should be conducive to the development of public and private training centres to also address the problem of illiteracy (Economic Commission for Africa, 2003:54–55).

g) **Measuring and Monitoring the Public Service Efficiently:**

It is important to have mechanisms in place to measure and monitor performance over a period of time. Substantive measures for obtaining comparable statistics include: defining a unit of government to identify and articulate its mission on the basis of a framework provided by government; setting up productivity units to monitor performance and issue reports to the different stakeholders, including the public; integrating organisational, personnel and financial audits; reviewing systems of compensations; enhancing capacity of civil service units for proactive and intelligent policy analysis; and embedding ongoing mechanisms for measuring and monitoring in reform programmes and projects at the early stages of their formulation and implementation (Economic Commission for Africa, 2003:55).

## **2.4 NPM STRATEGIES IN PRACTICE**

Various strategies have been introduced to implement the NPM model. The following are examples of these strategies:

### **2.4.1 Restructuring the Public Sector**

Restructuring the public sector is decentralised or re-engineering forms of civil service organisation. In governance it refers to moving away from the state's boundaries and more towards the private sector, or privatisation. Public service reform should be linked to a comprehensive programme of institutional and political

reform since effective public management depends on efficient and effective systems that highlight structure and performance (Minogue, 1998:21).

Many examples exist of developing countries that have successfully implemented the NPM model. The significant influence of ideological and political positions on reform outcomes and the problem that an underdeveloped administration causes in bringing about reforms must be recognised. A governance approach to civil service reform can overcome these obstacles. A strategy that changes the entire culture of the civil service is required. A needs assessment of clients as well as capacity and institutional endowment can be used as a basis for institutional investment in development programmes in each policy sector (Minogue, 1998:21–26).

#### **2.4.2 Making Public Management More Efficient**

The key objective of NPM is that public services should be provided in the most appropriate and cost-effective way. Managers must be held accountable for their performances through a system of performance management. This will involve achieving specified targets, with specified resources, as well as performance agreements and performance targets. Performance measurement and monitoring must be based on performance indicators. Quality of services should be a primary objective to the organisation. It is important to measure customer satisfaction in order to determine the gap between the service expectation and the services actually delivered (Minogue, 1998:26).

#### **2.4.3 Introducing Competition into Public Services**

Another objective of the NPM philosophy is to achieve more effective service delivery of public services. Public organisations are often identified as not being responsive to the needs of ordinary citizens. The key solution to being responsive is the principle of competition – with the citizen as the consumer. This will ensure a reduction in the direct cost of public service provision, value for money, and converting government into an enabling system rather than a providing system. There is a clear link between efficiency and accountability (Minogue, 1998:29).

#### **2.4.4 The Regulatory State**

Regulation and deregulation are recurring phrases in public management reform of what is necessary to regulate the state. Deregulation alludes to the fact that managers must be allowed to manage, public services must be free from control systems, and the private sector must be free from regulations and control. The implementation of NPM requires a new form of regulations to ensure efficiency, setting standards of services, exercising financial audit and regulating the activities of public managers. The general view is that the new regulatory governance will have increased transparency.

The new regulatory form primarily focuses on efficiency and value for money, and to establish a link between spending and performance through a performance audit. An effective performance audit system provides for the dissemination of good practice by officials and senior management. Closer working relationships between auditors and managers can be established through performance auditing (Minogue, 1998:31).

#### **2.4.5 Ethical Issues**

Honesty and ethical behaviour are major concerns for government as it focuses the attention on transparency. Corruption has, for quite some time, been a major issue hampering good governance. Corruption should decrease as government become more efficient and accountable in the long run. In the meantime it is difficult to target the guilty parties because of the political context and poor public management.

Osborne and Gaebler (1992:24) are of the opinion that there is a need for better governance. Governance as described by the authors is a process whereby society's needs are solved and addressed collectively. They further states that government is the instrument that is being used to provide governance. Good governance incorporates democratic and participative values that increase accountability and efficiency. However, as stated earlier in this chapter, government needs to continuously improve their ways in order not to be an outdated instrument for good governance.

Under the new Civil Service Conduct, published by Government in 1995, public managers and civil officials are obliged to

- assist the duly constituted government;
- act with honesty, imparity and integrity;
- ensure the proper use of public money;
- avoid using their official position to further their private interests;
- comply with restrictions on their political activities;
- avoid disclosure of confidential information; and
- report evidence of criminal or unlawful activity by others (Minogue, 1998:32–33).

## **2.5 SUMMARY**

In conclusion, it can be said that governance is the process by which government collectively attempts to solve their institutional problems and meet their citizens' needs. The results of many studies indicate that governments have been making huge efforts to improve the performance of their public sectors to meet the socio-economic and technological challenges of the era.

The new public management revolution has caused a major rethink of the way in which the state has delivered services that are inefficient and unaccountable for. It also constitutes an ideology and a set of beliefs about how government should work. One of the primary objectives of introducing the NPM model is to reduce costs and to achieve improved service delivery that is more effective and efficient.

Many reform programmes in government have adopted the NPM approach in order to overcome everyday challenges. By introducing results-oriented and total quality management techniques the new public management reform programmes aim at the adequate management of machineries of government. It also focuses on effective public service delivery through building and strengthening institutional capacity.

NPM is, however, only one way in which government can improve its service delivery. Another way to improve effectiveness and efficiency in service delivery is through sharing services in order to reduce costs and duplication. The next chapter will introduce shared services as an alternative service delivery mechanism.

## **CHAPTER 3: SHARED SERVICES AS AN ALTERNATIVE SERVICE DELIVERY MECHANISM**

### **3.1 INTRODUCTION**

As the search for more efficient and less costly service delivery methods in local government continues, public officials are being held increasingly more accountable by the public, and through legislation, for improved ways to provide services. Municipalities are constantly facing increased demands from the public for more services and resources whilst support from provincial and national governments does not provide for all the needs.

Government has a key role to play in delivering sustainable, long-term efficient services, which go beyond implementing new operating centres and centralising existing services. One way in which to achieve this is to fundamentally change the way in which the organisation functions. A Shared Service Centre (SSC) can play a pivotal role in creating an opportunity to transform service delivery and unlock substantial savings (IBM Business Consulting Services, 2005:3).

This chapter presents a review of the relevant literature on SSCs, and the value that can be added to municipalities through the implementation of such a centre. It will further provide an overview of the benefits and challenges of such a centre as well as examples of shared services in the public sector, to advance the quality and quantity of service delivery, in South Africa and abroad.

### **3.2 WHAT IS A SHARED SERVICE CENTRE?**

Sharing services is not a new concept. However, according to Kearney (2004:2), shared services in the public sector are a fairly new intervention, even though it has been experimented with within private companies since the late 1980s. Many consistent theories have been introduced about what a SSC is and what it entails.

### 3.2.1 Definitions

A SSC is the provision of competitive, standardised support services to empowered customers. It applies to all service delivery institutions, with the following aspects that may differ from situation to situation: competitive standards, level of standardisation, type of service, level of empowerment, and the question of how multiple the services should be (Deloitte, April 2007).

The Information Technology Association of Canada (ITAC) (2002) defines shared services as a structure in which support services for a number of departments, which are usually duplicated within an organisation, are combined, and undertaken by one specialist centre.

It is furthermore argued that a SSC is a dedicated unit that operates on its own, rendering services to the organisation on a fee-for-services basis. This viewpoint is also supported by Wilson (2005:12), who is furthermore of the opinion that it involves the consolidation of business processes.

In a feasibility study carried out by the Palmer Development Group (2006:19) on shared services for the Central Karoo it is reported that a SSC is *“more than just a centralisation of services in an existing department but rather a creation of a separate and distinct organisation in which support functions are the core business of such an organisation or centre.”* A substantial body of literature supports this notion.

In a document about shared services in the public sector, published by IBM Business Consulting Services (2005:4), shared services are defined as “back- and front-office services” that are commonly used by more than one department or unit and which are brought together in a single governance delivery structure.

SSCs can be applied in non-core functions such as finance, human resources, information management, technology and legal services. This viewpoint was proposed by Treharne (April 2003), and by Accenture (2005:3), who also includes the procurement function. Accenture (2005:3) is furthermore of the opinion that all these functions can be carried out by a “single stand-alone organisational entity”.

This viewpoint is supported by Faust and Dunning (2006:23), who also suggest that a SSC refers to the quest of local government to finding cost effective approaches to service delivery.

Gundavelli and Mohanty (2004) are of the opinion that SSCs are defined in a financial context, and more specifically state that SSCs signify a different approach to financial administration functions. CODA Group Holdings (2002) also strongly focuses on finances in a shared services context. It suggests that the ten most important services provided by SSC are all finance related.

Shared services is the “concentration of company resources performing activities, typically spread across the organisation, in order to service multiple internal partners at lower cost and with higher service levels, with the common goal of delighting external customers and enhancing corporate value” (Schulman, et al: 1999:7). According to Harris (2004) SSCs can be legally owned by the customers or they can have a degree of ownership.

From the above brief summary of the definitions of SSCs it is clear that SSCs can be utilised to provide different generic services in a centralised unit that can be hosted in various models. Two main aspects that primarily define a SSC are its position and status internally, within an organisation, or externally, as a separate entity, and the functions on which it focuses. The latter are mostly defined as the full component of non-core support functions or functions, specifically referring to the financial type of support functions. SSCs have certain characteristics that distinguish their functioning from general operations in different organisations or units.

### **3.2.2 Characteristics**

In a study done by Collinson Grant Limited (2001) it was found that in order to create a different culture in the delivery of services, SSCs are more commonly established away from the main office. Specific characteristics of a SSC, as indicated in their study, include the following features: SSCs provide necessary services to more than one unit in an organisation, SSCs are responsible for services rendered on time, managing cost and quality of services provided, SSCs have their own dedicated

resources and often their own contractual arrangements with internal customers such as service level agreements.

Contradictory to the study done by Collinson Grant Limited (2001), Shane van Jaarsveld (2002) argues that SSCs generally operate within organisations.

The key features of a SSC as defined by Wilson (2005:2) include consolidated administrative functions, the requirement of a redesign of the organisational structure and workforce, an organisational culture with a strong focus on service excellence, and location within low-cost, high skills areas.

Collinson Grant Limited (2001) is of the opinion that SSC managers require good communication and motivation skills, empathy with customers, organisational abilities and a desire to provide "more for less".

### **3.2.3 Functions**

From the above discussion it is noted that it is important to decide what functions a shared service unit must perform. Much of the literature on SSCs focuses on support services to be provided by a SSC, and not so much on line functions. This can perhaps be as a result of the legal responsibility that certain entities such as municipalities have to perform specific functions in terms of applicable legislation.

Many of the functions of a SSC, as described in a document published by ITAC (July 2002), and which include finances, human resources, information services, legal / corporate affairs, logistic / supply chain, and customer services, have already been alluded to in the definition of SSC (see Section 3.1.1). Most of these functions require soft skills.

From a financial point of view one can argue that an internal audit function and supply chain management as required by the Republic of South Africa (2003) can be an excellent example of shared services. The idea of the SSC is then to improve the supply chain management and internal audit processes for more than one municipality by sharing common elements present in the single administration.

However, before municipalities or other units can embark on such a shared services venture it is important to understand the value of sharing services in a SSC.

### **3.3 WHY A SHARED SERVICE CENTRE?**

Local government has been given priority status on the transformation agenda in 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 resources 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 SSCs in local government. A number of municipalities, many at district level, are already starting to explore the notion of SSCs in some form or another.

#### **3.3.1 Objectives of Shared Service Centres**

According to a document published by Collinson Grant Limited (2001) the strategic aims of a SSC are to improve the quality of services, to reduce costs, and to replace redundant systems. Wilson (2005:2) supports the opinion that the sole objective of SSCs is to deliver high-quality and optimum cost-effective services.

CODA Group Holdings (2002) is of the opinion that the main aims of a SSC include the enhancement of corporate value, to focus on partner service and support, to create motivated teams, to reduce costs and raise service levels, to make the best use of technology investments, to focus on continuous improvement, and to facilitate the integration of services. This is supported by Van Jaarsveld (2002) in his discussion document of shared services in government.

Objectives that have been set and thoroughly thought through have lead to many successful implementations of SSCs in different private sector companies where different units share services to improve service delivery.

### **3.3.2 Reasons for the Establishment of Shared Service Centres**

The implementation of shared services offers many benefits and value, especially in municipalities with low capacity and scarce resources. A SSC provides a flexible model, which can be designed to fit the specific needs of a municipality, while sharing resources with other municipalities. In many cases municipalities put too much emphasis on compliance and corporate governance, mainly as a result of a lack of capacity, in which case very little value is added.

#### **3.3.2.1 Cost savings**

According to ITAC (2002), the first and foremost benefit of shared services is the cost saving factor, achieved by integrating opportunities and eliminating duplications and redundancies. In a recent online report on shared services in local government, published by the Department of Community Affairs (DCA) USA,, the notion of improved service levels and a reduction in costs through SSCs is strongly supported. The DCA is furthermore of the opinion that SSCs can be structured in such a way as to meet the needs and unique features of their communities.

According to Accenture (2005:i), by implementing SSCs government can focus their “resources on high impact activities that are core to their mission, rather than on routine administrative functions.” It is also important to emphasise here that the cost of performing these routine administrative functions often consume a large percentage of an institution's budget. The creation of SSCs can be a way to reduce these costs.

#### **3.3.2.2 Technology**

Another meaningful contribution of shared services is the adoption of common infrastructure platforms and new technology, both of which will result in cost savings and redefine the way in which government conducts its business.

New technology that is available to different municipalities or government entities will allow different systems to communicate critical information more easily to one another and provide a synergy and better alignment between different departments and municipalities. This viewpoint is strongly supported by Collinson Grant Limited

(2001), which is also of the opinion that an SSC is the best way to provide cost effective implementation and full exploitation of technology.

A practical experience to illustrate and support this notion of sharing technology is gained from the joint municipal district databank at the Overberg District Municipality (ODM). In this case the District Municipality and the four local municipalities are not only sharing the costs of expensive geographical information systems (GISs) and technology but are also ensuring a constant and effective flow of information both within a particular municipality and also within the collective.

### **3.3.2.3 Focus on core business**

SSCs will provide the opportunity for government to focus on its core business of service delivery (Palmer Development Group, 2006:14). PriceWaterhouse Coopers (2001:6) strongly supports this notion and is also of the opinion that SSCs will allow government the opportunity to focus on their core businesses and dedicate resources to a centralised unit to avoid duplication, which in turn will reduce operational costs.

### **3.3.2.4 Centre of excellence**

Professionalising shared services create a benefit for the centre itself; governments are able to attract highly skilled personnel both for the municipalities and for the centre. Not only do shared service entities become professional in their day-to-day transactional activities but they also develop into centres of excellence (Palmer Development Group, 2006:16). With the implementation of new work procedures and processes in a SSC, it can be easier for staff to work in a range of different government environments with little disruption.

### **3.3.2.5 Further benefits**

Accenture (2005:27) is of the opinion that a SSC that operates on its own enjoys the following benefits:

- “It is separate from any negative connotations associated with existing operating units;
- Provides clear purchaser–provider clarity and thus limits conflict of interest;

- Disengages the shared services organisations from entrenched work paradigms and instils new values and a culture of operational excellence; and
- Allows the entities greater latitude during the design and implementation stage for establishing new operational procedures that will create higher value results.“

Harris (2004) is of the opinion that shared services can be used to achieve economies of scale and to drive greater consistency within different processes. Other benefits provided by a SSC, as indicated by Wilson (2005), are the following: addressing issues in a timely manner, achieving economy of skill through the development of specialised skills that can be distributed across the organisation, flexibility in terms of easing re-organisation of operating departments, and the standardisation of practices and compatible data in order to provide a common language and understanding of analytical decision making. Effective data management and good data quality, as well as the management of practices, procedures and policies by SSCs will provide municipalities with the opportunity to discontinue activities that add little value.

Shared services can also contribute to the overall economic benefits of the municipalities and organisations by stimulating the growth of the shared services industry.

To summarise the benefits obtained from implementing a SSC, one can argue that it will leave more time to focus on front-line services; decision-making information will improve across local government; the drive to sustain benefits over time and to continuously drive improvement in business processes will increase; and more rapid maintenance and implementation of standard processes, as well as significant improvements in data quality and effective data management (IBM Business Consulting Services, 2005), will result. It will also reduce costs for municipalities and other entities, by avoiding duplication.

However, in order to obtain maximum benefits from a SSC it is important to understand the challenges of the SSC.

### **3.4 CHALLENGES FACING SHARED SERVICE CENTRES**

In order for any government institution to be successful in implementing a SSC it requires a strong commitment and the ability to face and overcome significant challenges (Harris, 2004). One of the major challenges that SSCs face is to establish themselves as competent service providers that can provide effectively and efficiently for the needs of the municipalities, while applying and taking cognisance of the different policies and procedures set by the different municipalities. In order to overcome this there needs to be an agreed compliance management process (IBM Business Consulting Services, 2005).

Institutions are often reluctant to join a shared services venture because of their perception that they will lose control of their power. Shared power can be arranged through proper service level agreements. Bryson and Einsweiler (1991:3) defined shared power as “*shared capabilities exercised in interaction between or among actors to further achievement of their separate and joint aims.*”

Other challenges involve certain key issues or questions that need to be asked and very carefully considered. This includes the following questions raised by Harris (2004):

- How are the services that will be shared selected and justified?
- How are the best possible models selected and implemented?
- How is the transition to shared services managed?
- How are shared services managed and improvements incorporated?
- Detailed answers to each of the above questions are presented in Chapter 5.

### **3.5 LEGAL BASIS FOR SHARED SERVICES**

Current legislation provides a firm legal basis for the sharing of functions in a local government context. Chapter 8 of the Republic of South Africa (2000) provides a legal and conceptual framework for municipal services. Section 78 of the above Act 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 municipalities should set about appointing another municipality to provide a services

or how two or more municipalities can set up an independent entity for the purpose of delivering services.

However section 88 of the Republic of South Africa (1998) 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 Republic of South Africa (1998) states the following:

*“88(1) A district municipality and the local municipality 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 and 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 suggests that the stronger municipality, be it a local or district municipality, can play the leading role in providing support to the other municipalities in the same district. However, the stronger municipality can also refer to a specific function that any of the municipalities perform better than the others which they can assist municipalities in the same region with.

### **3.6 CASE STUDIES ON THE SUCCESSFUL IMPLEMENTATION OF SHARED SERVICE CENTRES**

If one looks at the situation from a South African point of view, several successes have been reported on the implementation of SSCs. This thesis will focus on the Gauteng Shared Service Centre (GSSC) which is a provincial initiative and the City of Johannesburg Revenue Shared Service Centre (RSSC) which is a local government shared service initiative.

#### **3.6.1 Gauteng Shared Service Centre**

The GSSC is a separate department that has been established in 2001 as the 12<sup>th</sup> department of the Gauteng provincial government (GPG) to support the provincial departments of the province. This initiative provides internal support services to the 11 GPG departments in terms of finance, human resources, procurement and technology support services. All 11 departments procure goods and services as a collective through the GSSC, which reduces the cost of buying these goods and services.

By 2003, the GSSC had 1000 staff placed in its new offices and it was reported that the GSSC had already saved 30% on new software and R 3 500 on each computer bought. Document processing has become more efficient. However continuous training of staff is needed (Palmer Development Group, 2006:19-20).

The GSSC provides services to the GPG departments with respect to audit services, finance, human resources, procurement and technology support services. These functions which are often regarded as back-office functions are the core business of the GSSC. A small number of people have remained behind in the different departments to perform these functions to ensure that small scale procurement can still be performed within the department and to ensure that the necessary link between the department and the GSSC is maintained.

The GSSC is headed by a chief executive officer and a chief operations officer who presides over six units. Each of these units has sub-units under them. The political head of the GSSC is the MEC for Finance and Economic Affairs.

The GSSC draws a distinction between operational services and centre of excellence services. The operational services are transaction processing and are repetitive in nature whereas the centre of excellence services are value-adding and specialised. Operational services are regulated by SLAs with agreed key performance measures and targets. Centre of excellence services are usually rendered at the request of the department.

The scope of the GSSC on each of the functions that they render as reported by Palmer development Group, 2006 are as follow:

### **Finance**

The finance functions that have been taken over from the departments include: the revenue functions, the expenditure functions, general accounting and reporting services and user support services.

### **Human resources (HR)**

These functions include HR planning, policy and procedure development, recruitment and selection of staff, handling of personnel service benefits and salary administration, the administration of resignations, deaths and dismissals, organisation design and consulting services, employee relations services as well as senior management services.

### **Procurement**

The GSSC procure goods and services on behalf of the departments. It also administers tenders as well as maintains a vendor database including pre-qualifications of vendors.

### **Internal audit services**

This function includes risk and compliance audits, computer audits, forensic audits and performance audits.

## **Technology support services**

The GSSC renders IT remote and on-site support services to desktop and laptop computer systems and printers.

The GSSC is the 12<sup>th</sup> department of GPG and as such is financed from the Department of Treasury in the province. The allocations of the departments for back office functions are allocated to the GSSC. The GSSC is not an agency and therefore it does not charge the departments for each service or function that it has performed for that department. All the services are provided within the budget allocated to the GSSC.

The GSSC has many benefits for the GPG departments which include the following:

- All 11 departments procure goods and services as a collective. This effort has a significant reduction in cost to all the departments.
- Formal service level agreements (SLAs) are entered into between the GSSC and the departments. These SLAs make it possible for the departments as the customers of the GSSC to monitor the delivery of services by the GSSC.
- The GSSC relieves departments of day-to-day management and administrative responsibilities and functions, leaving more time for departments to focus on strategic services.
- Quality decisions can be made as a result of one entity that is responsible for the day-to-day processes and standardisation of processes and information.
- An opportunity is created to have centres of excellence that render specialised and quality advisory and consulting services across the province.

Lessons that can be learned and shared from the GSSC experience are as follow:

### **Communication**

It is of the utmost importance that the idea of a shared service centre be communicated to all concerned to prevent it from becoming a stumbling block in the implementation process.

## **Buy-in**

The buy-in of senior management and stakeholders is very important. It is important that senior managers collaborate with the leadership of the centre and take ownership of it. Senior managers still have to sign off on requisitions for services and without such signatures goods and services are not purchased.

## **Planning**

The planning of a shared service centre needs to be detailed and consultative. Resistance from stakeholders can easily derail the process.

## **Change management**

With the migration of staff from departments to the GSSC, a change management process was necessary as this can affect the morale of staff. Sensitisation of the departments is important so that staff is well aware of the importance and the benefits of the SSC and its processes.

## **Strong leadership**

A strong leadership is required to manage a multi-stakeholder entity such as the GSSC. The management of stakeholders are important for the success of a SSC. A high turn-over of staff can destabilise the SSC.

## **Demand planning**

The departments must plan their demand and then requisition it from the GSSC. If the demand planning is weak in the departments, then the relationship between the SSC and the departments is weakened. This can lead to compromised levels of confidence on the SSC.

### **3.6.2 City of Johannesburg Revenue Shared Service Centre**

Like the GSSC, the reason for the establishment of the Revenue Shared Service centre (RSSC). The City of Johannesburg (CoJ) adopted a shared services model for the collection of revenue in 2003. However, the CoJ encountered many problems

with the implementation of revenue service delivery as a result of design flaws. Other business units in the value chain were not taken into account in the design of the RSSC.

A new model in the form of a joint operation team was constituted by all the business units. This team is responsible for joint planning and will oversee the establishment of the new single service utility that will take responsibility for the overall management of the customer interfaces and revenue streams into the City. The difference between this new organisation and a SSC is that there are some elements of a SSC but this organisation will also interface with customers.

A classic SSC is suppose to share the repetitive back office functions of revenue but will also be the front office for customer management. This new organisation will share back office functions of revenue but will also be the front office for customer management (Palmer Development Group, 2006:23-25).

Lessons from the CoJ are as follow:

### **Simplicity**

It is important to select a model that is not complicated but one that is simple and will enable you to achieve your goals as an organisation. It is also important to take into account all the stakeholders when designing and deciding on the best model to use for implementation.

### **Relations**

It is important to maintain good relations between staff and management in order for the change process to be better managed.

### **Capacity to implement**

It is of the utmost importance to have a sufficient budget to implement the business model that is chosen to improve service delivery.

The two case studies illustrate two scenarios that show the success factors that can be derived from the lessons learned are very important. These case studies have illustrated that a shared service entity can be established to include a number of back office functions as in the case of the GSSC or one function as in the case of the CoJ.

In conclusion it can be said that through the implementation of a SSC, whether it is to reduce costs or to regain the trust of the citizens, shared services can municipalities with savings as well as the opportunity of becoming world class institutions.

### **3.7 SUMMARY**

Shared services offered in government are not unfamiliar. The most compelling reason for local governments to consider shared services is to reduce duplication in different departments and in other local government organisations. SSCs enable government and other organisations to establish a service focused ethos by adopting new ways of working and sharing resources.

Shared services are about streamlining processes in order for government to respond effectively and efficiently to changing demands. It can also be said that SSCs involve taking over processes that are generally repetitive, and providing them through a common service provider.

Based on the success stories of both private and government entities is it clear that there is no single correct way to implement shared services. Shared services are part of the solution to integrate services in different entities, but there is no universal solution. It is also clear that the implementation of SSCs have resulted in more cost savings, less duplication and greater efficiency.

## **CHAPTER 4: THE CASE OF THE OVERBERG MUNICIPALITIES**

### **4.1 INTRODUCTION**

The Overberg region consists of five municipalities. These municipalities are divided into four category B municipalities, which are the local municipalities, and one category C municipality, which is the district municipality, as envisaged in section 155(1) of The Constitution (1996). Since the termination of the Planning and Implementation Management Support Service (PIMSS) Centre in the Overberg, which provided limited services to all five of the municipalities (as discussed in Chapter 1), the notion of implementing a Shared Service Centre (SSC) in the Overberg has been strongly advocated by the provincial government.

A non-negotiable factor for municipalities in the Overberg to implement a SSC of any kind is the buy-in from the politicians and the senior management of all the municipalities involved. A need and resources assessment needs to be done in order to establish whether municipalities in the Overberg have the capacity to implement a SSC, the services that can be delivered by a SSC, and to explore the possible avenues to enhance service delivery through a SSC. Benefits and challenges also need to be looked at, as well as the best model to host the SSC that will be tailor-made for the municipalities in the Overberg.

A summary of the findings of the needs and resources including capacity assessment of the municipalities in the Overberg, based on a combination of face-to-face and telephonic discussions and interviews that were conducted as well as documentation obtained from the various municipalities, will be presented in this chapter.

### **4.2 MUNICIPAL CLASSIFICATION**

Since the 2000 demarcation process, the four local municipalities in the district, namely Theewaterskloof Municipality, Overstrand Municipality, Cape Agulhas Municipality and Swellendam Municipality, have become well integrated, stable and functioning entities, rendering services to all towns, settlements and rural areas in the Overberg. The Overberg District Municipality (ODM) is one of the smallest district

municipalities in the Western Cape and is, in many instances, lacking development planning capacity.

Institutional capacity amongst the municipalities in the Overberg District as identified in the annual reports of the respective municipalities varies considerably. All municipalities have been classified according to their capacity to deliver services as low, medium and high capacity municipalities (Republic of South Africa, 2004). The district municipality has been classified as a medium-capacity municipality.

The category B municipalities in the Overberg are: Overstrand Municipality, which has been categorised as the only high capacity municipality in the district, followed by Theewaterskloof Municipality, which is a medium capacity municipality, as well as Cape Agulhas and Swellendam Municipalities, which are both rated as low capacity municipalities.

Although there is support for the municipalities at provincial and national levels, municipalities need to maintain their own sustainability by ensuring that they have correct governance systems in place, a stable revenue base, and a stable political environment.

The following section focuses on the factors contributing to the sustainability of the municipalities. These include continuity as a result of internal capacity as reflected by staffing levels, financial capacity as well as the prevailing political, structural and administrative environment.

### **4.3 SWOT ANALYSIS**

Isaac, et al, (1997:18) provides a spot on opinion about the need to manage strategic and transformational change. The authors acknowledge that an understanding of the organisation's external and internal environments, its strengths and weaknesses and its belief and value systems are necessary.

Table 4.1 tabulates the strengths and weaknesses of each municipality in the Overberg. It should be noted that this is not an exhaustive list of strengths, weaknesses, opportunities and threats (SWOT) but rather a reflection of the major

issues as identified by top and senior personnel in each of the respective municipalities.

From the SWOT analysis it is clear that the **Overberg District Municipality** is facing many challenges with regard to staff recruitment and provision of services. There is a definite need for some sort of intervention, such as shared services, to overcome the challenges that they are facing. There are however other functions that the municipality handles very well. These include the human development section, and the fire fighting services: the disaster management centre is rated very highly and it has a highly competent staff. The fire station training centre of the district municipality is accredited by the Local Government Sector Education Training Authority (LGSETA) and can provide training in several areas. (Overberg District Municipality, Annual report: 2006/2007)

**Table 4.1: SWOT analysis of municipalities in the Overberg**

MUNICIPALITY	STRENGTHS	CHALLENGES / WEAKNESSES	OPPORTUNITIES	THREATS
<p><b>Overberg District Municipality</b></p>	<p>The will to improve service delivery</p> <p>Human development in the district</p> <p>Fire fighting centre and disaster management services</p>	<p>Inadequate number of staff</p> <p>Provision of infrastructure and services on a sustainable basis</p> <p>Stimulating local economic development (LED)</p> <p>Sound management of its financial affairs</p> <p>Strengthening continued participation in the affairs of local government</p> <p>Provision of subsidised health and rescue services</p> <p>Growing population, unemployment and poverty</p> <p>Continued reformation and transformation in local government</p> <p>Inter-governmental relations with the other municipalities in the region</p>	<p>Vacant positions can be filled with people who match the culture and vision of the municipality</p> <p>Best practices can be implemented</p> <p>Intergovernmental relations especially with B municipalities in the region can be repaired</p>	<p>Ongoing concern about the functionality of the District Municipality</p>
<p><b>Cape Agulhas Municipality</b></p>	<p>Excellent procedures, systems and policies that need continuous revision</p> <p>Performance measurement of all levels in the municipality</p> <p>Skilled personnel with expertise</p> <p>Financial stability – unqualified report for the past 10 years</p> <p>Responsible administration</p> <p>Stable political environment</p> <p>Environment of cooperation between various political parties</p> <p>Good infrastructure and service delivery levels</p>	<p>Possible long term financial viability</p> <p>Services backlogs</p> <p>Old and outdated systems with regard to engineering services (e.g.. sewerage systems, water reticulation).</p> <p>Availability of, and attracting, certain skills (town planning, building control, electrical technicians)</p> <p>LED strategy</p>	<p>Economic growth through unlocking tourism potential</p> <p>Compliance with legislation</p>	<p>Insufficient funding available to support infrastructure extensions and modernisation</p> <p>Loss of expertise – brain drain</p> <p>Aging of infrastructure</p>

MUNICIPALITY	STRENGTHS	CHALLENGES / WEAKNESSES	OPPORTUNITIES	THREATS
<b>Overstrand Municipality</b>	<p>Excellent procedures, systems and policies</p> <p>Excellent political leadership</p> <p>11 out of 19 councillors have tertiary education qualifications</p> <p>Professional senior management</p> <p>Disciplined staff</p> <p>Disciplined financial management</p>	<p>Implementation of certain procedures, systems and policies</p> <p>Geographical area and pockets of development</p> <p>Delays caused by environmental impact assessment studies</p> <p>Shortage of energy sources, especially caused by Eskom</p> <p>Delays caused by other government spheres</p> <p>Under-capacitated in the human development section</p>	<p>Improved processes, procedures, human resource development</p> <p>Achieving more value for money</p> <p>Long term planning</p> <p>Better alignment of the budget with the Integrated Development Plan (IDP)</p>	<p>Load shedding of electricity by Eskom can cause sewerage to be discharged into the sea (if there is no electricity for long periods)</p>
<b>Swellendam Municipality</b>	<p>Excellent policies and procedures in place</p> <p>Experienced management team with excellent academic qualifications and good practical experience</p> <p>Political stability</p> <p>Good cooperation with unions.</p>	<p>Human resources under- capacitated</p> <p>Geographical area, and the number of people and households that need to be serviced by the municipality</p> <p>Old census data that negatively impact on the equitable share that the municipality receives</p>	<p>Promotion of tourism</p> <p>Swellendam is situated on the N2 and attracts many people</p>	<p>Well-trained staff to promote tourism development and to deliver effective services</p>
<b>Theewaterskloof Municipality</b>	<p>Stable political leadership</p> <p>Experienced management team with excellent academic qualifications and good practical experience</p> <p>Strong focus on development</p>	<p>Availability of, and attracting, certain skills (financial and technical services)</p>	<p>A professional approach to service delivery and a stable political environment will improve weaknesses</p>	<p>Unfunded mandates</p> <p>The provision of houses and the gap between municipal infrastructure grant allocations</p> <p>Power failures and inadequate provision of electricity by Eskom will have an impact on future investments in the area</p>

Sources: Bezuidenhout, Overberg District Municipality, 2008. Marthinus and Moelich, Cape Agulhas Municipality, 2008. Zybrands, Overstrand Municipality, 2008. Hendricks, Swellendam Municipality, 2008. Wallace, Theewaterskloof Municipality, 2008.

In the case of the **Cape Agulhas Municipality** excellent policies and procedures have been adopted, but which, in some cases, have room for improvement in terms of implementation. This is not uncommon for many of the other municipalities as well. One of the major challenges facing the municipality that impacts on long-term planning is the lack of a local economic development strategy. The municipality has a fairly good infrastructure even though some features are old and outdated, and will have an impact on financial resources in the future. Another major challenge facing this municipality is its being able to attract people for scarce and technical positions such as electricity and engineering services, as well as to fill vacancies in the finance department (Cape Agulhas Municipality, Annual report: 2006/2007)

**The Overstrand Municipality** is a high capacity municipality (as indicated previously), with many resources available to ensure that the day-to-day running of the municipality and the delivery of services are done in an effective manner. Challenges facing this municipality include an historically insufficient investment in IT services; lack of uniform town planning schemes; inclusion of rural and farm areas in the area of responsibility; a high increase in vehicle traffic and inadequate capacity of road infrastructure, resulting in traffic congestion; limited office accommodation facilities for staff (as is the problem in most of the other municipalities as well); and an under-capacitated human resource development unit. (Overstrand Municipality, Annual report: 2006/2007)

Despite the fact that the **Swellendam Municipality** is a low capacity municipality it has an experienced management team with excellent academic qualifications and good practical experience. The main concerns of the municipality include the human resources department that is under-capacitated, and the geographical area and the number of people of households that need to be serviced by the municipality. Swellendam Municipality is experiencing many of the difficulties that the other municipalities are facing with regard to attracting skilled people for employment, inadequate IT systems, and having to work with outdated data to carry out long-term planning. (Hendricks, Swellendam Municipality, 08 October 2008)

The **Theewaterskloof Municipality** has recovered well in terms of reducing its job vacancy rate (as opposed to vacancies from previous years) ( Provincial Government

Western Cape: Provincial Treasury, 2007). The municipality has a strong focus on developing its internal staff in order to reduce skill shortages since this is one of the major challenges that the municipality faces. Vacancies in the finance department include that of an internal auditor (a vacancy that is also prevalent in the other municipalities). Theewaterskloof municipality has an experienced management team with a strong developmental focus. Key challenges include unfunded mandates from other spheres of government and building new relations with stakeholders and the community at large, arising from the malfunctioning of the municipality in certain functional areas in previous years. (Wallace, Theewaterskloof Municipality, 2008)

#### **4.4 CHANGE MANAGEMENT**

Municipalities in the Overberg have recently undergone many changes with regard to political, structural and administrative changes. Some of these changes have been severe and drastic while other changes have been more subtle, and were part of the normal ongoing processes of the organisation. Wallace et al (2007:33) is of the opinion that in order to understand the complexity of change better one must engage with whatever makes it complex to manage and to determine how people on the ground cope with what is happening.

Regardless of the degree of change that has taken place in each of the municipalities, as set out in Table 4.2, municipalities try to manage these changes as best as they can.

Many of these changes have impacted on staff morale and fears about possible job losses. However, in many instances these changes have brought about an understanding of new roles and responsibilities and new employment conditions as well as a change in the internal culture, which is now experienced in a more positive way.

**Table 4.2: Change management in Overberg municipalities**

MUNICIPALITY	CHANGES THAT OCCURRED	EFFECT OF CHANGES
Overberg District Municipality	<p><b>Political:</b> Several changes in the governing party, mayors (DA, ID, DA, ANC), deputy mayors, speakers and executive mayoral committee members</p> <p><b>Structural:</b> Major changes in the microstructure: a downscaling from four departments to two</p> <p><b>Administrative:</b> Four changes in the position of municipal manager. Retrenchment of all Municipal Systems Act section 57 appointees. Complete cancellation of the levies at district level.</p>	<p><b>Political:</b> instability and uncertainty about the roles and responsibilities of councillors. Councillors interfering in the administration</p> <p><b>Structural:</b> Vacancies not filled for years delay the overall functioning of the municipality and effective service delivery</p> <p><b>Administrative:</b> Weak control and control measures, uncertainty and low staff morale. Violation of Municipal Finance Management Act (MFMA) specifications as indicated in the annual report of 2006/2007</p>
Cape Agulhas Municipality	<p><b>Political:</b> Change in the governing party from ANC – DA co-operation agreement and again to an ANC governing municipality. During the floor-crossing period one councillor from the DA crossed over to the ANC, which then made them the majority party in Council</p> <p><b>Structural:</b> Restructuring of macro structure. Five departments were incorporated into four departments. After a while it was restructured again into five departments. Electro mechanical engineering was formally a separate department then added with civil engineering and is currently operating again as a department on its own.</p> <p><b>Administrative:</b> section 57 appointees comprising only white males. All their contracts have expired and Council has appointed people from designated groups to the top management positions for the first time, in order to give effect to employment equity</p>	<p><b>Political:</b> Service delivery was refocused on previously disadvantage areas. More projects in these areas were budgeted for and implemented. The budget became pro-poor. New policies were adopted for the benefit of the community and the staff</p> <p><b>Structural:</b> Better span of control</p> <p><b>Administrative:</b> Loss in expertise. Strong focus on transformation. Better communication structures. The Municipality is still performing well despite the drastic changes in the political leadership and transformation of the top management team</p>
Overstrand Municipality	<p><b>Political:</b> After the municipal elections the DA took over from the ANC</p> <p><b>Structural:</b> Only minor changes occurred in the macrostructure. A new directorate of Protective Services is in process of being established.</p> <p><b>Administrative:</b> A new municipal manager was appointed after the contract of the existing one expired. A new Chief Financial Officer was also appointed after the existing one was fired</p>	<p><b>Political:</b> Dramatic capital and infrastructure improvement based on budget allocations</p> <p><b>Structural:</b> Better span of control. Dedicated service</p> <p><b>Administrative:</b> Changing from an adverse audit opinion to an unqualified audit report. Councillors and senior management are trying to promote change</p>
Swellendam Municipality	<p><b>Political:</b> Change in governing party (from ANC to DA and ID coalition ; from ACDP to DA and ID)</p> <p><b>Administrative:</b> Titles of section 57</p>	<ul style="list-style-type: none"> <li>Improved service delivery</li> </ul>

MUNICIPALITY	CHANGES THAT OCCURRED	EFFECT OF CHANGES
	appointees changed from Manager to Director. Senior positions filled included the IDP manager and Local Economic Development (LED) manager	
Theewaterskloof Municipality	Political: After the municipal elections and the floor-crossing period in 2007, the DA and the ANC have equal seats in the Council Administrative: A new Municipal Manager was appointed after the contract of the existing one expired	<ul style="list-style-type: none"> <li>• Improved service delivery</li> <li>• Better communication with stakeholders</li> </ul>

Sources: Bezuidenhout, Overberg District Municipality, 2008. Marthinus, & Moelich, Cape Agulhas Municipality, 2008. Zybrandt, Overstrand Municipality, 2008. Hendricks, Swellendam Municipality, 2008. Wallace, Theewaterskloof Municipality, 2008.

Political instability and changes in political control in some of the municipalities have been the order of the day in all five of the municipalities. This is conducive to instability, but generally there has been improved service delivery and budgetary allocations occurred in priority areas.

Structural changes in the municipalities were mostly made to improve the width of control. Municipalities adapted easily to the new structures that were created and tried to manage the improved way of functioning.

Administratively, a few challenges arose due to new staff that were appointed and the replacement of existing staff. In some cases the same top positions were changed more than once and that caused confusion to personnel and disruptions in the day-to-day running of the municipality.

Generally, municipalities in the Overberg are trying to manage changes in their environment instead of avoiding them. They put great emphasis on adapting structures to the needs of the municipality and the community, with the aim of providing ongoing and improved service delivery.

#### **4.5 STAFF CAPACITY**

The strength of the organisation lies in sufficient levels of staffing – a factor that is considered as one of the important determinants of municipal sustainability. This aspect involves filling vacancies with qualified and suitable candidates to help municipalities deliver basic services and to maintain organisational systems.

In the context of the role/s that municipalities play in providing basic services to the population and the industry at large, a vacancy rate of 30% or higher is considered a potential area of risk for municipalities.

It is acknowledged that capacity is more than merely staff numbers. However, for the purpose of this study, in terms of assessing the organisational structure of each municipality the staff capacity was measured in terms of the number of positions filled and vacant as reflected at the end of June 2008. Table 4.3 shows the staff capacity in the different municipalities.

**Table 4.3: Staff capacity in Overberg municipalities (as at the end of June 2008)**

	<b>Overberg District Municipality</b>	<b>Cape Agulhas Municipality</b>	<b>Overstrand Municipality</b>	<b>Swellendam Municipality</b>	<b>Theewaterskloof Municipality</b>
Total number of staff on organisational structure	327	331	930	362	714
Permanent positions filled	274 (83,79%)	248 (74,92%)	866 (93,12%)	269 (74,31%)	547 (76,61%)
Vacant positions (number)	53	83	64	93	167
Vacant positions (%)	16,21	25,08	6,88	25,69	23

Sources: Burger & Dunn, Overberg District Municipality, 2008. Schlebusch & Kotze, Cape Agulhas Municipality, 2008. Arrison, Overstrand Municipality, 2008. Delo, Swellendam Municipality, 2008. Wallace, Theewaterskloof Municipality, 2008.

Municipalities generally experience difficulties in filling all their positions as set out in their approved organisational structure. This can be attributed to a number of factors, including budgetary constraints and a shortage of scarce and technical skills.

In areas where it is difficult to make appointments, municipalities in the Overberg often contract people from outside to temporarily fill a position or make use of existing staff to act in a specific position or to multi-task outside their job description. This in itself creates a challenge because staff becomes overloaded with duties and responsibilities, which may adversely affect service delivery.

The top management (directors) are appointed on five-year contract bases, which impacts on sustainability in the long run, with expertise moving out. Municipalities in the Overberg generally find it difficult to attract suitably qualified personnel in certain positions because they cannot compete financially with bigger municipalities that can offer better salary packages. As a result, many of the positions in which existing staff are acting are not filled for long periods. Municipalities are trying to address this problem through skills development programmes, but such development is a very timeous process.

Table 4.3 shows that the municipality with the lowest vacancy rate (6,88%) is Overstrand Municipality, which also has the highest number of staff (866). It can be argued, that sufficient levels of staffing is one of the key requirements for municipalities to be able to deliver services. High volumes of vacant positions can have a negative impact on the sustainability of the municipality especially if such vacancies are clustered in specific departments or key positions.

In the case of the Overberg municipalities, vacant positions are relatively well spread across departments. Generic challenges with regard to vacancies exist in almost all of the five municipalities in the finance department and where technical skills are required.

In terms of staff capacity of the municipalities in the district the following were noted:

**Overberg District Municipality** retrenched all four of the section 57 managers simultaneously. According to the Republic of South Africa (2000), a section 57 manager refers to “... a person to be appointed as a manager directly accountable to the municipal manager,... in terms of a contract with the municipality... subject to a separate performance agreement concluded annually...”

The macrostructure of the municipality has changed and the positions were vacant for almost two years. This has had a negative effect on service delivery and created great confusion about reporting lines for personnel. Major challenges exist in the finance department, with limited staff to perform the functions required. Many of the positions are not filled, which lead to gaps in several functional areas. The

municipality is in the process of making appointments and is striving to be better capacitated by the end of the 2008/2009 financial year.

**Cape Agulhas Municipality** had a change in section 57 managers after 2006 when the previous managers' contracts expired. However, positions were filled within a reasonable time, with the exception of the chief financial officer. A new municipal manager was also appointed and a few minor changes were made to the microstructure in order to speed up effective service delivery. Most vacant positions occur at elementary levels. The municipality regularly makes use of temporary staff to fill the voids that arise as a result of budgetary constraints and scarce and technical skills that are difficult to attract.

**Overstrand Municipality** in generally is well capacitated in terms of staff. The municipality makes use of temporary or existing staff to act in positions that are not budgeted for, as is the case in many of the other municipalities. The Overstrand Municipality also appointed new section 57 managers. The contract of the municipal manager expired and the chief financial officer of the municipality resigned. A new municipal manager and chief financial officer were appointed. This resulted in better financial and top management control measures. Constraints with regard to the filling of positions include scarce and technical skills, which are difficult to attract both internally and externally.

**Swellendam Municipality** appointed new section 57 managers after the contracts of the previous managers expired. Minor changes that were made included the titles of positions of the section 57 appointees from managers to directors. This municipality has also adapted the microstructure to make provision for assistant directors. Statistics show a relatively high percentage of vacant positions. However, the municipality is currently in a process of filling some of the vacancies that have been provided for in the 2008/2009 budget.

**Theewaterskloof Municipality** has appointed a number of staff members in positions that were vacant for some time, in order to improve service delivery in those affected areas. Town planning functions, which were previously carried out on a shared service basis with the Overberg District Municipality and the Overberg PIMSS

Centre, are one of the services that the council has made provision for and appointed its own staff. All section 57 managers have been appointed.

#### 4.6 FINANCIAL CAPACITY

The financial capacities of the different municipalities as set out in Table 4.4 give a fairly good indication of the contributions that municipalities will be able to make in a shared services context. Since there is only one high capacity municipality in the Overberg, the dependency of municipalities on grants and donor funding is relatively significant. All of the municipalities are above 30% for salaries, which is still within the norm of National Treasury figures of 35–40%. However, taking into account the many vacant positions in all of the municipalities it is alarming to note that municipalities are already close to the norm of the National Treasury figures.

**Table 4.4: Financial capacity of Overberg municipalities**

2007/2008	Overberg District Municipality	Cape Agulhas Municipality	Overstrand Municipality	Swellendam Municipality	Theewaterskloof Municipality
Total value of grants received	R 71 409 721	R 16 693 000	R 26 704 432	R 19 764 000	R 90 782 412
Total value of grants used for capital expenditure	0	R 6 574 000	R 16 621 422	R 7 858 000	R 61 532 563
Total value of grants used for operational expenditure	R 71 409 721	R 10 119 000	R 10 083 011	R 11 906 000	R 29 249 849
Equitable share	R 28 784 560	R 8 544 000	R 15 446 643	R 9 564 000	R 20 719 907
Equitable share used for operational budget	R 28 784 560	R 4 691 000	R 10 731 876	R 6 898 880	R 15 268 245
Equitable share used for poverty alleviation i.t.o. rebates	0	R 1 058 000	R 9 350 079	R 2 665 120	R 5 451 662
Operational budget	R 95 364 579	R 117 393 524	R 318 511 010	R 82 426 256	R 260 394 346
Percentage spent on salaries (%)	42.86	32.2	35	34.4	22

<b>Percentage spent on maintenance (%)</b>	13.78	5.5	11	1.2	5
<b>Cost of services outsourced</b>	1 966 596 (2.06%)	Internal audit - R280 000 p/a	R 1 182 248 (Debt-pack)	N/A	3%

Sources: Burger, Overberg District Municipality, 2008. Schlebusch, Cape Agulhas Municipality, 2008. Arrison, Overstrand Municipality, 2008. Delo, Swellendam Municipality, 2008. Swart, Theewaterskloof Municipality, 2008.

Until recently, and specifically up to 30 June 2006, the district municipality derived its fiscal authority largely from regional services levies (RSC) which was collected from businesses in all the local municipalities within its area of jurisdiction. RSC levies were an important source of revenue for district municipalities. With this financial power the ODM was able to fund and influence the prioritisation of projects that was introduced by local municipalities to the district municipality and to monitor the implementation of projects which were identified in the integrated development plan (IDP) of the municipalities.

The national government has with effect from 01 July 2006, removed these levies as a local tax instrument which has severely weakened the political authority of the district municipality over the local municipalities. As a result of the regional levies that were taken away from district municipalities, the municipality is largely dependent on unclassified transfers as a source of revenue. The ODM is currently almost completely dependent on grants, and such dependency impacts on the municipality's ability to render support services to the four local municipalities.

The equitable share allocated to municipalities by National Treasury that can be utilised to fund operational activities is dependent on the number of inhabitants in the respective municipalities. Since the last census to verify numbers of inhabitants was carried out in 2001, municipalities are now (in 2008) often at a disadvantage when it comes to calculating the share that each municipality must receive.

In the case of the Overberg municipalities, the ODM receives the largest amount of equitable share and the Cape Agulhas Municipality the smallest. The importance of this grant is that it can be used to cover municipalities' liabilities to services

potentially rendered by the SSC. Municipalities have indicated various other ways that can be explored to contribute to a shared service initiative. This will be discussed later in this chapter (see Section 4.9).

## **4.7 SERVICE DELIVERY**

Based on engagements with Overberg municipalities, it is clear that in terms of service capacity to deliver on government priorities and past experiences there are still weaknesses within the system that need to be dealt with in all of the five municipalities at different levels.

The main weaknesses identified are concentration of technical and managerial skills at policy level; lack of substantive policy analysis capability; lack of institutional level policy stability; duplication of efforts and initiatives at the centre; absence of a service delivery tracking system; complexity of government systems; ineffective use of empirical information for decision making; need to align budget cycles with departmental delivery cycles; improvements required in quality of spending; inefficient utilisation of resources; service delivery innovations not adequately supported; capacity and skill imbalances; unresponsive and ancient systems; ineffective use of information technology; lack of service ethos and culture; and lack of intergovernmental relations at district level. Tensions between district and local level exist which can be a barrier to the implementation of a SSC in the Overberg.

The main area of focus of municipalities in the Overberg is currently on infrastructure for basic service delivery. This includes water, electricity and sanitation. The district municipality has a stronger focus on managing its resorts, fire fighting and disaster management services, and human development.

Municipalities have identified many of the back office functions that take up precious time of their officials. However, municipalities are also aware that without these services the municipality will not be able to function properly. Back office functions as identified by municipalities include human resources, information technology, certain financial functions such as procurement and internal auditing, planning services and scarce skills such as engineering, and building inspector services. These are all functions that are not core functions of the municipality but are

necessary to deliver effective services to the community in terms of raising literacy levels of the community and other social responsibilities as well as effective internal functioning.

#### **4.8 SHARED SERVICES IN THE OVERBERG**

Most of the municipalities in the Overberg have already experience in, or have an agreement with, one or more institution or organisation with regard to co-agreements, agency functions or sharing services. These functions include fire fighting services, libraries, housing services, solid waste removal, municipal health, hosting officials from other spheres of government to perform a dedicated task (such as the community development workers), who are employed by provincial government, or environmental specialists from the National Department of Environmental Affairs and Tourism (NDEAT). Other functions include recruitment and selection processes as well as IDPs and town planning services.

If the four municipalities implement a co-operative problem-solving approach it would go a long way in helping each municipality to meet its capacity, management and organisational needs, and hence allowing it to focus on its core responsibility of service delivery. A number of factors influence the design of the SSC staff base, most notably the assessment of needs undertaken with municipal management and the identification of staff gaps.

Collective pooling of monetary resources previously used to hire consultants would mean that funds can be redirected to employ skilled professional staff. These staff members can be shared by all the municipalities in the Overberg. Experience elsewhere has indicated that SSCs yield significant efficiencies when they cover all the back-office services, as indicated previously in this chapter (see section 4.7).

These services that have been identified by municipalities in the Overberg include human resources services, IT services, financial services, supply chain management and audit functions. This is however not a final list..

Senior officials from the various municipalities were interviewed by the author and they all agreed that shared services will have many benefits for their respective municipalities, especially in the long run.

#### 4.9 BENEFITS OF A SHARED SERVICE CENTRE IN THE OVERBERG

As has been indicated in Chapter 3, local government in the Overberg can achieve many benefits through the establishment of a SSC, or simply by sharing services. As has been indicated on numerous occasions in this study, one of the key objectives for implementing a SSC is to reduce costs. Table 4.5 gives a summary of some of the major areas in which costs will be incurred and benefits will be gained.

**Table 4.5: Summary of possible costs and benefits of SSCs**

	COSTS		BENEFITS	
	Quantitative	Qualitative	Quantitative	Qualitative
<b>People</b>	<ul style="list-style-type: none"> <li>Relocation</li> <li>Retention of bonuses</li> <li>Training</li> <li>Temporary staff</li> <li>Recruitment</li> </ul>	<ul style="list-style-type: none"> <li>Potential fall in performance and morale levels</li> <li>Potential loss of key personnel from the municipality</li> </ul>	<ul style="list-style-type: none"> <li>Reduction in operating costs</li> <li>Greater spans of control</li> </ul>	<ul style="list-style-type: none"> <li>Increased customer focus on service quality</li> <li>Increased skills levels</li> </ul>
<b>Processes</b>	<ul style="list-style-type: none"> <li>Standardise processes</li> <li>Reengineer processes</li> <li>Implement best practices</li> <li>Establish metrics</li> </ul>	<ul style="list-style-type: none"> <li>Short-term decrease in process efficiency levels</li> </ul>	<ul style="list-style-type: none"> <li>Increased productivity</li> <li>Reduced cost of quality</li> </ul>	<ul style="list-style-type: none"> <li>Increased focus on strengthening inter-governmental relations</li> <li>Best practice, standard processes</li> <li>Consistent high-quality management information</li> <li>Increased ability to quickly adapt to changing municipal needs</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>Hardware</li> <li>Software</li> <li>Infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Learning curve effect of new systems</li> </ul>	<ul style="list-style-type: none"> <li>Enterprise-wide software</li> <li>Platform scalability</li> <li>Reduced software costs</li> <li>Reduced licence fees</li> <li>Reduced maintenance costs</li> <li>Reduced upgrade</li> </ul>	<ul style="list-style-type: none"> <li>Improved speed of dissemination and access to management information</li> <li>Consistent data models across the organisation</li> <li>Standard platform for IT strategy</li> </ul>

	COSTS		BENEFITS	
	Quantitative	Qualitative	Quantitative	Qualitative
			costs • Reduced support costs	
<b>Facilities</b>	<ul style="list-style-type: none"> <li>• Select new facilities</li> <li>• Design new facilities</li> <li>• Outfit new facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Initial disruption to working environment</li> </ul>	<ul style="list-style-type: none"> <li>• Decreased lease rates</li> <li>• Decreased facilities maintenance costs</li> </ul>	<ul style="list-style-type: none"> <li>• Potential improved working environment</li> </ul>

(Source: Deloitte, 2004)

Specific benefits for municipalities in the Overberg from a SSC initiative will include the following:

- Increased promotion of co-operative governance between the district municipality and the four local municipalities
- Reduced operating expenses by capitalising on economy-of-scale, while improving service quality within community focused activities;
- Enabling the distribution of the cost of expensive endeavours;
- Enabling the municipality to focus on service delivery;
- Minimising duplication of effort, function and roles;
- Knowledge sharing and best practice solutions;
- Achieving access to competent staff, leadership, subject matter experts and pockets of excellence;
- Availability of a single source of experts and leverage of technical expertise; and
- Transfer of responsibility for secondary activities to the SSC.

As with every new intervention, there is a strong focus on the benefits that can be obtained. However, it is also important to consider the challenges that such an intervention encompasses.

#### **4.10 CHALLENGES**

The municipalities identified several weaknesses and challenges that need to be addressed in order to improve service delivery. These are tabulated in Table 4.1.

The challenges that were discussed in Chapter 3 are also relevant to the municipalities in the Overberg.

Historically, municipalities in the Overberg have been unable to work together or combine services for a variety of reasons. The concerns about losing control and power when a service is provided by another unit in an inter-local agreement present a great challenge on its own. The perception of unequal treatment or benefit in a SSC and the provision of a major portion of cost by one municipality while the other one derives the major benefit are also challenges that municipalities in the Overberg must take cognisance of.

Funding for this shared services initiative remains one of the single most important challenges that the Overberg region will have to face. This challenge arises from the fact that such a centre will provide services or a specific service to more than one municipality.

Billing strategies for municipalities can include:

- A SSC is funded through donor funding and there is no billing for services rendered to the municipalities. This will provide municipalities with no recognition of service value and may lead to unrealistic service expectations.
- A flat rate is charged per municipality. This will provide no relationship between the service rendered and the cost to the municipality. It can also create tension between municipalities especially if the utilisation of services rendered is unequal but the cost involved remains the same.
- Direct charging can be made, for example, full cost recovery can be achieved when municipalities pay per transaction or consumption of resources. This strategy will provide a visible relationship between the service volumes consumed and the cost to the municipality. It will also assist municipalities to assess needs / volumes and the SSC to reduce costs.
- Market-based pricing can be used. This strategy focuses on market-related charges per transaction based on the consumption of resources. Municipalities can now also compare the quality and level of services between internal and external services. However, if the municipality cannot afford the

service on its own, it will be useless to charge fees that are not affordable to the municipalities.

Specific terms of reference as well as a service level agreement need to be drawn up to clarify all the issues raised by municipalities.

Distance between municipalities, as indicated in Table 4.6, can also present a challenge for a SSC. The head office of Overstrand Municipality, which is in Hermanus, is about 98 km from the head office of the ODM and the Cape Agulhas Municipality, which is situated in Bredasdorp. The head offices of Swellendam Municipality and of Theewaterskloof Municipality, which is in Caledon, are respectively 67 and 76km from Bredasdorp. Other satellite offices of the various municipalities are even further away from each of the other municipal offices. Depending of the type of service to be rendered, improved information technology services will play a huge role in addressing this challenge of distance, as will excellent post office facilities.

The challenges highlighted above, as well as other challenges that have been mentioned earlier in this thesis, confirm the importance of the correct model or unit to host the SSC for the Overberg.

**Table 4.6: Distances between municipal head offices (km)**

	HERMANUS	CALEDON	SWELLENDAM	BREDASDORP
HERMANUS	0	55	192	98
CALEDON	55	0	137	76
SWELLENDAM	192	137	0	67
BREDASDORP	98	76	67	0

#### **4.11 INSTITUTIONAL MODELS FOR A SHARED SERVICE CENTRE**

Before introducing a model it is important to decide which implementation option is the most appropriate for improving the effectiveness and efficiency of the municipalities.

The following options as described by IBM Business Consulting Services (2005) can be considered:

- Implementing only one function in one department, e.g. Human Resources or Finances
- Implementing more than one function in a department, e.g., Human Resources and Finances
- Implementing a cross-departmental approach
- Implementing an outsourced solution

The maturity of the model to be used as a SSC and, most importantly, the needs of the organisation will determine the appropriate approach to implementing any SSC. In this context the maturity of the model refers to the degree to which the structure that will be established was debated by all participants, how well it was thought through, and the amount of analysis and research that went into the structuring phase. The following institutional models, as proposed by the Palmer Development Group (2006:26–28), are suggested models to be used by municipalities in the Central Karoo District in the Western Cape, and can also be used for municipalities in the Overberg:

#### **4.11.1 Shared Service Centre as a District Municipal Agency**

The SSC is structured as part of the district municipality as shown in Figure 4.1 if the District municipality is well capacitated. All service level agreements on services provided by the SSC to the other municipalities are to be signed by the District Municipality who will also manage the centre. This concept is similar to that of the PIMSS centre.

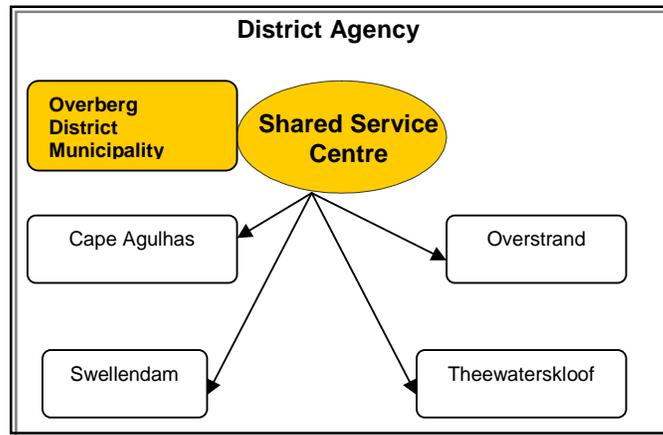


Figure 4.1: SSC as a district agency

#### 4.11.2 Shared Service Centre as a Local Municipal Agency

The second option refers to the SSC being operational within the local municipality with the highest capacity, as shown in Figure 4.2. This high capacity municipality would be able to assist other municipalities by hosting the SSC and by using some of its existing staff to assist and deliver services at or to other municipalities.

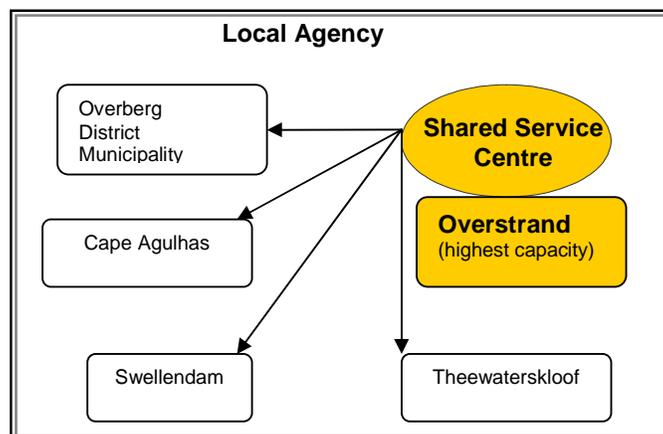
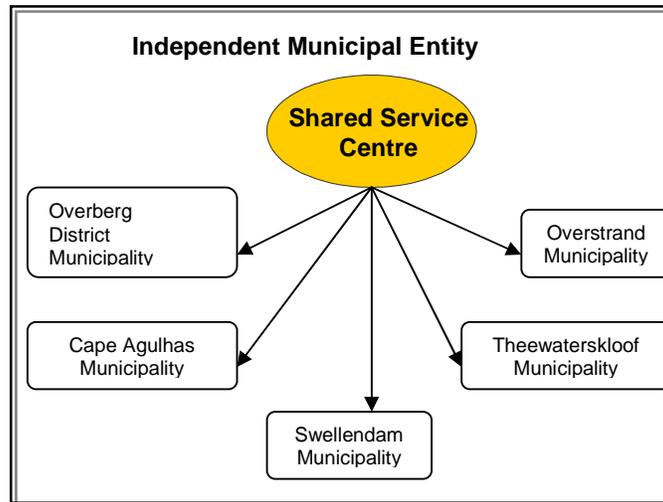


Figure 4.2: SSC as a local agency

#### 4.11.3 Shared Service Centre as an Individual Agency

In this model the SSC is structured entirely separately from any of the municipalities and has its own entity, as illustrated in Figure 4.3. The SSC functions independently and acts as a service provider for the municipality.



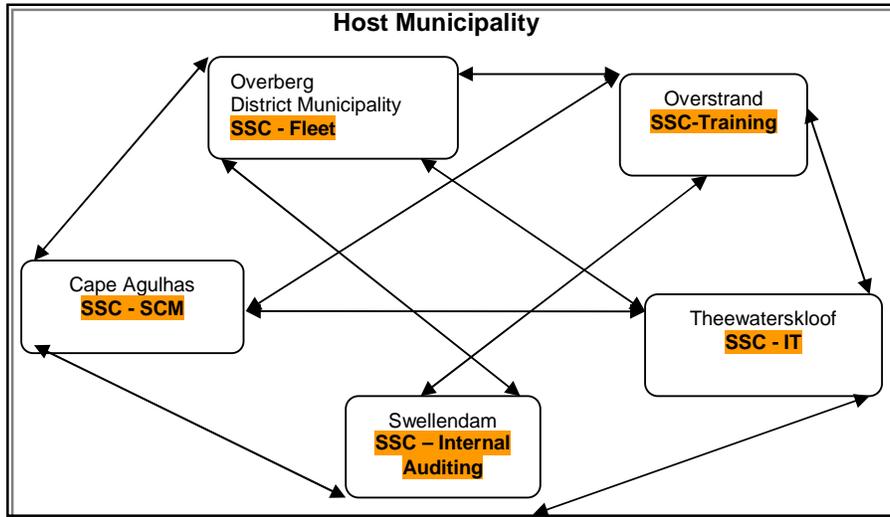
**Figure 4.3: SSC as an independent municipal entity**

#### **4.11.4 Shared Service Centre as a Host at a Specific Municipality**

Another way to implement a SSC in local government in the Overberg is to host a specific function at a municipality that has the expertise and capacity to perform the service more effectively and efficiently than the others. This model is similar to the one described in Section 11.4.2.

However, it is not restricted to the high capacity municipality only; it can be implemented at any of the five municipalities in the example that have the capacity, expertise and resources to host a specific function or service on a shared service basis. This implies that all five of the municipalities can simultaneously be a shared service host for a specific function or service depending on their internal strengths.

Figure 4.4 illustrates how this model will work. It is important to note that the SSC functions placed at each of the municipalities has not been researched and here serves only as an example to illustrate how this model can work.



**Figure 4.4: SSC as a host at a specific municipality**

The four models described in Chapter 4 have both advantages and disadvantages that are relevant to municipalities in the Overberg and which must be considered. Table 4.7 outlines the potential SSC operating models and some of the advantages and disadvantages of each of the four models.

From the suggested models it is clear that there is more than one way to implement the SSC initiative. These models are not new, especially to the private sector. However, there are cases in the public sector that have successfully implemented SSC initiatives. A more detailed discussion on how to implement a SSC in the Overberg will be discussed in Chapter 5.

**Table 4.7: Potential SSC operating models**

<b>MODEL</b>	<b>DESCRIPTION</b>	<b>ADVANTAGES</b>	<b>DISADVANTAGES</b>
SSC as a district agency	The SSC is structured as part of the district municipality if the district municipality is well capacitated. All service level agreements on services provided by the SSC to the other municipalities will be signed by the district municipality, who will also manage the centre.	<ul style="list-style-type: none"> <li>• Promotion of co-operative government between the district and local municipalities</li> </ul>	<ul style="list-style-type: none"> <li>• Buy-in from local municipalities.</li> <li>• Capacity of the district municipality in terms of staff and skills</li> </ul>
SSC as a local agency	The SSC is operational within the local municipality with the highest capacity. This high capacity municipality will assist other municipalities by hosting the SSC and by using some of its existing staff to assist, and deliver services at or to other municipalities	<ul style="list-style-type: none"> <li>• Maximise economies of scale.</li> </ul>	<ul style="list-style-type: none"> <li>• Buy-in from other municipalities</li> </ul>
Independent municipal entity	The SSC is structured entirely separately from any of the municipalities and has its own entity. The SSC functions independently and acts as a service provider for the municipality. It could take the form of a Multi-Jurisdictional Service Utility (MJSU), as provided for in the Municipal Systems Act (2000). This requires it to be governed by an independent board, to be appointed by the municipalities, but not to be constituted by councillors or officials of these municipalities. Services to municipalities will be managed by a service level agreement.	<ul style="list-style-type: none"> <li>• The entity is separated from any negative connotations associated with exiting operating units</li> <li>• Provide clear purchaser–provider clarity and thus limit conflicts of interest</li> <li>• Disengage the shared services organisations from entrenched work paradigms and instil new values and a culture of operational excellence</li> <li>• Allow the entities greater freedom during the design and implementation stage for establishing new operational procedures that will create higher value results</li> </ul>	<ul style="list-style-type: none"> <li>• Most complex option</li> </ul>
SSC as a host at a specific municipality	The SSC is structured to host a specific function at a municipality that has the expertise and capacity to perform the service more effectively and efficiently than the others. This implies that all five of the municipalities can simultaneously be a shared service host for a specific function or service, depending on their internal strength.	<ul style="list-style-type: none"> <li>• Staff can specialise and improve service levels and efficiency</li> <li>• Implementation is less disruptive to staff</li> </ul>	<ul style="list-style-type: none"> <li>• Coordinating cross-border SSCs adds complexity and reduces efficiency savings</li> </ul>

## **4.12 SUMMARY**

Municipalities in the Overberg are facing many challenges with regard to service delivery.

Arising from the study carried out by the author at the local municipalities in the Overberg, the following key qualifying issues can be summarised:

Not all issues that the municipalities face are generic; the issues are more likely to be municipal specific. There is however various challenges that the municipalities face that can be approached in a combined effort to address shortages and cost reductions. This will require a dual approach: one aspect dealing with the generic shared issues and opportunities, and the other addressing specific capacity issues as they stand within the different municipalities.

If the municipalities combine their resources in a single unit then costs can be reduced and many of the challenges that municipalities are facing in terms of financial and capacity resources can be addressed. Municipalities can also benefit by sharing their services and costs. Considering the benefits and challenges for and within Overberg municipalities, it is clear that municipalities are ready to move on to embracing shared services.

A proposed framework for setting up a shared service centre in the Overberg and covering the different phases – from assessing feasibility, the design, creation, implementation, to the evaluation – will be described in the following chapter.

It is recommended that municipalities in the Overberg make use of the framework provided here that will assist with establishing and implementing a shared service centre that is tailor-made to their unique circumstances.

# **CHAPTER 5: A PROPOSED FRAMEWORK FOR A SHARED SERVICE CENTRE IN THE OVERBERG MUNICIPALITIES**

## **5.1 INTRODUCTION**

As mentioned in Chapter 1, the decision to implement shared services should be made in the wider context of, and integrated with, the municipality's Integrated Development Plan (IDP). The municipality's current value chain needs to be considered together with how supplier and customer interactions can be facilitated within a shared services environment.

From the previous chapter it is clear that some of the models suggested to implement a Shared Services Centre (SSC) will not be practical for municipalities in the Overberg for a number of reasons.

Based on the outcomes of discussions and interviews with municipalities in the Overberg, this chapter will provide a proposed framework according to which municipalities in the Overberg can plan, design and implement a SSC. It furthermore serves to provide a broad workable framework that can be adopted by municipalities in the Overberg.

The different components outline the steps to be included and processes that need to be implemented, as well as internal arrangements that will apply to the municipalities involved. The transition plan as indicated in the framework encompasses the movement from the current state to the desired SSC depending on the type of model that might be chosen to host the SSC.

It must be emphasised that this is only a framework and that many of the steps suggested in this chapter must still be tested in order to make it tailor made for the municipalities in the Overberg.

## **5.2 CONSIDERATIONS BEFORE ESTABLISHING A SSC FOR THE OVERBERG MUNICIPALITIES**

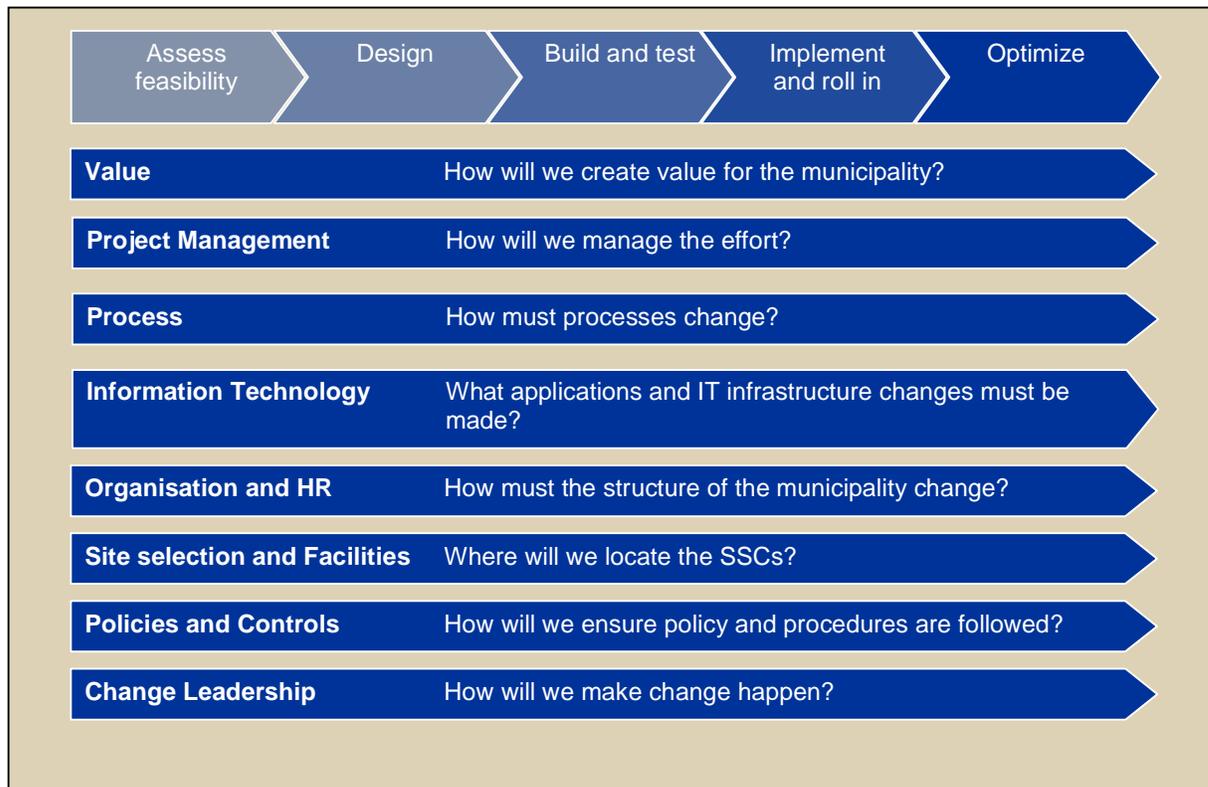
It is recognised that there have been numerous transformation initiatives and significant policy developments in local government over the past two decades. This SSC framework seeks to provide a plan for action, as opposed to a policy framework.

This SSC framework seeks to accelerate and consolidate the transformation process – not to reinvent the wheel; integrate the various initiatives, and lock them into a systematic and disciplined comprehensive agenda for transformation towards the implementation of a SSC; provide clarity of purpose and methodology, as well as an appropriate mechanism to monitor and evaluate the progress; unlock blockages in setting up of the process, and ensure greater focus on adding value to the process; be futuristic, whilst taking into account the deep-seated historical weaknesses; provide a mechanism for initiatives and plans to be properly costed; and consider the complexities of implementation.

Before proceeding to developing a SSC each municipality in the Overberg must ensure that it understands what shared services are and the benefits it can have from such an initiative. They must also consider whether the objectives of the municipality are aligned with the potential benefits of shared services and ensure that the Council and senior management believes that the idea is worth investigating (Deloitte, 2004:9).

Staff also needs to share in the vision and strategy of the shared services entity. Their new roles and employment conditions need to be communicated openly and regularly to them. In addition, as these are labour issues, it is important to also inform unions about these issues as early as possible and manage any issues that arise.

Figure 5.1 is a model that was introduced by Deloitte (2004:8) and provides an indication of the areas that need to be considered before rolling out a fully operational SSC. The framework for a SSC for Overberg Municipalities as discussed in this chapter will focus on the areas identified in Figure 5.1.



**Figure 5.1: Shared service methodology structure**

(Source: Deloitte, 2004)

### 5.3 ASSESS FEASIBILITY

Deloitte (2004:13) is of the opinion that the key objectives of a feasibility study are to define a broad SSC vision and model of what the SSC will look like; to develop a business case; to analyse the costs and benefits; and to develop a project road map.

A decision must be taken on whether the entire process will be outsourced or whether one of the municipalities will initiate the process. An appropriate platform where all the municipalities are involved can be used to initiate the process.

The District Intergovernmental Forum (DIF) which is operating in the Overberg is a forum for mayors and municipal managers and is established in terms of section 24 of the Republic of South Africa (2005). This forum as stipulated in section 26 of the Republic of South Africa (2005) is used by “... *the district municipality and the local municipalities in the district to discuss and consult each other on matters of mutual interest,...*” The DIF will therefore be an ideal platform to discuss the possibility of a

SSC and to get the buy-in from the politicians and the senior management of the municipalities.

Another important function that can be assigned to the DIF is to establish a steering committee or task team to facilitate the process. This steering committee can include officials and councillors from the different municipalities that are not necessarily part of the DIF. The steering committee can give feedback at every DIF meeting or as determined by the DIF.

It is recognised that the relationship between district and local municipalities varies from cooperative and responsive to unproductive and conflictual. Political conflict is triggered by two political structures that must cooperate on numerous complex matters. The DIF cannot always sustain their roles as consultative forums for the district and authoritatively engage local municipalities in service provision, coherent planning and development.

### **5.3.1 Develop a Shared Vision**

All municipalities in the Overberg have indicated in principle that they support the establishment of a SSC, subject to the services that will be provided, the costs involved, the operation of the SSC, and the location of the SSC.

The buy-in support and commitment of key stakeholders, namely the relevant councils and senior management that are involved in areas that will be directly affected by the implementation of shared services, is of extreme importance (Deloitte, 2004:14). It is also important to note that council and the senior management must assess the work environment and demonstrate a personal commitment to diversity in terms of where they are and where they desire to be (Kendrick, 2006:13). The DIF as indicated under 5.3 can be used to discuss and develop a shared vision for a SSC.

### **5.3.2 Build a Business Case**

The business case entails determining the costs and benefits of moving to shared services. In order to do so it is important to determine what the shared service

environment will look like, what it will cost to run the shared service, as well as the cost and quality of the operating environment (Deloitte, 2004:15).

In building a business case for shared services, municipalities need to quantitatively benchmark their current administrative processes against the other municipalities that are performing better with the same administrative processes. This exercise will show the investment returns to be realised and justify the move to shared services.

### **5.3.3 Conduct a Cost and Benefits Analysis**

The next step is to analyse the costs and benefits of this initiative. From this analysis municipalities can determine if the benefits outweigh the costs and how quickly they will achieve improvement on service delivery.

The steering committee can support municipalities with this task by assisting them to determine all the costs involved and also the benefits that each one will gain from the SSC initiative.

### **5.3.4 Define the Process Split**

One of the key objectives of the feasibility study is to define a SSC model that will facilitate increases in both process efficiency and effectiveness. It is imperative to define which functions will go to the SSC and which need to remain within the municipality, taking legal compliances into account.

Boundaries between SSC and municipal responsibility must be clearly defined. According to Deloitte (2004:22) differentiation should be made between the following functions:

- Routine tasks, which are rule based with high volumes, non-business-critical and entail transaction processing, should be undertaken by the SSC
- Non-decision-making tasks, which require rule-based decisions, may be done by the SSC where they maximise the overall efficiency of the process
- Core decision-making functions, which refer to subjective business decisions that impact on the financial results of the municipality, should typically be undertaken by the municipality itself.

### **5.3.5 Conduct a Site Location Analysis**

Selecting an appropriate model is an important decision for the success of the shared services. The location of the SSC will have a critical impact on both the quality of the services delivered to the different municipalities and the costs savings achieved. Location alternatives should be considered at a high level (Deloitte, 2004:25). The models and locations to consider for Overberg municipalities were discussed in Chapter 4.

It is critical to involve the councils and senior managers of all the municipalities when considering a location and model for the SSC. Inputs from all the municipalities must be considered and discussed before a final decision can be made on the desired location and model.

### **5.3.6 Identify Implementation Barriers**

The municipalities need to consider and identify implementation barriers throughout the project. These can include limitations of existing systems, resistance to change, unrealistic expectations' lack of executive commitment, and inadequate skills. When these factors are present they can create major implementation barriers for municipalities and result in project failure if not addressed properly. Overberg municipalities involved in the SSC initiative will have to manage these barriers effectively (Deloitte, 2004:26). The steering committee must have a process where municipalities can continuously report any potential barrier and propose solutions to the problems.

### **5.3.7 Determine a Communication Strategy**

During the feasibility study it is important to consider how much information will be given to employees. An open approach involves upfront communication with employees about the implementation of a SSC and allaying possible fears and non-factual information about the process. A cautious approach involves delaying any communication about the shared service until the feasibility study has been completed and a final decision has been taken. This approach will eliminate any unnecessary expectations and fears of employees (Deloitte, 2004:26).

### **5.3.8 Develop a High-level Project Map**

At the end of the feasibility phase a project road map should be developed that will give an overview of the major phases that need to be included when setting up a SSC. The project road map will include information on estimated resources requirements, costs and project timelines (Deloitte, 2004:26).

### **5.3.9 SSC Initiative Decision**

When combined, the business case, the SSC vision and the project road map should provide the Council of each municipality and senior executives with sufficient information to make an informed decision as to whether they should progress with the SSC initiative or not. (Deloitte, 2004:26). The steering committee can present the findings of the feasibility study at a DIF meeting or any other relevant meeting where all the municipalities are present. Each council can then decide whether they want to be part of the process or not.

## **5.4 DESIGN**

The design phase entails defining the detailed design of the SSC. Specific detail must be provided for future processes, e.g. who will do what, where will they do it, and how they will do it (Deloitte, 2004:32).

### **5.4.1 Develop a Clear Framework**

It is of the utmost importance that the scope of the project be very clearly understood and defined in order to avoid delays and poor use of resources. A comprehensive plan is required, especially if the SSC is going to be multi-faceted.

A project initiation document (PID) is recommended to ensure that all the key areas are covered. This PID will provide a common understanding of the project. It will also serve as a point of reference throughout the project and as a briefing document for new team members.

The following topics as identified by Deloitte (2004:32) should be addressed in the PID:

What: Clear project objectives and how to measure their success, including service level improvements, expected savings and payback periods of the project. It should also define the geographic, functional and technical project scope, which should include which municipalities, processes and systems will be included and excluded from the project.

How: Detailed activity plans structuring the specific activities and specifying the deliverables and significant milestones resulting from these activities.

Who: An overview of who needs to accomplish what, any interdependencies between the completion of activities and the consequences of not meeting the specified deadlines.

When: A project timetable showing when the various activities need to be completed and a quality plan showing who is responsible for reviewing and approving the deliverables and milestone achievements.

How much: A detailed budget and resources plan needs to be included.

#### **5.4.2 Create a Project Structure and Build the Team**

A project team must be established that represent the different municipalities and different functional areas that will be affected by the SSC. The team needs to report to the municipal managers and mayors. It is essential to have a team with the right skills, appropriate level of line experience and a sound knowledge of the municipality. They should have credibility with their colleagues because they will serve as change agents and reinforce the message that the municipality is willing to commit its best people to ensuring the success of the project (Deloitte, 2004:33–34).

#### **5.4.3 Initiate Change Enablement**

In order to create a most favourable environment for change it is vital that a number of critical success factors be taken into account. Table 5.2 as proposed by Deloitte (2004:38) suggests a number of these critical success factors for municipalities to consider. Taking these critical success factors into account, it is important to develop a comprehensive plan to support staff throughout the changes to ensure that the

project retains a balanced emphasis on the people aspects together with processes and technology.

#### **5.4.4 Process and Technology**

The process design will drive many of the other components of the SSC implementation. It will determine how many people will be in the SSC, how they will work, and the organisational structure. It will also be concerned with how the technology will support the processes, particularly where processes are critical to the municipality or where technology gaps exist. A detailed design of all technology requirements, including future technology infrastructure, must be developed.

The process will also reflect SSC user requirements, a clear cut-off point between what happens in the SSC and what happens in the municipality, policy decisions and statutory requirements, adequate internal controls, as well as management and statutory reporting. Legal profiles for each municipality need to be developed especially in cases where significant change will occur (Deloitte, 2004:43).

**Table 5.1: Change enablement – Critical success factors**

Best practice for change enablement	Actions
Articulate a clear vision	The vision for the SSC needs to be clear and compelling. It must be consistently communicated and shared by all.
Assess your own effectiveness at changing	The current state of the financial impact on the municipality, its readiness and the purpose for change needs to be clearly understood by all employees.
Implement a two-way approach to communication	An infrastructure and plan needs to be in place in order to build awareness of the change goals, encourages ownership of the change process and outcomes, and to communicate progress towards attainment of these goals.
Develop a plan with adequate resources and infrastructure.	An explicit plan and structure should be in place to ensure that each municipality can achieve the changes with its existing resources.
Prepare leaders for the change	Leaders' values and behaviours should be aligned with the business vision. They must have the know-how and skills to drive the change process to completion. They must also accept the responsibility of doing so.
Build individual and team skills	A plan needs to be prepared that details how skills and behaviours will be developed to support the vision and enable people to operate effectively.
Understand, and be sensitive to the culture	The ways in which change is managed and people are supported will be different in the different municipalities. Reactions to change will be varied and people will need to be supported throughout the process.

(Source: Deloitte, 2004)

#### **5.4.5 Organisation / Human Resources**

During the design phase a number of organisational issues need to be considered. Typical areas to consider in order to address organisational and human resources requirements include the operating model, the type of skills needed, the different tasks to be organised and who will be responsible for what; how many staff will be required in each area; and how will people be rewarded for their performance. Such considerations will determine the SSCs relationship with the municipalities and how the SSC itself will operate. The choice of operating model depends on the functions that will be incorporated into the SSC and the particular circumstances of the municipalities in the Overberg (Deloitte, 2004:44–46).

#### **5.4.5.1 Legal Structures and Conformity**

The legal structure relates to the necessity to develop legal instruments aimed at establishing, operating and managing the SSC. Very often, highly skilled legal expertise has to be contracted in at a premium to ensure legal and legislative compliance as well as developing sufficiently detailed contractual arrangements between the SSC and the municipalities involved.

Other legal complexities that the municipalities need to consider include legal compliances as stipulated in the various legislations with a special focus on the Republic of South Africa (2003), the Republic of South Africa (1998) as well as the powers and functions of municipalities as listed in The Constitution (1996).

#### **5.4.5.2 Design Infrastructure**

As soon as municipalities have agreed upon the location and model for the SSC, which will probably be done during the feasibility phase, the physical infrastructure needs to be established. Areas to consider include the working space and equipment requirements. It is important to build the infrastructure design into the project plan since significant time may be required to set up a new site.

#### **5.4.5.3 Development of Service Level Agreements and Performance Measures**

Service level agreements (SLAs) are useful in defining the relationship between the SSC, and the affected municipalities. The SLA should clearly state the functions and services that are included in the SSC, the stakeholders and customers, powers and functions of the SSC, governing structures, parameters for competitiveness assessment, risks and obstacles, legal obligations, budgetary and other related financial issues, as well as other resources requirements (Deloitte, 2004:49).

### **5.5 BUILD AND TEST THE SHARED SERVICE CENTRE**

The build and test phase requires close integration of the process designs, the technology tools that will support them, and the users who will operate the SSC on a day-to-day basis. It is important to manage the build and test phase as a fully

integrated programme. It is at this stage of the SSC implementation that all the different components finally come together.

### **5.5.1 Process**

During this phase a detailed process map must be documented down to the lowest appropriate level of detail. Process documentation needs to define the practical mechanics of who does what.

From the detailed process map it should be possible to clearly define detailed roles and responsibilities for all SSC staff and those municipalities involve who interact with the SSC. This will form the basis of much of the organisational and human resources-related work to be done.. Ideally the process map should also incorporate performance measures that will be used to track future performance and support a culture of customer service and continuous improvement (Deloitte, 2004:56).

### **5.5.2 Technology**

At the end of the design phase detailed specifications for the development of all new programmes and designed methods for converting data in the different systems to the SSC system must be completed.

Careful consideration must be given to the technical resources required at this stage, particularly in the light of any other information technology (IT) initiatives that might be underway. Existing systems from which data are to be extracted are often 'in-house' developments. Older legacy systems often have limited support within the IT department. It is essential to secure these resources to ensure the timely completion of the SSC (Deloitte, 2004:57).

The conversion of data is another process that is time-consuming. The lengthiest task will probably be the 'cleaning' of data to ensure that it is accurate and consistent across all municipalities and in a standard format to be converted. Not all conversions are done electronically. In some cases, particularly where data volumes are low, manual data conversions can be done at significantly lower cost (Deloitte, 2004:57–58).

Of primary concern are network connections between the SSC and the different municipalities that will be supported by the SSC. In the case of the Overberg, most municipalities have indicated problems with network connections. It is important to ensure that wide and local area networks have sufficient capacity to carry the extra information required by the SSC, especially if the SSC is established within a particular municipality. The SSC users must be able to communicate effectively with the municipalities involved and vice versa (Deloitte, 2004:58).

### **5.5.3 Organisation / Human Resources**

Building a SSC organisation in which people can operate and have a sense of community is difficult. Critical to making it happen are job descriptions that detail what needs to be done and by whom. Simple reporting and decision-making lines will ensure that the SSC and local organisations work together effectively across distances (Deloitte, 2004:60).

Municipalities associated with the SSC require not only training in the new system and new processes, but also in the new behaviours that are expected in the SSC. This is critical to creating and sustaining a service culture with the SSC. It is also important to focus on training needs of new personnel that join the SSC from outside. They will require different types of training, for example induction training as well as training in the new processes, system and culture of the municipality and SSC.

As yet another part of this phase, it will be necessary to finalise the formal relationship between the SSC and the municipalities. In terms of defining exactly what the SSC will do for each municipality involved, SLAs are used to define exactly the level of service that the SSC will provide to the municipality. It will also define how the municipalities will contribute, and compensate the SSC for services rendered (Deloitte, 2004:62–64).

In summary, and before proceeding to the next phase, it must be ensured that the process and technology issues are completed and tested. There must be a fully documented process in the form of user guides and training materials. IT infrastructure must be implemented to support the new systems and procedures and relevant system operating procedures such as disaster recovery plans.

In terms of organisational and human resources issues, a detailed SSC organisation design must be finalised. Detailed job descriptions for each role in the SSC and the roles in municipalities which are impacted on by the SSC must be developed. Processes and changes must be communicated with all employees affected by the change regarding their future employment within the organisation and possible relocation to the SSC. Skills needed for the SSC must be matched with current employees profiles, staff must be selected for new roles and new staff must be recruited for the SSC. Training must be given that covers the role of the SSC, customer services, introduction to the company for new employees, work-shadowing procedures and systems.

Appropriate SLAs must be agreed upon that define time, cost and quality performance measures with the different municipalities involved. Finally, it is important to obtain an agreement signed by the relevant municipal councils and management, key users and other stakeholders (Deloitte, 2004:65).

## **5.6 IMPLEMENT AND ROLL IN**

This phase ensures that the solution actually works, and delivers the benefits identified in the feasibility study.

### **5.6.1 Develop a Clear Migration Strategy**

The first priority here will be to develop a workable migration strategy to transfer activities from the different municipalities to the SSC in as orderly and seamless a fashion as possible. The two main issues to consider when deciding on a migration strategy are: (i) the order of migration of municipalities into the SSC and (ii) the speed of the implementation, in other words a big bang approach or a phased approach (Deloitte, 2004:70).

The big bang approach creates a sense of urgency within each of the municipalities involved and allows a momentum to be built up that can be useful when faced with resistance within municipalities. The phased approach focuses on overcoming resistance through participation, mutual agreement and buy-in (Deloitte, 2004:70).

Depending on the functions and services that will be delivered by the SSC a pilot strategy for migration can be implemented by selecting one or two services for implementation before proceeding with all the services that will be rendered by the SSC.

### **5.6.2 Implement Work-Shadowing**

One of the main challenges during the transition to a SSC is that of ensuring an adequate transfer of business knowledge from the experienced personnel of municipalities to any newly recruited inexperienced personnel of the SSC. Work shadowing is an effective technique that can be used to assist in the transfer of knowledge. SSC personnel can work closely for a number of months before going into operation with municipal staff that currently perform the existing processes on a daily basis in order to gain operational experience and an understanding of the municipality to which they will deliver a service (Deloitte, 2004:71).

### **5.6.3 Convert Data**

Master file, historical and operational data from the legacy systems of municipalities must be transferred onto the new system of the SSC to make data compatible. IT support is critical to the final conversion process and key IT resources should be identified to support the process and be available to immediately address any issues as they arise.

It is important that a cut-off plan be developed and communicated that clearly sets out the timelines relating to the cessation of updates of the legal system master file data. This plan will ensure that no unauthorised master file data is added to the legal system following the final test phase of the conversion programmes, which could potentially cause the final conversion process to fail (Deloitte, 2004:72).

## **5.7 OPTIMISE**

The successful implementation of the SSC is not the end of the project. Once the SSC is running smoothly its performance should be reappraised to see if it is in line with the expectations. Customer service and continuous improvement should be

built into the culture of the SSC to ensure that it develops to better serve and address the needs of the municipalities.

### **5.7.1 Benchmark Performance against the Original Business Case**

It is important to note that the municipalities involved are now the customers of the SSC. The SSC will now also be responsible to deal with frustrations at a local level. It is therefore necessary that the performance of the SSC be regularly benchmarked against the original business case and the results communicated to the relevant municipalities.

It is also important to have a performance management system in place in order to track and measure the performance of the shared services entity. While this will primarily show the extent of cost reduction achieved, it will also show the extent to which service levels have improved for municipalities.

SLAs and Key Performance Indicators (KPIs) can assist in building relationships between the SSC and the municipalities by providing factual reference points and managing perceptions. Before migration to the SSC the KPIs must be measured and again at regular intervals afterwards (Deloitte & Touche, 2003). This data will allow factual comparisons of the pre- and post-SSC performance levels and demonstrate whether the agreed SLAs are being adhered to by both the SSC and the municipalities involved (Deloitte, 2004:81).

### **5.7.2 Process**

There will always be an ongoing need to further optimise working practices and to further standardise and streamline processes in line with best practices. The benefits of these activities can be maximised if they become part of the daily routine in the SSC (Deloitte, 2004:81).

Once people, processes and systems have been consolidated into a single location, standardisation and reengineering of the process is much easier to achieve. The reengineering phase is an opportunity to optimise processes, particularly where they cut across functions, and achieve further cost reductions and increased service levels (Deloitte, 2004:82).

### **5.7.3 Technology**

Post implementation, the IT configuration should be refined to enable further standardisation of business processes. It is critical at this stage that the underlying IT infrastructure supports the objectives for standardisation by minimising room for error. The SSC can be the hub of a fully web-enabled organisation in which all of the key linkages with internal and external stakeholders are fully computerised (Deloitte, 2004:84).

### **5.7.4 Organisation / Human Resources**

In many instances the greatest hurdle in the implementation of shared services is the introduction of pricing mechanisms to govern the delivery of services. SLAs and pricing mechanisms are essential elements of a long-term shared service solution. It is essential that municipalities understand what they are getting, how much it costs them, and the breakdown of the costs (Deloitte, 2004:87).

This phase can be summarised by:

- ensuring that performance is benchmarked against the original business case including the use of SLAs and KPIs;
- ensuring that continuous improvement policies are established,;
- dedicated skilled teams must be created to focus on process reengineering;
- sufficient resources must be allocated to provide ongoing IT and business process training of both the municipalities and the SSC personnel;
- customer satisfaction and needs monitoring must be established;
- human resource policies must be implemented to motivate and retain personnel;
- resorting must be optimised;
- performance management must be realigned with remuneration, and
- SLAs and pricing models must be updated (Deloitte, 2004:89).

## **5.8 SUMMARY**

When planning and implementing a SSC it is important to note that this process must be undertaken with patience and determination in order to make a success of it.

Overberg municipalities can utilise the framework that was set out in this chapter and which covers most of the steps and procedures to eventually implement a workable shared service centre for the municipalities.

Municipalities must realise that shared services are about business change. Business and technical engagement is needed throughout. There is a need to build consensus, which requires and takes time and effort, especially around stakeholder management.

A strong business case is a powerful facilitator for change. Sound baseline data provides a vital underpinning. Funding is problematic and often insufficient for the expected outcomes. Municipalities must work very hard to ensure budgets and funds are adequate.

It is also clear that effective communications are vital. From the outset, rumours will spread very fast. This must be managed very strongly. Municipalities must engage in getting high-quality internal staff engaged in the project to ensure that the different processes are fully understood and implemented. This is often a primary reason why initiatives do not succeed.

Finally, it is emphasised that this chapter does not intend to cover an exhaustive list of all the steps necessary and required to successfully implement a SSC. It merely lays the foundation of some of the key issues to be considered when starting or optimising a shared service centre for municipalities in the Overberg. The decision to implement a SSC for the municipalities in the Overberg will be subject to the approval of the different councils in the Overberg.

In the final chapter of this thesis the writer will summarise and draw a conclusion of all the chapters in this thesis and make recommendations on which model will be best for the Overberg Municipalities taking into consideration the necessary steps and processes that need to be followed.

## **CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS**

### **6.1 INTRODUCTION**

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

Over the years municipalities regularly made use of consultants and other costly ways to address areas where capacity were lacking. This has caused municipalities to rethink the way in which services are provided and to explore other options that can have cost savings benefits and avoid duplication of services.

One of the major challenges is to find the best structure or model that will be acceptable by all the municipalities in the Overberg to implement a process that can address the time, money and effort spend on functions that are not regarded as core functions of local government.

The overall aim of this study was to find an alternative service delivery mechanism, in the form of a Shared Service Centre (SSC), to be established in the Overberg, to address service delivery challenges in the various municipalities in the region.

### **6.2 THE SERVICE DELIVERY CHALLENGES OF LOCAL GOVERNMENT**

Governments are confronted daily with many service delivery challenges. After the 1994 elections governments were obliged to plan differently in terms of service delivery to the whole community. The integrated development Plan (IDP) which is the principal strategic planning document in local government requires that municipalities give attention to far more areas than only basic services delivery. The IDP takes into account the existing conditions of problems and resources available for development and for improvement of quality of life of the people living in the area. The plan review social and economic development conditions, how the environment

should be protected, how land should be used, and what infrastructure and services are needed. The IDP intends to improve integrated service delivery, and seeks to address socio-economic inclusion and exclusion and therefore contributing to the reduction of disparities.

Many of these areas create major challenges for municipalities in the Overberg as a result of internal capacity that was lacking. In the past local authorities had a strong focus on the provision of basic services which include water, sanitation, electricity, infrastructure and waste removal. With the inclusion of the socio-economic mandate in local government, municipalities are required to work together in a co-operative way with other spheres of government to deliver on the social contract. As a result of the IDP a number of reform initiatives were introduced to meet the service delivery challenges.

The Department of Provincial and Local Government (DPLG) introduced the Planning and Implementation Management Support Service (PIMSS) centres to assist municipalities with the IDP process and to align other processes that are linked to the IDP. In the past the PIMSS centre fulfilled a crucial role to many of the municipalities in the Overberg by rendering assistance with services where shortages of skills and capacity existed. The PIMSS centre ceased to exist in 2003 and municipalities were then forced to think outside the box and consider other avenues.

However, through the PIMSS centre initiative municipalities were introduced to reform processes in government and provided an alternative way of delivering and providing services. The PIMSS centre laid the foundation for a SSC as a possible replacement for PIMSS centres. The difference between PIMSS centres and SSCs is that PIMSS centres were a short term structure and SSCs must be built to last. PIMSS centres only had a limited amount of services which they rendered as oppose to SSCs that can incorporate any amount of services depending on the needs and commitment of the municipalities.

Funding and financial constraints are always one of the biggest challenges that local government face. It is no different for municipalities in the Overberg. Municipalities rely heavily on grants from National and Provincial government to give effect to the

many service delivery challenges they have to address. In most cases the funding received is not nearly enough to address the needs of the community and the institutional needs of the municipalities.

All of these and other challenges have forced municipalities to consider new ways of doing business. Shared services have become a worthwhile option for local governments in the Overberg region. Other reform processes that were introduced such as New Public Management (NPM) seek to give municipalities a better insight on the changing role of government and how this approach can be utilised to the advantage of municipalities.

### **6.3 MEETING THE CHALLENGES: THE CHANGING ROLE OF GOVERNMENT**

The notion of New Public Management (NPM) was introduced in this thesis to indicate the different ways in which municipalities in the Overberg can make use of reform processes to improve service delivery. Each of the ten principles as discussed in Chapter 2 of this thesis present a clear idea of what municipalities in the Overberg must focus on in order to do what they do best.

The following are suggestions of how municipalities can apply these principles (Osborne and Gaebler, 1992), which are based on the notion of steering rather than rowing:

- Promote competition in service delivery among service providers. This can be achieved through effective supply chain processes in municipalities;
- Empower citizens by transferring control from the bureaucracy to the community. Municipalities can provide the community with economic opportunities that the community must control and take charge of;
- Measure performance. Legislation provides for section 57 managers to have performance contracts. However, municipalities can have performance measurements for all staff members not only to monitor performance but also to detect early warning signs of ineffective service delivery;
- Move the focus on outcomes and results;

- Fund outcomes rather than inputs. Municipalities must use their Integrated Development Plan (IDP) processes to identify projects that can uplift the livelihood of the community;
- Focus on goals and missions and be not driven by rules and regulations. Municipalities must strive to achieve their vision and mission statement as set out in their IDP and search for ways to achieve their stipulated goals;
- Meet the needs of the customer and not of the bureaucracy, by redefining clients as customers and giving them choices. An example of this would be for municipalities to provide sufficient pay points for service users to pay their monthly accounts;
- Anticipate problems before they arise in order to prevent them and than offering services after the problem occurred. Municipalities must have regular strategic workshops and performance systems in place that can serve as early warning signs;
- Earn enough money rather than spending too much, e.g. municipalities must budget realistically and set realistic tariffs and officials and councillors must remain within the approved budget;
- Decentralise authority and promote participatory management. Senior management in municipalities must delegate tasks and include subordinates in decision-making processes;
- Bureaucratic mechanisms must be replaced by market mechanisms. If there are private sector initiatives that can also be applied in the public sector, municipalities must consider implementing it; and
- Catalyse all sectors (public, private and voluntary) in order to solve community problems. Each sector should focus on what it does best. However the different sectors must compliment each other by working together.

In order to implement NPM reform processes the following strategies have been introduced:

- Restructuring the public sector which mainly refers to decentralisation of functions. With the amalgamation of municipalities in 2000 many of the functions have been decentralised to the different municipal offices of the same municipality.

- Making public management more efficient by holding managers accountable and by introducing performance agreements and targets. Senior managers who are appointed in terms of section 57 of the Republic of South Africa (2000) are obliged to sign a performance contract and are measured on an annual basis. Municipalities are also required by law to have performance measures in place for the municipality in order to determine progress but also to detect early warning signs of areas that are neglected.
- Introducing competition into public services to convert government into an enabling system rather than a providing system. Many services are put on tender for the private companies and non-governmental organisations to perform.
- The regulatory state to increase transparency;
- Ethical issues including honesty and good governance to decrease corruption.

It is clear that municipalities can improve service delivery and strengthen interaction with the community and private sector by implementing the NPM approach. This is however only one way in which municipalities can introduce new methods to save costs and reduce duplication. Sharing services between municipalities can be a better option for municipalities in the Overberg to consider as a result of the PIMMS initiative that municipalities are familiar with.

#### **6.4 AN ALTERNATIVE MECHANISM FOR SERVICE DELIVERY**

A SSC for local government in the Overberg can add value to the NPM principles as well as to the core functions that municipalities must perform. Such a centre can be used to provide one or more functions that are generic in all the Overberg municipalities and it can have many benefits for the municipalities involved.

One of the fundamental motivations for sharing services is the potential cost saving benefit resulting from bulk procurement, reduced duplication of functions and administration costs. By sharing services an opportunity arises for government to focus on its core business of delivering services to the people.

Another compelling consideration for a SSC as an alternative service delivery mechanism 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 that are being utilised by the different municipalities. The benefits of this include greater efficiency in operations as well as greater compatibility of systems between the municipalities and departments that are linked to the SSC.

Shared services between municipalities in the Overberg can give the district municipality an opportunity to consolidate a role for themselves both as providers of support to the local municipalities and as a potential platform for the sharing of services between municipalities.

The types of skills that can be shared include human resources, IT management, procurement and financial services. Governments are also faced with growing expectations to be more accountable to its citizens and provide improved service delivery.

At local government level in the Overberg, the SSC approach could involve service sharing between the Overberg district municipality and the four local municipalities within its area of jurisdiction or the sharing of services between any of the four local municipalities. Not only will this enhance the efficiency of service delivery, but it is also likely to improve intergovernmental relations between the tiers of government.

The value of shared services for Overberg municipalities lies in the sharing of technical skills or other specialist skills that municipalities find difficult to recruit. However, there are many other functions that municipalities need to perform such as human resources and finance related functions which can be regarded as back-office functions, in order to be sustainable. The growing expectation on government to deliver better services with limited resources makes a very strong case to share back-office functions among departments within a municipality and among municipalities in the Overberg.

It can be argued that shared services do not only provide municipalities the opportunity to become citizen-focused by focusing on its core functions, but there is a benefit for shared service entities themselves. In professionalising shared services,

municipalities are able to attract highly skilled personnel both for the departments and for the SSC. Not only does the SSC become professional in the day to day transactional activities that have been taken over from the municipalities but the SSC can be developed into a centre of excellence which can also be beneficial to the municipalities.

## **6.5 THE OVERBERG MUNICIPALITIES**

Based on the fact that municipalities in the Overberg vary – there are high, medium and low capacity municipalities – it is important to constantly look for ways to improve the areas where capacity and resources are lacking and to address shortages of service delivery mechanisms. Staff vacancies, financial capacity and political leadership have major impacts on municipalities in the Overberg.

The reform processes as described in this thesis are a means to achieving greater efficiency, improved services and better accountability in local government. A SSC can perform many of the functions that municipalities are struggling with and can provide a centre of excellence, which can address vacancies and skills problems in municipalities.

Political stability, which is prevalent in most of the municipalities, can be a big contributor to the successful implementation of a SSC in the Overberg if politicians are included in the process from the start. The clearer and stronger the process is, the smoother the transition will be. Municipalities have indicated that they have stable political leadership, which can be used to the advantage of a SSC process to be implemented in the Overberg.

From the research conducted and engagement with municipalities it is clear that municipalities in the Overberg are ready to explore and implement a fully-fledged SSC. It is thus important to ensure that all critical success factors of shared services as described in the previous chapter are addressed.

Gathering information from the municipalities in the Overberg proved to be a very useful exercise as it highlighted the capacities and skills which were lacking across

municipalities. It also broadened the understanding of how municipalities are currently coping and dealing with capacity short-comings.

While the lack of capacity is a problem, it is not necessarily the case that each municipality requires all the services on a full-time basis. This situation makes it ideal for these services to be rendered by the SSC. The municipalities have each a number of coping strategies in place to ensure that capacity shortfalls do not inhibit service delivery.

Individually, most of the municipalities in the Overberg do not have the financial capacity to employ the total amount of staff that is needed especially in areas of financial and corporate services. The lack of HR staff has resulted in other administrative and clerical staff members from different departments performing HR functions to ensure that HR activities continue. Staff members in the HR departments are also under a lot of pressure. In some of the municipalities the whole HR function rests with only a few HR personnel. This is not a sustainable solution to capacity shortages in this area. Many of these functions can be shifted to the SSC to address the capacity shortage.

The second part of the capacity problem relates to technical staff, whose skills are necessary but not so regularly needed that it would warrant full-time employment thereof. The current strategy which all of the municipalities adopted is to make use of consultants when required. However, it is somewhat wasteful for each municipality to be independently spending revenue on consultants when their capacity needs are very similar. Such functions can jointly be acquired from the SSC.

If the municipalities decides to work together to solve their problems rather than trying to cope separately, a sustainable and efficient solution may be developed. By pooling the collective capacity needs and the collective resources of each municipality and taking a district perspective to the problem, the situation looks very different and the solution can be easier.

This is particularly relevant given that each municipality is independently spending resources on sub-contracting similar types of services but from different providers.

The money that is currently used to spend on sub-contracting these skills and services would thus ideally be channelled to contribute towards the SSC which would employ full-time skilled staff to be shared.

The SSC would then be able to service the technical and corporate services demands of each municipality as the need arises on the basis of SLAs. If the five municipalities implement a co-operative problem solving approach it would go a long way in helping each municipality to meet its capacity, management and organisational needs, allowing it to focus on its core responsibility of service delivery.

## **6.6 A SHARED SERVICE CENTRE OPTION FOR THE OVERBERG**

Detailed assessment of different sites can be carried out in multi-functional areas in order to identify obstacles and ways to overcome them. The recommendation of this study is the host option as described in chapter 4. Municipalities in the Overberg are relatively small in comparison to municipalities in other regions. However, all of the municipalities in the Overberg region provide very strong services in one area or another. The Overberg District Municipality is for instance very effective in its fire fighting services and Cape Agulhas in revenue collection.

The host option also makes provision for retaining as much stability as possible. This option furthermore keeps the most highly demanded staff in their current location, which will save time and involve less administration effort, than transferring staff to one specific unit as required by the other SSC models. It is envisaged that the administration and process management costs of shifting staff from various municipalities will be much higher.

The largest expense will be in the area of the IT systems needed to make the SSC work effectively and efficiently regardless of the functions that the different municipalities will be hosting. All Overberg municipalities are challenged with IT systems that are inadequate (as reported in Chapter 4).

The more fundamental issue relates to integrating the IT systems of the five municipalities in such a way that they can effectively communicate and facilitate the efficient flow of information between the SSC and the municipalities. The

establishment and redesign of current systems will be a costly and time-consuming affair. Municipal systems will most probably be conformed to that of the host municipality. It is recommended that a detailed investigation be launched into the different IT systems of the municipalities to determine their compatibility and the software required.

Cost recovery for the SSC need to be considered from two perspectives: (i) Establishment costs – where decisions whether these costs will be recovered from donor funding, funding from the district municipality and other local municipalities, provincial government, national government or a combination of these; (ii) Long term running cost – Ideally these should be recovered from the client municipalities, but additional funding may need to be sourced from elsewhere.

Long term running cost can be recovered by charging municipalities on an hourly or daily basis for services rendered. The risks involved in this type of system are that staff is employed without being assured that they will be utilized.

The alternative to the service charge option is to recover cost on a defined contribution basis. Under this option a medium-term budget can be developed for the SSC that defines the staff that will be contracted for a specific period. An equitable calculation can be made for this medium-term period for each beneficiary municipality according to the services and levels it requires. However it is anticipated that this arrangement may not be preferred by municipalities as it will lock them into a service delivery agreement for the medium-term. To address this problem, service level agreements for both of these long term running cost approaches should allow for the termination of the individual service based either on non-payment, or poor performance in delivering those services.

In terms of legal requirements and complexity, the host option is the only model that has a moderate degree of legal complexity since the status quo in host municipalities will mainly remain the same. The host option has no major impact in the municipality regarding processes and implementation of a specific function, except for an increase in volume and is therefore the least legally complex alternative. This option requires no particular legal expertise to establish, operate and manage the centre.

The main area of legal complexity relates to the need for negotiating a service delivery agreement in conformity with the relevant legislative provisions.

A requirement of the SSC is that it must incorporate a body of professional, skilled staff that are able to work across the five municipalities in order to assist municipalities to become efficient and effective agents of service delivery. When designing a SSC for the Overberg the following staffing matters must be taken into account:

- Positions which are currently vacant and which are relevant to the selected functioning of the SSC as a provider of professional back-office and certain technical functions need to be filled in the SSC.
- The skills which were identified by the municipalities as most seriously lacking must be represented by the SSC.
- The SSC staff base has to satisfy the ideal capacity requirements necessary to improve both the efficiency and effectiveness of the municipal functioning in the region.

It is furthermore concluded that Overberg Municipalities can mostly benefit from investing in shared services as a result of the capacity and resources needs that were identified during interviews and discussions. Regardless of the form of a shared service model or the location that is chosen, it is clear that when executed properly, including communicating the process well with all the relevant stakeholders, the benefits, especially to the smaller municipalities in the Overberg, will include improved service delivery and reduced costs.

With shared services offering so many benefits to municipalities in the Overberg, it is important to explore how these municipalities can go about establishing a SSC. The next section briefly summarised the processes that could be included in establishing an SSC.

## **6.7 IMPLEMENTATION: SOME PROCESS ISSUES**

In order to successfully establish a SSC a clear framework must first be drafted that highlights all the details relating to such establishment. Such a framework is

discussed in this thesis in the previous chapter. The framework provides municipalities in the Overberg the opportunity to ensure that service delivery challenges are addressed in a cost-effective manner.

In order to ensure that the most suitable model is selected and implemented it is important that municipalities carefully consider each of the steps as discussed in chapter 5. Such consideration will ensure that they understand the shared service environment, and subsequently are able to follow the most appropriate approach. A highly functional approach to implementing a SSC is proposed by Deloitte (2004) and discussed in this study. The framework they propose gives a clear indication of the steps and processes that need to be followed in order to successfully implement a SSC. These processes include a detailed feasibility study before establishing a SSC.

The support of and buy-in from politicians of the different municipal councils are not negotiable. It must be obtained. Concerns that the SSC will: (i) threaten the municipality's ability to manage the strategic or operational direction of the municipality; (ii) the municipality's mandate participation; (iii) override policies affecting the municipality; and (iv) relieve the municipalities from key financial control must be addressed as soon as possible in order to gain the support of the different councils. These are real concerns issues for municipalities that can hamper the process if it is not addressed right at the beginning of the process.

Thereafter, Overberg municipalities can proceed with the process. The District Intergovernmental Forum (DIF) can serve as a platform to discuss and introduce the shared service concept to the political leaders and senior management of all the municipalities simultaneously.

It is recognised that the process for every organisation may differ. However, the phases listed below are typical for the establishment of a SSC. The suggested phases that need to be considered before establishing a SSC in the Overberg are to assess feasibility, to design the process, to build and test the SSC, to implement the SSC and to optimise.

It is important to define a clear vision that is shared by all the stakeholders. This vision has to translate into a workable strategy and operational plan. At the same time it has to identify what processes it might include, what IT system will be used and possible locations for the SSC.

A business case must be developed that summarises the costs and key benefits of implementing a SSC. Municipalities need to benchmark their current administrative processes against that of the other municipalities that are high performing to show the investment returns and to justify the move to shared services.

It is important to clearly define which functions will go into the SSC and which need to remain within the municipalities. High volume routine tasks, transaction processing and business tasks that are not critical to the municipality are typical functions that can be undertaken by the SSC. Business decisions that have an impact on financial results of the municipalities should remain with municipalities.

With respect to selecting the appropriate model for the SSC it is important to consider the critical impact which the location will have on the quality of services and the costs savings that will be achieved. Finally the feasibility study must consider and review significant implementation barriers such as critical legal or regulatory issues and identify steps to overcome them.

In terms of the design phase of the SSC it is crucial to define what the future processes will be with reference to who will do what, where will they do it and how they will do it. It is advisable to have a project team that consist of executives and senior staff from all the municipalities to translate all the concepts into an operational plan.

This operational plan must identify and address all challenges and operational issues concerning structures, budgeting, human resources, administration, management, processes technology requirements, legal structures and conformity, infrastructure, SLAs, performance measures and protocols. At the same time the project team must keep the momentum of this venture by communicating regularly with all the stakeholders including the staff that will be affected by the change. It is advisable to

inform and include the unions as early as possible in order to manage issues that may arise.

In the implementation phase specific attention must be given to the migration of staff to the SSC as this can result in a number of labour relations issues. These issues can be dealt with through training and a robust communication and change management strategy. The new roles of staff members and employment conditions need to be communicated openly and regularly.

A crucial factor in the successful implementation of a SSC is ensuring that the right enabling capacity exist through a strong management team as well as staff with the appropriate skills. It is recognised that the SSC may not have all the necessary skills which provide an opportunity to tap on outside expertise to supplement internal skills. Work-shadowing can be used to ensure an adequate transfer of business knowledge from municipalities to the SSC and to provide support, training and monitoring of newly appointed staff.

The correct transfer of data from municipal systems to the system of the SSC is crucial. There need to be a cutoff date for municipalities to load any new information on their systems until the conversion of data to the SSC is finalized.

The roles and responsibilities of each municipality and that of the SSC must be clearly defined and communicated as well as the lines of communication between the SSC and the municipalities when the SSC is implemented. The SSC must be able to have authority to implement certain processes and procedures after consultation with the municipalities in order to complete tasks rapidly.

Finally it is important to benchmark the performance of the SSC against the original business case and SLAs that was agreed to.

## **6.8 FURTHER RESEARCH**

As previously stated, it is important to note that this study does not present an exhaustive list of all the steps required to successfully establish and implement a SSC in the Overberg. It merely lays the foundation, and included some of the basic

key issues to be considered by the municipalities in the Overberg when engaging with each other to implement a SSC.

The proposed framework is formulated as a guideline to assist municipalities in the Overberg to make informed shared services decisions. Further research in terms of the host model option that can be implemented as well as the functions and services delivered by the SSC in the Overberg is recommended.

A detailed investigation of services that can be included in the SSC must be done. Municipalities must decide which of the services including development planning services such as local economic development and integrated development planning or parts thereof must be undertaken by the SSC.

A detailed cost analysis for the establishment of the SSC must be undertaken. Councils must commit to the process before any work can be done. While shared services have the potential to have many benefits, it is recognised that the establishment of SSCs in local government is a costly and time-consuming endeavour. Some key factors need to be resolved locally, as alluded to in the previous sections.

Some suggested key success factors for sustainable and successful shared services between the Overberg District Municipality and the local municipalities to consider for future research are:

Local initiative – Do they want 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 and how involve are they?

Co-operative climate – Are intergovernmental relations conducive to the sharing of services and can municipalities work together in the interest of better service delivery and organisational benefits?

Geographical proximity – How extensive is the district and how practical would any SSC be over a distance?

Communication and change management – How will myths and fears be dealt with and what is the best way to keep all the relevant stakeholders informed?

Identity – How will the identity of individual municipalities be protected?

## **6.9 SUMMARY**

This research in this study has led to interesting facts for municipalities in the Overberg to consider regarding an alternative mechanism to improve service delivery. Most of the municipalities in the research are struggling with challenges to give effect to its constitutional mandate of service delivery. Municipalities are under pressure and finance and skill shortages are a major constraint. This study has shown how municipalities can address these constraints by exploring the notion of shared services and a share service centre.

The study conclude that 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 the municipalities in the Overberg 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 struggling with. The municipalities in the Overberg are in an ideal situation to plan and implement a SSC since it have the experience of a PIMSS centre that previously operated in the district rendering services to all of the municipalities as well as co-agreements with other institutions

Municipalities in the Overberg can only benefit from sharing services and a shared service centre if councils and senior management are totally committed to improve service delivery in order to provide a better life for all its inhabitants.

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