

Strategic sourcing – is it the silver bullet?

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The challenges facing local government in Australia have been well rehearsed over the last few years, but just how real a threat are the problems to us now? How significant is the impact on local government? And is there a silver bullet?

The facts are known:

- In 2006, local government faced a \$14.5 billion infrastructure renewal backlog, representing a nine per cent funding gap – creating a need for greater efficiencies and innovative thinking.
- The industry is in the grip of a skills shortage which will only continue to worsen with 50 per cent of its workforce set to retire in the next five to 10 years and limited resources to replace them.
- Regional and remote councils in Australia are worse hit than their larger city cousins, with the basic services they need to offer their communities under threat.
- Without reform, around 30 per cent of councils are reported to be financially unsustainable.¹
- Communities look to their local councils to provide stronger leadership in addressing financial security, environmental sustainability and community services – especially in times of economic crisis.
- Some areas of Australia are facing further amalgamations within the next few years unless they find more collaborative ways of working with each other.
- Sadly, there is no silver bullet.

Those of you who attended the LGMA Congress in May this year would have been struck by the recurring theme in the presentations: that the industry is facing enormous challenges in the next decade and these can only be tackled through far-reaching innovation.

In one of the Darwin Congress presentations John Ravlic, LGMA's Chief Executive said, "Local government doesn't have the necessary funds to meet its infrastructure gap, state governments certainly don't have the funds and as the Commonwealth has significant other priorities and issues to resolve it will only be a contributor to the solution rather than providing the entire solution to our financial needs.

"The ageing of our population is going to place significant pressures on our workforce and available skills. We do not have enough people to do what we did in the past in the way we did them. We need a

new way of thinking, we need a new way of working to achieve a sustainable local government."

Incremental improvements will not be enough; only a fundamental transformation in the way in which services are designed – the sourcing of alternative service delivery models – will deliver change on the scale required. But if these alternative service delivery models are to flourish, a few myths will need to be debunked:

• *Myth 1: Collaborative shared services will never work.*

There are now countless examples of shared services in local government across the globe where councils and other public sector partners have collaborated successfully – improving service delivery, reducing unit costs and delivering some startling innovations. Success depends on clarity: shared objectives, transparency and simplicity in cost allocation and a public commitment to the pooling of sovereignty.

• *Myth 2: Collaboration undermines your control over key functions.*

A properly scoped and designed alternative service delivery model has the potential to improve control by improving resilience and reducing risk by identifying the party best able to deliver a particular service (or part of it). Of course, any new arrangement needs effective governance – whether the service is shared or outsourced.

• *Myth 3: Outsourcing will always be a dirty word.*

Outsourcing tends to receive negative press, especially if jobs are sent overseas, and failed outsourcing deals are hyped up. But the principles behind outsourcing are seldom well articulated and organisations are still learning how to get the best from such deals. Effective outsourcing enables councils to access specialist skills, economies of scale and cost savings. Many councils are using outsourcing strategically – to attract inward investment and generate employment in their local community. International experience shows that, managed well, alternative service delivery models can achieve sustained improvements in quality and costs.² The process of sourcing these models is not rocket science, but there are a number of conditions for success.

Membership of LGMA

Local Government Managers Australia is a professional association representing all executive and senior managers in Australian and Asian-Pacific local government. The Association's mission statement reads:

"To promote the cause of local government and to advance the development and improvement of local government management."

Continuing professional development programs ensure that members have the opportunity to maintain the currency of their knowledge and skills. Subscriber and international memberships are available.

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First, the drivers for change and the strategic outcomes that the organisation is seeking to achieve must be clearly articulated and understood. Our work with councils in the UK shows that they are not just seeking to reduce costs (although this is often a high priority). They are also using their sourcing strategies to:

- address resource gaps – gaining access to capital investment or a broader resource base
- improve services – tackling failing services or improving customer service
- free up capacity – allowing senior management to focus on key priorities
- accelerate transformation – importing innovative thinking and change management skills
- shape the local economy – stabilising, growing or diversifying the employment base.

Lofty ambition does have to be tempered with realism and expectations must be managed. Massive savings are often not going to materialise from day one and a service that is shared or outsourced cannot be forgotten about – relationships need to be managed.

Second, the performance of current service provision needs to be reviewed and comparisons made with peers and private sector comparators, drawing on benchmarking data. Just what could be achieved – how great is the prize?

Third, the options need to be explored dispassionately. For example, what could shared services achieve (which might comprise a variety of models, such as joint ventures)? Would outsourced models be

Sourcing: identifying, evaluating and implementing the most effective delivery models for securing strategic objectives.

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practical or would a mixed economy – as is increasingly common – be most effective, with some services in-house, some shared and some outsourced?

Fourth, the organisation needs to learn what it is to be an effective partner. The extent of the culture change required needs to be understood and a 'development plan' put in place. Successful relationships need care and attention.

In subsequent articles, we will be exploring just what has been achieved through the sourcing of alternative service delivery models, drawing on case studies from across the globe – including examples closer to home. We will be highlighting the pitfalls as well as the techniques that can reduce risk and unlock the power of partnerships working. Most importantly, we will explore the lasting benefits that can result. By reinventing our services, we can reinvigorate the communities we serve.

1. National Sustainability study for Local Government, ALGA, 2006
2. There are resources available to provide you with assistance – local and international case studies that showcase innovative projects, advice from membership associations like the LGMA and, once functioning, the Centre of Excellence for Local Government will be an invaluable resource.

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