

DEVELOPMENT OF SERVICE DELIVERY THROUGH ASSET MANAGEMENT

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In the interest of increasing efficiency in Local Government, the Victorian State Government has imposed significant changes on the sector, including forced amalgamations and Compulsory Competitive Tendering (CCT). These changes have significant implications for delivery of services, asset management and their interaction.

This paper examines the decision making process within an organisation split into client and provider sectors. A case study approach is employed to illustrate the relationship between centralisation and decentralisation of asset management with service delivery, and in particular the client/pull/demand versus provider/push/supply models of specification. A methodology for further research into these areas is proposed, enabling a continuation of the research into asset management under conditions of tendered service delivery.

Keywords: Local government, service delivery, asset management, methodology.

INTRODUCTION

Compulsory Competitive Tendering in local government has the potential to change the way maintenance of assets is organised and managed. As organisational structures alter, and strategies for defining the level and standard of service delivery are redefined, there is the potential to shift from centralised to decentralised management of assets.

This project reports on the changes in the provision of local government services following the introduction of compulsory competitive tendering, and illustrates the types of structures which have flowed from the change. Two case studies are examined, which identify that the fundamental issue of decentralisation of asset management has not yet been tackled in organisational structures. The participants maintained asset management as a client side function, electing not to devolve this role to the provider.

LOCAL GOVERNMENT REFORM IN VICTORIA

The 1990s are a period of significant change for governments throughout the world. The reform of the public sector has been a major economic and social issue applying to all levels of government. Increased efficiency and service delivery are expected to follow the pressure to reduce funding, as the market model is applied to public sector organisations (Hodge 1996). Increases in customer focus are expected across government as existing methods and procedures are challenged, and service delivery practices and standards are continuously reviewed against models of private sector practice. The structures, processes and service delivery mechanisms of government are increasingly under pressure from these drivers of reform. The roles and

responsibilities of government are being subjected to public scrutiny, as accountability becomes more significant within the context of the provision of public services.

In recognition of the importance of achieving improved productivity and enhanced Australian international competitiveness, the Commonwealth and all States and Territories agreed in April 1995 to the implementation of a National Competition Policy (Department of Premier and Cabinet 1996). This agreement followed the report of the independent National Competition Policy Review Committee, chaired by Professor Hilmer (Independent Committee of Inquiry 1993). The Hilmer report found that, “while there had been significant progress towards improving the competitiveness of the trade exposed sectors of the Australian economy, many restrictions on competition remained within the domestic economy”

Earlier, in response to the Hilmer enquiry, local government in Victoria, had been seriously impacted, through forced amalgamations and the introduction of Compulsory Competitive Tendering (CCT) in 1994. CCT represents a fundamental change to the methods local government uses in performing its duties and functions (Ernst *et al.* 1997). The introduction of a commercial approach contrasts with the traditional community based service approach of local government. Indicating that CCT impacts upon the operating philosophy and core values of public authorities as they change organisational structures, external relationships and human resource management to adopt the principles of the market model.

In 1994, legislation was passed by the Victorian State Government requiring councils to expose minimum levels of expenditure (% of budget) to competition and defined the requirements for achieving these levels¹. This approach contrasts with that previously adopted in the UK, whereby particular services were nominated. Councils in Victoria are subject to regulatory scrutiny to ensure the competitive process is fair in practice. In complying with these requirements, Morgan (1994) suggested that councils need to adopt two clearly separate roles. First, that of defining service requirements, selecting the service provider and monitoring performance (client function); and second, that of being a service provider where a council chooses to compete in the competitive process (provider function).

The restructuring of local government to achieve cost efficiency was part of a package of reforms involving amalgamations, capped rates (fixed at current levels) and compulsory competitive tendering.

Following the restructure of local government, a ministerial report indicated that Victoria's 78 councils (after amalgamations) achieved aggregate savings in expenditure of \$328 million for the 1995/96 year (Maclellan 1996: 4). The majority of rhetoric has focused on cost efficiency, levels of service delivery through the maintenance of assets is not easily measured. The Victorian experience remains immature, as many councils are currently adapting their organisational structures to accommodate the market model. To understand this situation better, we need to examine the international experience.

¹ The first year required 30% of expenditure be exposed to the competitive process, the second and third years required 40% and 50% respectively.

INTERNATIONAL EXPERIENCE

The restructuring of local government in Victoria is similar to that experienced internationally as governments of all persuasions are seriously considering this reform mechanism and many are adopting it vigorously.

Public sector reform through privatisation is certainly internationally widespread. In particular, contracting out is a key consideration in enabling public services to be provided more efficiently and effectively. Countries such as the UK and New Zealand have actively encouraged privatisation through the contracting out of public service provision. Implied in this approach to competition is a belief in the efficacy of the market, thereby introducing client-contractor relationships that mimic the operation of the market (Walsh 1989).

Government's rationale for introducing competitive tendering for local authority services is to increase efficiency by competition. However, Walsh (1989) argues that the aim in the UK is not only efficiency, but also to reduce the power of both local authorities and trade unions. It is suggested that the policy is particularly aimed at the trade unions and the way they have colluded with local authorities to distort the working of the labour market, forcing local authorities to abandon excessively high wages and over generous conditions and recognising the local labour market conditions. Walsh (1989) concluded that contracting out fits easily into the market orientated philosophy of conservatism developed under the Thatcher government, aimed at reducing the power of suppliers of public services.

Government's rationale finds wide support in reports on the positive effects of CCT. Hodge (1996) reported a number of findings about the economic viability of contracting out government services. He concluded that the weight of evidence supports the notion that the cost of service provision is reduced. Cost savings ranged from 28% to as high as 49% for single services, most notably cleansing, refuse collection and in the 49% case, road maintenance (Hodge 1996: 27). Although most studies appear to find that cost savings are possible on average through contracting out, the extent to which these savings accord with Domberger *et al.*'s 20% rule² is unclear. However, the evidence of cost efficiency is certainly not unanimous, as reported by Hodge (1996). Several studies, such as Rimmer (1993) and Greene (1994), argue that contracting out makes no difference to costs.

Canadian experience with the Public Services 2000 initiative supports the notion of improving public sector operations through the introduction of private sector practice. This review of government administration attempts to improve values, cultures and attitudes. Clark (1990) argues that, while government will continue to be steered by traditional values of governance such as economy, efficiency, effectiveness, probity, prudence and consistency, the best practices of the private sector will have to be adopted to the needs of government. The core values of the private sector nominated by Clark (1990) include improved client service, public consultation, results, people as valued individuals, empowerment at the point of service delivery, accountability and simplicity. Implied in this approach is the organisational structure of local government best fitting the needs of the public through service provision. However, the rationale of the Public Service 2000 initiative is to review and improve from within an organisation as opposed to simply outsourcing a role to achieve reform.

² Domberger concluded that on average, contracting out in both the private and public sectors afforded a 20% decrease in costs for a given service (Domberger and Hall 1995).

It is not clear whether cost savings from contracting out services have reduced the quality or level of service. Domberger (1995) and Rimmer (1993) provided no consensus as to the impact on quality of service provision. Hodge (1996) demonstrated the possibility of maintaining quality of service while reducing costs.

Walsh (1989) suggests that it is possible to envisage local authorities of the future to be simply a set of contracts and a network of internal and external trading. This is emphasised by the introduction of an ethos of commercialism through the introduction of competition.

ORGANISATIONAL STRUCTURES

A key aspect of the introduction of CCT in Victoria is the separation of the client and provider functions. Prior to examining this issue, it is useful to provide insight as to the factors which might affect the structure of an organisation in the CCT context. Organisational theory (Robbins 1993) suggests the following theoretical imperatives or determinants of structure:

- strategy;
- organisational size;
- technology which is the information, equipment, techniques and processes utilised to provide outputs;
- organisational environment;
- power-control theory which suggests those in power selecting a structure to maintain and enhance their control.

The introduction of CCT causes the circumstances for each of the above criteria to alter. The strategy is firstly affected by the imposition of CCT, and subsequent changes related to CCT include the decision of how to package services, how to drive organisational change and whether council will compete to become a provider of services. Morgan (1994) argues that the need to provide for policy development and governance functions may affect structure. Implied in this, is the power-control issue as described by Walsh (1989), suggesting that special interest groups will lobby for structures which best meet their needs or maintain their control. This is particularly relevant in the case of elected representatives being involved in the process. In the case of Victoria, the structure adopted is decided by Commissioners (appointed temporarily by the State Government), most likely on the recommendation of the Chief Executive Officer³. This presumably allowed organisational structures to be developed without undue influence or bias.

The importance of the separation of client and provider functions is paramount to the fairness of the competitive process (Local Government Industry Working Party 1994), suggesting that an image of structure and control is maintained to outside organisations and the public. This practice implies a process orientated, control approach to management whereby rules and procedures are integral to the structure. This case appears to fit best with a centralised management structure.

The Canadian approach fostered in the Public Service 2000 reform attempts to remove unnecessary procedural methods. Clark (1990) argues that flexibility is required to enable those business units involved in the provision of services to manage and

³ The introduction of CCT was facilitated by State Government removal of elected Councillors, and the appointment of Commissioners for a 3 year term. Staged elections followed to provide for elected representatives to replace the appointed Commissioners.

deliver programs, concentrating on results rather than detailed procedural requirements. This approach lends itself to increasing cost efficiency of service delivery by examining existing service provision and investigating possible changes to meet customer needs through a decentralised structure. This contrasts with the approach apparently adopted in Victoria, which remains a centralised approach.

Alternatively, Morgan (1994) suggests separation can be achieved by simply defining roles and establishing procedures rather than making changes to a traditional structure. Two main organisational models were proposed: the *full separation* model and the *two-hatted* model.

Figure 1 illustrates a full separation model. The features of this model are:

- clear separation between client and provider sides of the organisation;
- client side includes CCT client functions and core functions such as governance, policy, planning, asset management, finance and human resources;
- the directors on the provider side will be responsible only for managing business units and will not be involved in policy or have a client side role;
- the CEO will have a dual client/provider role; and
- displays of the client/provider split.

Figure 2 illustrates a two-hatted model. The features of the model are:

- each director would have a dual client/provider role;
- each director would have a client unit to undertake the CCT client functions;
- the provider role comprises the business units, both in-house agreements and those services not competitively tendered;
- each director is responsible for ensuring appropriate separation between the client unit and the business units;
- the CEO and directors would be responsible for corporate planning and policy development;
- asset management may be split amongst the relevant units; and
- displays the client/provider split.

The selection of model to be applied will have a significant effect upon the nature of operations, in particular the role of asset management. The full separation model signifies total separation of the asset management role from the provider, and ultimately the customer. Alternatively, the two-hatted model indicates a decentralised approach whereby asset management may be a role for each business unit individually.

ASSET MANAGEMENT

A decentralised management approach is proposed in order to maximise service delivery through the role of asset management. The asset management role is traditionally a client side task and a responsibility seen widely as not appropriate to devolve to contractors. In achieving separation throughout the CCT processes, there needs to be appropriate technical expertise on the client side for the preparation of specifications and monitoring technical performance. However, if this expertise were available in the contractor organisation, a duplication of expertise would exist in the case of a full separation model, and perhaps adding to the costs of service provision.

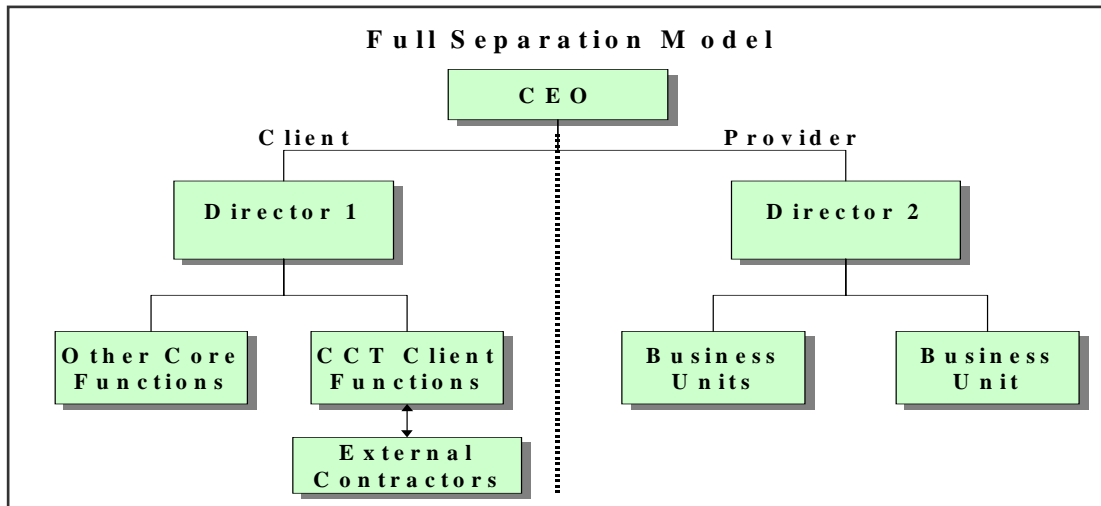


Figure 1: Full separation model

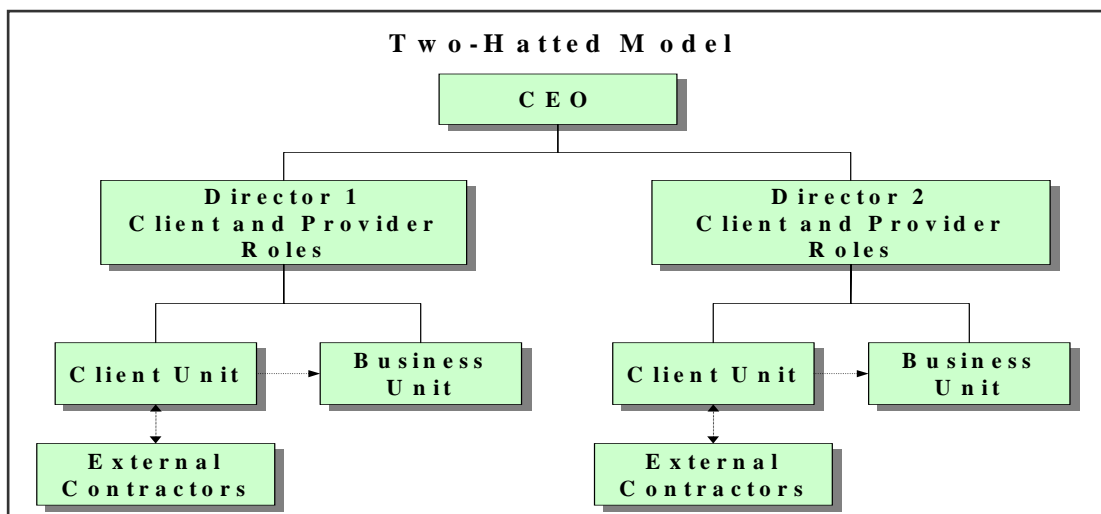


Figure 2: Two-hatted model

Clark (1990) argues that the focus must shift from meeting client side (council) requirements to improving service through greater decentralisation of decision making. Concluding that a shift in focus would require the recognition and acceptance of risk in the short term, whilst making available innovative service delivery approaches to improve government service delivery and increasing value to the tax payer’s dollar. Stewart (1989) supports this notion by suggesting that although local government is constituted for local choice, that choice is limited by organisational principles that become embedded in the culture. Further, he asserts that the devolution of management responsibility has created a clear focus in accountability to achieve the service delivery requirements.

Figure 3 illustrates the opportunity to devolve the responsibility of asset management to the provider under a decentralised management structure for local government maintenance service provision. The Figure illustrates a move of the asset management function from a client role (1) to a provider role (2). This approach implies a decentralised management structure with a service driven asset management program. The service emphasis is supported by Dunlop (1992) who stresses the importance of customer perception and service delivery in relation to asset management.

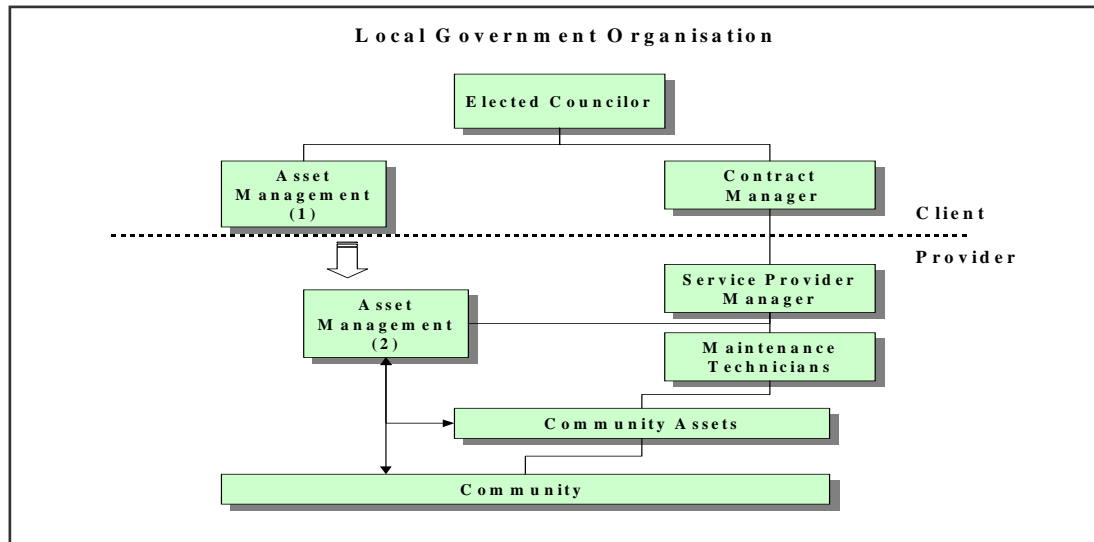


Figure 3: Client/provider split in local government organisation

Kenley (1997) suggested that the benefits of this approach were, first, that those responsible for the direct service provision to the customer maintain a single point of contact to the customer, ensuring the appropriate level of service; and second, that service levels are determined by demand-side decision making, i.e. the customer's requirements. It could be argued the service provider is in the best position to determine the needs of the asset users, therefore enabling service levels to be determined by the customer requirements. As a client side role, asset management may be clearly separated from the provider and therefore not receptive to the customer. Implied in this customer focus, is the ability to provide asset maintenance to meet the needs of the customer, rather than being an asset based approach.

The client side would obviously need to ensure responsible asset management is being employed and prevent loss to the value of assets. Kenley (1997) suggested the following be adopted by the client as a governance role, to ensure performance:

- asset management plans be developed by the provider in accordance with client budgets; and
- the use of benchmarks and performance indicators.

The client/provider split is significant in the context of asset management in that the demand/push-supply/pull relationship may be subsequently inherited due to the non-aligning nature of decision making processes under each approach. This provides the case whereby the service provider, given a set specification or budget, attempts to push (increase) the level of service, and in effect increasing the volume and value of the activity to the provider as a business.

Alternatively, the client-side would prefer to pull (and therefore constrain) the level of service to a volume predetermined by themselves, although somewhat removed from the service provision activity, and therefore, the customer.

An example of this phenomenon could occur where the asset management role determines the service levels, as a client-side activity. The service provider provides maintenance services in accordance with the client-side requirements, irrespective of the ability of the service provider to determine the needs of the customer, particularly as they are the sole provider of services and maintain the contact to the customer.

Providing further evidence of the importance of the client governance role in the case of devolution of the asset management function to the provider.

Under a decentralised management approach, devolving asset management to the provider may enable a customer focused, service driven approach to asset maintenance. Thereby ensuring the appropriate levels of service as determined by customer requirements (demand side decision making).

CASE STUDY REPORT

A multiple case study approach was adopted in investigating the impact of the introduction of CCT on the quality of service and service levels within the asset maintenance role of local government organisations. The road maintenance service from two councils were analysed, they will be referred to as study A and study B.

Study A awarded the contract for the provision of road maintenance to an external contractor, whilst study B awarded the contract to an in-house team, providing an excellent opportunity for contrast in the possible approaches utilised by the client to maximise the benefits received from the service provider. Structured interviews were conducted with respondents in senior management positions within the relevant organisations, involved in both the provider and client side roles.

The findings indicated that both councils had adopted a centralised management structure, rather than a decentralised approach as suggested by Clark (1990) and Kenley (1996). This approach was rigidly enforced in study A as the external provider was scrutinised and monitored to ensure full accountability for the service provision and compliance with the contract specification. Implied in this approach is a focus on client needs (supply/pull). In contrast, study B adopted a flexible approach to the management of the contractor, preferring to actively be involved in the management of operations as required to ensure appropriate service provision. Once again, the focus here is on client needs, however a more flexible approach was taken based on the need for service delivery.

This is further evidenced by the client/provider split in each organisation. Study A again enforced rigid separation in the split, beginning with 2nd level managers (General Managers) as the provider role upper limit split, recently shifting the split to the 3rd level of management (Infrastructure Managers). However, the upper level management in the split have tended to have roles including both client and provider responsibility (50/50). Study B utilised a more flexible approach, allowing 3rd level managers (Infrastructure Managers) to loosely become involved in provider side tasks, therefore splitting their roles between the two parties, although maintaining in the structure a client side position. It could be suggested that study A adopted the full separation model and study B the two-hatted model (Morgan 1994).

As expected, the role of asset management remained centrally with the client in both councils, similar to that illustrated in Figure 3, position (1). It was noted that councils preferred to maintain control of their assets to ensure full information about the asset was maintained by the client, therefore raising an issue of intellectual property. Reflecting perhaps the power-control issue raised by Walsh (1989), or more simply a distrust of external contractors.

The Councils unanimously nominated that the quality of service had not declined since the beginning of CCT. This is particularly significant given that amalgamations

had taken place in each council prior to the introduction of CCT, adding to the unsettling of the organisation.

Study A utilised formal performance measurement mechanisms (KPI's) to accurately assess the activity levels of the provider, as detailed in the contract specification. Alternatively, study B monitored performance via an informal process of measures. It was noted that neither study was able to provide evidence of performance monitoring to accurately determine the quality of service or service levels. This suggests the inability of a centralised approach to adequately determine the needs of the customer through monitoring of quality service, supporting Kenley's (1996) suggestion of the benefits of a decentralised management approach and the devolution of the asset management function to the provider. Further, the development of demand-side decision making would not be appropriate under the present structures in either council due to the separation from the provider function, and ultimately the customer.

Case study participants determined that quality service could be defined by three key components; technical quality, responsiveness and ability to satisfy requirements (specification). Customer satisfaction was monitored by means of customer service facilities (phone centre) and yearly surveys of ratepayers. However, both councils believed that these mechanisms were inappropriate to maintain a continued understanding of customer requirements. A more routine approach was suggested by some, with no available system/process accessible to council at this time. Indicating that under a centralised approach, asset management as a client role fails to maintain a customer focus in determining service levels.

Provider input into the development of service levels was generally informal, with lines of communication not always clear. Study B, through a flexible approach to the management of the provider, maintains availability via regular meetings and continuous informal communication lines. Alternatively, study A enforces accountability for service provision in a typical client - contractor relationship, presumably due to the provider being an external organisation. This is further evidenced by study A having a preference for outcome based pricing as opposed to lump sum.

The client/provider split within the councils reflected the nature of the CCT introduction in Victoria,. Councils appear to be manoeuvring to find the most appropriate structure based upon budget constraints, regulatory requirements, customer needs, management processes and provider performance. Reflecting perhaps a lack of preparation or expertise available to local government, in enabling councils to confidently adopt a single approach deemed as optimal to the circumstances as they may differ in each council.

Anecdotal evidence suggests there is no correct method or approach to adopt when implementing change of this nature in an organisation through a decentralised asset management approach. Councils expressed keen interest in participating in this topic of research, as issues of concern are investigated in the endeavour to provide an economically efficient, customer based, outcome approach to contracting out.

FURTHER RESEARCH

The case study reported in this paper is an exploratory investigation in order to assist with the development of a methodology for a major project over the next 2 years. The intention is to examine the relationship between asset management and service delivery in the context of local government maintenance services.

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