



GFOA Recommended Practice

Alternative Service Delivery: Shared Services (2007) (BUDGET)

Background. Governments continue to address funding issues related to their budgets – often resulting in the reduction of programs and services. In addition, governments often face an increase in service responsibilities. At the same time, residents are demanding that governments demonstrate improved efficiencies and even offer new or improved services without new taxes.

To meet these challenges, governments are becoming more and more interdependent, including cooperating to deliver services. The services most often provided collaboratively include health and human services, transit systems, airports, sewage collection, disposal of hazardous wastes, libraries, tax assessing, and title records.

Informal (handshake agreements) may include such items as sharing information or equipment, coordination of individual efforts, or joint promotion. More complex or formal agreements might include contracting with another government for service, sharing facilities, purchasing/insurance pools, merged departments, special districts, or regional planning. Shared services that might be the most difficult to achieve include mergers, annexation, or service provision transfers, especially where political support is required. Formal intergovernmental cooperation often includes written agreements among governments and may require a division of labor and/or transfer of funds.

Suburbs may be more likely to enter into shared services agreements due to the greater density of governments in a metropolitan area, proximity, and similar levels of service. Rural communities might consider shared services due to their smaller size and lack of resources. Rural areas may have more cooperative agreements between different types of governments.

In all cases, alternative service delivery that involves shared services requires governments working together to achieve shared policy objectives. Governments are encouraged to cooperate to provide their residents services they could not provide on their own or to provide their residents lower cost and/or higher quality services.

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments examine the benefits of alternative service delivery that involves shared service efforts and utilize the process described below for successful implementation.

- (1) Getting Started.* Governments should organize themselves so relationships can be established that encourage the identification of prioritized opportunities. Talking with communities who have successfully launched cooperative initiatives is one such example. Stakeholders such as unions or customer groups can play a successful role in the establishment of intergovernmental efforts. Communicating with them early and often can improve chances for positive implementation. There are several potential outlets to find shared service information such as extension offices of state universities, local government relation offices of state governments, local and national professional associations, and councils of governments.

- (2) *Feasibility Study.* Clearly identify the costs, benefits, and potential risks of a proposed agreement. Data collection may be necessary for more complex endeavors. Governments need to determine to the greatest extent possible the return on investment, both in financial and quality terms. Key items that should be considered in the feasibility stage include goals and objectives, tangible and intangible benefits, potential barriers (political, economic, funding, human resource, legal, social, and/or economies of scale).
- (3) *Coming to Agreement.* Agreements between collaborating communities should address the following:
- a. *Liability and Legal Basis for the Relationship.* This would include enabling legislation, understanding of relevant employment law, and risk management (including workers' compensation and indemnification). It is also important that legal counsel for all participating jurisdictions review the agreement before it is finalized.
 - b. *Cost allocations (both direct and indirect).* Cost allocation establishes the methodology for deciding who pays how much. Consideration may also need to be given to the handling of capital expenditures and any revenue coming in from this service.
 - c. *Financing.* Revenue sources must be identified to fund the service. The establishment of an authority with its own taxing powers may be necessary for more complex services without designated revenue sources where allowed by state statute. Debt financing may also be considered, but could be dependent on legal statutes.
 - d. *Governance structure, membership, and protocols.* A governance structure must be in place to facilitate oversight and communication. This may include elected officials, staff, and citizens.
 - e. *Time period covered.* The agreement needs to specify the time period covered with a process for renewal of the agreement. If there is a sunset provision, that time frame should be specified.
 - f. *Dispute resolution and mediation.* A clause or some language in the agreement should cover how disputes will be resolved. Arbitration may be an option.
 - g. *Service Level Agreements.* The level of service agreed upon and expected by all participating entities should be explicitly documented with associated performance measures to ensure that level of service is achieved. The measures should focus on the quality of the service.
 - h. *Termination clauses.* A critical feature to the intergovernmental agreement is the opt-out provision, which is often crucial to gaining political support for the agreement. It is important to ensure that the opt-out clause is practical and will not, if enacted, disrupt service delivery. Likewise, opt-in provisions should be considered for those governments that might want to join.
- (4) *Implementation.* Continuity of service is of primary concern for stakeholders. For this reason, the transition must ensure a seamless provision of services. To avoid the risk that service quality will suffer, emphasis must be placed on proper training of employees providing the service. Performance measures/benchmarks and/or milestones should be established related to the particular service. As much as possible, governments should try to simplify processes for providers to ensure good working relationships. A decision should be made on the most effective means to provide administrative or support services.

- (5) *Ongoing Monitoring*. A shared service agreement should be treated as a contract, and the terms and conditions should be monitored regularly to ensure they are being met. All governments involved need to agree on what will constitute regular monitoring – frequency (e.g., holding monthly meetings of the original study committee or the new governing committee to monitor progress and contract compliance), what to monitor, how to measure what is monitored (e.g., customer satisfaction, finances, employee performance, hiring, and safety), communicating results (reporting format may include the medium or media for communicating the results (e.g., internet, paper reports, etc.)), and quality and quantity of work performed.
- (6) *Long-term Review/Agreement Reassessment*. Changes in the service environment may necessitate regular review of the agreement. The original assumptions or parameters surrounding the agreement may need to be adjusted at various intervals.

References

- GFOA Recommended Practice: *Performance Management: Using Performance Measurement for Decision Making (2002 and 2007)*. <http://www.gfoa.org/services/rp/documents/perfmanagement.pdf>
- GFOA Recommended Practice: *Measuring the Cost of Government Services (2002)*. <http://www.gfoa.org/services/rp/documents/MeasuringtheCostofGovernmentService.pdf>
- GFOA Government Finance Review: *Make or Buy? Using Cost Analysis to Decide Whether to Outsource Public Services* (August, 2004).
- GFOA Recommended Practice: *Managed Competition as a Service Delivery Option*. (2006). <http://gfoa.org/services/rp/documents/ManagedCompetitionRP1.pdf>

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