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New Series! Ask  
Your Own Questions and they  
will be answered  
in later issues

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## Are your Customers Happy?

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### *Service Level Agreements*

Do you know what makes them happy? Do you believe you are doing a good job? You will probably say yes. But do you really know? In line with our interest in establishing service level determination (*have you returned your service level determination survey form?*), Sara Cullen, Senior Manager at Deloitte Consulting, a specialist in Service Level Agreements will, over the next few issues, and present a series of articles on SLAs, what they are and how to do them. see **p.91** for part 1: **Agreeing on Service.**

### *What are Other Asset Managers Thinking About?*

Our new feature “*What Issues Are Engaging The Minds Of Asset Managers*” will give you some insight into what others are doing. We start, alphabetically, with Adelaide and Auckland. It is an ‘around the world round-up’ in 26 issues or so. see **p. 95**

### *Tell me More!*

From the wide range of issues presented why not select those of particular interest to you for elaboration in later issues of *SAM*? Send your requests to [sam@amqi.com](mailto:sam@amqi.com)

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## Shared Services: Shared Gain or Shared Pain?

In my work researching current trends in asset management for SAM, I read many company newsletters, but none with greater interest than *"Your Partner in Achieving Best Practice"*, the publication of the Australian Continuous Improvement Group Pty Ltd.

Members of this group are always at the forefront of management activity with sound and sensible approaches that they are generous enough to share with their readers.

The current issue contains a practical step by step approach to performance management, an insight into continuous improvement in Hobson Bay Council, some short case studies on improving the quality of planning and the following on "shared services" and "service agreements". This excerpt will give you a flavour of the issues involved and the practical style of ACIG.

If you would like further information on shared services, or more information generally about ACIG, contact Bob Hood or 61 (0) 3 9614 1771.

"The current management philosophy in Australia and elsewhere appears to be setting up SHARED SERVICES.

Shared services are intended to allow larger companies to achieve gains from centralising and consolidating a range of services which had previously been integrated into their subsidiaries operations.

Services like payroll, accounts payable, accounts receivable, personnel services, information technology, purchasing and even financial management reporting are all subject to becoming 'shared services'. Almost any 'service' that an organisation requires is a candidate for being 'shared'. This sharing trend reverses the philosophy of a

few years ago which aimed at allowing accountable subsidiaries to control their own service provision. This was based on the view that they could not 'blame corporate' for poor, unresponsive service (which was often the case); that local management would drive costs lower; and, if there were higher costs than might have been the case with centralism, they were offset by being able to achieve greater performance accountability of the self contained operation.

Shared Services is reversing the trend of a few years ago. What makes this latest trend different from past centralised services are two twists

Bob Hood

What makes this latest trend different from past centralised services are two twists. Twist 1 is to put service performance agreements in place so that 'Shared Service' cannot become an 'all care – no responsibility' organisational unit. This presumably adds the 'customer focus' that was missing in the old centralised services of yesteryear.

Creating sound, service performance agreements are not as simple as one might expect, especially if the service involves advice rather than transaction processing. If Shared Services Units fail to perform up to the agreed standards what practical options do the subsidiaries have? Do they receive a rebate on services, can they invoke penalty clauses or can they get their services elsewhere?

The second twist is that a dedicated entity or even an outside organisation will actually manage the shared service and even hire the company's staff in to fill the jobs. This is not really a shared service. This is simply aggregated outsourcing.

Substantial financial benefits are anticipated to flow from sharing services (eliminating all those different systems, lifting individual productivity etc) In some cases the percentage cost savings claimed is as much as 40% of existing costs."

**Thinking of making asset management a shared service?** Beware! Read on. .... (continued on page 94)

## Service Level Agreements: Part 1

### AGREEING ON SERVICE

*Sara Cullen is a senior manager at Deloitte Consulting. She is one of the most experienced practitioners regarding performance and outsourcing in Australia. She has 16 years experience and has consulted on outsourcing to over 50 private and public sector clients across Australia. Sara has designed and implemented innovative partnering arrangements including franchise-type agreements, shared risk/reward structures, gainsharing and incentive programs in addition to the traditional fee for service arrangements. Her recent clients include Telstra, ANZ bank, the Victorian Government and the City of Melbourne.*



*Sara is a widely published, internationally recognised author. Her recent publications include "Outsourcing: Exploding the Myths", "Contract Management Better Practice Guide", "Best Practices in IT Outsourcing", "Lessons Learnt in Outsourcing", "Outsourcing Guidelines" and "Outsourcing - What Auditors Need to Know"*

#### What makes a customer happy?

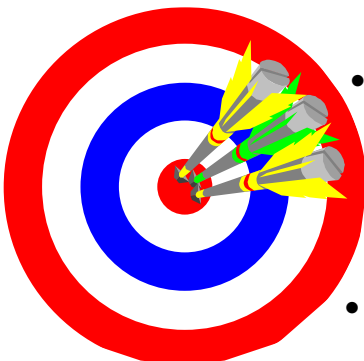
We were helping a property maintenance service provider (SP) draft an agreement with tenants and the owner. The SP had developed a number of very specific performance measures including elevator response time, climate control, cleaning statistics and so on. We ran a workshop with the tenants and number one on their list was the length of the grass. If the grass was short, the tenants assumed the rest of the services were going well. If the grass was long, other services were criticised.

There is quite a simple mechanism to ensure you know what your customers want and to

let them know that you are delivering to their expectations. This is a Service Level Agreement (SLA).

This document serves to articulate both parties' expectations of the service and agree on the level of service that is to be provided. In doing so, it prevents the misunderstandings that so often increase costs and dissatisfaction over time.

The SLA is typically a schedule to a commercial contract (thereby having legal effect) when services are contracted to an external party, but can also be used between internal customers and SPs to set the relationship on a more commercial basis.



A SLA defines:

- what services will be delivered to the customer;
- the responsibilities of both parties with regard to the services;
- how services will be measured and what will be use as the benchmark;
- how performance will reported;
- rewards and penalties related to performance; and
- how the relationship will work between the parties.

***Why an SLA is needed***

An SLA must be considered one of the most critical elements of a successful relationship. When agreements are developed with an external service provider (ESP), emphasis is placed on tender specifications and contracts when outsourcing.

The problem with tender specifications is that they are a once off event, often describing the service requirements as known today but they rarely provide a means of continual improvement and changing requirements. The contract does not help much either, as it basically defines legal obligations and recourse for service failure, but does not provide the necessary articulation of what successful service is and how it will be measured over time.

- Existing SLAs or service measures
- Existing service performance reports
- Documented process flows
- Key concerns about service levels
- Historic service issues

If you are going to tender, the SLA should be prepared as part of the tender and, along with the contract, form the basis for which the suppliers will price their services.

While many still wait until the negotiation stage to prepare SLAs, you are in the best position if you subject your expectations to the competitive market, not wait to work it out with only one SP.

**IMPORTANCE DURING THE LIFE OF THE ARRANGEMENT**

	<b>Startup</b>	<b>Ongoing Management</b>	<b>Termination</b>
<b>Tender</b>			
<b>Contract</b>			
<b>SLA</b>			

***Determining Service Level Specification***

Preparing a SLA is one of the most difficult tasks in ensuring your expectations are met. Particularly difficult are defining the service in output terms without being overly prescriptive, determining what the minimum standard of service should be often without having measured it in the past, and determining the penalty/reward structure.

In determining what the service level specifications are going to be, it is useful first to find out relevant information such as:

***SLA Critical success factors***

- Define what is in and out of scope
  - ◊ this sets the expectations for who is doing what
- An SLA is not a procedures manual
  - ◊ it defines “what “ the service provider is to do not “how”
- Set the right KPIs
  - ◊ that are important to the customer and systematically measurable
- Never let it sit
  - ◊ It should be a “living” document - plan for change

## Outline of a best practice SLA

### 1. Background

- 1.1. Purpose of this SLA
- 1.2. Key stakeholders/customers
- 1.3. Services in scope and out of scope

In scope are the services the Supplier is responsible for. Out of scope are the services the Customer remains responsible for

### 2. In Scope Service Description

- 2.1. Overview and description of each service
- 2.2. Basic requirements of each service
- 2.3. Customers and stakeholders
- 2.4. Service interdependencies and related responsibilities
- 2.5. Potential variations

Include:

- Minimum KPI standard to be achieved
- The timeframes over which the KPI measurements are to be taken
- Where the data source for each KPI is

### 3. Performance Measurement Regime

- 3.1. Key Performance Indicators
- 3.2. Service Fee Adjustments for above standard performance
- 3.3. Service Fee Adjustments for substandard performance
- 3.4. Point at which substandard performance invokes the right to terminate

Operating statistics that may include:

- transaction volumes
- costs
- consumption
- labour

### 4. Reports

- 4.1. Performance (KPI) Reports
- 4.2. Operating Reports
- 4.3. Progress/Status Reports

Or reference to a procedure manual

### 5. Relationship Management

- 5.1. Structure
- 5.2. Roles and responsibilities
- 5.3. Meetings and reviews
- 5.4. Management Procedures

Can include:

- Time of key events such as payments
- Prototype reports
- Variation sheets
- Procedure manual references

### 6. Terms and definitions used in this SLA

### 7. Appendices

Sara Cullen is also presenting a two day workshop in negotiating, establishing, implementing and managing Service Level Agreements. Ring IIR Conf 02 9923 5090

Perth: 29-30 July 1999 Grand Chancellor Hotel  
 Sydney: 5-6 August 1999 Millenium Hotel  
 Brisbane: 9-10 August 1999 Mercure Hotel  
 Melbourne: 12-13 August 1999 Rydges Hotel

*Sara will be providing a series of articles and invites you to ask questions and provide comments. She can be reached on 0416 107 185 or at [sacullen@dc.com](mailto:sacullen@dc.com)*

**“Shared Services:  
Shared Gain or Shared Pain?”** from Page 90

“There is a significant cost involved to garner the promised savings. Putting shared services in place is time consuming and ties up many corporate executives. It can be difficult to agree upon service performance agreements and there will be scepticism about the promised benefits.

New systems, re-organisation, consulting fees and even outplacement of subsidiary staff who are no longer required are all part of the costs.

The actual success of the internal shared services strategy is probably still awaiting judgement, long after the consultants have been paid and left.

Before launching into such a strategy, it would pay to check if your organisation’s processes can be improved where they presently are. For example, it might be better to reduce volumes of accounts payable by changing purchasing practices before considering centralising accounts payables.

Blind reliance or quoted “international benchmarks’ should be avoided. These benchmarks are often used to quantify savings potential and head count reduction. Without knowing the detail of the underlying processes, these benchmarks may not be achievable.

There is always a better way of doing things. Shared Services may be one of those ways but be careful that promised shared gains don’t become actual shared pain.

## Issues

currently engaging the minds of Asset Managers in...

### Adelaide and Auckland

#### ADELAIDE

##### INFRASTRUCTURE DEPRECIATION, RECYCLING

Stephen Walker, Manager Technical Services, West Torrens City Council (Adelaide) is *updating his model for the depreciation of reinforced concrete stormwater infrastructure* based on closed circuit condition data from which he has generated an age curve. Stephen is also *examining recycling processes* that have the potential to save on new material costs and dumping costs when completely restructuring some of the old city roads.

[swalker@wtcc.sa.gov.au](mailto:swalker@wtcc.sa.gov.au)

##### ASSET MANAGEMENT IMPROVEMENT WITH CONSTRAINED RESOURCES

Peter Tannenbaum, The Adelaide City Council is trying to run *improvements in a new asset management program* at a time of serious budget constraints and curtailment of the major works program. ovements with constrained staff resources.

[tannpete@adelaide.sa.gov.au](mailto:tannpete@adelaide.sa.gov.au)

##### GST, DATA CAPTURE, E-COMMERCE AND PERFORMANCE CONTRACTING

Neil Tohill, Project Director, Department for Administrative and Information Services (DAIS) (Ph: (08) 8226 5237, Fax:(08) 8226 5033 ) reports the following issues:

## Issues in Adelaide and Auckland (cont.)

- **GST** This will put pressure on outsourced services to businesses involving residential rents and financial services as these areas are input taxed
- **Data capture** for planning and tendering purposes - devolution of management fragments the procurement and service delivery chain and also fragments the data capture process making it more difficult (if not impossible) to obtain complete and accurate asset data.
- **E-Commerce** - challenge to capitalise upon this procurement process and the possible streaming of asset related information from the financial transactions in a cost effective way.
- **Performance contracting** - challenge to allocate risk in a better way to glean greater value from the supply chain. Key issue of measurement and the inherent delay between input and demonstrable impact upon asset life and performance  
**tohill.neil@saugov.sa.gov.au**

### CONSOLIDATION, UTILISATION, ASSET INVESTMENT "CAP"

David Bernard, Manager, Strategic Asset Planning, Onkaparinga City Council is grappling with the following issues:

- **Consolidation of infrastructure and property asset groups.** Having successfully developed a strong strategic focus for property (see SAM p. 33) Onkaparinga are now consolidating their infrastructure and property groups to further sharpen their strategic focus. It is thought that this could be a first for local government.
- **Making Good on Promises.** When the Council merger took place two years ago ratepayers were promised greater access to services and reduced costs. This has been interpreted at the asset level as improved utilisation and a focus on asset options involving more than just those assets owned by council - community assets, private assets.

- **Investment Cap.** This focus on better use of community assets (regardless of who owns what) has been strengthened by Council's decision to cap investment in assets. Called the "capital accumulation constraint" the cap is designed to ensure that old out-of-date assets are changed to reflect modern requirements - rather than simply being added to.

**davber@onkaparinga.sa.gov.au**

## AUCKLAND

### RISK MANAGEMENT, ASSET DATA AND SYSTEMS AND STANDARDS

#### Risk Management/Emergency Response Plans

Following the Auckland CBD power crisis and Sydney Water problems, Colin Symonds, Asset Manager for Auckland City's Water LATE (local authority trading unit) writes that they have renewed motivation to ensure it doesn't happen to them, specially during APEC, the Y2K click-over, or the America's Cup. To that purpose they have

- **developed generic procedures for contingencies** such as water supply contamination; failure of supply from wholesaler (Watercare) or wastewater pump station failure/overflow.
- are **compiling risk/site-specific procedures** for identifiable sites like reservoirs and water main flushing plans to address contamination events in each pressure zone,
- and are **developing a programme that integrates decisionmaking** for both the current reliability-centred renewals works and the risk reduction works. (*There's only one bucket of money, so all possible projects have to be assessed consistently to see which have the best benefits.*)

continued over page

## Asset Data and Systems

“The decisions being made above require good sound information if they are to be robust ones. The reliability of our data needs improvement, there is insufficient historical data to analyse trends in almost every area (network plans, performance, condition, cost records etc)

- So we are *implementing desktop studies of old data* that can validate the current GIS data, and *field assessment of each critical asset's condition*.
- Undertaking an *IT project to bring together performance/reliability data* collected since the business was created in 1997 but distributed over a couple of dozen databases and spreadsheets plus thousands of paper reports. We expect to get the first part of it in another 4 months and are *investigating data capture, VALIDATION ! and translation technologies*.
- Dependent on GIS data also - we are *building models to predict future demands*, optimise renewal and capex solutions and solve operational problems that arise daily.

## Standards

Colin says “We are also working on *consistency of standards for materials, maintenance and construction*. We still have a legacy of amalgamated standards from eleven small local authorities and are trying to adopt widely-recognised international standards in place of those we are throwing out. so we review those of larger organisations etc and ask suppliers who come in to sell us stuff 'who has approved this product in Australia or the UK?’”

[symondsc@akcity.govt.nz](mailto:symondsc@akcity.govt.nz)

### Tell Me More

If you would like elaboration on any of these issues why not email the authors or [sam@amqi.com](mailto:sam@amqi.com)? And while you are at it, why not tell me what issues are affecting you?  
Editor

## SYSTEMS INTEGRATION, STRATEGIC PLANNING, COST EFFECTIVE VALUATION

John Duthie, Manager, City Planning, Auckland City says there are three key issues he is addressing at the moment, namely:

### 1. *Integration and linking of our financial business systems, GIS systems and Asset Management Systems*, so that:

- Asset management plans become a more effective day to day tool and;
- Our plans and business appreciation is constantly up to date;
- We get efficiencies in operational procedures. (In particular data is entered once in whatever appropriate system and automatically recorded and updated in other systems.)

### 2. *Strategic Planning and Integration with Asset Management Plans*.

Auckland City has worked hard to develop a strategic model for Auckland which focuses on the outcomes that residents, businesses and visitors to Auckland want (as opposed to the operational functions of the Council) Our Asset Management Plans are based on our Strategic Plan for the City. (Ed: see *AMQ International*, vol 1. Issue 7-8, Dec 30 1997, pp18-21 for a description of the innovative and holistic way in which Auckland City is tackling its strategic asset planning.)

With changes in Council following a recent election there is a major review of the Strategic Plan. The issue will be to ensure that our Asset Management Plans are responsive and are an effective tool in shaping this new strategy. They need to help us make clear choices between where the Council's resources (in terms of assets) should be directed.

**3. Valuation at the Component Level.** We are trying to decide the appropriate component level for valuation and asset recording to have a cost and resource effective system. A system which gives sufficient information for quality asset management without pursuing a whole lot of data collection and information analysis, which in the final analysis has no particular value.

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