

## **Appendix 2 - Draft Delivery Model Options Discussion Paper**

### **Introduction**

At Council on 1 February 2023 the council reiterated its commitment to democratic public services and the commitment to continuing with insourcing as the default option for services with clear guidance to be in place to support this.

This paper sets out how the council will ensure that this commitment is met and will be developed into a policy framework that will guide all major service delivery model decisions when commissioning services, whether they are existing services that need to be recommissioned, or brand-new commissions. These decisions must be taken without losing the focus on ensuring that essential services can be provided within the constraints of the budget pressures the council faces. In-house service delivery decisions will not be made purely for ideological reasons but will be considered in the context of value for money, operational practicalities, risks and opportunities.

A service can be delivered in several different ways including being delivered 'in-house', through an arms-length body, through an external provider, or through a joint venture. The most appropriate model can vary depending on the commission. Manchester City Council has a long history of using different delivery models and of changing delivery models where appropriate. This continues today with a wide range of delivery models in place, including in-house delivery, external delivery, joint ventures, and local authority trading companies.

All contracting decisions must be made on a sustainable and legal basis and take into account the quality of that delivered service and social value and value for money. Proposals must also be subject to a robust assessment as part of the commissioning processes.

The policy will promote a standard framework for services to explicitly consider insourcing of services as part of a robust assessment which considers qualitative and quantitative metrics.

The qualitative considerations for each operating model include the risks associated with service delivery, the barriers to entry into the marketplace (high start-up costs or other obstacles that prevent new competitors from easily entering an industry), the responsiveness and control achievable, the commercial potential, and the social value that could be derived. The quantitative assessment looks at the potential and likely estimated cost of service delivery under each model. When combined the qualitative and quantitative measures provide an indication of the overall value for money and ranking of each option.

The policy here has been developed drawing on good practice and the national government's recommended approach.

### **Scope**

This policy will apply to the commissioning of services, including existing services which need to be re-commissioned and brand-new commissions.

The following services are out-of-scope of this policy because they will tend to have one feasible delivery model option, usually delivery by an external supplier(s) with the relevant expertise and regulatory infrastructure in place:

- ICT software contracts (e.g. licenses for Microsoft packages)
- Healthcare services (e.g. health visiting)
- Goods, works (e.g. construction) and concession commissions (define)
- Utilities contracts
- Coroners services

The policy does not concern the appraisal of options for services themselves, such as different options for supporting independence of residents receiving social care.

## **General principles**

The design of future service commissions should involve objective consideration of the most appropriate delivery model, framed within the context of the commitment to considering insourcing as the default option.

The level of consideration should be proportionate to the size and nature of the contract. A common-sense approach should be adopted – if it is clear early on that there is only one feasible delivery model option, other delivery model options should not be considered just for the sake of it.

Larger, more critical contracts – categorised as ‘gold contracts’ within the council are of particular interest and officers should demonstrate that an objective assessment has been undertaken, following the approach set out in this policy.

Relevant expertise – internal and, if required, external – should be sought where necessary to support the consideration of delivery models. For example, Legal, HR, Finance and ICT advice should be sought on workforce implications, finance considerations and ICT implications respectively. These areas, whilst often only supporting elements to the main service under consideration, are usually critical to understanding the feasibility of different delivery model options.

Plan for the short and the longer terms. Delivery model assessments for larger contracts require time to undertake a robust assessment and the implementation of a change in delivery model are likely to take over a year and it is important that there is sufficient lead in time to enable all options to be considered. Where there is insufficient time to deliver a change in delivery model (e.g. if a new service is needed in a shorter timeframe), a continuation of the current delivery model might be the only option in the short term. In these cases, the new service should be designed in such a way to allow for potential longer-term changes to be made to the delivery model, such as a break-clause built-in to the contract at a suitable period.

## **Delivery Model Assessment Approach for Gold Contracts**

Consideration of delivery models should apply to all contracts but in keeping with the general principle of proportionality, major contracts should receive a dedicated delivery model assessment.

Major contracts are identified by how critical they are to the council – gold being the most critical; bronze being least critical – which is consistent with the approach recommended by government. Criticality is based on a combination of factors: value, how quickly an alternative contract could be sourced if required, impact of contract failure, potential reputational risk to the council from contract failure, and potential information or safeguarding considerations. Ultimately the assessment is a

judgement but there is also a tool available on the council's intranet to help guide contract managers on the most appropriate classification.

For gold contracts, officers should demonstrate that they have undertaken an objective assessment of delivery model options, following these steps:

**Define the service and identify delivery model options.** This step clarifies the key components of the service, the capabilities and assets required to deliver the service (e.g. ICT systems that are needed, any regulatory roles etc), and the potential delivery model options which will need to include the potential to bring the service back in house.

**Establish evaluation criteria for appraising delivery model options.** In addition to cost (see step 3) five standard criteria cover strategic fit, service delivery, risk, implementation considerations, and markets/suppliers. The project may consider further criteria if relevant.

**Whole-life cost estimation of model options.**

**Assessment of models against the evaluation criteria and cost.**

In certain cases, there may only be one viable delivery model identified in step one. In these situations, whilst the delivery model would not be compared with alternatives, officers should still understand the estimated whole-life costs (i.e. to inform the budget and, if the service is to be provided by an external organisation, provide a benchmark with which to compare pricing offers from bidders) and assess the model against the above considerations (i.e. implementation, risk etc.).

The steps are not purely sequential, and the delivery model assessment will usually be an iterative process, refining the assessment as more information becomes available.

Further detail on the main elements within each of these steps is provided below.

### **Step 1: Defining the service and delivery model options**

There are a few elements in this step. Officers should:

Set out the various service components involved – i.e. the functions and processes to be delivered by the service. It is critical to understand all the key processes, including any management processes (e.g. quality control), management of subcontractors etc. To put it another way, if a service which is currently delivered by an external organisation were to be brought in-house, what are all the processes the council need to do to deliver that service?

Consider whether all the service components identified need to be delivered together by one organisation, or whether the service could be broken into smaller services. Breaking the service down into smaller parts could widen the number of potential organisations that could deliver the service, including SMEs.

Identify the key capabilities and assets required - i.e., systems, physical assets, particular skills, any required regulatory registrations etc.

Clarify the outcomes and desired outcomes that the service is to deliver. This should include social value and zero carbon considerations.

Identify the potential delivery model options for the service. Typical options could include: in-house delivery, local authority trading company, establishment of a

mutual, delivery by an external organisation, and a joint venture. Not all will be relevant to every contract. Note that, except for relatively small contracts, procurement regulations do not permit reserving contracts to particular types of organisation (such as VCSEs or SMEs).

## **Step 2: Establish evaluation criteria**

Five criteria are proposed as standard, but officers may add further criteria if necessary:

- Strategic Fit, i.e. how well a given service delivery model aligns with the council's strategic priorities both in relation to the service's priorities but also in relation to wider priorities of Our Manchester, Making Manchester Fairer, the Net Zero 2038 ambition, social value and zero carbon ambitions
- People and assets – how well a delivery model is placed to provide the required capabilities and assets, as well as transition and implementation considerations (e.g. TUPE)
- Service Delivery – how well a delivery is suited to enable the service to flourish.
- Transition and mobilisation – how easily can the delivery model be transitioned to and set up?
- Risk. Identification of key risks and exposure to risk (e.g. how much risk can be shared). Note there are changes to the regulatory landscape that may affect the risk analysis (e.g. Social Housing Act, Building Safety Act; new regulator coming into force)

To support the objectivity of the appraisal, the criteria should be weighted. A default 20% per criterion is a reasonable starting point, but for some services certain elements, such as service delivery, may justify a higher weighting than others.

## **Step 3: Whole-life cost estimation**

It is important to understand the costs of delivering the service under the different options based on the current service standards and requirements.

Typically, this would involve a bottom-up estimation of costs (how many staff required, the annual running costs, the level of capital investment required etc), based on the service components identified in Step 1. This should be supported by benchmarking with similar services currently delivered on the market and any other relevant costing methodologies.

Care needs to be taken to understand the financial risks and required rates of return on investment. For example, the risk of voids will be priced into a contract and will also need to be considered in the financial model.

Finance should be consulted on the cost models. In the case of brand-new services, the same cost models can be used to support the development of the business case for the new service.

## **Step 4: Assessment of models**

In this step officers should appraise the different delivery model options against the evaluation criteria. The information from Step 1 is a key input in steering the types of considerations that are relevant for each delivery model option. For example pertinent questions could include those set out in Table 1 below but note these are illustrative and not exhaustive.

As part of the assessment there should be a comprehensive market analysis, both to understand the strengths and weaknesses of the external market, and also to inform the cost modelling referred to above.

Table 1: Some illustrative considerations when assessing a delivery model option

<p>Strategic Fit</p>	<p>How well would the delivery model support MCC strategic priorities (including social value and zero carbon) for this service?</p> <p>Are there synergies and/or close working required between this service and other existing council services?</p> <p>Would this delivery model increase diversity of provision (which might be a strategic aim) or could it crowd out local organisations that might otherwise be in the frame?</p> <p>Would the delivery model help to drive innovation or advancements for the service?</p>
<p>People and assets</p>	<p>Are resources readily available under the delivery model to deliver the required services?</p> <p>To what extent will the Delivery Model require additional investment in capability development, training and knowledge transfer?</p> <p>To what extent will the Delivery Model require additional investment in other assets (e.g. ICT, office space)?</p> <p>How well can resources adapt/flex to meet changing need?</p> <p>What terms and conditions would staff be employed under in this Delivery Model? Will these be consistent with the GM Good Employment Charter? Will terms be appropriate for recruiting and motivating staff?</p> <p>What is the risk of key staff not transferring via TUPE?</p>
<p>Service Delivery and Quality</p>	<p>How well can the delivery model meet end-user (e.g. resident) needs?</p> <p>What is the organisational readiness under the delivery model to deliver the required service?</p> <p>How well developed is the market for this type of service?</p> <p>How would the service be delivered on the ground? What management arrangements are needed (both skills and performance management arrangements), or would new arrangements be needed?</p>

	<p>How would the delivery model drive improved performance / maintain high performance? What controls will the council have to take action in event of underperformance?</p> <p>How flexible is the delivery model to adapting to changing service requirements?</p>
Transition and mobilisation	<p>How well does the delivery model provide for continuity of service or service through any transition from current services?</p> <p>Does the service require significant business or cultural change?</p> <p>How strong is the mobilization and transition capability of those implementing and running this delivery model?</p>
Risk	<p>What are the key risks associated with the delivery model?</p> <p>What are the commercial risks involved, e.g. potential for cost variability or lower levels of cost control?</p> <p>What are the risks associated with the mobilization of the delivery model? This could for example be risks associated with the TUPE transfer of staff to the new model.</p> <p>How well placed is the delivery model for managing risks (e.g. managing increase in costs)?</p> <p>Is there a risk of being exposed if reliant on a single large provider under the Delivery Model?</p>
Financial Assessment	<p>As well as understanding the whole life costs of the different models of service delivery and how they may vary between options it is important that the one-off transition costs are clearly identified and set out. These could include investment in additional management capability, ICT systems etc.</p>

### **Data to support the assessment**

Officers should collect a range of data to inform the assessment, including the following where relevant:

Resident or end-user views, and feedback from staff, on the current service (if there is one) and desired outcomes for the future service, consistent with the Our Manchester approach.

Current performance data (if there is an existing service in place). Officers should analyse reasons behind a well performing or underperforming service and in turn consider how a different delivery model may deliver any improvement.

Market data – what services does the market provide and at what price? Information gathering could include (these are not exhaustive): soft market testing, conducted in

accordance with procurement regulations; analysis of relevant industry reports; and research into similar services commissioned by other authorities.

Advice from HR, Finance, ICT, Legal, Procurement (and any other teams as required). Technical issues like TUPE, pensions, system requirements are critical and can be a determining factor in assessing whether a delivery model option is feasible or recommended. Advice should be sought early on.

External advice where required, particularly for more specialist services where the council has less experience of.

Advice and learning from other services in the council that have changed their delivery model.

Relevant benchmarking data, e.g. benchmarking with other local authorities.

## **Governance**

Delivery model assessments and accompanying recommendation for gold commissions should be shared with the members of Major Contracts Board for comment. After addressing any comments from the Board, the assessment should then be reviewed and agreed by:

The Chief Exec /SMT along with key members

The relevant Chief Officer and the Deputy Chief Executive and City Treasurer, or by officers with delegated authority for making contract decisions (as set out in the Constitution); and

The relevant Executive Member.

Given the size and scale of the gold commissions, the decision making will ultimately be a Key Decision and decisions should be added to the Register of Key Decisions accordingly. In the case of a continuation of outsourced contracts, the key decision is taken at the point in which the decision makers approve an award of a contract, but the decision should be added to the Register of Key Decisions in advance of any commencement of procurement.