Crown Commercial Service

LOCAL PARTNERSHIPS

Government Commercial Function

Local Government Association

CONTRACT MANAGEMENT PIONEER PROGRAMME

Alternative Delivery Models – Guidance for Housing Contract Managers

PART OF CONTRACT MANAGEMENT SUITE OF TOOLS

1 INTRODUCTION

Local government contract management activities span both the pre-award and post-award stage of a contract and include a range of activities including but not limited to managing risk and change.

Another key component of the Contract Management role is identifying risks, issues and opportunities in order to maximise value for money for the council. In undertaking this role, housing contract managers are obliged to consider whether there are alternative ways of delivering existing contracts and services to ensure that services are delivered effectively, efficiently, and in a manner that meets the needs of their communities.

Assessing alternative delivery models involves a systematic approach known as delivery model assessments. These are generally required:

When new council services are established.

Where a significant new development to an existing service (such as a new technology requirement) has been identified.

Where there is a need to re-evaluate the delivery model of existing services, for example due to an outsourcing contract coming to an end, deteriorating quality of delivery, a major policy or regulatory change, need to reduce costs, a significant change in strategic direction or as part of a transformation programme.

It is also good practice to revisit the delivery model assessment periodically over the life of a service.

Delivery model assessments are essential for public sector contract managers to make informed decisions about service delivery. They involve a strategic decision that should be given consideration with an appropriate level of analysis and attention applied. If there is insufficient oversight and assurance placed on this fundamental analysis, particularly where a project is progressed at speed, this will create significant operational, commercial and reputational risks.

By carefully evaluating different models against a set of criteria, conducting thorough risk and financial analyses, and engaging stakeholders and contract managers, organisations can select the most effective and efficient model for delivering council services. Regular monitoring and evaluation ensures that the chosen model continues to meet the needs of the public sector and delivers the intended outcomes.

Delivery model assessment can help a council to identify a preferred delivery option and mitigate the different challenges that may potentially arise from each. Services carry different risks, and evaluations should be designed to consider the particular challenges of each model such as building the right capability for insourcing and transferring risks appropriately for outsourcing.

Implementing best practices such as early stakeholder engagement, the preparation of comprehensive documentation, the use of expert advisors, continuous monitoring, and staff training will further enhance the effectiveness of the delivery model assessment process.

The rest of this document provides a detailed guide to assessing alternative delivery models for local government contract managers in housing.

CONTENTS

2 THE STEP-BY-STEP PROCESS

Contract management is not just limited to in-contract delivery; there are important roles and responsibilities for contract managers across the commercial life-cycle. This includes the early involvement of contract managers in the sourcing and scoping phases.

This section describes the key steps which housing contract managers should follow in the sourcing and scoping phases when undertaking an assessment for different delivery models.

Whilst all projects will need to go through all the steps, the time and depth required for each step of the process may differ according to the needs of each project. Moreover, the activities will not necessarily be undertaken sequentially; some will be undertaken in parallel or iteratively in accordance with the Business Case development process described in Section 2.10.

2.1 Define the scope and objectives

Clearly define the services or projects under consideration. Establishing specific objectives for service delivery, such as meeting policy objectives; cost reduction, quality improvement, increased efficiency, risk mitigation or community outcomes , focusing where possible on specific measurable outputs.

Agree the essential, non-negotiable elements of service delivery. The most fundamental requirements could be statutory or regulatory – needing to be met whatever approach is taken.

Determine which services are being considered for alternative delivery and then set boundaries for the assessment, including timeframes and resource constraints.

Essure that sufficient lead in time is built in for example insourcing, outsourcing or establishing a company can take in excess of two years to implement.

This means building in opportunities to explore options such as insourcing as part of the council's regular cycle of service review and planning and in anticipation of the end of a procurement contract period and before considering contract renewal.

2.2 Planning

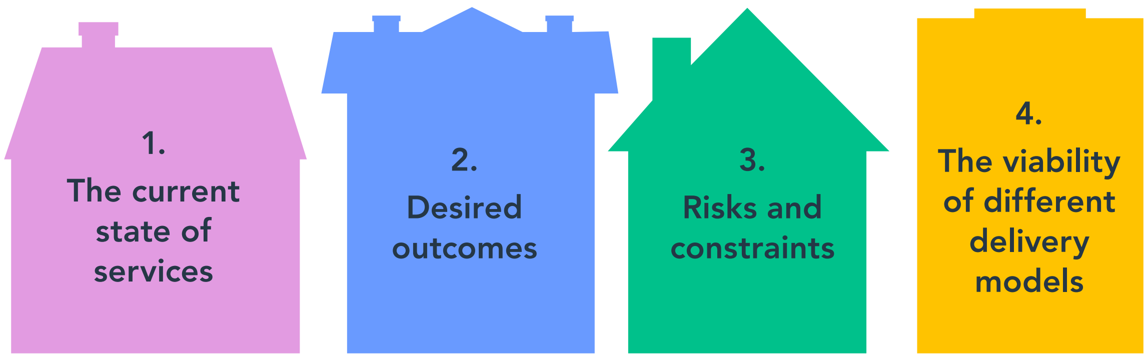
Before embarking on an assessment of alternative delivery models for housing, it is important to establish the following:

- A project team tailored to the needs of the project including finance, commercial, legal, programme and operations and technical experts (e.g. property). The level of technical expertise required in the team will relate to the service in scope. In areas such as housing management it will need to provide detailed input into how all statutory and regulatory requirements are to be met, what level of skills will be required to do this (within the council as well as any other delivery organisation being considered) and how, against different options, the council will be able to get assurance that it is meeting all of its duties within the options being considered.

- Project governance and decision-making process, identifying the final approvers of the recommendations to establish the preferred delivery model as well as other key stakeholders who will be involved in and/or affected by the decision.
- An administrative and project management support available to manage the process.
- Sufficient resource available to implement any proposed change, as well as resources needed for the ongoing running of the service in its new form.

2.3 Current state assessment – data gathering

Assess the effectiveness of current arrangements. Data gathered will be relevant to the project. For example, for housing management options gathering data that reflect:



When considering various options for service provision i.e. in-house, outsourced or another model (e.g. joint venture). Include key dependencies with other parts of the council and other relevant factors, e.g:

- Organisational capacity – skills, staff and systems.
- Financial – current budget position and cost of providing the service, and forecasts.
- What political preferences are in relation to the delivery of the service.
- Any existing contractual obligations, including any contract end dates.
- Any applicable legislation or policy that may impact or influence the future delivery of the service.
- Market conditions, contractor availability/appetite and frameworks.
- Benchmarking – consider case studies from other local authorities for different delivery models (e.g. in-house, JV, framework, procurement routes, key success factors and pitfalls).
- What benchmark information is available?

Value for money should be determined through:

- Comparison with other service providers and by reference to indicators such as pound per unit for contract management services.
- An assessment of efficiency, and effectiveness (e.g. tenant satisfaction, defects rate) and sustainability of the service (e.g. through reviewing performance against service plans and KPIs).
- An understanding of the wider outcomes that could be delivered in conjunction with any direct KPIs/outputs.

Use the information (above) gathered to develop a baseline against which alternative models can be assessed.

Remember to also consider Social Value and how differing options can contribute extra value to the Council, boost value for money and deliver additional benefits to residents. Having a clear understanding of the whole life cost, energy performance (EPC rating) is best achieved by producing a Should Cost Model (see Appendix G).

2.4 Review of existing arrangements – appraisal of the current model

The review should consider the following questions:

Service performance

- How is the service performing? (Consider hard data and softer information, including stakeholder/service user feedback.)
- How has the service's performance changed over time?
- Does the service meet current legal and stratutory requirements and will it meet future requirements?

Comparisons to others

- Which private providers offer the same or similar services?
- What are other local authorities doing in relation to delivering these services?
- What models are used, how do their costs compare, what KPI's do they report and how are they performing?
- What are the trends in the market in service delivery?

Wider considerations

- How does the service contribute to the council's priorities/transformation programmes?
- What alternatives have already been considered? Has ceasing any parts of the service in whole or part been considered?
- Would ceasing any part of the service create demand elsewhere in the system?

- What options to change the way the service operates (increase income/reduce costs) have been explored/implemented previously, and what was the outcome in each case?
- What opportunities have been explored to make the service more efficient? What improvements can be made without/before changing the model of delivery? E.g. Can the service be restructured or re-positioned to achieve greater income?

For services which are already contracted out consider the following:

- How effective are contract specifications and do they reflect the current objectives for the service?
- How effective are existing contract management arrangements?

2.5 Identify alternative delivery models

When considering alternative delivery models, ascertain:

- Would a different delivery model achieve greater cost savings?
- Would a different delivery model ensure greater optimisation of resources, assets, people and human capital?
- How complex and time consuming would any changes be?
- How costly would any changes be? Does the council have the capability and capacity to undertake potential changes in terms of both staff and financial resources?

A long list of delivery options should be identified. The final list of potential delivery models should be signed off at member and senior officer level before evaluation.

The most important thing is that councils should not jump to a specific model without a comprehensive consideration of the potentially viable options for delivering the outcomes required.

A description of potential options, including an overview of the benefits and risks of adopting each model is provided in Section 3.

A brief description of the most common models is provided below. It should be noted that this list is not exhaustive, and the specific options considered by each council will differ depending on its priorities and local circumstances.

In-house delivery (insourcing): Services are managed and delivered by local government staff. If a service is brought back in-house from a previously outsourced contract, this is known as insourcing.

Wholly owned company: for example to develop, acquire or manage property. A separate company delivers the desired outcome with staff employed directly by the company. The degree of owner control varies depending on the governance model adopted and the ambitions of the owner. This company could also take on a previously outsourced contracts.

Shared services: Collaboration with other councils/public bodies to deliver services jointly through a service level agreement rather than a company.

Joint ventures/public-private partnerships (PPPs) or JV with a registered provider: Collaborative agreements between councils. Registered Providers and private sector entities. This could be via a joint venture company.

Outsourced contracts: Services are contracted out to third parties (private or non-profit organisations).

Community delivery: Services delivered by community groups or volunteers through the provision of grants and subsidies.

Hybrid models: A combination of two or more delivery models.

Once a long list of options has been developed, potential delivery models should be short-listed based on selected evaluation criteria (see below). The final list of potential delivery models should be signed off at an appropriate governance level such as by a Programme Board or Cabinet.

2.6 Develop assessment criteria

Once a short-list of delivery options has been agreed, a set of evaluation criteria need to be developed to objectively assess each of the options.

The criteria should be signed off at member and senior officer level before the evaluation of the delivery options begins.

Some illustrative criteria commonly used by councils for assessment of delivery models are provided below although evaluation criteria will be specific to the service or function under consideration.

Strategic fit: extent to which the potential delivery models align with corporate strategies, policy and political objectives.

Cost: potential for cost savings or revenue generation taking account of initial and ongoing costs, including capital and operational expenses. What level of savings/income generation is desired?

Service quality: quality and reliability of service delivery. How will the various delivery models under consideration help to deliver ongoing quality, innovation and continuous improvement? Can they meet or exceed required performance standards?

Transition and mobility: ease of transferring existing services into the new model.

People and assets: capabilities and skillsets needed for different delivery models and existing capacity (internal or in the external market).

Risk: risks associated with each model and their mitigation strategies.

Flexibility: ability of potential delivery models to adapt to changing needs and circumstances.

Control and accountability: mechanisms for maintaining oversight and accountability. Does the council have a clear view about the extent of direct control over the service it wants?

Market and suppliers: extent to which there is a viable market for delivering the service (or one can be created) if it is to be commercialised.

Stakeholder impact: effects on employees, service users, and the broader community.

Scalability: Potential for scaling the service up or down as needed.

Legal and regulatory compliance: adherence to relevant laws, regulations, and policies and potential impact of regulatory changes on service delivery.

Resource required to implement.

Any tax or transfer pricing implications.

Once the criteria are agreed, each criterion may be given weightings reflecting the importance of that criterion to the council's and service objectives. Ideally it should be possible to use the criteria to easily score and compare options using the results of the scoring.

2.7 Collect and analyse data

Once the delivery model options and the evaluation criteria are agreed and weighted, (if required) the next step is to supplement the data gathered already (as described in Sections 2.3 and 2.4) with additional relevant data in relation to cost, performance data and risk assessments in order to enable an informed comparison between delivery options.

If no such sources exist (e.g. for novel services), best endeavours should be undertaken to identify information that is as objective as possible, for example by conducting a range of structured interviews with potential suppliers, customers of the services or market analysts.

2.8 Engage stakeholders

Engage with key stakeholders, including officers, members, service users, and community members (using surveys, interviews, and public consultations) to ascertain views on delivery options.

It is very possible that relevant service users or members of the community may be from groups with which it is difficult to engage – they may have particular needs which will dictate alternative ways of engagement. This needs to be taken into account at this stage to ensure that any service change is capable of meeting a wide range of service users needs rather than just those who are most able to respond.

Below are some questions to consider as part of the stakeholder engagement process:

- Who are the main customers of the service? How has this changed over time and how has the services responded to any changes?
- How is the service aligned with stakeholder and customer requirements?
- What is the type and frequency of customer demand?
- How does the service know what customers and stakeholders currently think of the service and/or whether they would like any different/new services from the council?
- How does the service measure customer satisfaction and how often?
- How is wider stakeholder engagement undertaken in relation to the service?
- Do any changes to engagement processes need to occur in order to stimulate wider engagement?
- What is the appropriate level of continuing engagement? How does this need to be reflected and assessed against emerging delivery options?

2.9 Conduct the evaluation

A cross-functional evaluation team should be convened to score each delivery model based on the data collected and the established weighted criteria.

Learning should be derived from objective evidence (gathered through the data collection and analysis activity), past projects, and from colleagues across the public and private sector (this may include engaging with the market) to test and sense-check findings.

Consider stakeholder preferences and concerns in the evaluation process.

This assessment may be facilitated by external experts to assist the decision-making process e.g. with regard to financial or legal matters.

There are several critical success factors in completing a successful assessment, described below:

- Appropriate governance and sponsorship with appropriately qualified individuals who are able to effectively challenge the process to ensure that it continues to meet the objectives of the council.
- Senior leadership should be clear about why the evaluation is taking place, provide sponsorship, clear governance, and allocate suitably experienced and skilled individuals.
- Good availability of input data.
- Informed strategic and operational criteria.
- Independent facilitation should take place to bring together stakeholders, clarify objectives and drive credible outcomes.
- Ensuring continued political engagement and support, as appropriate.
- Enough time should be allocated to run a comprehensive process.

Specific questions should be asked when evaluating the viability and benefits of establishing each delivery model. The criteria and questions below overlap with those that will need to be considered when a full business case is prepared (see below). This reflects the need for an evolving and iterative approach to developing an appropriate solution.

Criteria	Issues to consider
Strategic fit	How will the delivery model ensure delivery of strategic objectives, such as social value? To what extent does the council see itself as a commercial council? Does the council see itself as a provider, sharer or commissioner of services? How will the delivery model align with the Political direction of the Council? What will be the internal council impact on officers and elected members (including training and recruitment implications), service and departmental structures, staffing requirements, and financial budgets?
Legal and financial	What legal and financial obligations will be incurred by the adoption of the delivery model? To what extent is a cost saving/revenue generation requirement necessary? How long can the council wait (this needs to be clearly defined in relation to a specific date or milestone being reached)? For example, if setting up a wholly owned company, returns will be slower than if outsourced or operated with an experienced JV partner.
Governance and risk	What is the optimum form of and limits to the relationship between the delivery model and council officers and elected members? How will performance be managed and monitored? What are the commercial and operational risks that relate to the establishment of the delivery model? What is the risk appetite of the council in relation to this? Who is best placed to manage these risks and how might they be mitigated?
People and assets	Is there a clear understanding of TUPE considerations or asset transfer/ownership considerations? Has the council ensured it has sought legal and commercial advice on any issues and considered potential pension liabilities? What consultation with the unions is required? Does the council have a full understanding of all of the potential liabilities associated with the change?

Criteria	Issues to consider
Commercial	The following questions will only apply if a commercial delivery model (such as a company or joint venture) is being considered: Has sufficient data on market demand both locally and wider afield been gathered and investigated? Has sufficient financial, operational, past performance and governance data on potential competitors been gathered and interrogated? Has the impact of the new entity been considered on existing local infrastructure and particularly on public, private and third sector organisations that are currently operating in the market sector that the model will enter? Do they understand the rationale and is there any likelihood that other suppliers may challenge the council's decision? Does the impact that has been considered include financial and relationship issues? Is there an intention to trade and if so, will this be with other local authorities? Or to a wider market?
Stakeholders	Is there evidence of support of relevant members and senior officers in relation to the establishment of the delivery model?
Skills and capability	Have suitably qualified subject matter experts been engaged to provide appropriate input into the evaluation? Has suitable and appropriate specialist financial advice been sought from independent consultants?

2.10 Develop a business case

The options appraisal process described above will lead to a preferred option being identified which then needs a business case. It is recommended that this should follow the HM Treasury Green Book approach to public sector investment, adopting the HM Treasury Five Case Model, as set out in the **Guide to Developing the Project Business Case, Better business cases: for better outcomes**. The purpose of the business case is to prove that the proposal is viable and that it will demonstrate value for money. The best practice approach follows the three-stage process of Strategic Case (decision to conduct a detailed appraisal); Strategic Outline Case (decision to develop and take forward); and Full Business Case (decision to implement).

Below sets out the key elements to be included in each of the five cases in the HM Treasury Five Case Model:

Strategic Case	Overarching aims and what the new model it is intended to address.
Economic Case	Identification and appraisal of options, understanding of risks and benefits.
Financial Case	Overall affordability and impact on council's own finances and Medium Term Financial Strategy including impact on back-office services and recharges.
Commercial Case	Identification of scope of services, risks, contractual arrangements including payment mechanism and staff considerations.
Management Case	Defining the procurement strategy (including ensuring compliance with subsidy control legislation) and project management for implementation.

Specific activities should be undertaken when developing the business case for the establishment of a new delivery model. They include activities to develop and communicate the business case.

Criteria	Issues to consider
Strategic	What are the compelling reasons for establishing the new model and what should be achieved? How does it align to the council's strategic priorities? Which options have been considered and what are the reasons for selecting the preferred model as the way forward? What are the desired outcomes and objectives and how do these fit with and contribute to the overall strategy of the council? This should include consideration of any dependencies with other projects, programmes or initiatives. Why it is the right time to adopt a new approach?

Criteria	Issues to consider
Legal and financial	What are the legal considerations relating to the establishment of the new model? What set-up costs will be incurred? Has the high-level viability of the new model been assessed? Are there any affordability issues given other commitments? Where appropriate, how will the new model enable the maximisation of possible commercial and grant funded income streams, and the minimisation of VAT and other taxation impacts? What financial, legal, taxation and operational advice has been obtained from external consultants and other sources? What formal decisions need to be made and are they council (budget/policy framework) or executive (operational, contractual etc) functions?
Governance and risk	What are the key risks and how they will be managed? Who will be responsible for the overall management of risks? Who will be responsible for oversight, audit, scrutiny and decision-making relating to the new model? How will this interface with established Council's procedures?
People and assets	Has advice been sought on staffing issues, including TUPE arrangements, union negotiations and pension transfers?
Commercial	Has the competitive landscape been assessed, as well as the positioning of the new model within that landscape? What will be the impact on the local and wider operating environment and market?
Stakeholders	What is the appetite for change, including stakeholder engagement and the level of support provided?
Skills and capability	What are the capabilities of existing staff to oversee and manage the new model and what will be the future training and recruitment requirements?

2.11 Make a decision

Based on the evaluation, recommend the most suitable delivery model for the specific service. From the outset, councils should be clear about the assurance and approval requirements for each stage of the decision making and business case process. A board or cabinet decision should be made at each stage to progress or to stop the process if a viable option cannot be moved forward or if the current arrangements are preferred.

- Ensure the recommendation and decision making process are well-documented, with a clear rationale following the business case process described above.
- Ensure that the decision aligns with council and service strategic and community needs, based on the assessment criteria and data analysis.
- Communicate the decision and implementation plan to all stakeholders, ensuring transparency and accountability.

Specific activities should be undertaken prior to the council approving the establishment of a new commercial entity. These are set out in the table below.

Criteria	Activities to be undertaken
Legal and financial	Ensure all legal, financial, taxation, operational and governance duties, responsibilities and obligations of the chosen model are understood and communicated to all officers and members and all potential leaders of the model. Ensure that the proposed arrangements comply with procurement and subsidy control legislation. Ensure that all external legal, financial, taxation and operational advice has been understood and acted upon. Confirm the financial, legal, and reputational impacts if the model fails.
Governance and risk	Identify possible exit or alternative strategies if the new model is or unsuccessful there is a change in strategy within the council.
Commercial	Ensure understanding of updated realistic demand projections. Ensure that monitoring information requirements and arrangements are clearly identified.

2.12 Develop an implementation plan

Develop a detailed implementation plan, including timelines, resource allocation, and key milestones. Identify potential challenges and develop strategies to address them.

Specific transition activities illustrated below should be planned and undertaken prior to the formal establishment of the new delivery model.

An effective implementation plan is essential to the successful launch, and long term success, of the new model.

Criteria	Activities to be undertaken
Strategic	Ensure that arrangements are in place for both leading the delivery model and leading the transition to put it in place.
Legal and financial	Test the adequacy of new model's financial projections. Confirm any contract arrangements, including arrangements for annual review, initial contract length and projected longer term budget impacts. Ensure that adequate financial controls are in place. Ensure that the commencement of the new delivery model has been notified to all relevant statutory and regulatory bodies. Confirm that any ongoing services or assets that might be provided by the council or other third parties are underpinned by agreements between the parties and can legally be provided, including consideration of the leases and/or licences relating to all assets and buildings to be used by the new model. Ensure that the model's systems and processes, including financial and payroll processes, are fit for purpose.
Governance and risk	Confirm that the business case still makes sense in terms of funding, affordability and expected benefits. Ensure that the plan through to completion of transition is appropriately detailed and realistic, including risk management arrangements. Identify and document service and financial risks. Develop the performance measures and tools to be used.

Criteria	Activities to be undertaken
Governance and risk *(continued)*	Confirm the limits of officer and member involvement in the day to day operational and strategic management of the new model (particularly relevant when the chosen model is in-house). Ensure that potential conflicts of interest have been addressed.
People and assets	Ensure that all TUPE and pension transfer arrangements have been finalised.
Commercial	Review the business model and commercial model and whether these appear to be viable given the overall environment within which the delivery model will be operating. Develop a detailed, credible service/business plan which is subject to challenge and review.
Stakeholders	Confirm that stakeholder support remains strong. Develop and implement a communications strategy.
Skills and capability	Confirm that the right capacity and capability is in place to both transition to and then run the new delivery model. Develop requirements for training and support.

2.13 Monitoring and evaluation

Establish a framework for ongoing monitoring and evaluation of the chosen delivery model. Set up performance metrics and regular review processes to ensure the model continues to meet objectives and adapt as needed.

3 OVERVIEW OF DELIVERY OPTIONS

This section contains a description of potential options, including an overview of the benefits and risks of adopting each model. It should be noted that this list is not exhaustive, and the specific options considered by each council will differ depending on its priorities and local circumstances.

The most important thing is that councils should not jump to a specific model without a comprehensive consideration of the potentially viable options for delivering the outcomes required.

3.1 In-house delivery

Criteria	This option involves services/functions being delivered in-house
Benefits	The council retains full control of service delivery and of any efficiencies achieved. Existing skills and knowledge of service are retained and new skills developed. Familiarity of relationships, experience, and expertise. Strong alignment with council policies e.g. net zero, tenure mix.
Risks and issues for consideration	Ability to invest in, resource and upskill the service/function may be constrained. No benefits of scale or sharing of resources/expertise. May be best for smaller projects or for councils with established delivery teams. All risk and responsibility retained by the council. Options for trading commercially with the private sector are restricted. Local Government Pension Scheme pension costs continue. Consider reputational risk issues associated with any potential failures and develop mitigation approaches. Ensure a robust comms plan is developed to communicate any change with key stakeholders.

3.2 Council owned company

Description	**This option involves the council establishing a company** The company limited by shares model is designed for profit distribution to the participating organisations. A company limited by guarantee is not designed for profit distribution.
Benefits	Limited liability for shareholders. Ringfences risks and liabilities, but council still retains reputational risk. Freedom from direct management or standing orders of the council. A company has the capability to employ its own staff. Employees can be given greater incentive to succeed through new employment opportunities and financial reward, thereby promoting cultural change and developing a commercial mind-set. Under this model, commercially delivered incidental services can be provided to the private sector (under Section 95 of the Local Government Act 2003). Commercial focus on business plan and goals. Flexibility for the company to buy/sell/hold assets. Profits from sale or rent can be returned to the council via dividends. Mixed tenure delivery – can develop homes for market sale, private rent or shared ownership tailored to housing needs. Can facilitate housing growth. Separate balance sheet. More flexibility to amend contract than an outsourced model.
Risks and issues for consideration	Can be administratively time consuming requiring additional resources for set up and ongoing operation. It needs to ensure compliance with the requirements of the Companies Acts and cover the administration of setting up and operating a separate entity. Requires robust governance to avoid blurred lines between council and Company. Often relies on council loans or land transfers.

Description	**This option involves the council establishing a company** The company limited by shares model is designed for profit distribution to the participating organisations. A company limited by guarantee is not designed for profit distribution.
Risks and issues for consideration *(continued)*	There are additional regulatory requirements to comply with e.g. company audit and annual returns. Income may be liable to corporation tax. VAT structures will be changed. Potential loss of control to directors whose primary duty is to the company, not the council. Risk exposure will vary depending on whether services are provided solely to the council or more widely to external organisations. On paper, the "limited by shares/guarantees" structure limits councils' liabilities. However, there is a question as to the extent to which a council would realistically allow a company to fail without meeting their liabilities. Consideration would be needed with regard to what interventions the council would make should the company make significant losses. Potential for reputational damage to the shareholders in the event of non-performance. Can be challenging to monitor performance in a fully commercial way. This may require additions to the council's governance structures. Requires experienced directors and staff to operate commercially. It may be unclear regarding the extent to which the company is controlled by the council. Will require financial, legal and commercial skills that may not be available within the council. This is likely to require councillors and officers to receive additional training so they can provide assurance to the council that the company is operating as envisaged.

There are a range of legal structures that can be considered under this broad commercial entity option. Structures include Community Interest Companies (intended for social enterprises that wish to use assets and profits for public benefits, with mandatory asset lock and controls on dividends to reassure potential participants, donors, or investors) and Co-operative and Community Benefit Societies (organisations with social objects to run a trade or business for the benefit of the community).

3.3 Joint service delivery or public sector consortium (shared services)

Discription	Two or more councils or other public bodies join to effect service delivery and deliver better outcomes
Benefits	Potential economies of scale. Sharing of skills and improved resilience – particularly relevant if the council is small and/or the skills required are in high demand and expensive. Sharing of risk.
Risks and issues for consideration	Potential impact of future changes in political control. Problem of co-ordinating objectives and requirements of each local or public body – joint committees could be a solution but they bring complexity in terms of governance and operation. Problem of co-ordinating termination dates of any previous arrangements. Problem of assimilating procedures and IT systems of each public body. Available capital will not necessarily be increased.

3.4 Joint venture with the private sector or Registered Provider

Description	**Council enters into a joint venture with a private sector partner to facilitate the provision or delivery of services, investment and/or development** This can include the creation of a separate legal entity.
Benefits	May introduce capital resources which would not otherwise be available to the council. Improved access to skills, resources, and systems of the partner (commercial acumen, technology). Potential wider opportunities for employees. Risks in service delivery identified and allocated – enables some risk transfer. Council influence can be preserved through controls on company decision-making. Because of the partner's commercial expertise, faster to realise benefits. Easier to carry out contract variations than with an outsourced provider.

Description	**Council enters into a joint venture with a private sector partner to facilitate the provision or delivery of services, investment and/or development** This can include the creation of a separate legal entity.
Risks and issues for consideration	Potentially significant time and costs involved in establishing the vehicle. Additional regulatory requirements (company audit, annual returns) and potential tax implications. Challenges in matching diverse organisational cultures in one entity. Need for council vigilance in relation to commercial risks and cost structures. Council's ability to challenge the activities of the partner should be assessed. Ambition alignment may reduce over time. The council will need to recognise that the JV may only represent a small element of the partner organisation's activity. Must be vigilant to retaining sufficient in-house knowledge and capacity to avoid over reliance upon any JV partner and associated service delivery/continuity risks.

3.5 Outsourcing

Description	**The council contracts with a private sector provider to provide certain services** This generally involves a total transfer of the service provision to the service provider.
Benefits	The competitive nature of the procurement should ensure the most economic price. Scope for investment in the service from the partner. A mature market exists for many services (highly commoditised and readily available services with a diverse, competitive market can usually be easily outsourced). It leaves time for the council to focus on other services.

Description	**The council contracts with a private sector provider to provide certain services** This generally involves a total transfer of the service provision to the service provider.
Risks and issues for consideration	Potential concerns over loss of direct control of service and risk of becoming "locked in" with a single provider. TUPE and pensions issues may prevent savings and lock in terms and conditions that would otherwise change over time. Competitive costing means inflexibility within a long contract, should this need to be changed at any point. The council will need to ensure that it has access to the necessary skills during the procurement process so that it can negotiate on equal terms with commercial providers. Potential loss of key people from the council. Additional costs of client-side arrangements to manage the contract. Intense public scrutiny and reputational damage if the service provider performs poorly. A poor service will not automatically improve through outsourcing. Business transformation will also be necessary. External service providers will find it challenging to submit bids, or will include a "risk premium" if services cannot be well-defined and specified, with clear target outcomes or if requirements are highly changeable and may be subject to frequent policy reviews.

3.6 Insourcing

Description	**The council brings services that were previously outsourced back in-house to be managed and delivered directly by the authority**
Benefits	Allows the council to have direct control over the delivery of services, which can lead to better alignment with local priorities and policies and more responsive service provision. Accountability is clearer as the council is directly responsible for service quality and performance, making it easier to address issues quickly. Can be managed using existing governance and decision making arrangements.

Description	The council brings services that were previously outsourced back in-house to be managed and delivered directly by the authority
Benefits *(continued)*	Can lead to cost savings by eliminating the profit margins that private contractors include in their pricing. Potential savings from improved efficiency and reduced overheads associated with managing contracts. Potential to provide a higher quality of service when directly managed by tailoring the service to better meet the needs of the community. Employees working directly for the council may have a stronger commitment to public service values, which can translate into better service delivery. Can lead to job creation and greater job security for council employees, potentially leading to a more stable and motivated workforce. Can support the local economy by keeping employment and expenditure within the community. Potential to offer greater flexibility in adapting services to changing local needs. Without the constraints of a contract, councils can more easily innovate and implement changes.
Risks and issues for consideration	Bringing services back in-house can incur significant upfront costs, including recruitment, training, and investment in new infrastructure or systems. The transition process can be complex and disruptive, with risks of service interruption during the changeover. The cultural challenge of bringing external teams in-house can often be underestimated. The council may lack the specialised expertise or experience that private contractors possess, leading to potential inefficiencies or service delivery issues. Potential loss of benefits that come from the economies of scale and specialised resources that large private firms can provide. Risk of right-sizing the service to be brought back in-house and underestimating the costs involved in delivering the service. If the council under-budgets, it could lead to financial strain. Ongoing operational costs may rise over time, particularly if the council is unable to maintain the same level of efficiency as an outsourced provider.

Description	The council brings services that were previously outsourced back in-house to be managed and delivered directly by the authority
Risks and issues for consideration *(continued)*	The need for robust robust comms strategies to communicate change, and appropriate comms resource, is often underestimated. Ensure this is addressed at the earliest opportunity if considering in-house provision. If the insourced service fails to meet public expectations, it can lead to significant reputational damage for the council. Councils often have limited resources and capacity. Insourcing can stretch these resources further, leading to potential challenges in managing other critical areas of council service delivery.

3.7 Community delivery

Description	The council transfers the responsibility for delivering certain public services from local government to community groups, non-profit organisations, or volunteers
Benefits	Creates opportunities for skill development, volunteering and civic participation by encouraging local residents to take an active role in the services that affect their lives, fostering a sense of ownership and responsibility. Empowers communities by giving them the opportunity to shape services according to their specific needs and priorities. Community organisations often have a deep understanding of local needs and can deliver services that are more tailored and responsive than those provided by larger, more centralised local authorities. Community delivery can be more cost-effective, especially in cases where volunteers or non-profit organisations are involved, reducing labour costs. Local communities may be able to deliver services more efficiently and innovatively by leveraging local knowledge, networks, and resources, unencumbered by council bureaucracy. Can contribute to the long-term sustainability of services, especially in areas where public funding is declining. Potential to create more resilient communities that are better equipped to handle challenges independently.

Description	The council transfers the responsibility for delivering certain public services from local government to community groups, non-profit organisations, or volunteers
Risks and issues for consideration	The quality and consistency of services delivered by community groups can vary widely, depending on the capacity, expertise, and resources available to them. Risk that services may not meet the same standards as those provided by professional council staff. Risk of over reliance on volunteers, which can be a limitation if there is a lack of volunteers or if volunteer commitment wanes. Risk that community organisations may have limited financial resources, expertise, and infrastructure, which can restrict their ability to deliver complex or large-scale services. Accountability can become more diffuse, making it harder to ensure that services are delivered fairly and effectively. Risk of challenges in ensuring transparency, governance, and proper oversight of community-led initiatives. Can exacerbate inequalities if more affluent or better-organised communities are able to deliver better services than less well-resourced areas.

4 INSOURCING CONSIDERATIONS

Recent engagement with councils has indicated that a number of councils are considering insourcing services which have previously been outsourced (insourcing being the process of transferring part or all of a service which was previously outsourced to an in-house service delivery).

This guidance is neutral regarding preferred delivery models. However, due to the recently increased interest in insourcing, this section describes some considerations specifically relating to insourcing when it is being evaluated as part of a delivery model assessment.

It is particularly important to note that insourcing represents a substantial transformation in service delivery model, and, as such, is a process which should have additional care and consideration applied before being undertaken.

Theme	Considerations
Ability to acquire or build and maintain the required expertise and assets	Bringing a service in-house may require significant investment in building internal capabilities and assets. Attracting and retaining specialist expertise may be a challenge within the considerations of public sector pay and some expertise may also be unique to the private sector. Before embarking on insourcing activity appropriate market testing should be undertaken to understand whether the specialist expertise and/or assets are available.
Impact of TUPE regulations and pensions	Suppliers generally leverage economies of scale to deliver services. Some of this benefit could be reduced if employees who previously worked across a number of contracted services are transferred back to the council. For example, a supplier may have an individual working across three services and when transferred they are attached to a single service. For the council, this could result in significant pension liabilities and consideration of other non-financial employee rewards e.g. private healthcare. Officers involved in the delivery model assessment should consult legal and HR for advice.
Organisa-tional gov-ernance, processes, and capabil-ity including senior man-agement and back-office functions	Senior management may be unfamiliar with services which have previously been outsourced and require additional capacity time to manage insourced services. Councils should consider bringing in additional expertise or training if necessary. Back-office functions including finance, HR, IT, estates, project / programme management, also need sufficient capability and capacity to support the service. The impact on organisational overheads (and any additional overhead investments) should be considered when modelling costs of the insourcing option.
Potential increase to risk exposure	Delivering a service via the private sector enables the appropriate transfer of risk which is returned to the council when the associated service is insourced. This may impact an organisation's overall risk profile and exposure to external factors.
Impact on market health and other services	Councils should assess and understand the impact of exiting a market, and the wider impact this may have on the delivery of other council services (for example, if a supplier considers the market no longer attractive and decides to exit, when it is providing other services to the council). When a council is considering exiting a market, early engagement is helpful to ensure that suppliers put in place appropriate mitigations.

Theme	Considerations
Accessing required service information and intellectual property	Obtaining required service data may be challenging where it has previously been held by one or more suppliers for a substantial period of time. Some services may also be reliant on specific non-transferable intellectual property owned by the supplier and/or supporting third parties. Accessing this information will usually be stated in the existing contract.
Delivering all requirements previously placed on suppliers	When bringing services back in-house councils need to consider how internal delivery can match or exceed existing innovation and the entirety of requirements placed on external suppliers. For example, the requirement to include Social Value and how an internal model would deliver against these priorities.
Interim solutions	Successful transition back in-house requires due diligence and appropriate time to be allocated. Where services are currently outsourced, consider whether an alternative commercial delivery vehicle is needed as an interim solution to bringing a service fully in-house over a period of time.
Specifying and right-sizing services	Where services have outcome-based specifications and task level services are not well understood, this may present challenges when insourcing. Also, it can be challenging for councils to determine the appropriate size and structure of an insourced service. It is prudent to undertake benchmarking with similar councils (in terms of size, demographics, geography etc) in order to support this process.

5 BEST PRACTICE FOR HOUSING CONTRACT MANAGERS IN UNDERTAKING DELIVERY MODEL ASSESSMENTS

The table below provides a checklist of key issues for housing contract managers to consider when considering service delivery options.

Theme	Key considerations	
Early and continuous engagement	Engage stakeholders early in the process and maintain continuous communication.	☐
	Incorporate feedback and address concerns throughout the delivery model assessment.	☐
Comprehensive documentation	Document the assessment process, findings, and decisions thoroughly.	☐
	Ensure transparency and accountability in the decision-making process.	☐
Use of expert advisors	Leverage expertise from legal, financial, and technical advisors.	☐
	Ensure a thorough and objective assessment.	☐
Continuous monitoring and evaluation	Establish mechanisms for ongoing monitoring and evaluation of the chosen delivery model.	☐
	Be prepared to make adjustments based on performance data and changing circumstances.	☐
Training and capacity building	Invest in training and capacity building.	☐
	Ensure staff have the necessary skills and knowledge to manage the chosen delivery model effectively.	☐

APPENDIX – ANALYTICAL TOOLS/ METHODOLOGIES FOR ASSESSMENT

There are a number of tools that councils can use to inform the evaluation of options. Some of the most common tools and methodologies are described below.

A Cost-benefit analysis

This involves comparing the costs and benefits of each delivery model over the project lifecycle. Taking account of the total expected costs of each specific option against the total expected benefits, to see whether the benefits outweigh the costs and by how much for each option. Both quantitative and qualitative factors should be included in the assessment. Detailed guidance on assessing and discounting costs and benefits is included in the Government's guidance on preparing business cases – **The Green Book and accompanying guidance – GOV.UK (www.gov.uk)**

Below is an example of the cost benefit analysis information to consider when assessing different service delivery options:

Costs

- Initial costs to establish the new delivery model.
- Ongoing costs such as staffing, ICT and accommodation costs.

Benefits

- **Direct benefits:**
  - **Costs savings:** reduced operational costs (compared to baseline position) due to efficiency gains.
  - **Revenue generation:** any potential for the delivery model to generate additional revenue.
- **Indirect benefits:**
  - **Improved service delivery:** enhanced quality and speed of services to the public.
  - **Employee productivity:** improved morale and efficiency of council employees.
  - **Public satisfaction:** increased satisfaction from the public due to better services.

Costs and benefits

- **Monetary value:** assign a monetary value to each identified cost and benefit. This includes both tangible (e.g. cost savings) and intangible (e.g. improved public satisfaction) elements.
- **Timeframe:** establish the timeframe over which costs and benefits will be evaluated (e.g. seven years).

Net Present Value (NPV)

- **Discount rate:** choose an appropriate discount rate to account for the time value of money.
- **NPV calculation:** subtract the present value of costs from the present value of benefits over the chosen timeframe.

Sensitivity analysis

- **Risk assessment:** Identify and assess risks associated with the delivery model and their potential impact (see Appendix C below).
- **Scenarios:** Evaluate how changes in key assumptions (e.g. cost overruns, lower than expected benefits) affect the NPV (see Appendix F and H below).

B SWOT analysis

A SWOT analysis is a strategic planning tool used to identify and evaluate the **Strengths**, **Weaknesses**, **Opportunities**, and **Threats** for each delivery option. It helps in understanding the internal and external factors that can affect the success of a particular delivery option. By analysing the four elements, councils can better understand their strategic position and make informed decisions about delivery options.

Below is a breakdown of each component:

Strengths	Weaknesses
Definition: Internal attributes and resources that support a successful delivery model. **Examples:** • Skilled workforce. • Superior technology or expertise. • Financial stability.	**Definition:** Internal factors that could hinder progress or result in a disadvantage if a particular delivery model were selected. **Examples:** • Limited resources or budget constraints. • Outdated technology. • Skill gaps in the workforce.
Opportunities	**Threats**
Definition: External factors or trends that a specific delivery model can capitalise on to improve its position. **Examples:** • Emerging markets to increase revenue • Technological advancements • Changes in regulations that favour the delivery option	**Definition:** External challenges or risks associated with a specific delivery model **Examples:** • Increased staff turnover • Complex contractual issues • Market volatility

SWOT analysis

S	W	O	T
Strengths	Weaknesses	Opportunities	Threats
Internal issues	Internal issues	External issues	External issues

C Risk assessment

A risk assessment is a systematic process of identifying, evaluating, and prioritising potential risks associated with each delivery model that could affect its operations, finances, reputation, or objectives.

Conducting a risk assessment as part of an options appraisal process helps a council understand uncertainties related to delivery options and to develop strategies to mitigate or manage risks effectively associated with each option.

Below is guidance on how to perform a risk assessment:

Identify the risks

Understand the context: consider the internal and external environment in which the service under consideration operates. This includes factors such as demand trends, legal requirements and technological changes.

Identify potential risks: consider a wide range of risk types, including:

- **Operational risks:** risks related to day-to-day operations of the service, such as process inefficiencies or poor technology.
- **Financial risks:** risks related to costs and how they might increase if certain delivery options were taken forward.
- **Strategic risks:** risks that affect long-term council goals, such as changes in service user demand or regulatory changes.
- **Compliance risks:** risks of non-compliance with laws or regulations.
- **Reputational risks:** risks that could harm the council's reputation, such as negative publicity or customer complaints.

Analyse the risks

- **Assess the likelihood:** estimate the probability of each risk occurring. This can be done qualitatively (e.g. high, medium, low) or quantitatively (e.g. percentage chance).
- **Evaluate the impact:** determine the potential impact of each risk on the council if it were to occur. Consider factors like financial loss, operational disruption, or damage to reputation.
- **Prioritise the risks:** combine the likelihood and impact to prioritise risks. Risks that have a high likelihood and significant impact should be given the highest priority.

Develop risk mitigation strategies

These can include:

- **Avoiding the risk:** if possible, eliminate the risk by changing approach.
- **Reducing the risk:** implementing controls or measures to reduce the likelihood or impact of the risk.
- **Transferring the risk:** shifting the risk to another party.
- **Accepting the risk:** deciding to accept the risk if the cost of mitigation exceeds the potential impact or if the risk is unavoidable.

It is often useful to develop a risk approach within a workshop setting. This can involve a range of people knowledgeable about the service – taking into account their different personal and professional perspectives.

D Benchmarking

Benchmarking involves comparing the performance, practices, and processes of a council service with those of other authorities which are ideally utilising a range of delivery models to deliver the service. The aim is to use that information to assist with an assessment of different delivery models.

Below is guidance on how to undertake benchmarking:

Define the purpose and scope

Clarify objectives: determine what you want to achieve with benchmarking. This is likely to include an analysis of the scope to improve service efficiency, reducing costs, enhancing service quality through the adoption of specific delivery options under consideration.

Select areas for benchmarking: identify the scope of the service(s), processes, or performance indicators to benchmark.

Identify benchmarking partners

Select comparable authorities: choose other councils (or organisations delivering services on their behalf) with similar characteristics, such as size, demographics or geographic location. This ensures that comparisons are relevant and meaningful.

Consider best performers: if possible, include councils (or those delivering services on their behalf) known for excellence in the areas being benchmarked.

Determine key performance indicators (KPIs)

Select relevant KPIs: identify the performance metrics that will be used for comparison. These could include quantitative measures (e.g. cost per service, response times, satisfaction rates) or qualitative assessments (e.g. service quality, customer experience).

Ensure consistency: Ensure that the KPIs are measured consistently across all benchmarking partners to enable accurate comparisons.

Collect data

Gather internal data: collect data from your own council related to the selected KPIs. Ensure the data is accurate, up-to-date, and relevant.

Obtain comparative data: collect data from benchmarking partners or from publicly available sources, such as government reports, surveys, or performance audits. Many councils will collaborate and share data directly.

Analyse the data

Compare performance: analyse the data to compare performance between benchmarking partners. Identify areas where the service under consideration excels and areas where it lags behind.

Identify gaps and opportunities: look for performance gaps and areas where the council could improve by adopting practices from higher-performing authorities or by adopting a different delivery model.

Interpret the findings

Contextualise the results: consider the context in which the data was collected, such as local conditions, funding levels, or policy differences. This helps in understanding why performance might differ between different councils and the delivery models they use, making more meaningful comparisons.

Identify best practices: identify specific delivery models practices, processes, or strategies used by top-performing councils that could be utilised.

Develop an action plan

Set targets: based on the benchmarking results, set clear, measurable goals for improvement which will inform the delivery model assessment.

E Stakeholder analysis

Stakeholder analysis should be used to identify, assess, and understand the interests, influence, and needs of individuals, groups, and organisations that have a stake in the outcome of the delivery model assessment. This analysis helps councils engage effectively with stakeholders, manage relationships, and make informed decisions that consider the perspectives and impacts of delivery model changes on all relevant parties.

Identification of stakeholders

This includes internal stakeholders such as elected members, employees, service heads and Trades Unions. External stakeholders include residents, businesses, community groups, government agencies, media, and other entities that interact with or are affected by the decision relating to a delivery model.

Assessment of stakeholder interests and influence

Stakeholder interests: identify what each stakeholder group wants or needs from the council in relation to the service area under consideration.

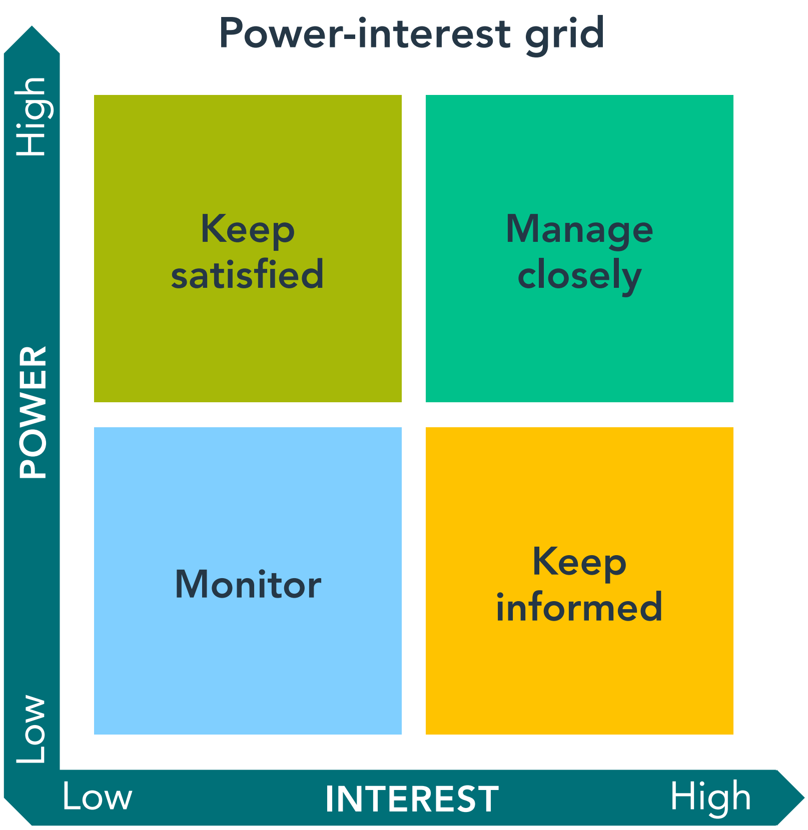
Influence: assess the level of power or influence each stakeholder has over the local authority's decisions. Influence can be based on political power, financial resources, legal authority, or public opinion.

Impact: evaluate how the decisions of the council in relation to the delivery model will impact each stakeholder.

Stakeholder mapping

Power-interest matrix: Create a matrix that maps stakeholders based on their level of influence (power) and their level of interest in the service area under consideration. This helps prioritise stakeholders for engagement:

- **High power, high interest:** key stakeholders who should be closely managed and involved in decision-making.
- **High power, low interest:** stakeholders to keep satisfied but not necessarily involved in every decision.
- **Low power, high interest:** stakeholders to keep informed and consulted, as they may support or oppose initiatives.
- **Low power, low interest:** stakeholders to monitor with minimal engagement.



Engagement strategies

Consultation: engage with stakeholders to understand their concerns, gather feedback, and involve them in the decision-making process. This could include public consultations, surveys or focus groups.

Communication: develop tailored communication strategies to keep stakeholders informed about the delivery model assessment.

Collaboration: work closely with key stakeholders on specific aspects of the decision-making process. For example, this might involve collaborative planning and engagement with other public bodies.

Negotiation: where there are conflicting interests, engage in negotiations to find mutually acceptable solutions. This may involve compromises or trade-offs.

Monitoring and evaluation

Ongoing monitoring: continuously monitor stakeholder attitudes, influence, and engagement levels. Stakeholders' interests and influence can change over time, so regular updates are important.

Evaluate engagement outcomes: assess the effectiveness of stakeholder engagement strategies. Determine whether the council's actions have met stakeholder expectations and whether relationships have been strengthened or weakened.

F Scenario planning

Scenario planning is used to explore and prepare for multiple potential futures. Instead of trying to predict a single outcome, scenario planning allows councils to consider a range of possible scenarios relating to the delivery models under consideration, understand the key uncertainties that could influence those scenarios, and develop strategies to manage risks and opportunities in each of them.

Key concepts in scenario planning

Scenarios are narratives or stories that describe different ways the future might unfold. They typically cover a range of outcomes, from best-case to worst-case situations, and everything in between.

Driving forces are the key factors that influence how the future might develop. Driving forces can include political, economic, social, technological, legal and environmental factors (often referred to as PESTLE factors). Examples include technological advancements, demographic shifts, regulatory changes, or economic trends.

PESTLE	Example
Political	A change in council leadership/government.
Economic	Increases in inflation.
Social	Changes in working practices.
Technology	Developments in technology such as Artificial Intelligence.
Legislation	New legislation e.g. Procurement Act 2023.
Environmental	New working practices that better protect the environment and environmental legislation or regulations.

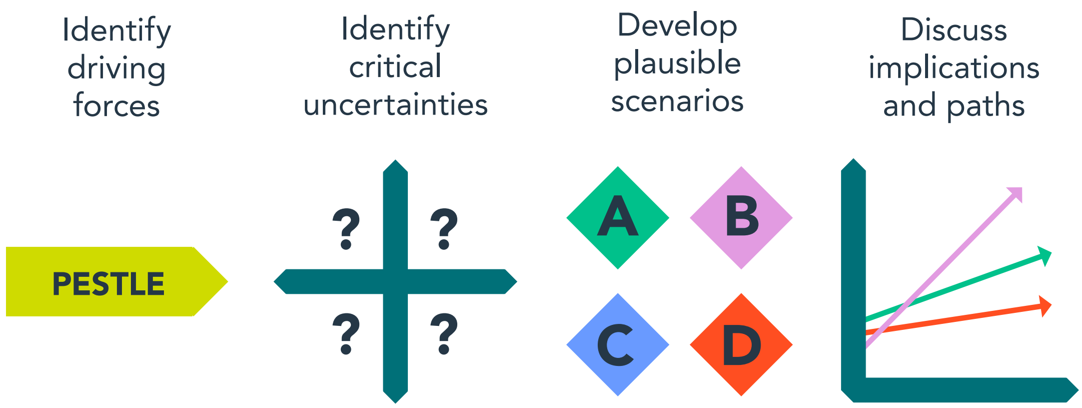
Critical uncertainties are the variables that are most uncertain and have the greatest potential impact on the future. For example, the future of the service might be heavily influenced by uncertainties in technology adoption (e.g. AI). The impact of climate change and moving towards net zero is another example that will affect most council services and housing services. The overall target is clear but milestones and the technical solution to reach these targets will change.

The Scenario Matrix is a tool which plots two critical uncertainties on axes to create a grid of four possible scenarios. Each quadrant represents a different scenario based on high/low or positive/negative outcomes of the two uncertainties.

Steps in scenario planning

- **Define the scope** of the scenario planning exercise.
- **Identify driving forces** that could influence the future in the context of the scope defined. Consider broad categories like workforce trends, economic trends, technological changes, environmental shifts and political developments.
- **Among the driving forces, identify** the ones that are both highly uncertain and highly impactful. These will form the basis of your scenario matrix or other scenario planning methods.
- **Develop scenarios:**
  - Create a set of distinct scenarios by exploring how the critical uncertainties might interact.
  - Write detailed narratives for each scenario, describing what the world might look like, how key stakeholders might behave, and what challenges or opportunities might arise.
- **Analyse implications:**
  - For each scenario, analyse the implications. Consider how each delivery model under consideration would fare in each scenario and what changes might be necessary.
  - Identify potential risks and opportunities in each scenario.
- **Develop strategic options:**
  - Based on the analysis, develop strategic options that are flexible and can be adapted to different scenarios. This could include contingency plans, diversification strategies, or investments in capabilities that will be valuable across multiple scenarios.
  - Consider actions that can be taken now to prepare for any of the scenarios, as well as trigger points that would signal the need to shift strategies as the future unfolds.
- **Monitor and update:**
  - Scenario planning is not a one-time exercise. Continuously monitor the environment for signals that indicate which scenario might be emerging. Update and strategies as new information becomes available.
  - Adapt plans as necessary to remain agile in the face of uncertainty.

Scenario planning



G Should Cost Modelling

A Should Cost Model is a model used to determine the expected cost of goods or services that are provided by suppliers.

Why use a Should Cost Model?

Should Cost Models are not used for a single purpose. They bring rigour and detail to situations that benefit from a thorough understanding of costs, their composition and drivers.

Project performance review – provides a detailed baseline of project costs against which analysis can be performed.

Options analysis – gives objective views on cost estimates and drivers for different combinations of options (e.g. in terms of in/outsource split, or in terms of specification).

Key cost driver analysis – allows for evaluation of what cost components have the largest impact on price.

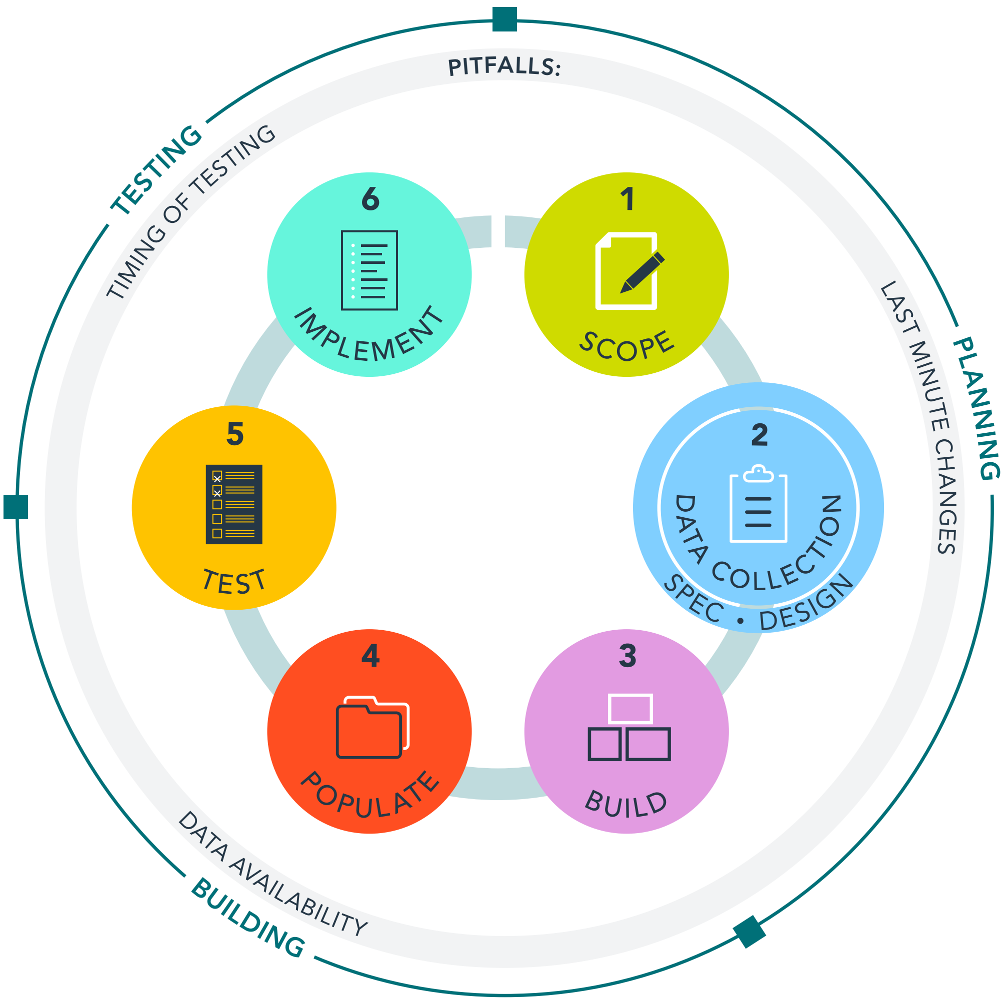
Justifying value for money – gives a structured overview of expenditure by cost category showing what is being spent and what output is delivered in return.

Budget setting – can be used to set approval levels and give a framework to evaluate budgets.

Having a clear understanding of the whole life cost of delivering a service, and/or the cost of transforming a service is best achieved by producing a Should Cost Model, consisting of:

- **Inhouse model.** This is the whole life cost to deliver the service inhouse using internal resources and expertise including acquiring assets and the necessary capability. This can be used to compare costs against the "Expected Market Cost" at a high level to inform your delivery model assessment.
- **Expected market cost model.** This is the expected whole life cost of procuring a service from an outside supplier. Use early market engagement to ensure the model is comparable to the bids you expect to receive from the market.

Should Cost Model development cycle



Good practice Should Cost Model development

BUILD STANDARDS	
INTEGROUS	Models should have end-to-end integrity. They should include in-built checks and may benefit from visual outputs such as charts.
LOGICAL	The model should follow a logical, organised and coherent structure devoid of duplication or redundancy.
ALIGNED	Models should be aligned within and across sheets. Columns and rows should be arranged consistently throughout.
SEPARATED	There should be clear separation between different model elements such as inputs, calculations and outputs.
TRANSPARENT	The model design should be clear and easy to understand. There should be no hidden elements. Scenario outputs should be overtly apparent.

H Sensitivity analysis

The appraisal of project options will be affected by uncertainty, for example projections of future demand for services may be subject to variation, inflation assumptions will change, cost estimates will change as project details are clarified, and benefits assessments may be subjective and not fully quantified.

Such uncertainties should be accommodated in the appraisal through sensitivity analysis. This involves identifying the main variables and uncertainties in the options appraisal, assessing the potential range of feasible outcomes, and building those into the evaluation of options.

Disclaimer
This report has been produced and published in good faith by Local Partnerships. Save as to any specific contractual agreement that states otherwise, Local Partnerships shall not incur any liability for any action or omission arising out of any reliance being placed on the report (including any information it contains) by any organisation or other person. Any organisation or other person in receipt of this report should take their own legal, financial and/or other relevant professional advice when considering what action (if any) to take in respect of any associated initiative, proposal or other arrangement, or before placing any reliance on the report (including any information it contains).

JOINTLY OWNED BY

Local Partnerships 18 Smith Square, London SW1P 3HZ
LPenquiries@localpartnerships.gov.uk | localpartnerships.gov.uk

@localpartnerships.bsky.social | local-partnerships-llp