Midlothian

Service Delivery Framework

Report by Gary Fairley, Head of Finance & Integrated Service Support

1   Purpose of Report

This report presents an update to the existing Service Delivery Framework for Council consideration.

2   Background

The existing Service Delivery Framework was endorsed by The Business Transformation Steering Group on 5 November 2011. It provided a means to deliver the "Public Service" motion unanimously agreed by Council on 25 October 2011:-.

"Midlothian Council believes that Public Services should be delivered for the public by Public Sector Employees with full public accountability, and that the model for delivering Public Services should be by Public Bodies (e.g. local authorities) with directly employed staff.

Constant review of service delivery is part of the Council's ongoing performance management and transformation. One of the elements of each review is to consider how each service can be best provided – whether direct provision or an outside provider will be most effective.

Since the framework was put in place in 2011 there have been a range of changes to the environment in which the Council operates which require a refresh not least of which are the Council's commitment and accreditation as a Living Wage employer and the Councils investment in its own workforce through the 2016 review of Local Government workers pay and grading. Accordingly to support the ongoing service review activity there is a requirement for the Council to have an up to date framework in place against which services can assess service delivery options.

The purpose of the Service Delivery Framework however is not to promote, or encourage the outsourcing of services, its primary purpose is to ensure that the issues to be considered are formally set out and agreed in advance and that the review and decision making process is supported by finance, legal, procurement and other professionals.

3   Service Delivery Framework

The decision about whether or not to outsource a service or bring a current outsourced service back in house will be considered separately for each individual case. There is not a dogmatic assumption that in house provision

or outsourcing are necessarily the preferred option. Each case will be judged on it individual merits.

When reviewing services outsourcing will be considered as one option. If or when a sound business case is made which demonstrates that the citizens of Midlothian will be better served by an external provider services will be contracted to the provider that is best able to meet the Council's service objectives.

The proposed framework therefore:-

- Sets out the factors on which outsourcing decisions should be made and provides a decision matrix to record these.
- Provides for input from Procurement, Finance and Legal and other professional services.
- Ensures the business case is supported by analysis and consideration of the key drivers which are aligned to the Council's priorities.
- Ensures that there is clarity on how the financial/efficiency gain is achieved and the impact on employees.

4   Report Implications

4.1   Resources

There are no direct resource implications associated with adopting the Service Delivery Framework.

4.2   Risk

Recent media coverage has highlighted failings in outsourced services, namely the collapse of Carillion and the ongoing monitoring of large organisations such as Capita. The framework aims to highlight and mitigate risks of decisions to outsource services being made without a full assessment against service and Council priorities/objectives.

Furthermore it ensures that there is a clearly set out policy framework for Service and other Reviews to consider outsourcing options against.

4.3   Impact on Performance and Outcomes

The service delivery framework will support the analysis/consideration of the key drivers which are aligned to both the Council and Service priorities.

4.4   Adopting a Preventative Approach

The adoption of the framework supports the review of future model of service delivery.

4.5   Ensuring Equalities

The framework will strengthen the assessment of equality issues when considering service delivery options, IIA's would be prepared and considered as part of the development of any proposed changes in service delivery

4.6 Supporting Sustainable Development

There are no sustainability issues associated with this report.

4.7 IT Issues

There are no IT issues arising from this report.

5 Recommendations

It is recommended that Council approved the attached Service Delivery Framework

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26 October 2018

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Midlothian Council
Service Delivery Framework

1.0   Introduction

1.1   In its simplest term, outsourcing is the contracting out of a
business/operational function to an external supplier, involving the transfer
of people, processes and assets. This contracting out can be undertaken in-
shore or at an off-shore location, and to one (single sourced) or more (multi-
sourced) partners.

Traditionally the key driver for outsourcing activity has been cost reduction.
Cost is still a key factor however there are other drivers that are important
and need to be considered;

- Speed of development
- Flexibility
- Specialist Skills

Outsourcing has in some areas, become a major activity, it is growing in
complexity as well as size, and with a continuing economic uncertainty
there is an even stronger focus on innovative service solutions.

2.0   Policy Framework

2.1   The purpose of this Service Delivery Framework therefore is to provide a
common basis for decisions:

- Whether or not services currently provided in house should be
outsourced.
- Whether existing outsourced contracts should be renewed,
refocused or services brought in house.
- How services are best packaged and managed internally or for
contracting purposes.

2.2   In Midlothian the decision about whether or not to outsource a service will
be considered separately for each case. There is no assumption that in
house provision or outsourcing is necessarily the preferred option.

2.3   When reviewing services we will consider outsourcing as one option. If or
when a sound business case is made which demonstrates that Midlothian
residents will be better served by an external provider then these services
will be contracted to the provider best able to meet the council's objectives.

3.0   Service Review

3.1   Due to the constantly changing nature of the environment in which we work
a decision about the best way to provide a service, which is right at one

time, can quickly become out of date. We will therefore review outsourcing or other procurement options:

- Whenever a Service Review is carried out.
- When contracts are due for renewal.
- When changes in external factors (e.g. legislation, financing arrangements, market developments) suggest there may be an opportunity for improvement.
- Regularly, through the service planning cycle, as part of the council's continuous improvement.
- As an alternative to items in the capital programme.

4.0   Financial Assessment and Employee Impact

4.1   The business case must clearly set out the expected financial impact of the outsourcing option(s). A critical element of this is to clearly identify the impact on existing employees earnings/benefits so that officers and members have clarity on the extent to which the saving likely to be achieved are as a result of reduced earnings or one as a result of efficiencies, for example increased productivity, mechanisation, improved management arrangements or economies of scale.

4.2   Midlothian Council will **not** outsource services simply to deflate employees earnings and in particular to "undercut" existing pay structures.

4.3   As an accredited Living Wage employer Midlothian Council will also seek to ensure that any decision to outsource of services will meet the Councils obligations as an accredited Living Wage employer. The Council will not outsource services in a way which would have a detrimental impact on its Living Wage accreditation.

5.0   The Outsourcing Decision

5.1   The decision matrix (attached) can be used to weigh and balance all the factors below. If consideration of the primary factors does not indicate that the option under consideration is viable the shaping factors don't need to be considered. Where the primary factors indicate that an alternative to the current arrangement is desirable the shaping factors will then shape the way the specification is approached. Consideration of the shaping factors may demonstrate that, though desirable, the alternative is impractical.

5.2   The matrix provides a tool for balancing factors but the decision made will only be as robust as the scores given to each factor. It will be important that each weighting is based on sound evidence.

6.0   Primary Factors

6.1   The primary factors that will influence the construction of a business case for alternative provision of a service are:

6.2 **Economy/Quality**

Where an improved or at least equivalent service can be provided at lower cost by an external provider.

6.3 **Investment**

When new investment in a service is needed and an outside provider may be able to provide the opportunity.

6.4 **Management Focus**

Where a service can be more effectively managed externally. This may be because recruitment and retention of staff can be improved, because the providers business has a single focus, because of links to related services or for other reasons.

6.5 **Opening a Service to Market Opportunities**

Where an in house service can be enabled to market and sell its service.

6.6 **Employee Impact**

To what extent are financial benefits simply from deflating employee earnings or by not adopting the Living Wage?

6.7 **Transference of Risk**

The extent to which the council's risks can be managed/minimised through outsourcing.

7.0 Shaping Factors

7.1 **Control**

The extent of the need to retain control of a service will influence the decision about whether a service needs to be retained in house, the level of in-house client retained, and the level of prescription in a contract and the length of contract.

7.2 **Potential Benefit**

The larger the package and longer the term of a contract the greater is the potential financial benefit. This needs to be balanced against the risk of stagnation during a contract term and of closing down market diversity.

7.3 **Service Improvement**

The preferred approach is to ensure that services are performing well before outsourcing them. However, outsourcing can be used as part of a programme of improvement.

7.4   **Strategic Contracting**

Strategic contracting aims to build a partnership approach whilst maintaining clear parameters based on outcomes. All those involved in any transaction are involved at the earliest opportunity enabling problems to be spotted and ironed out.

7.5   **Common Business Processes**

The existence of common business processes will affect a decision about the way that services are packaged and managed together. Advances in e-commerce mean that streamlining processes such as invoicing or adopting a "triage" approach to accessing services may deliver economies and other benefits which council structures do not allow.

7.6   **Alternative Models**

The nature of the service being considered may affect the type of contract entered into. The existence of voluntary sector partners may suggest a trust or partnership agreement is the most appropriate in some circumstances for example.

7.7   **Maturity of the Market**

Contracting within an immature market can increase the organisation's risks. If the market is immature it may be appropriate to delay an outsourcing decision or take on a short-term contract and await developments.

7.8   **Organisational Knowledge**

Outsourcing a service can hold the danger of losing organisational knowledge. Conversely effective sharing of knowledge with a contractor or partner can increase the overall knowledge and skill base available to the council. Knowledge management is an increasingly important part of any organisation's management capacity and hence an important factor in any outsourcing decisions.

8.0   How we do it

8.1   Involvement and Treatment of Staff

8.2   Staff have a unique insight into the way that services operate and can often identify ways that they can be improved. We will consult with staff and take account of their views both in order to inform decisions and to shape services once decisions have been made. Where a decision to outsource is taken and results in staff being transferred to other organisations we will make every effort to safeguard their interests, including using TUPE (Transfer of Undertakings for the Protection of Employees) legislation where it applies.

9.0   The Outsourcing Process

9.1   The principles that guide the way outsourcing is done are part of the council's procurement strategy. These include:

- We will not use outsourcing to simply deflate employee earning.
- We will not use outsourcing in a way that is detrimental to the Council's living wage accreditation.
- We will use competition to identify suppliers.
- Use purchasing power to influence market development.
- Maximise purchasing power and harness economies of scale through consortia.
- Seek Member approval for larger purchases or where the future of staff is affected.
- Services act corporately and professionals including Procurement, Finance, Legal and Human Resources are actively involved from the start.
- Management of contracts by appropriately skilled officers.
- Active management against clear performance targets.
- Requirement for adherence to standards of conduct for employees.
- Ensure equal opportunity in dealings with suppliers.
- Pay suppliers promptly.

10.0   Outsourcing Strategy

10.1   Decision Matrix Guidance Notes

10.2   The attached decision matrix is intended as a tool to enable officers and/or members to assess the differential advantages and disadvantages of different options for future service delivery. In some cases this will be a decision about whether or not to outsource the service or to change procurement arrangements, in other cases it may be a decision about continuing or renewing an existing contract or bringing a service back in-house.

10.3   The decision matrix provides a structured way in which judgements can be made about the various factors which affect a procurement decision. It does not replace the need for officers to use their expertise and experience to assess the significance and importance of these factors in each case.

10.4   The decision matrix can be used to compare a series of different options or to give a quick impression of the viability of a single option.

It is intended as a support to the decision making process not a decision making took in itself. It may be that in some cases one factor is so important that it outweighs a seemingly negative score. Members and officers may therefore choose to continue with such an option but will be doing so with full knowledge.

11.0   Using the Matrix

11.1   The matrix is a series of factors that need to be considered when looking at

alternative options for service delivery. A series of possible options can be compared by filling in a separate framework to each option and comparing the graphs produced.

11.2   Work through the matrix and give a score to each item. Where an issue is not relevant or the option being considered will have no effect it should be given a score of zero.

11.3   The overall "shape" of the graph indicates how desirable the option may be. Most scores to the right suggest a good option more to the left less good.

11.4   An option that scores well in some areas but less well in others may require re-working these particular aspects.

Decision Matrix

Option:											
	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5

PRIMARY FACTORS

Economy/ quality

Increased cost, complex management arrangements or contract management. Greater cost due to increased service.	Cost • • • • • • • • • • •	Significant cost saving. Efficiencies from investment or e-commerce, smaller staffing requirement.
Decrease in service level or quality.	Service quality • • • • • • • • • • •	Step change in quality or effectiveness. Higher morale, customer focus, technical excellence, better equipment.
Danger of stagnation inflexible processes or contracts loss of partnerships and contacts.	Innovation • • • • • • • • • • •	New approaches, e-solutions, wider linkages, cutting edge research and intelligence.

Investment

Investment in this service is vital now but not available through this option	Need! availability of investment • • • • • • • • • • •	Investment is vital now for the continuation of the service and the option being considered will provide it.

Management/Focus

Worse than current arrangements, no expertise in this area likelihood of muddle.	Management Focus • • • • • • • • • • •	Will significantly increase focus. g edge, "Best in class" clearer job focus for staff.
Current or predicted future problems will be made worse.	Recruitment and retention • • • • • • • • • • •	Significant improvement in staffing situation either through changed requirements, access to alternative employee pool or improved conditions.
Significant loss of organisational knowledge. Loss of key staff, erosion of skills, changed loyalties.	Organisational knowledge • • • • • • • • • • •	Opportunity to broaden and extend knowledge base available to the council.

Market opportunities

Market rigour will cause decline in service quality or local responsiveness	Selling potential • • • • • • • • • • •	Significant increase in income/ reduction in costs due to market opportunity.

Decision Matrix

Option:												
	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5	
Employee Earnings												
Major disruption, degrades terms and conditions.	Conditions											Improves staff terms and conditions, flexibility.
	●	●	●	●	●	●	●	●	●	●	●	
Downgrades jobs, staff will hate it.	Career opportunities											Improved career structure/ training. Allows diversity and skill development.
	●	●	●	●	●	●	●	●	●	●	●	
Risk Transfer												
Organisational risks increased	Risk											Potential to minimise/ transfer risk e.g. minimise financial fluctuation, pay for outcomes not inputs.
	●	●	●	●	●	●	●	●	●	●	●	
Service highly significant to the council and loss of control probable/ potentially problematic.	Control											Better outcome for less hassle e.g. public profile law, reduces bureaucracy.
	●	●	●	●	●	●	●	●	●	●	●	
Future very uncertain, market! legislative/ technological change likely. Arrangement means flexibility restricted e.g. long or highly specific input based contract.	Flexibility											Future demand highly predictable, arrangement makes us "quick on our feet".
	●	●	●	●	●	●	●	●	●	●	●	

Decision Matrix

Option:												
	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5	
SHAPING FACTORS												
Service grouping												
Incompatible processes	•	•	•	•	•	•	•	•	•	•	•	Potential for streamlining orders, invoices, contact points can be minimised. Customers receive a co-ordinated service.
					Business Processes							
Greater cost	•	•	•	•	•	•	•	•	•	•	•	Significant saving by grouping services in this way. Economies of scale, partnership arrangements.
					Saving							
Service improvement												
Service will be less good. Current good service will be compromised.	•	•	•	•	•	•	•	•	•	•	•	Step change. Current service poor and not improving. Alternative option will transform service.
					Improvement potential							
Provider relationship												
The provider has a poor relationship/ record with the council or other purchasers.	•	•	•	•	•	•	•	•	•	•	•	Proposed provider has an existing relationship with the council which is good and provides excellent service.
					Relationship							
Danger of creating a Monopoly or Oligopoly, will close down the options available in the long-term.	•	•	•	•	•	•	•	•	•	•	•	Arrangement will widen the choice available to the council/ stimulate the market.
					Effect on market							
Provider is unknown and cannot provide evidence of quality. Market very immature.	•	•	•	•	•	•	•	•	•	•	•	Provider has a strong proven track record, credible, respected, entrepreneurial.
					Track record							
No additional value.	•	•	•	•	•	•	•	•	•	•	•	Provider can bring specialist skills, is "best of breed", wide contacts and access to resources.
					Value added							
E-commerce												
Recipe for chaos.	•	•	•	•	•	•	•	•	•	•	•	Technology can give step change in customer access, co-ordination.
					Accessibility							
Will stagnate	•	•	•	•	•	•	•	•	•	•	•	Allows access to fast moving area.
					Innovation							

Decision Matrix

Option:											
	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5
SHAPING FACTORS											
Politcial											
Important groups will not like this, Public protests likely.	Public consumers (• • • • • • • • • • •)										A response to requests, will be welcomed by users & public.
Will alienate partners.	Partner organisations (• • • • • • • • • •)										A fully supported partnership.
Deliverability											
Outweighs savings, may be disturbance allowances, redundancy payments, new IT systems.	Implementation costs (• • • • • • • • • •)										Can save money from Day 1.
Millennia.	Timescale (• • • • • • • • • •)										Easy and quick.
Complex legal process/ contravenes statute.	Legality (• • • • • • • • • • •)										Can be done within existing arrangements.