



**Bringing in services:
the Hackney insourcing model**

1. Foreword by Cllr Rebecca Rennison

Hackney Council has a proud track record of insourcing and providing services in-house. It has insourced services in the past and continues to do so today, recognising the potential for in-house services to deliver better service quality and better value for money for Council residents and taxpayers.

To date, the following services have returned in-house:

- Office Cleaning services
- Fleet maintenance
- Elements of highways maintenance
- Housing benefit
- Council tax and business rates processing service
- Internal audit service
- Recruitment service
- Payroll service
- Waste Collection service both for standard waste and recycling
- ICT and digital services
- Hackney jobs brokerage service
- Building Maintenance - reactive repairs through our Direct Labour Organisation (DLO)
- Domestic violence services
- Family support
- Parking enforcement (due back in by March 2022)

We now want to turbocharge this effort. We want to take the political and organisational commitment to bringing more services in, build on the expertise we have and be more ambitious and wide ranging in those services we bring back under direct Council control. This will involve moving outside of our current comfort zone and expertise and taking risks on service areas less familiar in operational terms.

Scaling-up our approach to insourcing

To ensure we are consistent in our insourcing decisions across service areas, and to give different services the support and confidence to take forward insourcing proposals, a more structured approach for making insourcing decisions is now needed. This new approach must be shared, understood and consistently applied by all internal stakeholders involved in the commissioning of services including members. Fundamental to this is the administration's commitment to insourcing.

"We will continue to deliver high quality council services for our residents; we will review all outsourced services, including in adult social care, with a view to bringing them in-house as well as looking at new forms of employee ownership and co-ops where this is not possible." (2018-2022 manifesto)

Insourcing will be done without losing our focus on the need to ensure that essential services can be provided within the constraints of the budget pressures which the

Council expects to continue to face. In-house service delivery decisions would not be made purely for ideological reasons, because there is a failure of an outsourced service or when the service provider is judged to be performing badly. Rather, it would be considered widely in the realms of value for money, operational practicalities, risks and opportunities.

The key questions that we have asked ourselves in the development of our approach for insourcing include:

1. What are the characteristics of services that we may need to insource?
2. Why do we need to bring them back in-house?
3. What additional benefits will the Council and its citizens derive from insourcing these services?
4. Do we have the skills and assets required to deliver these services to the same or better standards as the external market?
5. What is the lead time for insourcing a service particularly if we do not have the required skill sets and assets to deliver an effective service that is comparable with external market standards
6. How do we redesign services to mitigate potential cost increase of insourcing and simultaneously ensure that there is no dip in service quality

I would like to thank fellow elected members, my Cabinet colleagues and officers of the Council who have played key roles in the development of this policy. It will drive our insourcing work over the coming years and lead to a step-change in how we deliver public services here in Hackney.

2. Bringing services in-house - our approach

Decisions to bring services in-house need to both honour the Council's commitment to insourcing, while at the same time ensure services continue to deliver value for money and must also align with the Council's Sustainable Procurement Strategy and recognise the role that Council commissioning can play within the local economy, particularly among SMEs.

The 'Make or Buy' decision making model which has been deployed across various sectors for many years in the selection of options for service delivery is integral to how decisions are made on insourcing. The model consists of both quantitative aspects; which relates to what can be calculated and compared, and the qualitative elements which call for subjective judgment and frequently require multiple opinions. It is important to note that some of the associated factors can be quantified to a high degree of certainty, while it will be necessary to estimate others.

Hackney like other major organisations delivering services to large groups of people will seek to extensively utilise the mechanics of this model as part of our insourcing considerations and decision making process. This will ensure that we take the necessary steps to objectively appraise all viable options for service provision and only procure in-house, those services where we do have competitive advantage over external providers (private and public). Procurement officers would support Council

service areas in conducting detailed analyses that thoroughly evaluate the costs, benefits, risks, and rewards of each available option for service delivery including insourcing.

Procurement officers and contract managers, with their proficiency in overseeing and managing third-party suppliers to generate the highest possible level of quality and productivity as part of contract performance management, know the right questions to ask to make these determinations. These may include:

- If in-house service delivery expertise and capabilities are below national benchmarks, can they be improved to reach maximum performance and efficiency, and would the benefits of those capabilities surpass the benefits that we would obtain from outsourcing?
- If so, what resources are required, can we secure them and how long would it take to reach noticeable improved performance?
- Are technology and process innovation and alignment necessary for us to have a competitive edge both among our peers and in the wider market?
- Do our customers expect a higher level of service and response, much greater than we could offer if we outsourced our services?

Before making an insourcing decision, the Council will ask pertinent questions under five key criteria. Well articulated views under these five themes, including rational and robust arguments put forward by the service areas concerned, will allow officers and members involved in the governance of the Council's procurement process to make informed decisions. A service area will be expected to objectively assess its core competencies, benchmark them against prevailing market standards and provide a balanced view on whether to insource a service or not.

The proposed approach detailed in this document is an enhancement to existing practice when business cases and procurement strategies are developed for the re-procurement of an existing contract or where ad hoc purchases have been identified and amalgamated to drive economies of scale by adopting a strategic approach to sourcing the requirements. Under the new insourcing regime, Council officers will be required to demonstrate that they have extensively considered the case for insourcing through a robust assessment of the in-house option, alongside other service delivery models, under these five themes:

1. Local policy and business strategies
2. Performance of the service
3. Quality improvement and value for money
4. Workforce matters
5. Risks

The Council operates a category management approach for the management of its procurement activities. Category management delivers better engagement and teamwork with those stakeholders with common areas of expenditure and suppliers and also enhances the governance process which crosses organisation boundaries. It allows contracting requirements with similar characteristics to be packaged

together and sourced from third party providers based on a sound understanding of the market under which each requirement is grouped. It also allows procurement officers to develop expertise not only of the services that are being bought but to also have a better understanding of the market where the suppliers of these services operate.

The Council operates three main procurement categories and the contracting requirements under each group particularly in terms of how they have and could be considered for insourcing are described as follows:

- **Construction and Environment** - this includes all construction procurements including new build, refurbishment and building maintenance services across civic, residential and school properties. This category already boasts of an insourced service in waste collection and recycling, and while some of its outsourced services will be part of the insourcing consideration, large scale construction projects will be expected to be out of scope mainly because the Council does not have the full range of expertise and capacity required to take on these types of works contracts.
- **Social Care Services** - this covers all preventative and corrective (adult, young people, children) social care, public health and learning needs of the Council including sexual health promotion and treatment, health visiting, domiciliary care, mental health, learning disability, adult learning opportunities and more. Some of these services can potentially be delivered in-house and will be included in the insourcing consideration. It is clear that it will be challenging to include those services that have housing as an integral part of service provision in insourcing discussions because the Council does not have sufficient residential properties in place to directly operate these services. However, co-delivery with housing third party providers would be explored as an option for delivering these services.
- **Corporate Services** - this category covers a range of support services and supplies which form the bedrock of the Council's operations some of which are already being delivered in-house. They include procurement of ICT and digital services, hardware and systems, vehicle fleet, soft and hard facilities management (including utilities, cleaning, CCTV and out of hours call services), temporary staffing, financial and insurance services to name just a few. Some of these, such as vehicle supplies, will still be purchased via third party suppliers while the service elements of this category will form an integral part of our insourcing.

3. Local policy and business strategies

Beyond what has been previously achieved by the Council with regard to insourcing of contracted services, there is a renewed and strong local political support for insourcing and the need for a more strategic, holistic approach to service provision as part of an integrated service delivery model as evidenced from the work being undertaken through the Integrated Commissioning Board. In this regard, the case for bringing a service back in-house will be strengthened where it is proven that taking this course of action will allow the Council to respond to emerging policies and the

need to integrate services where there are synergies in structures, processes and delivery approaches.

Increasing the deployment of local labour, apprenticeship schemes, and the local supply chain, in particular small and medium enterprises, in the delivery of our services forms an integral part of the Council's Sustainable Procurement Strategy (2018-22). These policies and other wider local policies, including those that relate to improving air quality and tackling environmental issues in the borough will drive the achievement of our Community Strategy priorities and ensure that we enable a good quality of life for people living and working in Hackney. Where insourcing is likely to drive greater achievements of the Council's stated objectives, it should be well articulated in the business case as merits over the outsourcing options.

The Council made a decision to act as the developer for the first phase of the Britannia scheme. A service that could have been otherwise procured externally is delivered as an in-house service in order to maximise social and public infrastructure benefits from the development.

The process that we will use to decide whether to bring a service in-house will also ensure that our local policy and aspirations with regards to insourcing are aligned and balanced with divisional and departmental business strategies which may include:

- The strategic importance and risk of failure of the function, that is being considered for insourcing, to the service area and the Council
- The process, technologies, or skills required to effectively deliver the service.

These factors would be considered not just in light of the current competitive environment but also in anticipation of how that environment might change in the future. Where a function of the Council is critical to our overall performance or deemed as a 'core service' and requires frequent structural changes which will lead to increase in cost if procured externally, this will provide a strong case in support of insourcing the service

On the other hand, it may be more appropriate to procure externally where the business strategy of the division/service area and the Council include a combination of the following:

- To leverage readily available external expertise in the third party supply market and gain access to new processes and networks which may not be available if the service is delivered in-house
- To eliminate the burden of capital layout and labour-intensive processes and reduce the whole-life cost of the service
- Gain flexibility to adjust output in response to changing demand without impacting on the unit cost or adjusted contract price
- Where there is an appetite to reduce HR and other management pressures on already stretched management resources

The existing business strategy of a service area should indicate why the service was outsourced in the first place. As part of an appraisal of the current position, we will seek to understand why the service is being delivered by an external provider, the motivations and also ascertain if anything has really changed internally in the intervening period. The failures of an outsourced partnership arrangement as discussed in other parts of this document, will not be used solely to reach a conclusion that insourcing may be better.

4. Performance of the Service

Service contracts where customers' satisfaction forms an integral part of overall performance has become a vital consideration in terms of who delivers the service. Where there has been evidence of service users' dissatisfaction with service delivery and service performance is shown to be poor, organisations like Hackney Council have sought alternative methods of delivery to bring service quality to better standards.

In 2001, Hackney returned back in-house the Revenue and Benefits Service because there were numerous complaints from the public and reports in the local press of serious service failings. These complaints were justified as there was a backlog of 40,000 claims; 100,000 images of unprocessed paperwork on the benefits system, taking months to turn claims around. There were about £3 million worth of delayed housing benefit payments as the contract was under-resourced. Council Tax collection had reached 67% - the lowest performance across local authorities. Staff were on short term contracts and staff morale was very low. Since the insourcing was carried out, the Council's performance in delivering high quality service in this area has improved year on year and housing benefit claims processing outturned at 13 days for 2017/18 and council tax collection achieved 95.01%.

Similarly, East Cambridgeshire District Council returned its Revenue and Benefits Service back in-house to form a partnership with two neighbouring district councils in 2007. The decision was made on the basis of the deterioration of performance measures including council tax collection rates, increasing number of complaints and lack of proximity of service administration to customers.

Where a contracted service is performing badly and there is strong evidence of poor performance of the service area against key local and national targets with low levels of service users' satisfaction which in turn lead to adverse impact on the reputation of both the service and the Council, this should provide a cogent argument for insourcing the service, particularly if there is no obvious solution from the third party supplier market for fixing the performance issues. Performance issues may include delivery of a reduced number of activities because of rising costs, poor reliability and reputation of suppliers in a particular industry, and where assets and structures being used to deliver the outsourced service are poor.

Evidence abounds across all sectors of the economy which depicts poor performance of contracted services as being a client management issue rather than the incompetence of the service provider. In making a case for insourcing, the Council will not seek to use poor performance that stems from contract management deficiencies as justification for insourcing particularly where it is possible to improve service performance and outcomes with some adjustments on the client side without necessarily increasing service cost. Where changes to contract management for service improvement leads to an increase in the whole-life cost of the service, the Council will consider if this tips the balance in favour of insourcing and act accordingly.

The Council will need to ensure that bringing a poor performing service in-house would not exacerbate the poor performance of the service area. Steps for improving service provision, not just at the inception of in-house provision but as an ongoing sustained service enhancement, should be detailed in the business case for insourcing the service including the associated costs. The service should also provide measurement metrics for assessing how well the service is performing against local and regional targets so that service improvements can be objectively tracked, monitored and recorded. These should not just be in terms of service operational targets but in relation to outcome for users and contribution to the achievement of the Council's priorities.

5. Quality Improvement and Value for Money

Value for money is the optimum combination of service quality and cost that meet users' requirements or needs. When designing services and defining the quality standard for a given service, the Council would as a general principle and as appropriate consult with service users as part of the benchmarking process. This process allows the Council to strike a balance between service quality desired and financial resources available in respect of how the service is packaged.

The insourcing of an existing contract will not always be because the service is performing badly. In a lot of cases, contracted services will be achieving excellent performance and private sector contractors would be delivering services to required standards with key delivery targets being met both in terms of service standards and outcomes for service users. Notwithstanding this level of performance, if it is proven from benchmarking data that performance could be further optimised by adopting an in-house delivery model that does not lead to an increase in cost, the Council would seek to explore how a similar in-house service structure can be implemented.

When Maidstone Council made the decision to bring the grounds maintenance service back in-house in 2004, it was not as a result of dissatisfaction with the private sector provider, nor as a result of poor quality service or poor customer satisfaction. Instead it was driven by best value and a feeling that in-house service delivery could provide evidence that value for money was being provided for service users and an opportunity for stronger benchmarking of performance against other providers

It is important that, as part of the process of making the 'Make or Buy' decision, we strengthen the consideration of the whole-life cost of delivery as this will show the true cost of the service to the organisation and also allow decision makers to make informed judgement on whether the service is best insourced or not. To do this, we will seek to identify cost drivers for a given service and design a pricing mechanism that reflects the current and underlying costs and how these might change in the future. The goal will be to make sure that ongoing improvements in costs are taken into account for insourcing as they would for the outsourcing options.

Whole-life costing calculation essentially looks at the quantitative aspects of what informs a Make or Buy decision. These are the incremental costs (capital and revenue) stemming from procuring externally or delivering the service in-house. Factors of this type, to look at, will incorporate things like cost associated with the availability of facilities including fixed and movable assets, needed resources and capacity at any given time. Developing a five - to - seven year financial model will help us to understand the total cost of ownership which is likely to include validated assumptions related to the supplier personnel rebadge rate and transition costs such as knowledge transfer, mass recruiting costs, severance packages, bonuses, office space, mobile device policy and relocation expenses. A sound business case for making an insourcing decision must look at the following cost elements and evaluate how they compare with the outsourcing options and make recommendations as appropriate

- Managerial structures and associated cost
- Labour cost and expenses to include potentially cover for all types of workers absences, pensions and NI contributions
- Initial capital outlay which may include cost of equipment, purchasing of materials and ongoing inventory carrying costs
- Vehicle and transportation costs
- Operations building rental and operating costs including ongoing capital replacement NPV
- Cost of relevant certification and operating cost including inspections and compliance with regulatory requirements

The Council must not rely on a one-time quote to gauge the competitiveness of external supplier (s) as this is generally not sufficient. To make an informed decision, there is a need to factor into the decision making process, the economic effects of relative wage rates, labour productivity, equipment and staff utilisation, the leanness of both the labour base and functional processes, the capacity for process and service innovation, and relative purchasing power.

A crucial element of the whole-life cost of a service that must be considered are the outlays for managing any outsourced provider, especially as the outsourced process changes. These can be significant and are often discounted. For example, software customisation on a third-party information technology network can add a huge surcharge to the outsourcing deal. Handling the customisation in-house, where the IT department can work closely and more productively with end-users to meet their needs, might be much less costly. This will also be the case in areas where services

can be better integrated, as was the case when the Council insourced waste services and subsequently the recycling collection. This not only reduced the contract management overheads but enabled a close-working of the two services.

In line with best practice, insourcing would be strongly preferred where there is a clear demonstration that there is cost advantage or cost parity, with high quality service delivery. The in-house business case needs to be preferable after taking into account start up costs, revenue costs, capital investment (which within the business case could be presented via a depreciation charge to revenue), sector specific issues such as higher pension costs in the public sector and taking account of known risks. Conversely, the case for outsourcing will be strengthened when external suppliers have lower costs or better quality, where prohibitive levels of financial investment are required by the Council to address insufficient or weak in-house skills/capabilities, and in situations where skills are difficult to acquire and securing them will significantly increase cost.

6. Workforce Matters

It is clear that an unmotivated workforce will invariably contribute to poor performance. Good terms and conditions and workforce structure with career development opportunities impact positively upon the quality of service delivered.

When Southwark Council decided to insource its estate cleaning service back in 2003, it cited bad employment practice as being one of the rationales for bringing the service back in-house. The employment practices of some of the contractors were viewed as unfair and this led to a poorly motivated workforce, which in turn was having an impact on the quality of the services.

Hackney Council, like other local authorities, have a strategic role in ensuring that local training and employment opportunities are maximised in the delivery of its services. Equally, Hackney considers itself a leader within the public sector in tackling all forms of inequalities associated with service delivery, and not least when it comes to pay. The Council's long standing commitment to pay the living wage means that staff: employed directly, through an agency or via contracted services and apprentices over 18 are paid at least the London Living Wage (LLW).

Since 2012, we have adopted a procurement policy that ensures that our contracts are renewed as LLW contracts. We have successfully awarded living wage contracts for some of the most complex services such as Home Care. The Council's efforts in this area have produced a more motivated workforce and ensured that personnel working on our contracts enjoy an enhanced work-life balance.

Notwithstanding this achievement, the Council will as part of the review of its contracted services seek to ensure that poor employment practices are not taking place in the operation of our contracts. Where it is evidenced that there is poor employment practice by our service providers or seen as a prevailing condition in an industry, this would strengthen the argument in favor of insourcing the service.

As part of the assessment of the in-house option, it is important that we give consideration to how the contracted staff will be integrated back into the Council particularly if the insourcing proposal involves a labour-intensive function. The risk of losing key contracted employees must be evaluated, including the challenges of negotiating their transfer from the existing service provider. Where the risk of losing key staff during TUPE transfer is high and the potential for attracting a similar calibre of staff from the market is low, the service area must consider this a major disadvantage for insourcing the service. This is because this scenario will likely undermine future provision of the function as the expertise and knowledge of these staff are critical and it may be even more challenging to ensure the successful recruitment and retention of these key and experienced employees when competing with private sector employers. Some specialist skills are in high demand and it can be difficult for the Council to recruit and retain people for those roles. That can result in it being better to source these through outsourced provision even if the main model is in-sourced.

7. Risks

Whether services are outsourced or operated in-house, we need to be clear about: what could possibly go wrong in the delivery of Council services, the mitigating factors and who is best placed to apply the appropriate tools for managing these risks to ensure that there is little or no disruption to service provision, and to ultimately achieve the highest possible customer satisfaction amongst service users.

The Council, as a major provider of services to the public, will consider the risks associated with the delivery of its services as they relate to each specific service before making a decision to insource any of its contracted functions. These risks may include public reputation, lower quality, reliability, compliance with regulatory requirements and predictability of service provision under the in-house delivery model. Risks inherent in the process of identifying and selecting the right supplier and structuring a workable ongoing relationship will be prominent in our decision making process. For example, the failure of a service could be devastating in an outsourced critical operation, such as an IT network, a payroll processing system, or financial management system, whereas a glitch in a training program or a long-term product development plan would be much less of an issue.

Risks assessments will be robustly challenged as part of the consideration of the business case for making insourcing or outsourcing decisions. Some of the risk items that should be addressed in our discussions will include:

- Holdup risks – where there are none or few alternative suppliers of a service in the market, the likelihood of service being disrupted by suppliers because of their bargaining power would present a high holdup risk, making the case for insourcing stronger.
- Cost of switching service provision – low cost of switching presents low risk for outsourcing and vice versa for insourcing.

- Acquiring expertise – the risk of not being able to recruit the right level of expertise required to deliver a high quality service could make insourcing impractical.
- Operational staffing risk – outsourcing benefits from being able to share pooled resources with a range of clients to cover staff absences. The risk of service disruption due to absences is high with insourcing unless the Council creates a pool of cover staff or use agency staff which may lead to increased cost.
- Potential lock-in - Where the council is dependent on a supplier delivering services in other areas, the risk of being locked-in to the provider should be addressed.

8. Governance arrangement for making insourcing decisions

The Council's constitution, which is the overall set of rules governing how the Council operates, sets out how decisions are made and the procedures which officers and members are expected to follow to ensure that decisions are taken efficiently, transparently and in an accountable manner.

Article 14.2 and Part 4.7 of the constitution (Contract Standing Orders) in particular, details the procedure rules for considering or making contracting decisions. These contracting procedures allow members to decide, in consultation with officers, the approach that should be taken for the delivery of Council services. The Contract Standing Orders also provide delegated authority to officers to consider and make decisions on service delivery models where the associated risks and costs of the service in question is not deemed as high as to warrant relatively high level scrutiny by members. In any event, the Hackney Procurement Framework ensures that all decision making processes, relating to the selection of service delivery models, must have the involvement of a Cabinet Member for the service area and the Mayor as may be required.

There are three main options available to the Council in terms of what we do with existing service contracts particularly if it is essential and incumbent on the Council to continue to provide the service. For any given contract: we could, subject always to the provisions of Contract Standing Orders and the Public Contracts Regulations 2015, re-negotiate with the existing contractor using extension provisions in the contract so as to continue service provision through the third party provider. Secondly, we could re-tender the contract competitively to allow other private and third sector organisations to bid for the work, a scenario that could also allow an in-house bid to be considered. Finally, we could put in place an operation to deliver the service in-house following the consideration of a business case that clearly sets out robust arguments for the in-house provision and one that identifies it clearly as the best option for the Council when compared with all other forms of provision. Two of these options can be slightly varied to deliver a hybrid of in-house and outsourced solutions. This tends to disintegrate the service and it can be relatively more costly

These options will be narrowed down to two where there are no provisions for the extension of an existing contract or where the Council decides not to exercise the

extension provision. Each of these options will have its pros and cons depending on what is considered to be the key priorities for the service area and the Council when the proposal for ongoing service delivery is developed.

The Council's governance arrangements, for making an insourcing decision will follow key steps that will ensure that 'we get it right first time' and also make sure that the in-house service provision is viable, cost-effective and improves users' experience of the service.

The process for making these decisions will commence with an analysis of the current service delivery position and will culminate in the consideration and approval of a written business case by the Cabinet Procurement Committee. At an early stage in the process, the relevant Group Director, Lead Member and the Mayor will be consulted to ensure that they can input into the process and challenge any assumptions and uncertainties around the final proposal.

8.1 Analysis of current service delivery

The first step to making an insourcing decision will involve a detailed analysis of the current service contract; reviewing contract management information and assessing the performance of the service, both in terms of the achievements against performance indicators and users' experiences. Some of the facts that should be collated and reviewed will include:

- Value and duration of the contract and when it is expected to expire.
- What is the overall cost of delivering this service including the internal clienting cost?
- What capital investment has the Council made in the service?
- What are the fixed and movable assets deployed in delivering the service?
- Can the contract be terminated without cost penalty? If not, how much will it cost to terminate?
- Are there options for extension and length of extension allowed for in the contract?
- Does the extension provision allow the Council to reshape the service?
- The organisation delivering the service, their expertise and position in the market and their financial status.
- Service activities, number of staff involved in providing the service including any workforce issues that may have been experienced.
- Number of people using the service and information about the level of satisfaction.
- How has the service performed since inception and how is it currently performing against local and national targets if applicable. This information is essential to allow the service area to appraise performance trends rather than just taking a snapshot view.
- Has there been problems and issues with service delivery, (which have not been rectified) and what is the cost implication?
- What is the impact on service users?

- ICT and data implications will need to be considered too. (These have implications for service provision, costs and also transition arrangements.)

8.2 Analysis of a new outsourced service

The next step, following an appraisal of the current service delivery position is to seek to gather information and understand what the service will look like under a new outsourced service contract. For this exercise, lessons learned from the current contract should be reflected upon and used to assess how the service can be reshaped to improve cost efficiency and users' satisfaction. The list below includes things that should be considered in this analysis:

- Review current service specification and determine service scope and frequency of provision making sure it is based on users' feedback, service objectives and performance indicators.
- What is the contract management structure and associated cost?
- Assess the market for the service; for information on major players, SMEs, local suppliers.
- Reputation of the market with regards to dealing with workforce issues.
- Test the market to assess level of competition and suppliers' interest in delivering the reshaped service, including considerations for breaking the service into lots.
- What is the proposed length of contract and cost including relevant capital investment required?
- Will competition deliver an improved quality service?
- Are other councils in London outsourcing the service and what can we learn from their experience of delivering an outsourced service?
- Is there a management structure, capacity and skills in place to prepare and deliver an in-house service offer?
- ICT and data implications will need to be considered too. (These have implications for service provision, costs and also transition arrangements.)

8.3 Analysis of an in-house service

The analysis undertaken in the first and second steps would allow the service area to have sufficient information to carry out an options appraisal and decide on whether to renegotiate the current contract to effect an extension or to proceed to tender for a new contract. In order to consider if the insourcing option is more viable than these two options, there is a need to carry out a separate analysis of the in-house service provision and to use the output of this analysis in the holistic assessment of the three options.

Information pertinent for a comprehensive analysis of an in-house service option should be collated based on an extensive consultation with relevant key stakeholders and should include:

- The service scope and service activities that will be delivered. These should not be less than what is being proposed for outsourcing both in terms of scope and quality.
- Number of staff that will be required to deliver the service, management structure and staffing arrangement to cover absences.
- Current workforce capability and ability to attract good quality workforce essential for the delivery of the service.
- Professional standards and quality assurance certification required to provide the service in-house e.g. Clinical governance for health visiting and relevant health and safety certification.
- Fixed and movable assets required both for startup and ongoing service delivery.
- The whole-life cost of delivering the service in-house projected over a given period comparable to the length of an outsourced contract. This should include the initial cost outlay, transitional costs, asset acquisition, accommodation or infrastructure costs and labour cost.
- How the service will be delivered in practical terms, operational base and service access for users.
- What are the regulatory requirements for the service?
- Will the service be directly delivered by the local authority or through a direct labour organisation?
- Will bringing the service in-house enable joined-up, integrated and ultimately more effective service delivery and better services to the public?
- Check if another part of the Council operates a service that has the general functionalities and could manage the service.
- Are there other enhanced benefits that can be delivered from the operation of the in-house service over and above what the outsourced service can provide?
- What are the potential barriers to and weaknesses of insourcing the service?

8.4 Detailed options appraisal

The background information and analysis undertaken in steps 1 to 3 (8.1-8.3) should be used to undertake an options appraisal on the three options available to the Council for future service delivery. The service area should assess these options against the five main criteria discussed and highlighted in sections 3 to 7 of this document, and ascertain which of the three options is best under each criterion using a set of weighting suggested in the table below

| Assessment Area | Weighting Range (%) |
|---|---------------------|
| Local Policy and Business Strategy | 10-15 |
| Performance of the Service | 25 (no range) |
| Quality improvement and Value for Money | 30-40 |
| Workforce Matters | 15-20 |
| Risks | 10 (no range) |

The assessments will be both rational (fact based) and subjective in certain aspects but the overall ruling in terms of which option is preferred must first and foremost deliver affordability and ensure that there are no adverse impacts on departmental and Council's overall budgets. The selected option must then demonstrate best overall service enhancement potential in respect of the other criteria.

8.5 Finalise the Business Case

The penultimate step for this process will seek to develop a business case for the service Director to consider. The business case would detail the options appraisal undertaken by the service and clearly set out the relative merits of these three main options as assessed under the five key main criteria mentioned in this document.

The outcome of options appraisal for each criterion may show varying degrees of preference for each of the options, particularly in terms of whether we outsource or insource but an overall view, on which option to select, must be formed in consultation with relevant key stakeholders, including the Group Director, the Cabinet Member for the service area and the Mayor.

The business case report should include Legal, Finance, HR and ICT comments acting as both as an independent verification of the case for or against insourcing of the service in question and also highlighting any potential legal, HR, technology related and financial risks and challenges associated with any recommendations as well the proposed approach for mitigating the risks.

The final step in this process will be the consideration of the Business Case by the Cabinet Procurement Committee as a key decision item. The Committee will make the final decision to bring the service back in-house based on the criteria set out in this policy document and on the basis that it is assured that the proposal set out in the business case will deliver best value to the Council and its residents.

9. Legal Considerations

The Transfer of Undertaking (Protection of Employment) Regulations 2006 safeguards employees' rights when there is a service provision change.

Where the Council proposes to bring services "in house", the contract of employment of any employee working within the service would be covered by the regulations. All such employees would transfer to the Council on their existing terms and conditions of employment. Any change to these contractual terms is problematic and the Council should not attempt to harmonise such employees onto Council terms and conditions of employment at the point of transfer. Any contractual change for this reason would be deemed void. The Council should seek agreement to any transfer to Council terms and conditions of employment with the employee and union representatives.

The Council should note, as outlined in paragraph 6, that there will be a risk of losing key staff due to the fact that an employee can choose not to transfer to the Council.

In such circumstances the employee can remain with their existing employer or resign from their post rather than transfer to the Council.

Under the General Scheme of Delegation, a Group Director has authority, in a transfer of undertaking situation, to make decisions that affect affected employees.

Any service provider whose service provision is to transfer to the Council as a result of an insourcing decision would be required to comply with all of the exit provisions in their contract. Such provisions are likely to require them to give assistance to the Council in TUPE matters, return and/or delete certain information relating to service provision. The service provider would also be required to comply with any ongoing obligations which continue to exist for periods after the end of the services provision, for example insurance obligations, Freedom of Information and Data Protection requirements and contractual liability provisions.

10. Financial Considerations

Financial considerations of insourcing decisions are reflected throughout this document. Notably at section 2, 'Bringing services in-house - our approach' it is emphasised that the Council will ensure that contracted services are brought back in-house only where it makes financial sense to do so and on the basis that it will not add further stress to the Council's overall financial position.

Managers will need to ensure that a complete and robust financial assessment is made before recommending a procurement option. In so doing early engagement with finance teams is a prerequisite with the relevant Director or Head of Finance the first point of contact. Decisions being made will be in respect of services across a range of expenditure levels, and the Council needs to ensure that each gets the appropriate level of financial scrutiny.

11. HR Considerations

Human Resources (HR) must be involved at an early stage when considering insourcing. TUPE legislation is complicated and advice will be tailored to the specific situation. HR must therefore be informed when insourcing is being considered in each and every case so that this advice can be given in good time.

The HR Business Partner should be contacted in the first instance. The time that the advice will take will vary depending on the complexity of the contract, the number and type of workers who are delivering it and the contractual arrangements of the workers concerned.

12. ICT and Digital Considerations

The Council's ICT Service must be involved from the initial stages of evaluating the potential sourcing model for a service. Factors which will need to be considered include:

- The application of data standards
- Data protection
- Security requirements
- Service standards and technology standards
- Commissioning of any systems required to deliver the service and costs for any software licences and hardware required
- Novation of licences
- Transfer, access to and retention of data
- Interoperability requirements (eg for teams working across different organisations' ICT platforms, data exchange etc)
- Provision of ongoing support, maintenance and training / guidance for users.

It is essential to note that the complexity that is often involved with the transition of ICT systems and data means that timely engagement is critical to avoid delay to delivery of the planned service changes.

Services should contact their ICT Relationship Manager in the first instance, who will be able to provide initial advice, including advice on likely timescales, and coordinate further engagement.

13. Performance Management of Insourced Services

Performance management of insourced services is vital not only to ensure that the expectations set out in the insourcing business case are met while the service is embedded in-house, but to also enable the Council to deliver improvements in service delivery beyond what was expected and that as a minimum it perform over and above what the externalised model looks like.

In this regard, the service area insourcing a service will be required to produce and present a service performance report to Cabinet Procurement Committee on the first year anniversary of an insourced service. This report will provide information on how the service is being embedded following implementation and will also set out improvement plans that will deliver improved performance and cost efficiencies over the coming years

The procurement team will also work with service areas to develop high level key performance indicators that will be used to monitor the performance of the service on an ongoing basis. The KPIs will relate to service delivery impact on service users, the wider community in respect of social, economic and environmental benefits and contribution to the delivery of the Council's key priorities.