

Supporting members



Defending services

Branch guide to options appraisals



Introduction

Options appraisals offer a critical intervention point for branches seeking to fight off privatisation. They usually help determine whether a council decides to trigger an active procurement process, or not. If branches can intervene successfully, the threat of privatisation is more easily averted at the options appraisal stage than it is when an active procurement process has been triggered.

This guide looks at:

1. What is an options appraisal?
2. The importance of evidence
3. Branch action

1. What is an options appraisal?

An options appraisal usually occurs when a council has been reviewing a service and wants to weigh up different service delivery options for the future. It should be a wide-ranging cost-benefit analysis capable of assessing risks and exploring ideas for improvement.

At the point it is carried out, a council should already have consulted widely with staff, service users and other stakeholders. It should have considered the objectives it has for the service, including how it can improve economic, social and environmental well-being, and promote equality.

The outcome of an options appraisal is usually to narrow down the options and produce a recommendation for which one or ones should be pursued further. At this point the council could decide to move into an active procurement process where it will invite bids from external providers. Or it could decide to focus efforts on developing and improving an in-house service, possibly with other public sector partners or specialist suppliers.

An options appraisal is only as good as the quality of the information that goes into it, and the validity of the criteria that are used to make the decision. It is a 'method not a science' and as such can produce very different outcomes depending on the assumptions that are made, the criteria that are chosen and the weighting that is placed on each of them.

There is a danger it can be a very subjective process which can be constructed to support an outcome – privatisation – while dressing it up for elected members as an objective assessment. This means that

branches will want to influence and scrutinise the methodology for the options appraisal as far as possible.

How does it work?

The starting point should be a detailed and comprehensive assessment of how the service currently performs. Many councils have in recent years ceased collecting detailed performance data so they will need to do some work to assemble this first, and staff should be consulted and involved in this process.

Some approaches have two stages – the first looks at a simple analysis of each option based on advantages, disadvantages and risks. Based on this a short-list is arrived at for a more in depth analysis and scoring exercise.

Options appraisal is normally based on a weighting and scoring system where various factors are weighted according to priority and then scored accordingly.

Options appraisals take place before any active procurement process has been triggered. Therefore they can consider as wide a range of social and 'non-commercial' matters as they wish. Appraisal criteria can include factors such as 'quality of employment'; 'community benefits' 'equality and diversity'. They should not focus narrowly on cost and service specifications.

An options appraisal might look at a number of different options side by side. For example:

- A. In-house service with improvement plan
- B. Wholly owned arms-length trading company
- C. Public-public shared service
- D. Co-operative or mutual
- E. Privatised – contractor
- F. Joint venture with a private sector ‘partner’

Here we show a very simple scoring and weighting system with just two service delivery options having been assessed.

		SERVICE DELIVERY OPTION SCORE	
Criterion	Weighting	In-house SIP	Private contractor
Cost savings	x 3	2 (6)	3 (9)
Service delivery improvement	x 2	3 (6)	2(4)
Quality of local employment	x 2	3 (6)	2 (4)
Responsiveness to users	x 1	3 (3)	2 (2)
Regeneration of local economy	x 2	3 (6)	3 (6)
Raw score		14	12
Weighted score		(27)	(25)

Scoring:

Low = 1 Medium = 2 High = 3

In this version the in-house option ‘wins’.

But now look below at what happens if the weighting for 'cost savings' is changed from x3 to x5 and the weighting for 'regeneration' goes down to x1. Now the private contractor is neck and neck with the in-house option.

		SERVICE DELIVERY MODEL SCORE	
Criterion	Weighting	In-house SIP	Private contractor
Cost savings	x 5	2 (10)	3 (15)
Service delivery improvement	x 2	3 (6)	2(4)
Quality of local employment	x 2	3 (6)	2 (4)
Responsiveness to users	x 1	3 (3)	2 (2)
Regeneration of local economy	x 1	3 (3)	3 (3)
Raw score		14	12
Weighted score		(28)	(28)

In reality you will be faced with more complicated matrices than the one above, but the exercise illustrates the 'sensitivity' within the model to changes in weighting and how a different outcome could be produced.

2. The importance of evidence

Decisions about weighting and scoring are critically important, but deciding what evidence will be used to score the different options is critically important too. For example, how will the council judge what impact a private contractor will have on regeneration of the local economy?

They will need to take a view about whether a contractor will commit to keeping jobs within the local authority area and whether it will cut pay for workers leading to a reduction in local spend. You will want to ask questions and test assumptions that are being made and ask for the sources of evidence for them.

Equally councils need to be basing their view of how an in-house service will score on an informed evidence base of what it does now and has the potential to do. Councils should engage staff in this evidence gathering process.

For example councils will often say that giving a large contract to a private contractor to run systems and processing services is necessary to modernise IT infrastructure. But in fact an in-house service could continue to run systems and processing with the council buying in the new IT infrastructure from a specialist supplier.

3. Branch action on options appraisals

1. Seek agreement that:
 - UNISON will be fully involved and consulted starting with drawing up of the criteria and scoring method, and continuing throughout. This could be in the form of a consultation forum or through a seat on the steering group for the project
 - the design and process will not be outsourced to external consultants – this is expensive, not transparent, and risks conflicts of interest and lack of internal ownership. The council should develop its own capacity to do options appraisals
2. Press for an in-house option to always be included, resourced and evaluated. Watch out for, and challenge, the inclusion of a ‘do nothing’ or ‘status quo’ option. An in-house option should always be given the chance and resources to develop its own service improvement plan in order for a true comparison to be made (see branch guide to securing in-house services)
3. Seek agreement that a move to active procurement will only be considered if the in-house service has not been able to achieve the service improvements after a reasonable period of time
4. Be vigilant for criteria which will produce bias in favour of privatisation
5. Push for inclusion of criteria which ensure that in-house services’ strengths are properly factored in, such as:
 - Democratic control and accountability
 - Council’s ability to manage risk
 - Continuity in delivering high quality services
 - Social justice, equality of opportunities and outcomes
 - Quality of local employment, training and development
 - Responsiveness to users and local organisations
 - Sustainable regeneration of local economy – extent to which local economy retains money spent on the service
 - Strategic management of the service within overall performance management network
 - Flexibility and responsiveness to changing need and budgets.
6. Consideration of costs should cover whole life costs including the cost of procurement, contract monitoring and transaction costs, tax issues etc for options which require privatisation
7. Challenge any criteria, scoring or weighting which you consider biased or inappropriate
8. Before finalising criteria, weighting and scoring outcomes do a sensitivity analysis. Test how different assumptions about evidence and different weightings affect outcomes. If making small alterations to the scoring or weighting, or changing an assumption can produce different ‘winners’ the design will need to be reviewed. This is an effective way of showing that basing a big decision on a

process which is so sensitive to minor changes is a risky business.

9. If you have concerns about the evidence that has been used for the scoring, collate your evidence and examples and challenge the process. If robust evidence isn't available then the process should be paused until it can be identified. Integrity in the exercise is essential to ensure the council is meeting its duty of Best Value (see branch guide to Best Value)
10. Seek expert assistance eg from your region, the service group or APSE if you need help with making proposals for how to conduct an options appraisal, or where a 'critical friend' analysis on a process might help your discussions with the council
11. If the appraisal goes ahead with a flawed design or assumptions gather your evidence and lobby for the process to be scrutinised by the appropriate council committee before any decisions are taken

The above advice can be easily adapted when a council is reviewing a service which is currently privatised, and considering the option of bringing it back in-house.

More information

For a detailed model of how to undertake options appraisals, see:

Options appraisal criteria and matrix, ESSU research report no 2, European Services Strategy Unit

www.european-services-strategy.org.uk/news/2007/pfi-ppp-appraisal-matrix/essu-options-appraisal.pdf

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