

REPORT TO: Audit and Governance Committee

MEETING DATE: 9 September 2014

BY: Depute Chief Executive (Partnership and Services for Communities)

SUBJECT: Options Appraisal: are you getting it right? (Audit Scotland, March 2014)

1 PURPOSE

- 1.1 To provide Audit and Governance Committee with a summary of the Audit Scotland report, '*Options Appraisal: are you getting it right?*' and the actions being taken by the Council in response to the report's recommendations.

2 RECOMMENDATIONS

- 2.1 Committee notes the Audit Scotland report and the actions that East Lothian Council is taking to develop the use of options appraisal.

3 BACKGROUND

- 3.1 ***Options Appraisal: are you getting it right?*** (March 2014) is the latest in the Audit Scotland series of 'How Councils Work' reports for councillors and officers. The report is in two parts:

Part 1 looks at the roles that councillors have in options appraisal.

Part 2 provides detail of the options appraisal process.

- 3.2 This covering report provides a summary of the report's key messages and key issues raised in Parts 1 and 2 and the current position with regards to options appraisal in East Lothian Council.

- 3.3 The report's key messages are:

- As demand and resource pressures continue to build, councils should '*ensure rigorous and challenging appraisal of options for delivering services*'
- Even for services which are prescribed in legislation and where there is some prescription in what services are provided '*councils*

retain substantial discretion on how services are delivered and by whom'

- *'Councils need to consider a wide range of options when considering what services to provide and how to provide them,' ensuring themselves that they are 'value for money, efficient and effective and demonstrate Best Value'*
- A robust options appraisal helps councils make the important decisions about how services are provided. *'It also helps to ensure that decisions are transparent and based on solid information'*
- The objectives of any options appraisal must be clearly defined and be consistent with the council's strategic policy objectives. *'This might be about providing services in a different way to better meet the needs of residents, it might be about making existing services more effective or it may be about making savings to provide resources for other higher priority areas'.*

Part 1: Councillors have a crucial role in options appraisal

- 3.4 The Accounts Commission has previously reported that savings made by councils to date have mainly been achieved by reducing workforces, but that this is not sustainable in the longer term. Therefore councils must critically examine current arrangements for service delivery through rigorous options appraisal.
- 3.5 As councillors face increasingly difficult decisions about where to focus resources it is even more important that they are confident that the council is providing the right services in the right way. The report highlights that *'A robust options appraisal process helps provide assurance to councillors and the public that these decisions are being made on a sound basis and by considering all of the relevant information.'*
- 3.6 In its 'Overview of Scottish Local Government in Scotland 2013' Audit Scotland had recommended that *'councillors need to ensure rigorous and challenging appraisal of options is undertaken for delivering services.'*
- 3.7 Audit Scotland suggests that councillors could be involved in:
- agreeing the council's options appraisal framework
 - determining the need for an options appraisal
 - setting the criteria which will be used to assess which options best fit the council's objectives; e.g. improving performance or achieving savings
 - making the decision on which option to implement

- scrutinising the implementation of the decision and the impact it has on service delivery.
- 3.8 The report highlights that some of the factors that might be barriers to effective options appraisal including: unclear objectives, the 'Aye Bin' principle, and, a short-term perspective. In order to counter the perceived barriers councils need to invest the time, effort, staff and money required to undertake rigorous options appraisal with clear governance arrangements
- 3.9 Appendix 2 of the report provides a checklist of prompt questions designed to help councillors evaluate their role in options appraisal and assess how effective current arrangements in their council are.

Part 2: The options appraisal process

- 3.10 Options appraisal is a tool that helps to inform decision-making. It does not provide the decision itself. Options appraisal typically includes the following key stages:
- defining the objectives
 - gathering information
 - identifying, filtering and challenging the options
 - assessing and analysing the options
 - selecting the preferred option
 - implementing the option
 - monitoring performance and delivery against objectives.
- 3.11 The report includes a useful diagram illustrating and providing additional detail on these stages, including consultation with stakeholders at key stages (Exhibit 2, page 16). The report goes on to provide further details on the key stages and key requirements for rigorous options appraisal.
- 3.12 The report makes the important point that councils have choices about the size and scale of the options appraisal processes they use to ensure that it is proportionate to the significance of the decisions to be made. There are a number of potential triggers for options appraisals:
- Service reviews
 - Budget planning or budget imperatives
 - Self-assessment
 - The outcome of an external inspection or evaluation exercise
 - New administration

- Poor performance.
- 3.13 Finally, the report highlights that there is a range of possible outcomes from an options appraisal. Exhibit 3, page 20, illustrates some of the key features of four broad options:
- Retaining service in house
 - Delivering services in partnership
 - Outsourcing services
 - Choosing not to deliver a service.

Options appraisal in East Lothian Council

- 3.14 The Assurance and Improvement Plan 2014-2017 prepared by the Local Area Network, including Audit Scotland and the Council's auditors as highlighted that the Council's Improvement Framework and work around performance management shows that: "*There continues to be a very strong commitment from officers and members to improving the work of the council.*"
- 3.15 The Corporate Governance Self Evaluation and How Good is Our Council? self-evaluation carried out in 2012 identified the need to develop a 'more effective use of benchmarking, and guidance and training on the use of benchmarking, Best Value reviews and options appraisal'. This was included in the Council Improvement Plans for 2012/13 and 2013/14.
- 3.16 The Council is participating in several national benchmarking exercises being undertaken under the auspices of the Improvement Service based on priorities identified from the Local Government Benchmarking Framework.
- 3.17 A template for undertaking Best Value Reviews, incorporating options appraisal has been prepared to assist services to undertake Best Value exercises. The options appraisal element of the Best Value Review framework follows the template outlined in the Audit Scotland report.

4 POLICY IMPLICATIONS

- 4.1 The Audit Scotland report has highlighted the need to develop a systematic approach to options appraisal and to ensure that the role of elected members in options appraisal is recognised.

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required. However, it is recognised

that whenever options appraisals are carried out by the Council they will be subject to consultation and Impact Assessments.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none.
- 6.2 Personnel – none.
- 6.3 Other – none.

7 BACKGROUND PAPERS

- 7.1 *Options Appraisal: are you getting it right?* Audit Scotland, March 2014

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Service Manger (Corporate Policy and Improvement)
CONTACT INFO	pvestri@eastlothian.gov.uk 01620 827320
DATE	28 th August 2014

How councils work:
an improvement series for councillors and officers

Options appraisal: are you getting it right?



 ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2014



The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

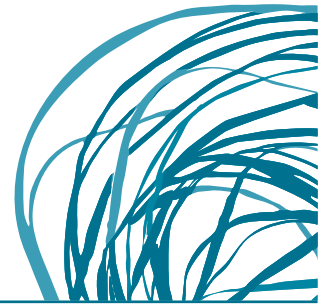
Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about/ac 

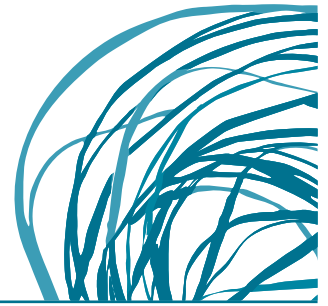
Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents



Background	4
Key messages	7
Part 1. Councillors have a crucial role in options appraisal	9
Part 2. The options appraisal process	15
Appendix 1. What an effective council looks like	30
Appendix 2. Questions for councillors	31
Appendix 3. Questions for officers	34

Background



Who is this report for?

1. This report is for:

- **Councillors** – who are responsible for setting strategic direction, taking policy decisions and scrutinising performance. [Part 1 \(page 9\)](#) focuses on the crucial role that councillors have in ensuring that a wide range of options are considered when deciding what services their council should provide and how they are delivered. Councillors also have a leadership role in the options appraisal process itself. Councillors must have the information and support they need to enable them to do this. [Appendix 2 \(page 31\)](#) offers a set of prompt questions which councillors should use to critically appraise arrangements in their council.
- **Chief executives and corporate management teams** – who are responsible for delivering the council's objectives and ensuring that councillors receive the information they need to make informed decisions.
- **Managers** – who are responsible for managing a robust options appraisal process.

2. [Part 2 \(page 15\)](#) is of a more technical nature. Both councillors and managers are encouraged to read it, but its principal target is practitioners engaged in the preparation, implementation and review of options appraisals.

3. We want this report to stimulate discussion among councillors and managers and to support change and improvement. This is critical given the current financial climate and the need to challenge existing ways of doing things. The report supports councillors and officers by signposting sources of information and guidance. We have also included checklists that we hope councillors and officers will find helpful.

4. This report covers:

- The leadership role that councillors have in the options appraisal process.
- Identifying the main options for delivering services and critically assessing them.
- Implementing the decision and monitoring performance.
- Managing an options appraisal process.

What do auditors say?



These boxes appear throughout this report. They have been drawn from Accounts Commission and Audit Scotland audit reports.

Want to know more?



There is a wide range of guidance material available on options appraisal. We reference this material in the report where appropriate.

About our 'how councils work' series

5. The Accounts Commission seeks to support developments in Best Value and how to manage resources such as people and finance. We recognise these as two components vital to successfully delivering council services.

6. Our 'how councils work' series of reports aims to stimulate change and improve performance. We select topics based on the recurring themes and issues from our Best Value audit work, the work of local auditors and our annual overview report.

7. This is the seventh report in the series. Previous reports have examined:

- [The roles, responsibilities and working relationships of councillors and council officers in achieving best value \(PDF\)](#) (August 2010).
- [The relationships between councils and their ALEOs \(arm's-length external organisations\) \(PDF\)](#) (June 2011).
- [The importance of good-quality cost information in policy decision-making and scrutinising performance \(PDF\)](#) (May 2012).
- [The importance of effective performance-management systems \(PDF\)](#) (October 2012).
- [Good practice guide for councils in managing major capital investment \(PDF\)](#) (March 2013).
- [Charging for services \(PDF\)](#) (October 2013).

8. All reports are available on Audit Scotland's website, www.audit-scotland.gov.uk .

9. This report highlights the importance of councils using rigorous options appraisals to:

- deliver efficient and effective services to local communities
- show they are achieving Best Value.

10. We have worked with the Improvement Service in developing this report and we are grateful for their contribution. We also shared the draft report with some councillors from a number of councils and thank them for their comments.

11. This report is intended as the first of two reports on options appraisal. A follow-up report will consider existing practice in councils on how they undertake options appraisals.

Key messages

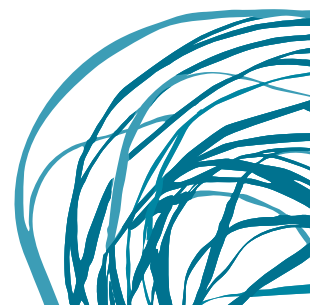


- 1** There are many challenges facing councils, the most pressing being the need to manage financial pressures and the increasing demands on services. The Accounts Commission report [*Responding to challenges and change: An overview of local government in Scotland 2013 \(PDF\)*](#) highlighted that demand and resource pressures continue to build for councils. One of our key recommendations was that councils should 'ensure rigorous and challenging appraisal of options for delivering services.'
- 2** Everything a council does has its roots in legislation. Some services are more prescribed in legislation than others, for example the collection of council tax and business rates. For other services, councils have a lot of discretion on the level of service provided. Even for those services where there is some prescription, it is relatively limited and councils retain substantial discretion on how services are delivered and by whom.
- 3** Councils need to consider a wide range of options when considering what services to provide and how to deliver them. They must assure themselves that the services they are providing are value for money, efficient and effective and demonstrate Best Value through continuous improvement. They can do this by critically assessing the current arrangements and by looking at how services are provided by other councils and other organisations.
- 4** Councillors and officers need to be open to considering a broad range of options for delivering services. This might involve providing services in a different way, or even not providing some services at all. These are difficult decisions to make as they affect residents and customers, partner organisations and council staff. A robust options appraisal helps councils make these important decisions and provides assurance that all the relevant issues, including quality, cost and risk have been considered. It also helps to ensure that decisions are transparent and based on solid information.
- 5** It is vital that councils clearly define the objectives of any options appraisal process. This might be about providing services in a different way to better meet the needs of residents, it might be about making existing services more effective or it may be about making savings to provide resources for other higher-priority areas. When deciding on the objectives, a council needs to ensure that the possible outcomes of any options appraisal are consistent with its strategic policy objectives.

- 6 As with any process, options appraisal needs to be resourced properly to ensure that it works well. This involves devoting the appropriate time, money, skills and experience to ensure that sound decisions are made. The process needs to be proportionate to the significance of the decision to be made.
-

Part 1

Councillors have a crucial role in options appraisal



Why is options appraisal important?

12. The Local Government (Scotland) Act 2003 introduced the statutory duty of Best Value in local government. The duty of Best Value requires councils to deliver continuous improvement. The public are entitled to services which are efficient, effective and represent the best possible value for money.

13. Councillors have to make difficult decisions about where to focus the council's resources. In the current financial climate it is even more important that councillors are confident that the council is providing the right services in the right way. They can do this by critically assessing the current arrangements and by looking at how services are provided by other councils and other organisations. They should then consider a wide range of options for delivering services and assess the relative merits of the options. A robust options appraisal process helps provide assurance to councillors and the public that these decisions are being made on a sound basis and by considering all of the relevant information.

14. In addition to the widely accepted benefits of robust options appraisal process there are also significant consequences of not conducting a proper appraisal:

- Services may not be as efficient and effective as they could be.
- Services may not be achieving value for money.
- Resources may not be directed to priority areas, such as preventative expenditure, and the council's strategic objectives may not be achieved.
- The council may face criticism from residents and customers.
- The council may face criticism from the Accounts Commission, auditors and other scrutiny agencies.
- The council will not be able to demonstrate that it is achieving Best Value.

What is options appraisal?

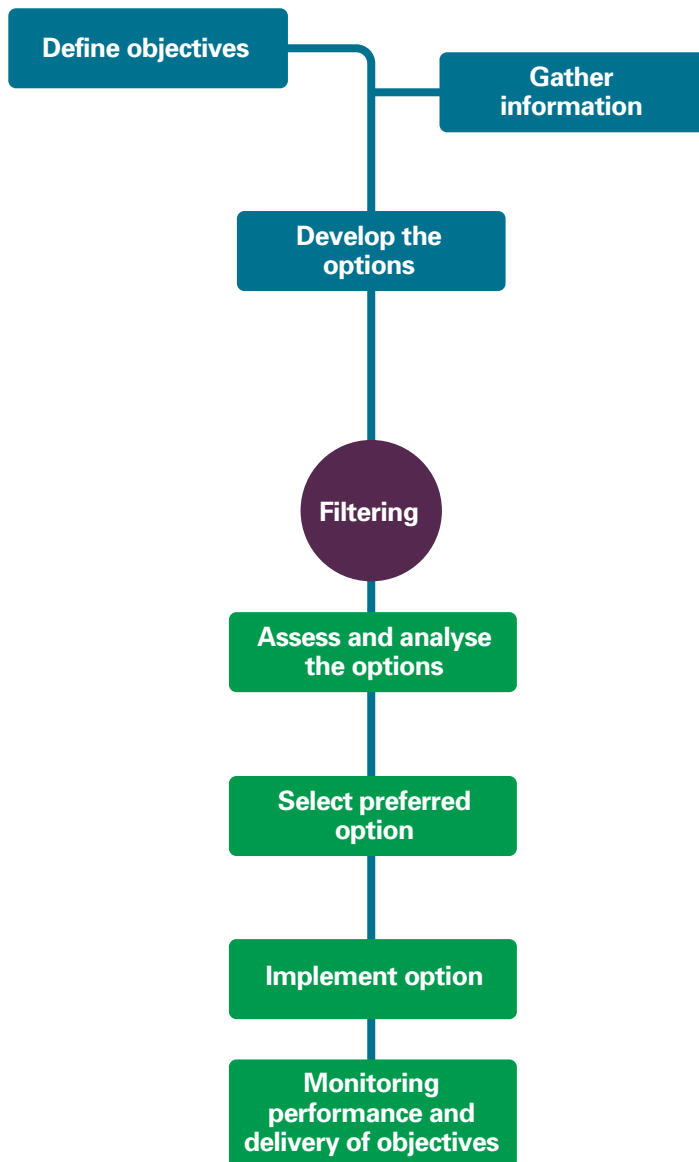
15. An options appraisal is all about making well-informed decisions. The *Best Value – Making Choices, Volume One: A Manager's Guide to the Strategic Framework for Best Value, Procurement and Competitiveness* published by the Scottish Government in 2001 noted that, as with any decision-making tool, options appraisal provides support to the process, it does not provide the answers. The value of decision-making tools is that they take people through the process stage by stage, and they assist in making sure that everything relevant is taken into account.

am I
considering
all of the
options on
how services
might be
delivered?

16. The basic stages of an options appraisal process ([Exhibit 1](#)) were set out in our report [Arm's-length external organisations \(ALEOs\): are you getting it right? \(PDF\)](#)  published in 2011.

Exhibit 1

Basic stages of an options appraisal process



Source: *Capital Planning and Option Appraisal – A Best Practice Guide for Councils*, CIPFA Local Government Directors of Finance, October 2006, adapted by Audit Scotland


17. We have developed this further to highlight the role of councillors, the key reporting stages and the importance of consultation with stakeholders. This more detailed process map is shown in [Exhibit 2 \(page 16\)](#).

18. There is a wide range of possible outcomes from an options appraisal process. These include:

- delivering services in partnership (with other councils, with other public or voluntary organisations or with the private sector)
- setting-up an arm's-length organisation like a charitable trust
- outsourcing services to a private sector supplier
- retaining services in-house
- setting-up an employee-owned cooperative or mutual company
- deciding not to deliver a service at all.

19. In 2011, the National Audit Office published *Options Appraisal: Making informed decisions in government*. The report found that the quality of options appraisal varied within and between departments across government. It is reasonable to assume that this is also the case in the public sector in Scotland.


What role does a councillor play in options appraisal?

20. Councillors have a crucial role in options appraisal. The Accounts Commission report [*Responding to challenges and change: An overview of local government in Scotland 2013 \(PDF\)*](#)  recommended that councillors need to ensure rigorous and challenging appraisal of options is undertaken for delivering services.

What do auditors say?



Councillors need to oversee options appraisals that involve potential major shifts in how services are provided. They have a key role, for example in agreeing the broad objectives of the options appraisal, in the appraisal process itself or in scrutinising the process and emerging proposals.

Source: [*Arm's-length external organisations \(ALEOs\): are you getting it right? \(PDF\)*](#) 
Accounts Commission, June 2011

21. Councils that involve councillors in determining the need for an options appraisal to be carried out have often been more successful in obtaining a good outcome. At the outset, councillors should consider the significance of the options being considered and assure themselves that the options appraisal process being used to help them make the decision is robust and proportionate.


22. Councillors have an important role in ensuring strong corporate ownership of options appraisal. Councillors need to be involved in agreeing the framework, in effect they are agreeing 'the rules of the game' to ensure that they have confidence in the options being presented to them. This also helps to ensure a consistent and systematic approach to options appraisal is used across the council.

23. Weighing up the relative merits of the options is an important part of the process. Councillors may therefore have a role in setting the criteria which will be used to assess which options best fit the council's objectives. For example, if the priority is improving performance, this will feature strongly in the assessment criteria. In other cases achieving savings might be the priority, so that will feature more prominently. In any options appraisal, however, the criteria should include both quality and cost. The council also needs to consider the impact on equalities and sustainability.

24. The most important part of any councillor's role in an options appraisal is the decision on which option to implement. This can have far-reaching consequences on the services the council delivers, how it delivers them and ultimately on the users of those services.

25. Following the decision, councillors also have an important role in scrutinising the implementation of the decision and the impact it has on service delivery. This can be achieved by monitoring performance and the delivery of service objectives on a regular basis.

Important considerations

26. In our 2010 report [*Roles and working relationships: are you getting it right? \(PDF\)*](#)  we highlighted that councillors need to be open to considering a wide range of options for providing services and that decisions must be transparent and evidence based, taking cost and quality into account.

27. It is essential that councillors have the appropriate skills to scrutinise options appraisals. Councillors have an important role in asking officers challenging questions to assure themselves that the appraisal is robust and that all of the relevant issues are being considered.

28. Careful consideration also needs to be given to resourcing options appraisal as the outcome may have far-reaching consequences for residents, customers and the council. Councils also need to consider whether or not the council has the necessary skills and expertise in-house to carry out the appraisal. Some of the options being considered may be innovative or complex and it may be that specialist external support is required.

29. The council also needs to consider the timing of options appraisals. Wherever possible the process should align with a council's planning and budgeting timetables, so that any important decision on service delivery can inform and be informed by these processes. Councils also need to consider the timing in relation to the political cycle, including local and national elections. Experience indicates that difficult decisions become far more problematic politically in the run-up to an election.

30. [Appendix 2 \(page 31\)](#) to this report includes a checklist of prompt questions designed to help councillors evaluate their role in options appraisal and assess how effective current arrangements in their council are.

Potential barriers to an effective options appraisal

31. Options appraisal can be extremely challenging for councils, for councillors, for managers and for staff. Loyalties run deep in councils, councillors hold strong political beliefs and balancing competing interests is always difficult. But the duty of Best Value on making best use of public resources must always be paramount.

32. Councillors should be aware of things that might get in the way of an effective options appraisal. These include:

- **Unclear objectives:** a council needs to take the time and be clear about the reasons why services are provided in-house. There may be good reasons for this; it may be due to the specialist nature of the service, the vulnerability of the client group, the absence of an alternative provider or issues of equality and fairness. They need equally to be clear which services are open to alternative forms of service delivery through a rigorous options appraisal. We have seen examples, however, where councils have spent time and public money pursuing alternative service delivery options, only to withdraw late in the process.
- **The ‘Aye Bin’ principle:** change is never easy, it can be challenging for officers and for councillors to radically change the way a council has provided a service often over a lengthy period of time. Councillors might believe that options appraisal would be too difficult and fear that the alternatives seem too radical. Councillors may also be uncomfortable with alternatives given their personal and political sympathies and aspirations.
- **A short-term perspective:** focusing too much on the ‘here and now’ or on the short term can mean that the longer-term benefits are not fully considered.

What do others say?



Options should be appraised on their costs and benefits, not on personal preferences of key stakeholders or individuals.

Source: *Options Appraisal Workbook: Planning Advisory Service pilot projects*, Local Partnerships (jointly owned by HM Treasury and Local Government Association), 2012

33. The Accounts Commission has previously reported that the savings made to date have mainly been achieved by reducing workforces, but that this is not sustainable in the longer term. Councils must therefore critically examine their current arrangements for service delivery through rigorous options appraisal. But to gain acceptance of the need for options appraisal, councils need to invest the time, effort, staff and money. This would help councillors, managers, employees and other key stakeholders understand the importance of options appraisal and the use it can have to deliver the council’s overall objectives. Councillors have a crucial role in ensuring that local communities understand this as well.

34. Councils can address some of the perceived barriers by making sure that for any options appraisal, it has the right people involved, that those people have the right skills and that everyone has clear roles and responsibilities. Furthermore by putting in place clear governance structures at the outset of the options appraisal, this will ensure that the decisions on selecting the preferred options are transparent.

What do we mean by governance?



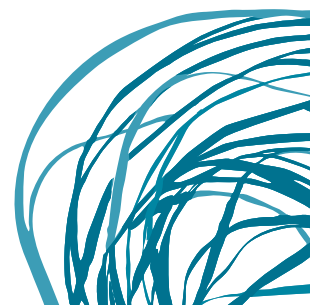
Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

Source: Delivering Good Governance in Local Government, SOLACE/CIPFA, 2007

Part 2

The options appraisal process



An options appraisal process is all about making well-informed decisions

35. Options appraisal is a tool that helps to inform decision-making. As with any decision-making tool it provides support to the process – it does not provide the decision itself. Best Value review teams, senior managers and elected members still have to make judgements and it may be necessary to explain those judgements to others. The value of decision-making tools is that they take people through the process stage by stage and they assist in making sure that all the relevant factors are taken into account. A decision that has been carefully considered in discussion with others and informed by a robust process is more likely to be successful.

36. Options appraisal typically includes a number of key stages:

- defining the objectives
- gathering information
- identifying, filtering and challenging the options
- assessing and analysing the options
- selecting the preferred option
- implementing the option
- monitoring performance and delivery against objectives.

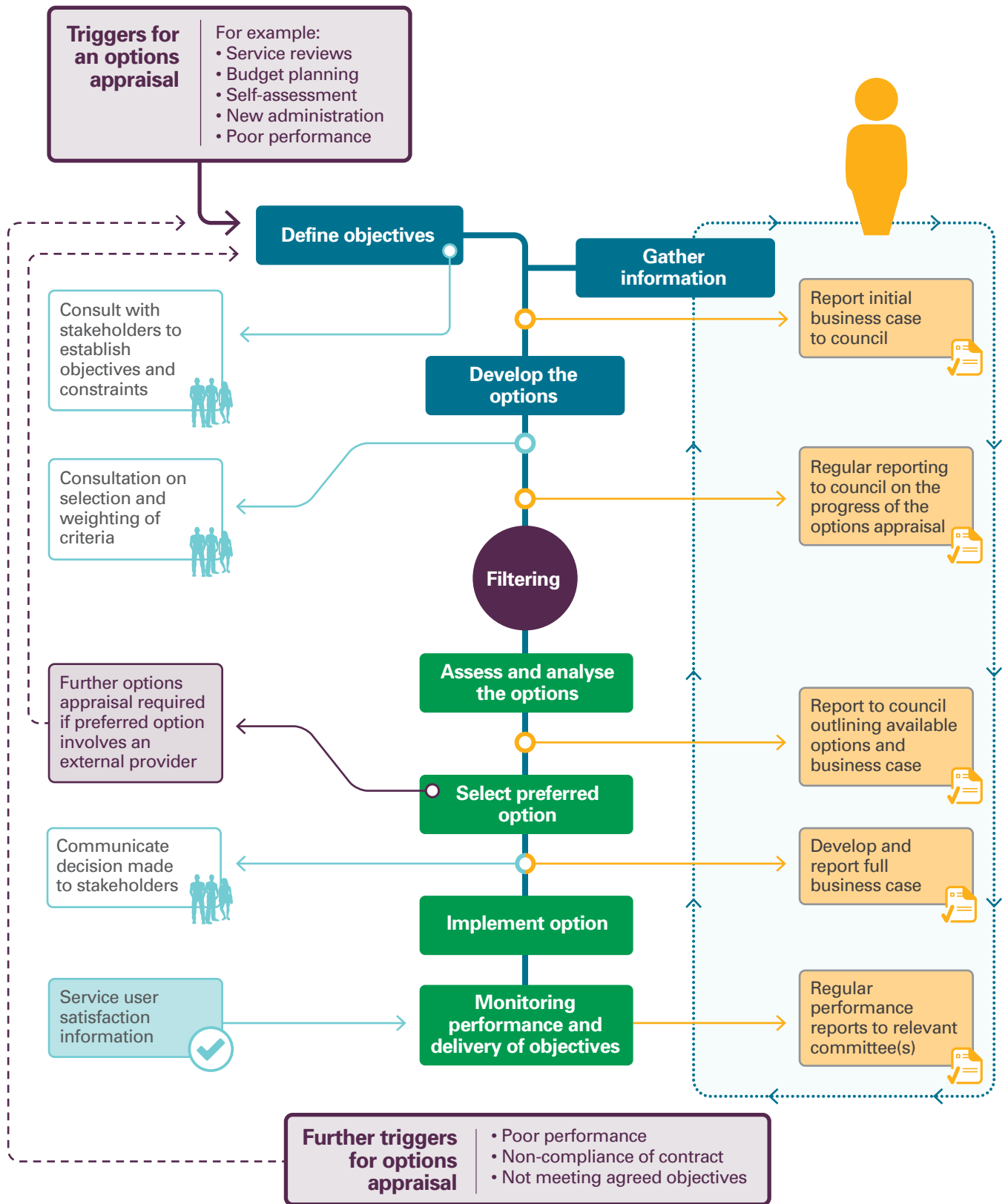
37. These stages are illustrated in [Exhibit 2 \(page 16\)](#) and we say more about each of them in the sections that follow.

38. The key stages of options appraisal can be used to help make decisions at a number of different levels, from strategic decisions about services to more specific decisions about projects or operational matters. Councils have choices about the size and scale of the options appraisal processes they use to ensure that it is proportionate to the significance of the decision to be made.

a decision that has been carefully considered in discussion with others and informed by a robust process is more likely to be successful

Exhibit 2

Stages of an options appraisal



Everyone involved needs to have clear roles and responsibilities

39. It is important to be clear about who is accountable for the options appraisal and who will be involved in the work. It is also important that those involved keep an open mind and remain objective. A range of people may be involved in the appraisal depending on the significance of the decision being taken and at different stages in the process. These might include:

- Councillors – to agree the overall approach to options appraisal and indicate a willingness to consider a wide range of options.
- Senior officers – to oversee the process, critically appraise the options, make recommendations and implement the chosen option.
- Council officers within the service areas being appraised – to provide service-specific knowledge and expertise.
- Chief financial officers and other finance officers – to provide specialist financial skills to the appraisal team.
- Trade union representatives – to represent any staff who may be affected by the decisions taken.
- External advisers – to provide specialist advice and an independent perspective.

40. Councils may also consider involving staff from other service areas or organisations in an appraisal team to provide fresh perspectives and insights from their own experiences.

41. Council officers need to ensure training is made available to councillors and other staff involved in the options appraisal process so that they can each fulfil their respective roles effectively.

Defining clear objectives is critical for success

42. The need to carry out an options appraisal process may come from a variety of sources. These 'triggers' might include:

- a strategic review of service delivery, for example as part of a council's transformation programme or improvement plan
- the outcome of a self-evaluation exercise
- the outcome of an external evaluation exercise
- poor service performance – highlighted by performance indicators and through benchmarking comparisons
- a new administration is formed
- budget imperatives
- policy direction.

43. It is vital that councils clearly define the objectives of any options appraisal process. When deciding on the objectives, a council needs to ensure that the possible outcomes are consistent with its policy objectives. In a practical sense this means checking the objectives with key strategic documents including the Single Outcome Agreement, the Corporate Plan and service plans.

Good-quality information informs good decisions

44. Good decisions are made when they are based on good information. The information should provide decision-makers with what they need to fulfil their role effectively.

45. How much information is needed will depend on the significance of the decision being made. The information requirements are likely to become more detailed at each stage of the options appraisal process. For example, the final stages of a process involving competitive bidding will require detailed financial and quality information, and may require legal advice in some cases.

46. At various stages of the process those involved are likely to need information about:


- The current position
 - the context – the demands facing the service and the environment within which it operates
 - current performance and costs.
- The options
 - ‘strategic fit’ with the council's policy objectives
 - impact on the quality of service for the customer
 - financial implications (both costs and savings) and value for money
 - legal implications
 - risk assessment
 - impact on other council services and partner organisations.

47. Councils should invest sufficient time to gather the relevant information. This leads to a more constructive challenge from the outset, provides for a more rigorous options appraisal process overall and therefore a well informed decision.

Consulting with stakeholders is a key to success

48. The size, nature and subject of the options appraisal will determine who the key stakeholders are. At the outset it is useful to do a stakeholder analysis to identify:

- who the stakeholders are
- what their interest and contribution to the process might be
- how and when to consult with them.

49. In our report [Major capital investment in councils \(PDF\)](#)  published in March 2013, we highlighted that engagement with a wide range of stakeholders is an important part of any project. While this related to major capital projects, it is equally applicable to the options appraisal process.

What do auditors say?




Every project has stakeholders. These can cover a range of different groups including local residents, businesses, employees, service users, suppliers and public sector bodies such as health boards. Engaging and consulting with stakeholders is essential in achieving a successful project outcome. Stakeholders' interest in a project can have both positive and negative effects on its progress. Their concerns may also create additional risks to a project's outcomes. Engaging with stakeholders effectively is therefore important and should be a vital part of project planning from the start. Consulting with stakeholders can often be a lengthy process. But it can shape the project at an early stage and help ensure a more successful outcome.

Source: Major capital investment in councils: Accounts Commission March 2013

Critically appraising a wide range of options ensures the process is robust

50. At an early stage of the process, councils should develop a 'long list' of options. This long list should include those which might be considered radical, for example ceasing to provide a service. This is to ensure that all options are considered, so that, even if they are then ruled out, this is done by design rather than oversight.

51. Those involved in the options identification stage need to be open-minded and creative in thinking what the options might be. The 1999 Accounts Commission report [Better together? Making improvements by reconfiguring services \(PDF\)](#)  highlighted the importance of 'thinking radically about options'. It suggested this be done right at the beginning of the process, generating ideas by, for example, benchmarking and looking beyond current boundaries and practices. This might include looking at good practice elsewhere in the public sector, the private sector and what happens more widely in the UK and internationally.

52. There is a range of possible outcomes from an options appraisal process and many different ways to deliver services. These include retaining services in-house, delivering services in partnership, outsourcing services or even choosing not to deliver a service at all. Some of the key features of these broad options are illustrated in [Exhibit 3 \(page 20\)](#). The exhibit is designed to be illustrative rather than comprehensive as there is a huge range of options a council can consider.

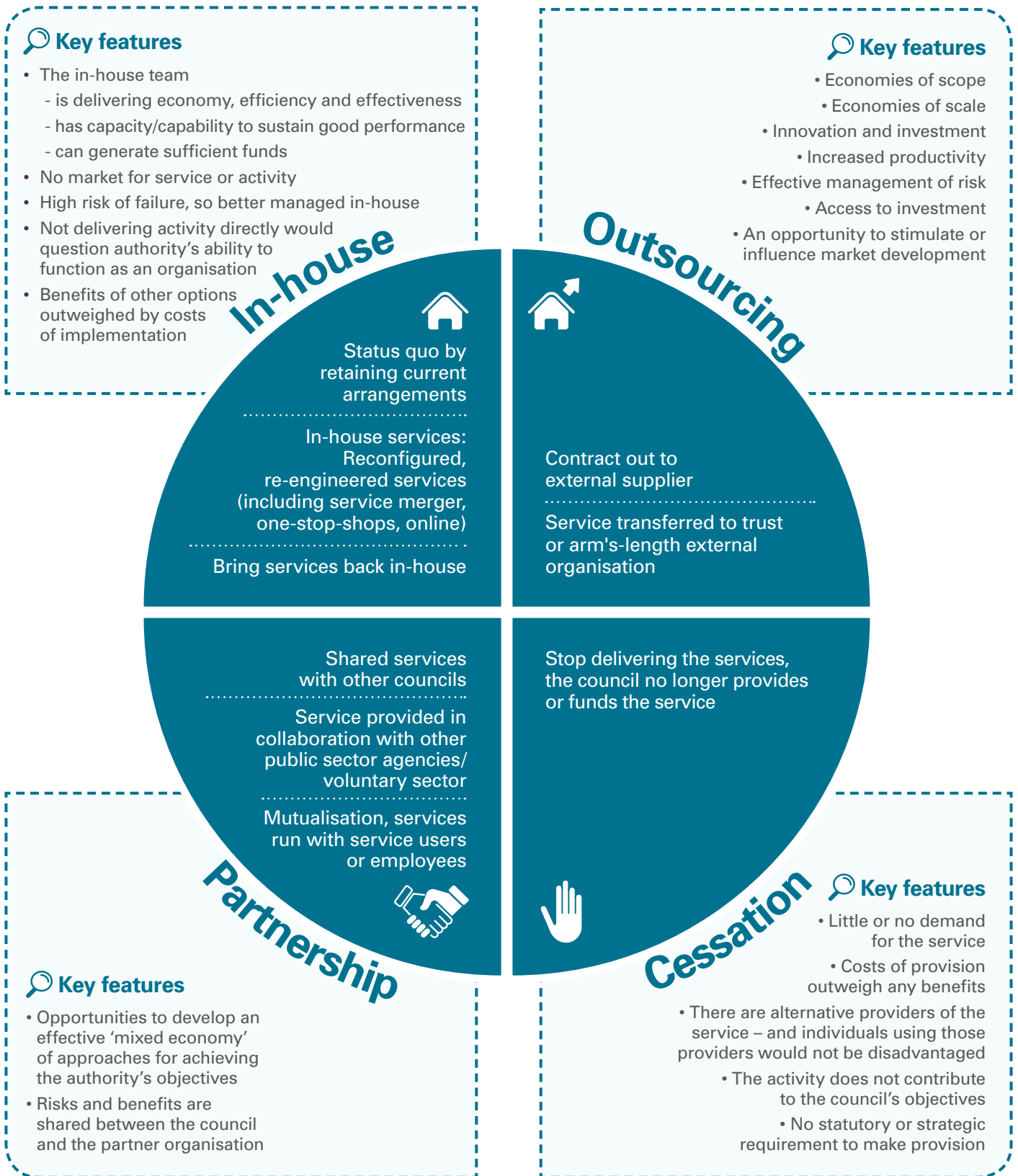
Filtering options

53. The next stage is filtering the 'long list' of options into a shorter list which will be the subject of more detailed analysis and assessment. To do this, councils need to agree a set of criteria. The criteria and the decision made to 'rule in' or 'rule out' options at this stage should be recorded. This is important for accountability and transparency.

54. This stage of the process shares many of the characteristics of the later, more detailed stages of assessment of the options ([Exhibit 4, page 21](#)).

Exhibit 3

Possible outcomes from an options appraisal



Note: Economics scope – as commercial and not-for-profit organisations concentrate on their specialisms or areas of expertise. An organisation specialising in the care of elderly people may be able to deliver better value than one that delivers services to a range of client groups. Economies of scope may also come from the development of a team of specialists working with a number of different clients. *Best Value – Making Choices, Volume Two: A Practice Guide to Best Value, Procurement and Competitiveness*, Scottish Government, 2001

Source: Audit Scotland, 2014

Exhibit 4

The options appraisal process becomes more detailed as it progresses

At each stage the process of options appraisal can become more detailed and more focused on comprehensive, specially collected, data. In the early stages the process for options appraisal will be the guarantee of consistency of approach. At the final stages it will be both process and data that are important. If that final stage is one of tender evaluation in a competitive bidding process it will be possible to undertake sophisticated analysis of financial and quality data that simply did not exist at the early stages.

Source: Best Value – Making Choices, Volume One: A Manager's Guide to the Strategic Framework for Best Value, Procurement and Competitiveness, Scottish Government, 2001

55. Having developed a 'shortlist' the next stage is to carry out a detailed assessment. There is a range of ways to go about this.

56. At this stage, councils should refine the assessment criteria to help decide on the preferred option. The criteria will depend on what service or project is being considered, but will typically include three main areas:

- Performance appraisal.
- Financial appraisal.
- Risk appraisal.

Performance appraisal

57. In assessing the relative merits of options, decision-makers will need to consider what effect each of the options will have on service performance. This should include an assessment of current performance (to provide a 'baseline') and what the anticipated effect each option would have on future performance. The performance appraisal should include a mix of both quantitative and qualitative measures. These might include an assessment of:

- customer experience and satisfaction
- contribution to the council's policy objectives and outcomes, including equalities and sustainability
- changes to the services, including when they are available and what services are offered.

58. This kind of appraisal is most effective when it uses a broad range of performance criteria and where data and projections include comparisons:

- over time
- against targets
- with other organisations.

What do auditors say?



The characteristics of good performance information is that it is:

- accurate
- timely
- meaningful (but not overly detailed)
- relevant
- high quality
- well presented.

Source: [Managing performance: are you getting it right? \(PDF\)](#) Accounts Commission, October 2012

Financial appraisal

59. A robust financial appraisal is another important part of an options appraisal process. In developing a financial appraisal of the options, councils will need to consider:

- initial set-up/transfer costs associated with each option
- operational costs/savings
- staff costs/savings
- tax and non-domestic rates implications
- central/recharge costs/savings.

What do auditors say?



As with other performance measures, it is important that councils understand the key assumptions on which any unit costs are based to ensure that any comparisons are relevant and that any differences are understood. For example, when comparing costs, councils must be clear about what overheads are included in the make-up of a unit cost. If this is not clear there is a risk that councils are not comparing like with like. This is particularly important when councils are using cost information to inform an options appraisal process. For example, if comparing the costs of an external supplier with an 'in-house bid', councils must ensure that the cost information is comparable to ensure that the bids are being assessed consistently.

Source: [Using cost information to improve performance: are you getting it right? \(PDF\)](#) Accounts Commission, May 2012

60. The assessments of costs and benefits should also include adjustments for 'optimism bias' and assess risks and uncertainties. Optimism bias is the tendency for appraisers to be over-optimistic about estimates of costs, timescales and benefits. As a result councils should build in appropriate allowances to estimates to take account of this, for example by increasing the cost estimates, decreasing the projected benefits or extending the timescales over which costs and benefits are being considered. *The Green Book – Appraisal and Evaluation in Central Government* by HM Treasury (2003) has further guidance on addressing optimism bias and provides an adjustment procedure to help address 'systematic optimism that historically has afflicted the appraisal process.'

Risk assessment

61. Carrying out a robust risk assessment is also an important part of an options appraisal process. This is even more important when the options being considered are very different to the way things are currently done. However, even the status quo has associated risks which decision-makers need to take into account.

62. Those responsible for carrying out the options appraisal should identify any risks and uncertainties associated with each of the options. It is important that councillors are made aware of and fully understand the nature and degree to which any risks identified influence the appraisal results.

63. There are a variety of tools to support risk assessment processes, though these typically include an assessment of risk in terms of:

- strategic/commercial risks
- economic/financial/market risks
- legal/regulatory risks
- organisational/management/human resource risks
- political risks
- environmental risks
- technical/operational/infrastructure risks.

The decision on selecting the preferred option needs to be transparent

Scoring and weighting systems

64. Some of the costs and benefits cannot be valued in monetary terms, but they still need to be taken into account. These include environmental, social, political or legal considerations. It is important that these considerations are recorded and, where possible, quantified.

65. Scoring and weighting systems offer a way of systematically assessing a range of factors to assess the relative merits of the options. There is a range of guidance available on using scoring and weighting systems ([Want to know more?, page 29](#)).

66. Exhibit 5 illustrates a scoring and weighting approach, using a simplified worked example.

Exhibit 5

Key stages in the weighting and scoring method

- Identify the various objectives/criteria/factors against which the options are going to be scored. These should relate closely to the project objectives.
- Give each of these objectives a weighting (a value within a certain range) to reflect relative importance. Good practice would be to consult or involve stakeholders in identifying the criteria and weighting their relative importance.
- Each option is then allocated a score to reflect how closely it meets the identified objectives.
- Multiply the weight of each factor by the relevant score and sum to find the total weighted score for each option. Generally the highest score against the criteria would be the best option.

		Option 1		Option 2		Option 3	
Criteria	Weight	Score	Weighted score	Score	Weighted score	Score	Weighted score
Criteria 1 – performance	40	2	80	4	160	3	120
Criteria 2 – cost/savings	30	5	150	1	30	3	90
Criteria 3 – policy fit	15	1	15	3	45	5	75
Criteria 4 – risk	15	2	30	1	15	3	45
	100						
Total weighted score			275		250		330

Source: Audit Scotland, 2014

Having a good business case supports effective decision-making and accountability

67. Having a robust business case is vital for good decision-making, accountability and transparency. A clear business case will include a summary of the analysis done so far and set out the relative merits of the options clearly. The business case is a key document in an options appraisal process. [Exhibit 6 \(page 25\)](#) outlines what a good business case might include.

68. In our recent report [Managing Capital Projects \(PDF\)](#)  we found that business cases were not being used effectively enough.

Exhibit 6

The options appraisal process becomes more detailed as it progresses

A business case should:

- provide an assessment of whether spend/save proposal is worthwhile
- clearly communicate conclusions and recommendations.

An effective business case should help you answer three questions

- Have you taken into account all relevant factors in deciding what the project should be?
- Should you go ahead with the project?
- What is the best way to carry out the project?

Source: Options Appraisal training material, CIPFA, 2013

What do auditors say?



Many councils do not have established processes for developing and using business cases. Where available, business cases are often short and highly summarised and do not all reflect good practice. Without good-quality and realistic business cases, particularly at the initial approval stage, key performance information on aims, cost, time, scope and risk may not be clearly defined. This may make it more difficult to hold decision-makers to account if problems arise on a project.

Source: [Major capital investment in councils \(PDF\)](#) Accounts Commission, March 2013

69. HM Treasury and the Improvement Service make reference to three types of business case:

- The preliminary or initial business case, which establishes the case for change and defines the strategic objectives of the options appraisal work.
- The outline business case, which sets out the options being considered, draws together the main findings of the appraisal and recommends a preferred option.
- The full business case will follow the selection of the preferred option and may lead to the selection of a preferred provider or procurement of a service.

Good governance arrangements underpin good decisions

70. For an options appraisal process to be effective there needs to be strong governance arrangements in place. Any significant decision arising from an options appraisal is likely to be made within the council's existing governance arrangements, through its committees and full council.

What do auditors say?



Good Practice – managing capital programmes (options appraisal)

Put a clear and effective governance structure in place and ensure responsibilities are clearly defined, allocated and understood. The structure should provide scope for constructive challenge and effective scrutiny at all stages of the programme.

Source: [Major capital investment in councils \(PDF\)](#) Accounts Commission, March 2013

71. It is good practice to set out a clear reporting framework at the start of an options appraisal. Regular reporting on progress should be built into the process, so that senior officers and elected members are kept informed.

72. Reports should be clear and contain the most relevant information. They should be detailed enough, but avoid being unnecessarily long and overly complicated, as this risks diluting important messages. Reports should also avoid using technical jargon.

73. When considering difficult and potentially controversial options, it is important that the decision-making process is – *and is seen to be* – robust. The decisions must be open to public scrutiny, although there will be stages in the process where some information is managed carefully to respect commercial confidentiality.

Implementing the chosen option and monitoring performance

74. Councils need to monitor the implementation of the decision and what difference this is making to services. The 1999 Accounts Commission report [Better together? Making improvements by reconfiguring services \(PDF\)](#) highlighted the key factors to consider when implementing a chosen option. These factors are just as relevant today and focus on people, planning and performance ([Exhibit 7, page 27](#)).

75. The Scottish Government 'Making choices' guidance highlights that 'implementation must be properly managed and planned so the benefits of the proposed option can be achieved. Authorities should have a clear plan for implementing the changes proposed, with clear milestones for the completion of key stages.' This involves the careful consideration of transition arrangements including communicating with service users, resource management (budgets, staff and assets) and performance monitoring.

Exhibit 7

Success factors for implementing a decision

Attention needs to be paid to people, planning and performance management to implement change successfully.

<p>People</p> 	<p>Who will manage the project?</p> <p>Who else needs to be involved in running the project?</p> <p>Is a project sponsor needed - a councillor and/or member of the management team?</p> <p>Who will be affected by the change?</p> <p>How will we communicate with them?</p> <p>What training will be required?</p>
<p>Planning</p> 	<p>What budget approvals are required?</p> <p>What is the timetable for the work?</p> <p>What are the milestones?</p> <p>What needs to happen, and when, to meet the milestones?</p>
<p>Performance</p> 	<p>What are the objectives of change?</p> <p>What are the performance targets?</p> <p>What monitoring arrangements are there?</p> <p>What are the reporting arrangements?</p>

Source: [Better together? Making improvements by reconfiguring services \(PDF\)](#)  Accounts Commission, May 1999

76. Where a council has chosen to go into partnership or externalise a service it is important that this is supported by an appropriate contract or service level agreement (SLA). This should set out the services to be provided, the level of service required and the standards to be maintained throughout the duration of the agreement. The performance of the service provider should be monitored on a regular basis to ensure compliance with these conditions. Service level agreements should include:

- defined objectives
- roles and responsibilities (for both the council and the service provider)
- clear performance targets
- clear monitoring arrangements (including what information is to be supplied and when)
- escalation arrangements (which may be required if the service provider is not meeting the requirements of the agreement).

What do auditors say?



...the council remains accountable for the funds used to deliver public services, regardless of the means by which the service is delivered. Consequently, it is important for the council to be able to 'follow the public pound' to the point where it is spent. This requires well-thought-through governance arrangements from the outset and action to ensure those arrangements are applied effectively in practice.

Source: [Arm's-length external organisations \(ALEOs\): are you getting it right? \(PDF\)](#) Accounts Commission June 2011

Reviewing the process can help decisions in the future

77. In addition to monitoring the effectiveness of the new service delivery arrangements, councils should also review the options appraisal process itself. It should consider:

- How effective was the options appraisal process in delivering the stated objectives?
- Was the appraisal process itself delivered on time and on budget?
- What lessons have been learned which should inform future options appraisals?










Further work

78. This report is intended as the first of two reports on options appraisal. A further report will include a study of existing practice in councils in how they undertake options appraisals.

Want to know more?



There is a wide range of guidance material available on options appraisal. Some of this is general in nature and some is more specific to particular circumstances or projects.

-  [*The Local Government in Scotland Act 2003: Best Value guidance \(PDF\)*](#), Scottish Government, 2003, Chapter 5
-  [*Best Value – Making Choices, Volume One: A Manager's Guide to the Strategic Framework for Best Value, Procurement and Competitiveness \(PDF\)*](#), Scottish Government, 2001
-  [*Best Value – Making Choices, Volume Two: A Practice Guide to Best Value, Procurement and Competitiveness \(PDF\)*](#), Scottish Government, 2001
-  [*Better together? Making improvements by reconfiguring services \(PDF\)*](#), Accounts Commission, 1999
-  [*The Green Book – Appraisal and Evaluation in Central Government \(PDF\)*](#), HM Treasury, 2003
-  [*Options appraisal: Making informed decisions in Government \(PDF\)*](#), NAO, 2011
-  [*Scottish Transport Appraisal Guidance – Best practice transport appraisal guidance*](#), Transport Scotland, 2008
-  [*Building Our Future: Scotland's School Estate \(PDF\)*](#), Scottish Government, 2004
-  [*Healthy Competition: How councils can use competition and contestability to improve services \(PDF\)*](#), Audit Commission, 2007
- *Capital Planning and Options appraisal – A best practice guide for councils*, CIPFA Local Government Directors of Finance, 2006
 - *Options Appraisal: A Practical Guide for Public Service Organisations*, CIPFA, 2011

Appendix 1

What an effective council looks like

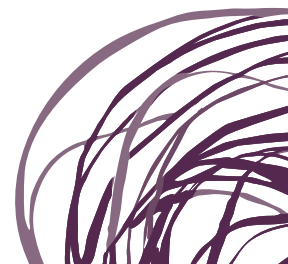


An effective council will:

- Consider a wide range of options for services:
 - what services it wants to deliver
 - how services are delivered (in-house, in partnership, by others).
- Have a robust process in place to:
 - define the objectives of any options appraisal process
 - identify options
 - analyse the options.
- Make clear and transparent decisions based on good-quality information.
- Implement the decision it has taken effectively.
- Have robust performance management arrangements in place to monitor service performance (regardless of whether the service is being delivered in-house, in partnership, or by another service provider).
- Review the effectiveness of its decision – to check that objectives are being delivered.

Appendix 2




Questions for councillors
























References found within the councillor part of the report.



References to more detailed information which can be found elsewhere in the report.

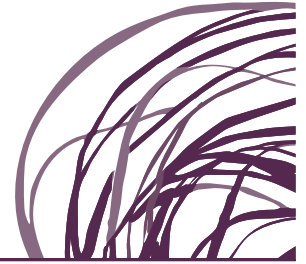
Reference	Questions for councillors	Yes/No	Action
On the options for delivering services			
 Key messages 2-3	Are there any restrictions, for example legal or financial, to providing this service in a different way?		
 Paragraphs 18 and 23	Am I considering all of the options on how services might be delivered?		
 Paragraphs 50-52 and Exhibit 3	<ul style="list-style-type: none"> • Does the current service provider: <ul style="list-style-type: none"> – deliver economy, efficiency and effectiveness? – have the capacity and capability to sustain good performance? – generate sufficient funds or make the required savings? • Does the service directly contribute to the council's objectives? • Am I clear about what the full range of alternatives are for providing this service? <ul style="list-style-type: none"> – Are there alternative providers for the service? • Is the risk of failure so high that risks are better managed in-house? • Are the potential benefits of other options outweighed by the costs of implementation? • Are there opportunities to: <ul style="list-style-type: none"> – develop an effective 'mixed economy' of approaches for achieving the council's objectives? – share the risks and benefits with partner organisations? 		

Reference	Questions for councillors	Yes/No	Action
On the options for delivering services (continued)			
 Paragraphs 18 and 23  Paragraphs 50-52 and Exhibit 3	<ul style="list-style-type: none"> • Would the service benefit from: <ul style="list-style-type: none"> – economies of scope (by providing a more specialised service)? – economies of scale (by being bigger)? – innovation and investment? – increased productivity? – access to investment? – an opportunity to stimulate or influence market development? • Is there a demand for the service? 		
On the options appraisal process			
 Paragraph 23  Paragraphs 42-43	Am I clear about what the options appraisal is trying to achieve?		
 Exhibit 2	Does my council have a robust process in place to help me decide on the options?		
 Paragraph 43  Paragraph 42  Paragraphs 39-41  Paragraphs 70-73  Paragraphs 48-49	<p>At the start of the process:</p> <ul style="list-style-type: none"> • Have we set clear objectives? • Am I clear about why we are considering the options? • Are those objectives consistent with the council's strategic objectives and policies? • Have we set out clear roles and responsibilities? • Have we agreed a clear plan which identifies what decisions need to be made and by whom? • Have we identified the key stakeholders who need to be consulted? 		
 Exhibit 2	<p>During the process:</p> <ul style="list-style-type: none"> • Am I getting regular updates on progress? • Am I involved at the appropriate decision points? • Is the process progressing to plan? 		
 Paragraph 27	<ul style="list-style-type: none"> • Am I getting the support I need from officers? 		

Reference	Questions for councillors	Yes/No	Action
On making sound decisions			
 Paragraphs 44-47	Am I getting the information I need to make the decision?		
 Paragraphs 57-58	<ul style="list-style-type: none"> On the performance implications? 		
 Paragraphs 59-60	<ul style="list-style-type: none"> On the financial implications? 		
 Paragraphs 61-63	<ul style="list-style-type: none"> On the risks? 		
 Paragraphs 67-68	<ul style="list-style-type: none"> Is there a clear business case? 		
 Paragraph 43	<ul style="list-style-type: none"> Is the decision consistent with the council's strategic objectives? 		
 Paragraphs 48-49	<ul style="list-style-type: none"> Have stakeholders contributed to the options appraisal process and what are their views? 		
 Paragraph 31	<ul style="list-style-type: none"> Am I clear about how I balance my personal and political views with my statutory duty of Best Value? 		
On implementing the decision			
 Paragraphs 74-76	<p>Am I getting the information I need to be assured that:</p> <ul style="list-style-type: none"> the decision is being implemented effectively? it is having the desired effect? 		

Appendix 3






Questions for officers







References found within the councillor part of the report.



References to more detailed information which can be found elsewhere in the report.

Reference	Questions for officers	Yes/No	Action
Defining the objectives			
 Paragraphs 42-43	<ul style="list-style-type: none"> Are the main reasons/drivers for considering other delivery arrangements clear? <ul style="list-style-type: none"> – performance – financial – risk – strategic priorities. Am I clear about how the options relate to the council's corporate priorities? 		
Agreeing the process			
 Paragraph 21	<ul style="list-style-type: none"> Have the elected members approved a robust options appraisal process? 		
 Paragraphs 39-41	<ul style="list-style-type: none"> Is everyone aware of the roles and their responsibilities in the options appraisal framework being used? Have I developed a clear plan for the process and identified: <ul style="list-style-type: none"> – timescales? – resource implications? – roles and responsibilities? – skills and expertise? – governance arrangements? 		
Identifying and filtering options			
 Paragraph 18	<ul style="list-style-type: none"> Am I confident that I am identifying the full range of options? <ul style="list-style-type: none"> – Do I know how similar services are delivered by other councils in Scotland and in the UK? – Do I know how similar services are delivered in the private sector? 		
 Paragraphs 42-52			

Cont.

Reference	Questions for officers	Yes/No	Action
Identifying and filtering options (continued)			
 Paragraph 18  Paragraphs 42-52	<ul style="list-style-type: none"> • Am I clear about the relative merits of the options? <ul style="list-style-type: none"> – 'Strategic fit' with the council's policy objectives – Impact on the quality of service for the customer – Financial implications (both costs and savings) – Legal implications – Risk assessment – Impact on other council services. 		
Assessing and analysing options			
 Paragraphs 53-69	<ul style="list-style-type: none"> • For the 'shortlist' of options have I considered: <ul style="list-style-type: none"> – all of the current and future costs and benefits? – legal and financial implications? – risks? – practical implications of delivering the option? • Is there a robust process in place to help members take the decisions? • Have I clearly presented all of the information members will need to make the decision? <ul style="list-style-type: none"> – On current and projected costs, performance and risks – Business case(s) including assumptions. 		
Implementing the option			
 Paragraphs 74-77	<ul style="list-style-type: none"> • Have I developed a clear action plan to implement the decision? <ul style="list-style-type: none"> – Timetable – Resources – Managing the risks. • Have I ensured that there are robust arrangements in place to monitor and report performance, regardless of the option chosen? <ul style="list-style-type: none"> – Contract – Service level agreement – Performance and financial reporting – Escalation arrangements if things go wrong. • Have I carried out a 'lessons learned review' to inform future options appraisals? 		

Options appraisal: are you getting it right?

This report is available in PDF and RTF formats,
along with a podcast summary at:
www.audit-scotland.gov.uk 

If you require this publication in an alternative
format and/or language, please contact us to
discuss your needs: 0845 146 1010
or info@audit-scotland.gov.uk

For the latest news, reports and updates,
follow us on Twitter or subscribe to our
email delivery service:

 [@AuditScotland](https://twitter.com/AuditScotland)

 [Subscribe to updates](#)



Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0845 146 1010 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk 

ISBN 978 1 909705 29 6

This publication is printed on 100% recycled, uncoated paper

