
ROADS REVIEW OPTIONS APPRAISAL

Report by Chief Officer Roads

EXECUTIVE COMMITTEE

8 March 2016

1 PURPOSE AND SUMMARY

- 1.1 This report seeks approval for the preferred operating model for the Council's Roads Services and agreement to proceed to the next stage, development of a full Business Case for the preferred model.**
- 1.2 On 12 May 2015, Executive Committee agreed:-
- A review of the operating model of the Council's wider roads service to ensure they were best placed to maximise services to the Borders and operate effectively in the external market place.
 - That any model be capable of interfacing with the Edinburgh, Lothians Borders and Fife (ELBF) proposal.
- 1.3 Given the tight timescales for arriving at the most advantageous operating model the focus was placed on evaluating the options of:-
- Internal Restructure
 - Limited Liability Partnership (LLP)
- 1.4 A series of workshops were held between October and mid November 2015 with Senior Managers from across the Roads Services, HR, Finance, Business Transformation and Trade Union representatives. The purpose of the workshops was to discuss the current provision and how best to set up the future provision.
- 1.5 The key drivers for change centred around legal, financial, customer, governance and flexibility issues.
- 1.6 The preferred redesigned service arrangement is a Client/Provider set-up. This applies to both of the options referred to in paragraph 1.3 above.
- 1.7 The differences between the Internal Restructure and the LLP options are largely around their capacity to generate external income. The Internal Restructure is limited by legislation in the amount of external income that it can generate, with limited tender opportunities. The LLP is free to trade commercially and therefore not limited in the amount of external income that it can generate and can take full advantage of any tender

opportunities.

- 1.8 When both options were scored against the key drivers for change the internal restructure scored 280 and the LLP scored 407.

2 RECOMMENDATIONS

2.1 I recommend that the Executive Committee agrees that:-

- (a) The Client/Provider arrangement is the best set up for a redesigned Roads service.**
- (b) Limited Liability Partnership (LLP) is the best model for the redesigned services.**
- (c) A full Business case is developed for the LLP model within the next three months.**
- (d) The Chief Officer Roads brings a further report on the Council's Roads Services for consideration by the Council in June 2015.**

3 BACKGROUND

3.1 On 12 May 2015, Executive Committee agreed :-

- A review of the operating model of the Council's wider roads service to ensure they were best placed to maximise services to the Borders and operate effectively in the external market place.
- That any model be capable of interfacing with the ELBF proposal.

3.2 Given the tight timescales for arriving at the most advantageous operating model the focus was placed on evaluating the options of:-

- Internal Restructure
- Limited Liability Partnership (LLP)

3.3 The following key principles were set out and applied to any option considered in the appraisal:-

- The Council must retain control of the roads service.
- The future service must be capable of aligning with the ELBF proposal should it come to fruition.
- The future service must be capable of working effectively both for the Council and in the open market.
- The future service must be capable of delivering all of the roads maintenance and civil engineering works required of it by the Council.
- The future service must be capable of maximising the commercial return and financial contribution to the Council.

4 WORK DONE TO DATE

4.1 A series of workshops were held between October 2015 and mid November 2015 with Senior Managers from across the Roads Services, Human Resources, Finance, Business Transformation and Trade Union representatives. The purpose of the workshops was to discuss the current provision and how best to set up the future provision.

4.2 Guided by the key principles, the workshops focused on developing:-

- Key drivers for change.
- Detail of the services that should be in scope.
- Redesigned service model.
- Preferred delivery models being considered:
 - Internal Restructure
 - Limited Liability Partnership (LLP)

Consideration was given to issues and concerns raised and possible mitigations were discussed.

5 DRIVERS FOR CHANGE

5.1 The key drivers for change were identified as:-

- **Legal**
Legally compliant
- **Financial**
Financial pressures, income pressures. Opportunities to develop commercial operations
- **Customer**
Customer service/one stop shop. Current disconnect between repair and maintenance, lack of clarity on who to contact to resolve issues
- **Governance**
Control is retained by Scottish Borders Council
- **Flexibility**
Scottish Government agenda eg. changes to Roads authorities including ELBF

6 OPTIONS

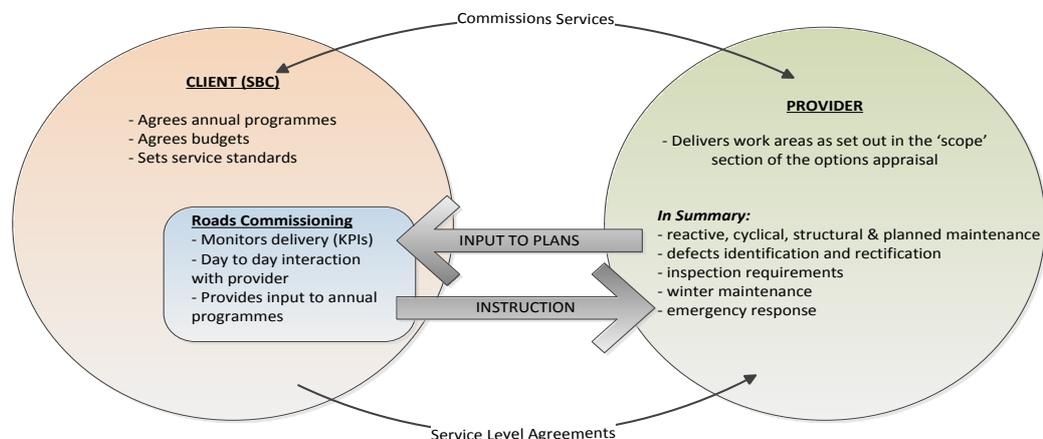
6.1 The full Options Appraisal Report for the Internal Restructure and LLP is detailed in Appendix 1.

6.2 Client/Provider set-up

The preferred redesigned service arrangement for both an Internal Restructure and an LLP is a Client/Provider set-up:-

Name	Description
1. Client	Is SBC, including the Commissioning of services
2. Provider	Is the Deliverer of services

The key elements of the Client/Provider set-up are illustrated as:



Benefits of the new arrangement include:-

- Engagement with ELBF or any other potential model that may be promoted nationally.
- Provision of a one-stop-shop for customers ie. one point of contact from reporting through to resolution:
 - Resulting in improved customer service
- Provides opportunity to streamline existing processes.
- Better performance reporting through linking activity with improved outcomes.
- Cohesive planning between repair and maintenance.

6.3 The Client Function

The client function sits with the Council with a remit to:-

Client	Agree annual programmes for surface treatment and planned maintenance
	Define the service standards regarding what is expected from the Provider
	Monitor and audit the Provider to ensure that the standards and outcomes are being met
	Define the customer interface/contact with regard to how the Client and Provider interact on a daily basis

To support this, the Client function will utilise a Roads Commissioning function to:

- Commission roads maintenance including winter maintenance and emergency response.
- Discuss local requirements with Elected Members.
- Lead, develop and prepare emergency plans and responses to events.
- Lead on traffic management and road safety.
- Contribute to creation and delivery of the Local Transport Plan.
- Direct the Council response to the Flood and Water Management Act.

In summary, the reorganisation will ensure that the Council retains its technical expertise and knowledge to provide the capacity and skills to commission and quality control all works. The details of the client function to remain in the Council will be fully explored and costed in the recommended full Business Case.

6.4 The Provider Function

The Provider function will focus on the operational delivery of Roads specific works. The delivery areas are shown in detail in *Appendix 1- Section 5*, but in summary the Provider will deliver:-

- Reactive, Cyclic, Structural and Planned maintenance
- Inspection requirements
- Defects and rectification
- Winter Maintenance
- Emergency Response

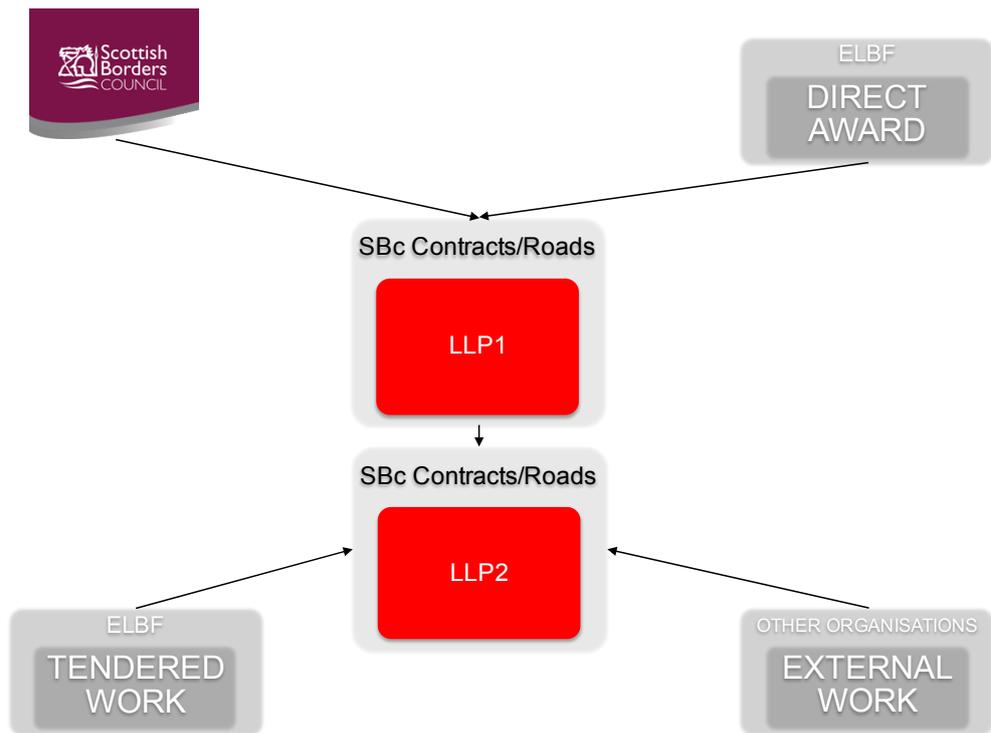
The Client defines the outcome based levels of service, performance criteria and the budgets for the required works and to these standards and budget constraints, the Provider will:-

Provider	Carry out the Council's winter maintenance and emergency response requirements
	Undertake civil engineering works on the Council's capital programme
	Undertake external, income generating works
	Design and construct the schemes contained in the annual programme ie. the design small scale works typically undertaken as part of the capital block – as opposed to the design required for standalone schemes contained within the capital plan
	Carry out inspections and promote schemes for inclusion in the Capital Plan

6.5 **LLP as Client/Provider**

Restructuring as a 'Client/Provider' set-up and then transferring the restructured services into an LLP as 'Client/Provider' that is 100% controlled by the Council is the second potential option.

Such a move would entail the Council creating an LLP (LLP1) that would be capable of being directly awarded all Council (internal) works. This could be achieved without the need for any formal procurement process through the Teckal exemption that was successfully adopted in the creation of SB Cares LLP. A second LLP (LLP2) would then be formed which would be capable of conducting any external works, thus providing a sustainable trading environment. It should be noted that LLP2 is a subsidiary of LLP1. The diagram below shows the relationships between the parties:



6.6 Addressing the Drivers for Change

The table below sets out the level to which each option will address the drivers for change:-

Driver	Internal Restructure	LLP
1. Legal	Internal restructure would not give the services the legal freedom to increase their external contracts income	LLP would give the services the legal freedom to increase their external contracts income
2. Financial	Cost saving initiatives can be applied to the internal restructure or LLP	
3. Customer	One-stop-shop - internal restructure and LLP would create a one-stop-shop which would provide an opportunity for the services to work more coherently together, improving customer service and maintaining current levels of winter emergency service	
4. Governance	Council retains 100% control as an internal service	Council retains 100% ownership and exercises control through the new Governance structure as a TECKAL compliant organisation
5. Flexibility	Internal restructure has ability to exploit any ELBF offers of work for SBC	LLP has unlimited ability to exploit any ELBF offers of work for SBC

ADDITIONAL DETAIL - COMMON TO BOTH MODELS:-

6.7 Improved Planning and Maintenance Scheduling

Having repair and maintenance in one section provides opportunities to provide better outcomes through improved planning and scheduling.

6.8 Fleet

Fleet will be owned and managed by the Council's current fleet management operation. The new organisation will rent/lease the vehicles and have a service level agreement for the maintenance from fleet.

6.9 Emergencies and Winter Services

For emergency services service level agreement will have an element within it for stepping in for disasters etc. on a cost basis. The current level of service will continue to be provided.

The winter service will be done to a service level agreement set by the Council.

6.10 Residual Neighbourhood Operations Functions

The remaining 'Environment' within Neighbourhood Operations, Parks and Open Spaces, Street Cleansing and Burials, will be reviewed as part of a separate process with the objective of maintaining, or improving, current performance.

7 APPRAISAL OF OPTIONS

7.1 Both options were scored against the key drivers for change by: -

- Depute Chief Executive, Place
- Chief Financial Officer
- Service Director Neighbourhood Services
- Service Director Commercial Services
- Chief Officer Roads
- Consultants engaged in the review, Care and Health Solutions

7.2 The scoring resulted in a score of 280 for the Internal Restructure and 407 for the LLP:

Area	Driver	Restructure	LLP
LEGAL	Legally compliant	5	35
FINANCIAL	Financial pressures, income pressures. Opportunities to develop commercial operations	39	93
CUSTOMER	Customer service/one-stop-shop. Current disconnect between repair and maintenance, lack of clarity on who to contact to resolve issues	110	124
GOVERNANCE	Control is retained by Scottish Borders Council	102	98
FLEXIBILITY	Scottish Government agenda (eg) changes to Roads authorities including ELBF	24	57
TOTAL:		280	407

(See Appendix 1 for full rationale and details)

8 CONCLUSION AND RECOMMENDATIONS

8.1 The conclusion of the Options Appraisal, based on the work undertaken and the scored results, is that:

- The Client/Provider arrangement is the best set up for a redesigned Roads service.
- The Limited Liability Partnership (LLP) model is the best model for the redesigned services.
- A full Business case is developed for the LLP model within the next three months.

8.2 It is recommended that the Executive Committee agree that: -

- The Client/Provider arrangement is the best set up for a redesigned Roads service.
- The Limited Liability Partnership (LLP) model is the best model for the redesigned services.
- A full Business case is developed for the LLP model within the next 3 months and thereafter will be taken to Council for a final decision. The business case will contain:-
 - 5 year business plan for the LLP.
 - External and Internal Governance Structures, all fully costed.
 - 5 Year Profit & Loss Accounts, Balance Sheets and Cashflow forecasts.
 - Value for Money Calculation that valued the net worth of the LLP to the Council.
 - External Market analysis and opportunities with details of achievable increases in contracts and net profit.
 - Redesign of the services including management and supervision with all resultant savings.
 - Analysis of the drivers for change and how the LLP will meet those drivers.
 - High level implementation plan with major milestones and indicative costs.

- The management structure for the residual services within Neighbourhood Operations and other affected services within Place.
- Detail on how the winter service and emergency response will be delivered by the Council utilising the resources available to it.
- A SWOT analysis of both the new organization and the residual services.

9 IMPLICATIONS

9.1 Financial

There are no financial implications arising as a direct consequence of this report. However, as part of the options appraisal and business case, ongoing financial issues affecting both roads and Neighbourhoods Services would need to be addressed to put these services onto a sustainable financial footing for the future.

9.2 Risk and Mitigations

If the recommendations in this report are not adopted there is a high risk that the timescales for the review would not be met.

9.3 Equalities

An Equalities Impact Assessment has been carried out on this proposal and it is anticipated that there are no adverse equality implications.

9.4 Acting Sustainably

Successful completion of the roads review would put the roads services onto a financially sustainable footing and in doing so, make best use of resources.

9.5 Carbon Management

There are no effects on carbon emissions as a result of adopting the recommendations in this report.

9.6 Changes to Scheme of Administration or Scheme of Delegation

No changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals in this report.

10 CONSULTATION

- 10.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council have been consulted and any comments received incorporated into the final report.

Approved by

Chief Officer Roads

Signature

Author(s)

Name	Designation and Contact Number
Brian Park	Chief Officer Roads

Background Papers: NIL

Previous Minute Reference: Executive Committee, 12 May 2015

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Brian Park can also give information on other language translations as well as providing additional copies.

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